

ANNUAL FINANCIAL REPORT

of the

**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**

A COMPONENT UNIT OF
THE CITY OF NASSAU BAY, TEXAS

For the Year Ended
September 30, 2011

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**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
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INTRODUCTORY SECTION

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**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
BOARD OF DIRECTORS
September 30, 2011

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

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and the major fund of the Nassau Bay Economic Development Corporation (the "Corporation"), a component unit of the City of Nassau Bay, Texas, as of and for the year ended September 30, 2011, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Corporation as of September 30, 2011, and the respective changes in financial position thereof for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's financial statements as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section has not been subjected to auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
March 13, 2012

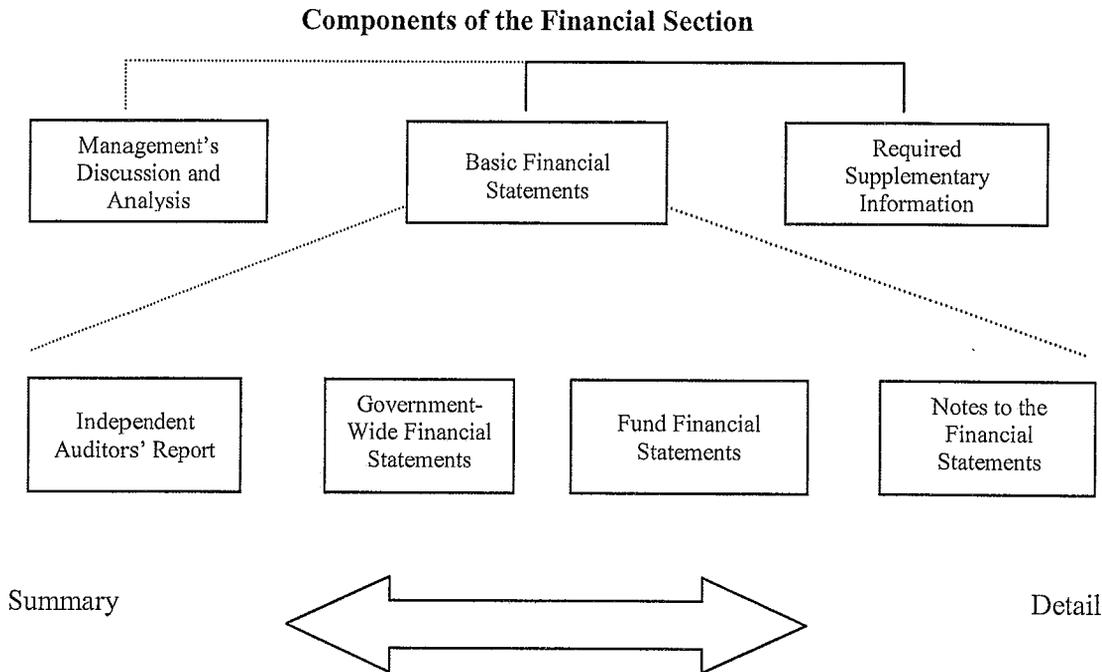
*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2011

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

THE STRUCTURE OF OUR ANNUAL REPORT



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

Government-Wide Statements

The government-wide statements report information for the Corporation as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the Corporation as an economic entity. The Statement of Net Assets and the Statement of Activities, which appear first in the Corporation's financial statements, report information on the Corporation's activities that enable the reader to understand the financial condition of the Corporation. These statements are prepared using the *accrual basis of*

**NASSAU BAY ECONOMIC
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MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended September 30, 2011

accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Assets presents information on all of the Corporation's assets and liabilities. The difference between the two is reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

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

The Statement of Net Assets and the Statement of Activities present one class of activity for the Corporation:

1. Governmental Activities – The Corporation's basic services are reported here including economic development, which incorporates interest payments on the Corporation's debt. Sales tax finances most of these activities.

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 Corporation. They are usually segregated for specific activities or objectives. The Corporation uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The one category of Corporation funds is governmental.

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 Corporation'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 Corporation's near-term financing decisions.

The Corporation maintains one individual governmental fund. 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 which is considered to be a major fund.

The Corporation adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with this budget.

**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended September 30, 2011

Notes to Financial Statements

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

Other Information

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain RSI that GASB Statement No. 34 requires. This supplemental information includes a budgetary comparison schedule for the general fund.

FINANCIAL ANALYSIS

Over time, net assets may serve as a useful indicator of the Corporation's financial position. For the Corporation, assets exceed liabilities by \$99,564 as of year end.

