

# **CITY OF NEDERLAND, TEXAS**



## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**Fiscal Year Ended September 30, 2011**

# CITY OF NEDERLAND, TEXAS

## Comprehensive Annual Financial Report

*For the Year Ended September 30, 2011*

Prepared by the  
Finance Department

CITY OF NEDERLAND, TEXAS

Comprehensive Annual Financial Report

September 30, 2011

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# INTRODUCTORY SECTION



# City of Nederland

R. A. "Dick" Nugent, Mayor  
Bert Rogers, Mayor Pro Tem  
Talmadge Austin, Councilmember  
Billy Neal, Councilmember  
Don Albanese, Councilmember  
Christopher Duque, City Manager

P. O. Box 967 • Nederland, Texas 77627 • (409) 723-1503 • FAX (409) 723-1550

To The Honorable Mayor and  
Members of the City Council  
Citizens of Nederland

State and local law requires that the City of Nederland annually publish a complete set of financial statements presented in conformity with generally accepted accounting principles in the United States of America and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report was prepared by the Finance Department, in accordance with the City Charter and in compliance with State law, to provide citizens, investors, grantor agencies, and other interested parties with reliable financial information about the City. Accordingly, we hereby respectfully submit the Comprehensive Annual Financial Report of the City of Nederland for the fiscal year ended September 30, 2011.

The report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurances that the financial statements will be free from material misstatement. As management, we assert that to the best of our knowledge and belief this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by J. R. Edwards & Associates, LLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2011, were free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2011, are fairly presented in conformity with GAAP. The independent

*"Programmed for Progress"*

auditor's report is presented as the first component of the financial section of this report. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

## **PROFILE OF THE GOVERNMENT**

Incorporated in 1940, the City of Nederland is located in the southeast corner of the state and within Jefferson County. With a current population of 17,547, the City currently occupies a land area of approximately 5.5 square miles. The City is served with a regional airport and has ready rail access to all parts of the country. Although empowered to levy a property tax on both real and personal properties located within its boundaries, the City collects no personal or corporate taxes from residents, nor is a state income tax assessed. The City is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate.

The City is a Council-Manager form of government. It is governed by an elected City Council composed of a mayor and four councilmembers, who each serve two year terms. The City is divided into four council wards; each area is represented by one of the four elected councilmembers; and the mayor is elected at-large. The City Council is charged with formulating public policy, enacting local legislation, adopting budgets, and appointing the city manager, city attorney, city clerk, director of finance, police chief, and emergency management coordinator. The City Manager is the chief administrative and executive officer of the City, who implements Council directives and policies, manages the City's fiscal affairs, and is responsible for the administration of municipal operations.

The City provides a full range of services including police and fire protection, the construction and maintenance of streets and other infrastructure, general administration, and cultural and recreational activities. Certain utility services are provided through the Water and Sewer Fund and the Solid Waste Fund, which function as departments of the City.

The annual budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit requests for appropriations to the City Manager each year. The City Manager uses these requests as the basis for developing a proposed budget. The City Manager then presents the proposed budget to the City Council for review by no later than August 31<sup>st</sup>. The City Council is then required to conduct public hearings on the proposed budget and to adopt a final budget. The appropriated budget is prepared by fund, function (e.g. public safety), and department (e.g. police). Department directors may request transfers of appropriations within a department, which are reviewed and approved by the City Manager. Transfer of appropriations between departments, however, requires the approval of the City Council. Budget-to-actual comparisons are provided in this report for the General Fund; this comparison is presented as part of the basic financial statements for the governmental funds.

### **History**

Nederland's heritage is deeply rooted in the Dutch ancestry, which gives the town its name. Nederland was officially founded on December 24, 1897 when Dutch settlers with an adventuresome

spirit and desire for a better life found this site. The community was developed by the Port Arthur Townsite Company and the Port Arthur Land Company as part of the effort by Arthur E. Stilwell to make his newly built Kansas City, Pittsburg and Gulf Railway profitable. Stilwell, who had received much of his financial backing from Dutch investors, wanted a community for Dutch immigrants in Southeast Texas. The first such settler at Nederland was George Rienstra; 40 others arrived in November 1897.

As other immigrants followed, Nederlanders began establishing truck and dairy farms. Rice farming was especially popular until overproduction, overspeculation, and the depression of 1907 which virtually eliminated the rice industry in Nederland. Many of the recent immigrants left the area. Prosperity was restored by the discovery of the Spindletop oilfield on January 10, 1901. The Sun Oil Company established a major terminal just to the north of Nederland and the Texas Company built a plant a mile south of the community. An interurban rail line tied this area with Beaumont and Port Arthur in 1913. Electricity was provided shortly thereafter, and telephone and gas service became available during the mid-1920s. During the same decade, the Humphrey Oil Company and Pure Oil Company (subsequently Union Oil) built a refinery at Smith's Bluff to the east, drawing large numbers of former Louisiana residents to Nederland. The refineries and related petroleum industries have continued to be the mainstays of the City's economy. The town incorporated on April 29, 1940 and the population reached 3,801 in 1950. Nederland grew rapidly as a residential center during the boom years that followed. By 1970, the number of inhabitants had surpassed 16,000. Though the local economy was hurt by the declining demand for petroleum during the 1980s, the number of businesses in the City increased from 136 in 1972-73 to 401 in 1984-85. Hurricanes Rita in 2005, Humberto in 2007, and Ike in 2008 significantly impacted the community. The population was reported at 16,855 in 1980, 16,192 in 1990, 17,422 in 2000, and 17,547 in 2010.

### **Factors Affecting Financial Conditions**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Nederland operates.

### **Local Economy**

The City of Nederland, Texas, with a population of 17,547, is located in the Mid-County area of Jefferson County. Situated between Beaumont and Port Arthur, the City continues to experience moderate residential and commercial growth. For the past several years, the City has displayed stable, steady growth within the community. Nederland has consistently maintained an unemployment rate lower than Jefferson County and the State as a whole. Traditionally, the unemployment rate in the City of Nederland has been in the three to four percent range as reported by the Texas Workforce Commission. Additionally, ad valorem revenues have increased by approximately 7% per year over the past five (5) years.

Sales tax collections have been constant and consistent with the amounts estimated by City staff. Please note, however, that the City has experienced significant increases in sales tax revenues beginning in fiscal year 2005-2006 that staff believes is attributable to expansion projects at various crude oil and petrochemical facilities; the sales tax increase trend ended in the fiscal year 2009-2010. With the national economic downturn's effects impacting the regional economy, as well as the



inflated sales tax revenue due to Hurricane Ike-related expenditures, sales tax revenue decreased by 11%. In fiscal year 2010-2011, sales tax revenue increased by 4%, but it is premature to identify this as a trend that will continue over to the next fiscal year. Due to the level of economic growth, the City has previously initiated actions to ensure financial stability while continuing to identify potential improvements for increased operational efficiencies. In general, the entire area continues to display a fairly stable economy due to such factors as the existing chemical industry, expansion of existing petrochemical plants, new commercial/retail businesses, and the construction of correctional facilities. As the region experiences growth, Nederland continues to benefit from this activity.

In 1994, voters adopted an additional one half of one percent sales and use tax to be used for the promotion and development of new or expanded business enterprises as authorized by Section 4B, Article 5190.6, V.T.C.S. With this additional sales tax revenue, an economic development corporation, also authorized by the Act, was created to promote, assist, and enhance economic and community development activities for the City.

In 2007, voters adopted a quarter cent of the City sales tax to be allocated to a Street Improvement Fund by reducing the Section 4B tax to a quarter cent. Funds would be expended on street and street-related improvement projects. Beginning in April 2008, the quarter cent sales tax was collected, but funds were allowed to accrue until early 2009. With 78% votes of approval, the street sales tax was re-authorized during the May 2011 election.

The following list identifies the major accomplishments that the City has undertaken to improve the community and its economy.

#### **Major Accomplishments For the Fiscal Year 2010-2011**

- ✓ Maintained the tax rate of \$0.578 per \$100.00 valuation and continued a \$15,000 Homestead Tax Exemption for the elderly and the disabled.
- ✓ Completed \$975,000 of Street Improvements and repairs to include the hot mix overlays of Detroit Avenue, North 12<sup>th</sup> Street and South 12<sup>th</sup> Street, concrete repairs of Avenue H, joint and crack sealing of Helena Avenue, street re-striping, and chip seal road repairs.
- ✓ Continued the Sewer Rehabilitation Project in the amount of \$3.8M.
- ✓ Completed preparation for the Nederland Water Treatment Plant improvements/repair project, including issuance of \$4.5M in Certificates of Obligation to finance the project.
- ✓ Continued to reduce the Crime Rate of the City.
- ✓ Adopted an ordinance banning the sale & possession of synthetic marijuana and bath salts.
- ✓ Purchased a truck for Animal Control, a truck for Fire Marshall, a zero-turn mower for the Parks & Recreation Department, and a dump truck for Water Department (\$131,500 total).
- ✓ Received and expended \$265,058 in grant funding.
- ✓ Retrofitted a 2001 Peterbilt garbage truck—\$125,000.
- ✓ Purchased and installed a playground for Doornbos Park (\$49,900).
- ✓ Adopted a Fund Balance Policy in accordance with GASB 54.
- ✓ Assessed cost-effectiveness and efficiency of the Nederland Waste Water Treatment Plant's privatization contract, reducing contract cost.
- ✓ Completed Energy Efficiency and Conservation Block Grant project—installed solar-powered school zone signs at Hillcrest and Highland Park Elementary Schools and installed LED lights

in traffic signal lights.

- ✓ Purchased 11 new public access computers for the Marion & Ed Hughes Public Library.
- ✓ Completed Virtualization Network project to reduce long-term information technology costs and enhance I.T. system.
- ✓ Awarded for the 14<sup>th</sup> year in a row the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada for the City's comprehensive annual financial report.
- ✓ Commenced a green waste chipping program instead of green waste burning, reducing costs.
- ✓ Continued a strong relationship with the Nederland Economic Development Corporation and Nederland Chamber of Commerce to promote commerce and industrial growth.
- ✓ Enhanced community involvement with the second annual "Trash Bash" event, as well as Nederland Family Nights at the Pool, holiday decorating, Christmas event, participation in "Trunk or Treat" and Fire Department Open House.

### **Goals for the Fiscal Year 2011-2012**

- ❖ Maintain the tax rate of \$0.578 per \$100.00 valuation and continue to provide a \$15,000 Homestead Tax Exemption for the elderly and the disabled.
- ❖ Continuation of street improvements to improve the transportation network—\$776,000, including the re-surfacing of Avenue H between Twin City Highway and the city limits.
- ❖ Continue to reduce the crime rate.
- ❖ Complete the Sewer Rehabilitation Project—\$3.8M.
- ❖ Commence the Nederland Water Treatment Plant repair/improvement project—\$4.2M.
- ❖ Commence a Recycling Pilot Program.
- ❖ Continuation of water and sewer line improvements in order to upgrade the City's utility infrastructure.
- ❖ Complete re-design of the City of Nederland website to enhance financial transparency and provide greater amount of information to the public.
- ❖ Repair softball field at Doornbos Park in conjunction with a new partnership with the Nederland Challenge Division.
- ❖ Commence public infrastructure improvements with Hurricane Ike funds.
- ❖ Develop a five-year Capital Improvement Plan and Nederland Parks Master Plan.
- ❖ Improve workplace safety and reduce the number of injury claims.
- ❖ Continue the strong relationship with the Nederland Economic Development Corporation and Chamber of Commerce in order to promote commerce and industrial growth.

### **Long-term Financial Planning**

Local officials continue to support a strategic and aggressive capital plan for Nederland. Short-term and long-term capital improvement planning is necessary. City staff remains cognizant of the need for long-term fiscal stability. Throughout the fiscal year, the affects of the national recession impacted the local and regional economy. A conservative approach to the budget, including greater efficiency and salary/benefit controls, was required to offset decreases in revenue. While growth will continue in the City and surrounding area, a number of factors, specifically hurricanes and the national economy, may adversely impact Nederland's long-term planning efforts. The City's elected officials and management have traditionally maintained a prudent approach to budgeting, the expenditure of funds, and the collection of revenues. This philosophy will remain in place, in

addition to continuing to evaluate further opportunities to more efficiently and effectively manage public funds.