Statement of Net Assets:

The following table reflects the condensed Statement of Net Assets:

CONDENSED STATEMENT OF NET ASSETS

		Governmental Activities	
		2011	2010
		\$ 116,723	\$ 189,940
Current and other assets			
	Total Assets	116,723	189,940
		17,159	11,986
Due to primary government			
	Total Liabilities	17,159	11,986
Net Assets:			
Restricted		99,564	177,954
	Total Net Assets	\$ 99,564	\$ 177,954

Current and other assets for the year decreased by 39 percent compared to the prior year. The amount due to primary government increased by \$5,173. The overall condition of the Corporation decreased due to the increase in expenses during the year. The Corporation currently has a joint project with the City in which they share the costs of occupying the current city building, which is one of the main expenditures for the current year.

**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended September 30, 2011

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

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

CONDENSED CHANGES IN NET ASSETS

	Governmental Activities	
	2011	2010
Revenues		
General Revenues:		
Sales taxes	\$ 202,864	\$ 190,393
Investment income	214	289
Total Revenues	203,078	190,682
 Expenses		
Economic development	281,468	227,747
Total Expenses	281,468	227,747
Change in Net Assets	(78,390)	(37,065)
 Beginning net assets	177,954	215,019
Ending Net Assets	\$ 99,564	\$ 177,954

Expenses related to economic development for the year increased by 24 percent in comparison to the prior year. This increase is due to the joint project related to sharing the costs of occupying the city building. Revenues increased by 7 percent due to higher than anticipated sales tax revenue.

BUDGETARY HIGHLIGHTS

The Corporation budgeted a \$124,749 decrease in fund balance but actually realized a decrease of only \$78,390. This is primarily due to lower expenditures on development services than anticipated. Actual revenues exceeded budgeted revenues by \$17,178, and actual expenditures were less than budgeted expenditures by \$29,181, contributing to the overall positive budget variance of \$46,359.

CAPITAL ASSETS

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Corporation's principal source of revenue is a one-half of one percent sales tax (.005) on goods and services purchased in the City of Nassau Bay, Texas. The budgeted sales tax revenue for the 2011-2012 fiscal year is \$205,200.

The Corporation's financial management policy sets a guideline to maintain a \$60,000 minimum fund balance.

**NASSAU BAY ECONOMIC
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A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended September 30, 2011

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Nassau Bay Economic Development Corporation's finances. Questions concerning this report or requests for additional financial information should be directed to Csilla Stiles, Finance Director, City of Nassau Bay, 18100 Upper Bay Road, Nassau Bay, Texas, 77258, telephone 281.333.4211.

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FINANCIAL STATEMENTS

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**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
STATEMENT OF NET ASSETS
September 30, 2011

		<u>Component Unit Governmental Activities</u>
<u>Assets</u>		
Cash and cash equivalents	\$	78,003
Receivables		38,720
Total Assets		<u>116,723</u>
<u>Liabilities</u>		
Due to primary government		17,159
Total Liabilities		<u>17,159</u>
<u>Net Assets</u>		
Restricted		99,564
Total Net Assets	\$	<u>99,564</u>

See Notes to Financial Statements.

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**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2011

Functions/Programs	Expenses	Net (Expense) Revenue and Changes in Net Assets <u>Governmental Activities</u>
Primary Government		
Governmental Activities		
Economic development	\$ 281,468	\$ (281,468)
Total Governmental Activities	<u>281,468</u>	<u>(281,468)</u>
Total Primary Government	<u>\$ 281,468</u>	<u>(281,468)</u>
General Revenues:		
Taxes		
Sales taxes		202,864
Investment income		214
Total General Revenues		<u>203,078</u>
Change in Net Assets		<u>(78,390)</u>
Beginning net assets		177,954
Ending Net Assets		<u>\$ 99,564</u>

See Notes to Financial Statements.

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**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
BALANCE SHEET
GENERAL FUND
September 30, 2011

		<u>General Fund</u>
<u>Assets</u>		
Cash and cash equivalents	\$	78,003
Receivables		38,720
Total Assets	\$	<u>116,723</u>
 <u>Liabilities</u>		
Due to primary government	\$	17,159
Total Liabilities		<u>17,159</u>
 <u>Fund Balance</u>		
Unassigned		99,564
Total Fund Balance	\$	<u>99,564</u>

See Notes to Financial Statements.

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**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**

**A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND**

For the Year Ended September 30, 2011

	<u>General Fund</u>
<u>Revenues</u>	
Sales taxes	\$ 202,864
Investment income	214
Total Revenues	<u>203,078</u>
<u>Expenditures</u>	
Current:	
Economic development	281,468
Total Expenditures	<u>281,468</u>
Net Change in Fund Balance	<u>(78,390)</u>
Beginning Fund Balance	177,954
Ending Fund Balance	<u><u>\$ 99,564</u></u>

See Notes to Financial Statements.