### **Cash Management Policies and Practices**

Cash temporarily idle during the year was invested in certificates of deposit, approved investment pools, and interest bearing demand deposits. The maturities of the investments range from 1 to 365 days. The average yield on investments was .15% during fiscal year September 30, 2011.

### **Risk Management**

The City's risk management program includes risks associated with employee health benefits, worker's compensation, and general liability. The Personnel Department is responsible for the administration of the City's plan for accident prevention.

### **Pension and Other Postemployment Benefits**

The City provides pension benefits for all full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by the actuary. The City has funded 104.6% of the present value of the projected benefits earned by employees. The remaining unfunded amount is being systematically funded over 25 years as part of the annual required contribution calculated by the actuary.

The City also provides post-retirement health and dental care benefits for certain retirees. As of the end of the current fiscal year, there were fourteen retired employees participating in the City's group health program. Beginning in 2010, the City established a retiree insurance committee comprised of city employees to assess the existing retiree health insurance policy and make recommendation(s) on possible revisions.

Additional information on the City's pension arrangements and post employment benefits can be found in Note 8 and Note 10 in the notes to the financial statements.

## **AWARDS AND ACKNOWLEDGMENTS**

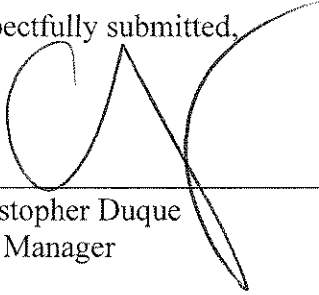
### **Awards**

The City of Nederland participates in the Certificate of Achievement for Excellence in Financial Reporting Award program sponsored by the Government Finance Officers Association (GFOA). Receiving this prestigious award is the result of achieving the highest standards in governmental accounting and financial reporting. Fiscal year ended September 30, 2010 marked the fourteenth consecutive year the City received this annual award. A Certificate of Achievement is valid for a period of one year only. We believe that our fiscal year ended September 30, 2011 CAFR continues to meet the program requirements and this document will be submitted to GFOA for consideration.

## Acknowledgments

The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the City. We would like to express our appreciation to all employees who assisted and contributed to its preparations. We would also like to thank the City Council for their interest and support in planning and conducting financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



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Christopher Duque  
City Manager



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Cheryl Dowden  
Director of Finance

March 26, 2012

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Nederland  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Linda C. Davison*

President

*Jeffrey R. Emer*

Executive Director

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**CITY OF NEDERLAND**

**NEDERLAND, TEXAS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**CITY COUNCIL**

R. A. "Dick" Nugent  
Talmadge Austin  
Billy Neal  
Don Albanese  
Bert Rogers

Mayor  
Councilmember, Ward 1  
Councilmember, Ward 2  
Councilmember, Ward 3  
Councilmember, Ward 4, Mayor Pro-Tem

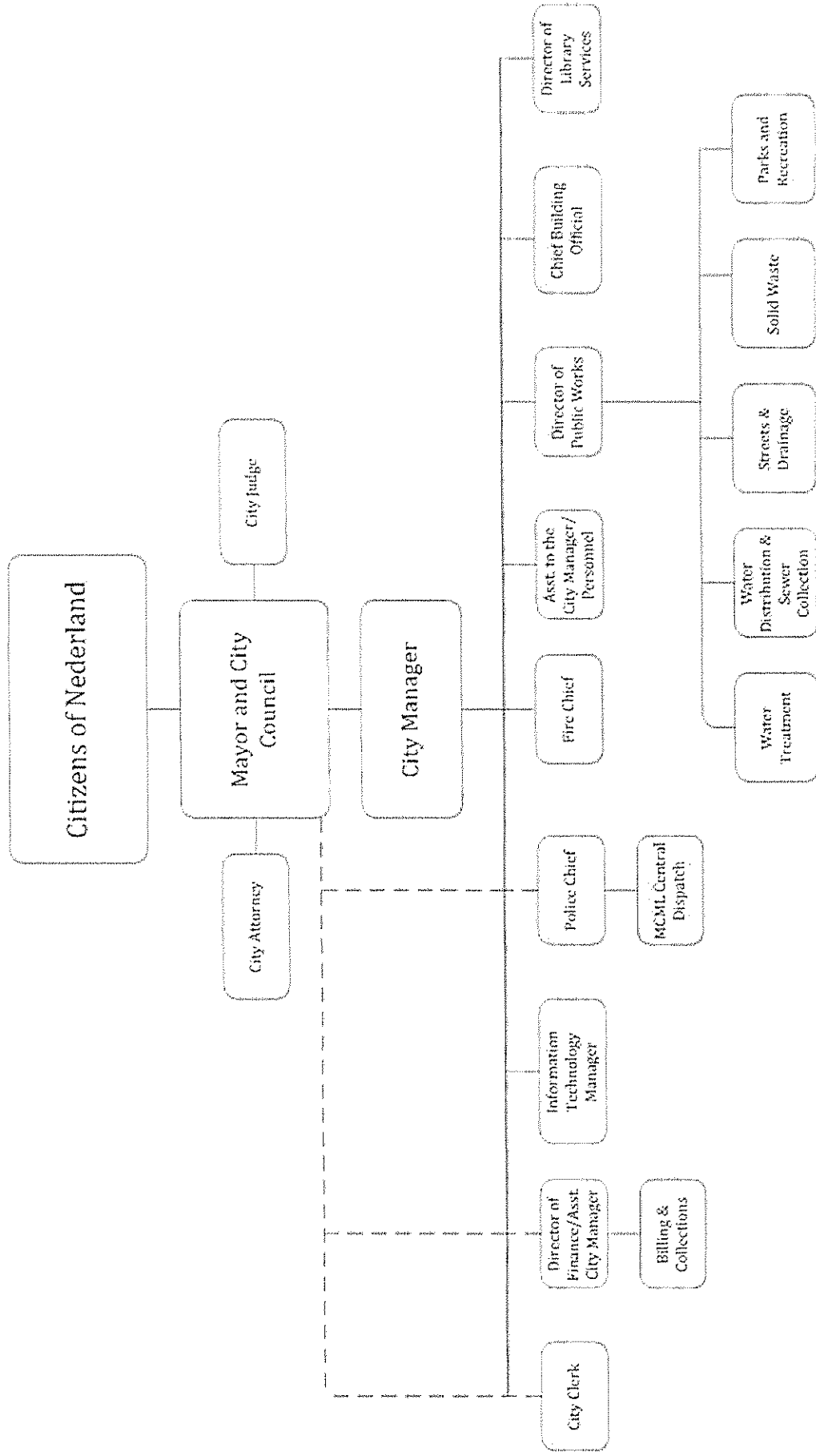
**CITY MANAGER**

Christopher Duque

Cheryl Dowden  
Gay Ferguson  
Jesse Branick

Director of Finance/Assistant City Manager  
City Clerk  
City Attorney

# City of Nederland Organizational Chart



# FINANCIAL SECTION



# J. R. Edwards & Associates, LLC

## Certified Public Accountants

March 22, 2012

### INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
City of Nederland, Texas

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Nederland, Texas (the "City") as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the aggregate remaining fund information, and the respective budgetary comparison for the general fund of the City of Nederland, Texas as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 22, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Nederland, Texas' financial statements as a whole. The introductory section, combining and individual nonmajor fund statements and schedules, and statistical section are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*J.R. Edwards & Associates, LLC*

## CITY OF NEDERLAND, TEXAS Management's Discussion and Analysis

As management of the City of Nederland (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with our letter of transmittal at the front of this report and the City's financial statements, which follow this section.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of fiscal year 2011 by \$48,549,015. The unrestricted net assets of the City's governmental activities is (\$13,647,652) due to the fact that governmental activity funds account for debt issued in construction of business type activity assets. The unrestricted net assets of the City's business type activities is \$3,436,248 and may be used to meet the ongoing obligations of the City's water, sewer, and solid waste business-type activities.
- The City's total net assets increased by \$2,126,795 in 2011.
- As of September 30, 2011, the City's governmental funds reported a combined ending fund balance of \$9,181,964. Approximately \$7 million of the fund balance is considered unassigned at September 30, 2011 and is available for use within the City's designation and policies.
- The General Fund reported a fund balance of \$7,046,561 at the end of the current fiscal year. The unassigned fund balance for the General Fund is 7,043,202 or 77 percent of total General Fund expenditures (including transfers out.)

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business.

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows.

**CITY OF NEDERLAND, TEXAS**  
**Management's Discussion and Analysis**

**Government-wide financial statements, Continued**

Thus, revenue and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the City include general government, public works, public safety, cultural and recreation, and administration and general. The business-type activities of the City include two enterprise activities, a water and sewer system and a solid waste system.

The government-wide financial statements can be found on pages 22-24 of this Report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories, governmental funds and proprietary funds.

**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 the *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government'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 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 and Debt Service Fund. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this Report.

**CITY OF NEDERLAND, TEXAS**  
**Management's Discussion and Analysis**

The City of Nederland adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 25-29 of this Report.

**Proprietary funds.** The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, and solid waste operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer, and solid waste operations. The water and sewer, and solid waste enterprise funds are considered major funds of the City.

The basic proprietary fund financial statements can be found on pages 30-32 of this Report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33-54 of this Report.

**Other information.** In addition to the basic financial statements and accompanying notes, this Report also presents certain *required supplementary information* concerning the City of Nederland's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 55-56 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 58-69 of this Report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$48.5 million at the close of the most recent fiscal year.

The largest portion of the City's net assets reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF NEDERLAND, TEXAS**  
**Management's Discussion and Analysis**

**Government-wide Financial Analysis, Continued**

A portion of the City's net assets, \$7,394,803 (15.23 percent), represents resources that are subject to restrictions as to how they may be used. The unrestricted net assets of the City's business-type activities, approximately \$3.4 million, may not be used to fund governmental activities.

**NET ASSETS**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Current and other assets	\$10,387,413	\$9,158,530	\$10,154,253	\$7,128,359	\$20,541,666	\$16,286,889
Capital assets	23,209,685	23,117,338	28,155,931	27,275,625	51,365,616	50,392,963
Total assets	<u>33,597,098</u>	<u>32,275,868</u>	<u>38,310,184</u>	<u>34,403,984</u>	<u>71,907,282</u>	<u>66,679,852</u>
Long-term liabilities outstanding	18,841,279	16,694,227	80,088	5,395	18,921,367	16,699,622
Other liabilities	3,058,384	2,259,098	1,378,516	1,281,935	4,436,900	3,541,033
Total liabilities	<u>21,899,663</u>	<u>18,953,325</u>	<u>1,458,604</u>	<u>1,287,330</u>	<u>23,358,267</u>	<u>20,240,655</u>
Net Assets						
Invested in capital assets, net of related debt	23,209,685	23,117,338	28,155,931	27,275,625	30,785,616	32,672,963
Restricted	2,135,402	1,555,269	5,259,401	2,949,052	7,394,803	4,504,321
Unrestricted	(13,647,652)	(11,350,064)	3,436,248	2,891,977	10,368,596	9,261,913
	<u>\$11,697,435</u>	<u>\$13,322,543</u>	<u>\$36,851,580</u>	<u>\$33,116,654</u>	<u>\$48,549,015</u>	<u>\$46,439,197</u>

At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets, both for the separate governmental and business-type activities.

The government's net assets increased by \$2,126,795 during the current fiscal year. Governmental activities decreased the City's net assets by \$1.6 million, whereas business-type activities increased the City's net assets by \$3.7 million. The changes in net assets were driven by issuance of Tax & Revenue Certificates of Obligation to fund Water Plant and infrastructure improvements.