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**NASSAU BAY ECONOMIC
DEVELOPMENT CORPORATION**
A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The Corporation has adopted Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*. In accordance with this statement, a financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Corporation has adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this statement, the fund balance classifications have been changed in order to enhance the usefulness of fund balance information. This information provides clearer fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The definitions of the new fund balance classifications are disclosed in the Fund Equity note below.

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

**NASSAU BAY ECONOMIC
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A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2011

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

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information about the Corporation as a whole. These statements include all activities of the Corporation.

The Statement of Activities presents a comparison between program revenues and each function of the Corporation's governmental activities. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

The Corporation has one governmental fund, and its operation is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate.

Governmental Funds

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

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal source of revenue is sales tax collected by the City to be used by the Corporation for expenditures on economic development. The general fund is always considered a major fund for financial reporting purposes.

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

The government-wide Statements of Net Assets and Statements of Activities are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Government-wide equity consists of net assets. Operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

**NASSAU BAY ECONOMIC
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A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2011

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The Corporation utilizes the modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include sales tax and interest on temporary investments.

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

D. Assets, Liabilities, and Net Assets

1. Deposits and Investments

The Corporation'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.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the Corporation 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.

2. Receivables and Payables

Transactions between the City and the Corporation outstanding at the end of the year are classified as "due to/from component unit/primary government."

3. Capital Assets

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

**NASSAU BAY ECONOMIC
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A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2011

4. Fund Equity

Fund balances of governmental funds are classified as follows:

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

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

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

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

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

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

5. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

**NASSAU BAY ECONOMIC
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NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2011

B. Excess of Expenditures Over Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control as follows:

General fund	
Promotion/consulting	\$2,475
City building – joint project	\$1,516

III. DETAILED NOTES

A. Deposits and Investments

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

<u>Investment Type</u>	<u>Fair Value</u>
State Pool (TexPool)	\$ 2,447
Total fair value	<u>\$ 2,447</u>

Credit risk. State law limits investments to obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. Further, commercial paper must be rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies. As of September 30, 2011, the Corporation's investment in TexPool was rated AAAM by Standard & Poor's.

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

TexPool

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

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

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A COMPONENT UNIT OF THE CITY OF NASSAU BAY, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2011

B. Receivables

The following comprises receivable balances at year end:

	General Fund
Sales taxes	\$ 38,720

IV. OTHER INFORMATION

A. Contingent Liabilities

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.

B. Sales Tax Remittance Agreement

The Corporation entered into a sales tax remittance agreement (the "Agreement") with the City as of April 10, 2006. The Agreement provides for reimbursement to the City for the issuance of Tax Notes, 2006, in the amount of \$435,652, representing total principal and interest. The reimbursements are to be made on an annual basis in accordance with the 2006 Tax Note debt service schedule. The proceeds of the Notes were used for the public purpose of purchasing land and improvements in which these additions were found to promote and develop new and expanded business enterprises within the boundaries of the City. Future commitments under this agreement as of year end are as follows:

Year Ending September 30, 2011	Principal	Interest	Total
2012	\$ 65,000	\$ 4,283	\$ 69,283
2013	70,000	1,474	71,474
Total	\$ 135,000	\$ 5,757	\$ 140,757

REQUIRED SUPPLEMENTARY INFORMATION

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NASSAU BAY ECONOMIC DEVELOPMENT CORPORATION

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

For the Year Ended September 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Taxes:				
Sales	\$ 185,700	\$ 185,700	\$ 202,864	\$ 17,164
Investment income	200	200	214	14
Total Revenues	185,900	185,900	203,078	17,178
Expenditures				
Current:				
Economic development:				
Administrative expenses	55,000	55,000	55,000	-
Audit	7,730	7,730	7,723	7
Promotion/consulting	3,000	3,000	5,475	(2,475) *
Reserve	60,000	60,000	60,000	-
Legal	4,000	4,000	1,013	2,987
Memberships	19,000	19,000	19,000	-
Development services	40,000	40,000	9,822	30,178
City Building- Joint Project	50,000	50,000	51,516	(1,516) *
Debt service	71,919	71,919	71,919	-
Total Expenditures	310,649	310,649	281,468	29,181
Revenues Over (Under) Expenditures	\$ (124,749)	\$ (124,749)	(78,390)	\$ 46,359
Beginning fund balance			177,954	
		Ending Fund Balance	\$ 99,564	

Notes to Required Supplementary Information:

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

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