**CITY OF NEDERLAND, TEXAS**  
**Management's Discussion and Analysis**

**CHANGES IN NET ASSETS**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Charges for services	\$369,820	\$360,164	\$5,573,319	\$5,316,453	\$5,943,139	\$5,676,617
Operating grants and contributions	272,166	295,370	0	0	272,166	295,370
General Revenues						
Property taxes	5,547,369	5,370,920	-	-	5,547,369	5,370,920
Industrial payments	1,006,261	940,850	-	-	1,006,261	940,850
Sales taxes	3,036,033	2,922,006	-	-	3,036,033	2,922,006
Gross receipts tax	1,299,828	1,298,937	-	-	1,299,828	1,298,937
Interest	21,941	28,537	15,426	40,989	37,367	69,526
Miscellaneous	82,405	1,018,745	(35,423)	(103,058)	46,982	915,687
Total revenues	<u>11,635,823</u>	<u>12,235,529</u>	<u>5,553,322</u>	<u>5,254,384</u>	<u>17,189,145</u>	<u>17,489,913</u>
Expenses						
General government	894,890	938,214	-	-	894,890	938,214
Public safety	4,719,003	3,511,527	-	-	4,719,003	3,511,527
Public works	1,893,707	1,514,795	-	-	1,893,707	1,514,795
Culture and recreation	1,076,490	1,536,295	-	-	1,076,490	1,536,295
Administrative and general	396,221	498,380	-	-	396,221	498,380
Interest on long-term debt	645,953	1,057,191	-	-	645,953	1,057,191
Water & sewer	-	-	4,406,019	4,332,049	4,406,019	4,332,049
Solid waste	-	-	1,030,067	1,118,966	1,030,067	1,118,966
Total expenses	<u>9,626,264</u>	<u>9,056,402</u>	<u>5,436,086</u>	<u>5,451,015</u>	<u>15,062,350</u>	<u>14,507,417</u>
Increase (decrease) in net assets before transfers	2,009,559	2,523,593	117,236	(196,631)	2,126,795	2,326,962
Transfers	<u>(3,617,690)</u>	<u>805,798</u>	<u>3,617,690</u>	<u>(805,798)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	(1,608,131)	3,329,391	3,734,926	(1,002,429)	2,126,795	2,326,962
Net assets, beginning						
As previously reported	13,322,543	9,993,152	33,116,654	34,119,083	46,439,197	44,112,235
Adjustments	<u>(16,977)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(16,977)</u>	<u>0</u>
As restated	<u>13,305,566</u>	<u>9,993,152</u>	<u>33,116,654</u>	<u>34,119,083</u>	<u>46,422,220</u>	<u>44,112,235</u>
Net assets September 30	<u>\$11,697,435</u>	<u>\$13,322,543</u>	<u>\$36,851,580</u>	<u>\$33,116,654</u>	<u>\$48,549,015</u>	<u>\$46,439,197</u>

**Governmental activities:** Governmental activities decreased the City's net assets by \$1,608,131. The decrease is due to several factors including the issuance of \$4.5 million in Tax & Revenue Certificates of Obligation to fund Water Plant infrastructure improvements. In addition, property taxes offset the decrease in net assets from debt issuance most likely due to increased property values and the addition of properties in the City's two new subdivisions. Industrial payment increases are attributable to the reduction of abated value for new construction as agreed by contract. Gross receipts taxes fluctuate with market values and the resulting increase is attributable to fuel price increases throughout the fiscal year.

**Business type activities.** Business-type activities increased the City's net assets by \$3,734,926. The increase is largely due to the issuance of debt to finance Water Plant improvements. Increased costs of services due to market fluctuations contributed to the increase and transfers to cover debt service requirements increased for the fiscal year in order to cover principal and interest payments.

**CITY OF NEDERLAND, TEXAS**  
**Management's Discussion and Analysis**

**Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related 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 a government's net resources available for spending at the end of the fiscal year.

As of September 30, 2011, the City's governmental funds reported combined ending fund balances of \$9.9 million, an increase of \$1,102,270 in comparison with the prior year. This increase is attributable to greater than anticipated revenues and less than anticipated expenditures in the fiscal year. Approximately \$7 million of this amount constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted and committed to indicate that it is not available for new spending because it has already been committed to inventories (\$1,780), prepaid items (\$1,579) of the prior period, restricted for payment of debt service (\$290,642), restricted for Public Safety and Culture and Recreation spending of \$256,826 and committed for construction in the amount of \$1,587,935.

The General Fund is the chief operating fund of the City. At September 30, 2011, the unassigned fund balance of the General Fund was \$7,043,202, while total fund balance was \$7,046,561. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures (including transfers out). Unassigned fund balance represents 77.2 percent of total general fund expenditures (including transfers out), while total fund balance represents 77.3 percent of that same amount.

The fund balance of the City's General Fund increased by \$804,752 during 2011. This increase was primarily due to favorable gross receipts tax, sales tax and property tax revenue which exceeded budget estimates.

The Debt Service Fund has a total fund balance of \$290,642. The net increase in fund balance during the fiscal year 2011 in this fund was \$51,554. The Debt Service Fund is funded with property tax revenue at the level necessary to meet debt service requirements. The increase in fund balance is the result of unanticipated property tax collections in excess of the requirement.



**CITY OF NEDERLAND, TEXAS**  
**Management's Discussion and Analysis**

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

Unrestricted net assets at the end of the year amounted to \$1,928,056 for the Water and Sewer Fund. Net assets in the Water and Sewer Fund increased from the previous year by \$3,555,636 primarily due to issuance of \$4.5 million in bonds to fund improvements to the City's water plant and water system improvements. Unrestricted net assets at the end of the year amounted to \$1,508,192 for the Solid Waste Fund. The net asset increase of the Solid Waste Fund was \$179,290 and was attributable to greater than anticipated sales. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

**General Fund Budgetary Highlights**

During the year there were increases of \$77,576 in budgeted revenues and \$340,297 in appropriations between the original and final amended budget. Following are the components of the increases:

	<u>Amount</u>	<u>Purpose</u>
General Fund Revenues	\$57,576	State Energy Conservation Grant for Solar powered school zone signs and General LED traffic signals
	\$50,000	State Homeland Security Grant for Fire Department Rescue Team Training
	\$(30,000)	Reduction in Investment Income due to market factors
General Fund Expenditures	\$375,000	Fund Balance surplus transfers to Capital Outlay and Equipment Replacement Funds
	\$(34,703)	Reduction in various expenditure line items

Sufficient fund balance was available to cover all increases in appropriations.

Actual revenues in the General Fund exceeded budget amounts by \$826,722. Property tax revenue accounted for \$345,730, sales tax accounted for \$186,033, and gross receipts tax accounted for \$215,500 and small revenue increases in several line items accounted for the remainder. Expenditures as a whole were under budgeted expenditures by \$369,751 mainly due to budgeted funds for computer system improvements that were unspent due to design delays.

**CITY OF NEDERLAND, TEXAS**  
**Management's Discussion and Analysis**

**Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for governmental and business-type activities as of September 30, 2011, amount to \$51,365,616 (net of accumulated depreciation). This investment in capital assets includes land, and other capital assets such as buildings, improvements and equipment.

**CAPITAL ASSETS**  
**(net of depreciation)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Land and work in process	\$4,323,941	\$4,323,941	3,669,107	1,877,433	\$7,993,048	\$6,201,374
Other capital assets	18,885,744	18,793,397	24,486,824	25,398,192	43,372,568	44,191,589
<b>Total</b>	<b>\$23,209,685</b>	<b>\$23,117,338</b>	<b>\$28,155,931</b>	<b>\$27,275,625</b>	<b>\$51,365,616</b>	<b>\$50,392,963</b>

Additional information on the City's capital assets can be found in Note 1 on pages 39 and Note 5 on pages 44-45 of this report.

**Long-term debt.** At September 30, 2011, the City, the primary government, had \$18,841,279 of long-term bonds and other liabilities outstanding. This amount comprises bonds backed by the full faith and credit of the City.

**GENERAL OBLIGATION & REVENUE BONDS OUTSTANDING**

	<b>Governmental Activities</b>		<b>Business- Type Activities</b>		<b>Total</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Certificates of obligation	\$20,580,000	\$17,720,000	\$ -	\$ -	\$20,580,000	\$17,720,000
<b>Total</b>	<b>\$20,580,000</b>	<b>\$17,720,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$20,580,000</b>	<b>\$17,720,000</b>

Total long-term bonds and other liabilities outstanding at September 30, 2011 increased by \$2,860,000 over September 30, 2010. This increase was primarily due to the issuance of Tax & Revenue Certificates of Obligation and offset by the retirement of debt.

The City's general obligation bond rating by Standard & Poor's Corporation was affirmed at AA-.

Additional information regarding the City's long-term debt can be found in Note 7 on pages 46-48 of this report.

**CITY OF NEDERLAND, TEXAS**  
**Management's Discussion and Analysis**

**Economic Factors and Next Year's Budgets and Rates**

Under ideal conditions, preparing the proposed budget would not require the consideration of an increase in taxes or fees or the reduction of service levels. In prior years, increases in assessed value and other revenue categories have been sufficient to fund City Council supported programs, including aggressive capital improvements. Although economic conditions have improved, Administration continues to evaluate all aspects of City services and apply the most effective and efficient method of program funding and service delivery.

The City of Nederland's budget for fiscal year 2012 included increased property tax revenue due to a 1.6% increase in assessed valuation. The tax rate remained the same as the previous year at \$.578 per \$100 valuation. The City Council adjusted water, sewer and solid waste rates at the beginning of fiscal year 2011-12 in order to offset the rising cost of providing these services.

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Nederland, Finance Department, P.O. Box 967, Nederland, Texas, 77627.

# BASIC FINANCIAL STATEMENTS

## STATEMENT OF NET ASSETS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,102,077	\$ 5,814,464	\$ 9,916,541	\$ 2,499,833
Investments	4,415,501	1,037,010	5,452,511	497,176
Receivables - net of allowances for uncollectibles:				
Taxes	622,213	-	622,213	54,805
Accounts receivable	357,096	597,663	954,759	-
Federal agencies	301,141	-	301,141	-
Other	9,541	-	9,541	5,250
Internal balances	2,430	(2,430)	-	-
Due from component unit	12	-	12	-
Inventories	1,780	110,532	112,312	-
Prepays	1,579	-	1,579	-
Restricted assets:				
Cash and cash equivalents	210,642	1,980,688	2,191,330	-
Investments	89,013	475,915	564,928	-
Deferred charges	274,388	140,411	414,799	-
Capital assets:				
Land, and work in process	4,323,941	3,669,107	7,993,048	1,581,289
Buildings, property, and equipment, net	18,885,744	24,486,824	43,372,568	-
Total Assets	<u>33,597,098</u>	<u>38,310,184</u>	<u>71,907,282</u>	<u>4,638,353</u>
<b>LIABILITIES</b>				
Accounts payable	126,812	489,208	616,020	2
Accrued expenses and other liabilities	155,094	358,741	513,835	-
Due to primary government	-	-	-	12
Other Liabilities	45,841	1,423	47,264	-
Unearned Revenue	22,943	-	22,943	-
Liabilities payable from restricted assets	-	475,915	475,915	-
Non-current liabilities:				
Due within one year	2,707,694	53,229	2,760,923	-
Due in more than one year	18,841,279	80,088	18,921,367	-
Total Liabilities	<u>21,899,663</u>	<u>1,458,604</u>	<u>23,358,267</u>	<u>14</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	23,209,685	28,155,931	30,785,616	1,581,289
Restricted for:				
Debt service	290,641	143,915	434,556	-
Public safety	182,002	-	182,002	-
Culture and recreation	74,824	-	74,824	-
Construction	1,587,935	5,115,486	6,703,421	-
Unrestricted	(13,647,652)	3,436,248	10,368,596	3,057,050
Total Net Assets	<u>\$ 11,697,435</u>	<u>\$ 36,851,580</u>	<u>\$ 48,549,015</u>	<u>\$ 4,638,339</u>

The accompanying notes are an integral part of this financial statement.

CITY OF NEDERLAND, TEXAS  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions / Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government	\$ 894,890	\$ -	\$ -
Public safety	4,719,003	183,564	219,688
Public works	1,893,707	105,158	-
Culture and recreation	1,076,490	81,098	52,478
Administrative and general	396,221	-	-
Interest and fees on long-term debt	645,953	-	-
Total governmental activities	9,626,264	369,820	272,166
Business-type activities:			
Water and sewer	4,406,019	4,246,104	-
Solid Waste	1,030,067	1,327,215	-
Total business-type activities	5,436,086	5,573,319	-
Total Primary Government	15,062,350	5,943,139	272,166
Component Unit:			
Nederland Economic Development Corporation	\$ (579,894)	\$ -	\$ -

Property taxes, penalties and interest  
 In lieu of tax contracts  
 Sales tax  
 Gross receipts tax  
 Interest  
 Other miscellaneous  
 Total general revenues  
 Transfers  
 Total general revenues and transfers  
 Change in Net Assets  
 Net Assets October 1 (Beginning)  
 Prior Period Adjustment  
 Net Assets October 1 (Restated)  
 Net assets and ending of year

The accompanying notes are an integral part of this financial statement.

Net (Expense) Revenue and Changes in Net Assets			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Corporation
\$ (894,890)	\$ -	\$ (894,890)	\$ -
(4,315,751)	-	(4,315,751)	-
(1,788,549)	-	(1,788,549)	-
(942,914)	-	(942,914)	-
(396,221)	-	(396,221)	-
(645,953)	-	(645,953)	-
<u>(8,984,278)</u>	<u>-</u>	<u>(8,984,278)</u>	<u>-</u>
-	(159,915)	(159,915)	-
-	297,148	297,148	-
-	137,233	137,233	-
<u>(8,984,278)</u>	<u>137,233</u>	<u>(8,847,045)</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (579,894)</u>
5,547,369	-	5,547,369	-
1,006,261	-	1,006,261	-
3,036,033	-	3,036,033	607,206
1,299,828	-	1,299,828	-
21,941	15,426	37,367	6,513
82,405	(35,423)	46,982	144,679
<u>10,993,837</u>	<u>(19,997)</u>	<u>10,973,840</u>	<u>758,398</u>
<u>(3,617,690)</u>	<u>3,617,690</u>	<u>-</u>	<u>-</u>
<u>7,376,147</u>	<u>3,597,693</u>	<u>10,973,840</u>	<u>758,398</u>
(1,608,131)	3,734,926	2,126,795	178,504
13,322,543	33,116,654	46,439,197	4,459,835
(16,977)	-	(16,977)	-
<u>13,305,566</u>	<u>33,116,654</u>	<u>46,422,220</u>	<u>-</u>
<u>\$ 11,697,435</u>	<u>\$ 36,851,580</u>	<u>\$ 48,549,015</u>	<u>\$ 4,638,339</u>

The accompanying notes are an integral part of this financial statement.

## BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2011

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 2,372,827	\$ 210,642	\$ 1,729,250	\$ 4,312,719
Investments	4,346,026	79,014	79,474	4,504,514
Receivables (net of allowances for doubtful accounts)				
Taxes receivable	483,795	138,418	-	622,213
Accounts receivable	188,135	1,921	37,409	227,465
Other	9,541	-	-	9,541
Due from other governmental agencies	267,258	-	33,883	301,141
Due from other funds	2,442	2,430	-	4,872
Inventories	1,780	-	-	1,780
Prepaid items	1,579	-	-	1,579
<b>TOTAL ASSETS</b>	<b>\$ 7,673,383</b>	<b>\$ 432,425</b>	<b>\$ 1,880,016</b>	<b>\$ 9,985,824</b>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 91,557	\$ -	\$ 35,255	\$ 126,812
Accrued expenses and other liabilities	76,557	13,366	-	89,923
Deferred revenue	210,173	125,988	-	336,161
Due to other governmental agencies	45,841	-	-	45,841
Due to other funds	-	2,430	-	2,430
Other liabilities	202,694	-	-	202,694
<b>TOTAL LIABILITIES</b>	<b>626,822</b>	<b>141,784</b>	<b>35,255</b>	<b>803,861</b>
<b>FUND BALANCES:</b>				
Nonspendable				
Inventory	1,780	-	-	1,780
Prepaid items	1,579	-	-	1,579
Restricted Fund Balance				
Debt service	-	290,642	-	290,642
Public safety	-	-	182,002	182,002
Culture and recreation	-	-	74,824	74,824
Committed Fund Balance				
Capital projects	-	-	1,587,935	1,587,935
Unassigned Fund Balance	7,043,202	-	-	7,043,202
Total fund balances	7,046,561	290,642	1,844,761	9,181,964
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 7,673,383</b>	<b>\$ 432,426</b>	<b>\$ 1,880,016</b>	<b>\$ 9,985,825</b>

The accompanying notes are an integral part of this financial statement.



RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO  
 THE STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2011

Governmental fund balance as reported on the balance sheet for governmental funds.	\$ 9,181,964
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	23,209,685
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
General obligation bonds payable	(20,580,000)
Premium on bonds	(531,052)
Compensated absences	(46,194)
Other post employment benefits	(189,033)
Accrued interest expense	(65,171)
Recognition of deferred revenue as revenue increases net assets.	313,215
Effect of amortizing bond premium and issuance costs on issuance of bonds.	274,388
Warrants and fines outstanding are not recorded as revenue in the governmental funds because they are not considered measurable and available. However, in the Statement of Net Assets, they are considered accounts receivable and recorded.	
Warrants and fines outstanding	<u>129,633</u>
Total net assets as reported on the Statement of Net Assets for Governmental Activities.	<u>\$ 11,697,435</u>

The accompanying notes are an integral part of this financial statement.

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

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Property taxes, penalties and interest	\$ 3,595,730	\$ 1,937,646	\$ -	\$ 5,533,376
In lieu of tax contracts	1,006,261	-	-	1,006,261
Sales tax	3,036,033	-	-	3,036,033
Other tax	1,194,500	-	105,328	1,299,828
Permits, licenses and fees	186,255	-	-	186,255
Fines, forfeits and penalties	174,302	-	19,286	193,588
Interest	10,980	8,006	2,955	21,941
Grants and Private contributions	177,578	-	94,588	272,166
Other miscellaneous	70,294	-	12,111	82,405
Total revenue	<u>9,451,933</u>	<u>1,945,652</u>	<u>234,268</u>	<u>11,631,853</u>
<b>EXPENDITURES:</b>				
Current:				
General government	908,602	-	-	908,602
Public safety	4,569,494	-	111,733	4,681,227
Public works	1,357,089	-	-	1,357,089
Culture and recreation	865,801	-	145,762	1,011,563
Administrative and general	316,349	-	55,809	372,158
Capital outlay	719,846	-	-	719,846
Debt service:				
Principal retirement	-	1,640,000	-	1,640,000
Interest and fiscal charges	-	655,216	-	655,216
Fees and issuance costs	-	2,900	63,292	66,192
Total expenditures	<u>8,737,181</u>	<u>2,298,116</u>	<u>376,596</u>	<u>11,411,893</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>714,752</u>	<u>(352,464)</u>	<u>(142,328)</u>	<u>219,960</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds	-	-	4,500,000	4,500,000
Transfers in	465,000	404,018	375,000	1,244,018
Transfers out	(375,000)	-	(4,486,708)	(4,861,708)
Total other financing sources and uses	<u>90,000</u>	<u>404,018</u>	<u>388,292</u>	<u>882,310</u>
<b>NET CHANGE IN FUND BALANCES</b>				
	804,752	51,554	245,964	1,102,270
<b>FUND BALANCES - BEGINNING</b>				
Prior Period Adjustment	6,258,786	239,088	1,598,797	8,096,671
	(16,977)	-	-	(16,977)
<b>FUND BALANCES - RESTATED</b>				
	<u>6,241,809</u>	<u>239,088</u>	<u>1,598,797</u>	<u>8,079,694</u>
<b>FUND BALANCES - ENDING</b>				
	<u>\$ 7,046,561</u>	<u>\$ 290,642</u>	<u>\$ 1,844,761</u>	<u>\$ 9,181,964</u>

The accompanying notes are an integral part of this financial statement.

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, 2011

Net change in fund balances - total governmental funds (Exhibit D)		\$ 1,102,270
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		13,991
Prior year warrants and fines, net of allowance	\$ (139,656)	
Current year warrants and fines, net of allowance	<u>129,633</u>	(10,023)

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. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlay	\$ 1,138,299	
Depreciation	<u>(1,045,952)</u>	92,347

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

To paying agent for bond principal	\$ 1,640,000	
Bond proceeds	(4,500,000)	
Premium on refunded bonds	<u>35,090</u>	(2,824,910)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather as it accrues. The adjustment combines the net changes of several

Capitalization and amortization of bond costs	\$ <u>40,365</u>	40,365
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Expenses in the Statement of Activities that are not expected to be paid from current financial resources are not reported as expenditures in governmental funds.

Change in compensated absences balance	\$ 1,889	
Other post employment benefits	<u>(24,060)</u>	<u>(22,171)</u>

Change in net assets of governmental activities (Exhibit B)		<u>\$ (1,608,131)</u>
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The accompanying notes are an integral part of this financial statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes, penalties and interest	\$ 3,250,000	\$ 3,250,000	\$ 3,595,730	\$ 345,730
In lieu of tax contracts	915,000	915,000	1,006,261	91,261
Sales tax	2,850,000	2,850,000	3,036,033	186,033
Other tax	979,000	979,000	1,194,500	215,500
Permits, licenses and fees	157,000	157,000	186,255	29,255
Fines	149,635	149,635	174,302	24,667
Interest	41,000	11,000	10,980	(20)
Grants and private contributions	84,000	191,576	177,578	(13,998)
Other miscellaneous	122,000	122,000	70,294	(51,706)
Total revenue	<u>8,547,635</u>	<u>8,625,211</u>	<u>9,451,933</u>	<u>826,722</u>
<b>EXPENDITURES</b>				
Current:				
General government	988,787	993,275	908,602	84,673
Public safety	4,555,726	4,606,593	4,569,494	37,099
Public works	1,350,963	1,421,940	1,357,089	64,851
Culture and recreation	916,448	897,415	865,801	31,614
Administrative and general	454,711	417,709	316,349	101,360
Capital Outlay	500,000	770,000	719,846	50,154
Total expenditures	<u>8,766,635</u>	<u>9,106,932</u>	<u>8,737,181</u>	<u>369,751</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>(219,000)</u>	<u>(481,721)</u>	<u>714,752</u>	<u>1,196,473</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	650,000	465,000	465,000	-
Transfers out	<u>(410,000)</u>	<u>(375,000)</u>	<u>(375,000)</u>	<u>-</u>
Total other financing sources and uses	<u>240,000</u>	<u>90,000</u>	<u>90,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>				
	21,000	(391,721)	804,752	1,196,473
<b>FUND BALANCES AT BEGINNING OF YEAR</b>				
Prior period adjustment	-	-	(16,977)	(16,977)
<b>FUND BALANCES - RESTATED</b>	<u>6,258,786</u>	<u>6,258,786</u>	<u>6,241,809</u>	<u>(16,977)</u>
<b>FUND BALANCE AT END OF YEAR</b>				
	<u>\$ 6,279,786</u>	<u>\$ 5,867,065</u>	<u>\$ 7,046,561</u>	<u>\$ 1,179,496</u>

The accompanying notes are an integral part of this financial statement.

## STATEMENT OF NET ASSETS

## PROPRIETARY FUNDS

SEPTEMBER 30, 2011

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Solid Waste	Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 4,726,771	\$ 1,087,693	\$ 5,814,464
Investments	528,232	508,778	1,037,010
Receivables - net of allowances for uncollectibles:			
Accounts receivable	453,764	143,899	597,663
Inventories	110,532	-	110,532
Total Current Assets	<u>5,819,299</u>	<u>1,740,370</u>	<u>7,559,669</u>
Noncurrent Assets			
Restricted assets:			
Cash and cash equivalents	1,980,688	-	1,980,688
Investments	475,915	-	475,915
Deferred charges	140,411	-	140,411
Total capital assets, net of accumulated depreciation	<u>27,592,541</u>	<u>563,390</u>	<u>28,155,931</u>
Total Noncurrent Assets	<u>30,189,555</u>	<u>563,390</u>	<u>30,752,945</u>
Total Assets	<u>\$ 36,008,854</u>	<u>\$ 2,303,760</u>	<u>\$ 38,312,614</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	\$ 451,899	\$ 37,309	\$ 489,208
Accrued expenses and other liabilities	187,315	171,426	358,741
Due to other funds	2,430	-	2,430
Compensated absences	49,768	3,461	53,229
Total Current Liabilities	<u>691,412</u>	<u>212,196</u>	<u>903,608</u>
Noncurrent Liabilities			
Payable from restricted assets:			
Refundable customer deposits	475,915	-	475,915
Unclaimed deposits	1,423	-	1,423
Accrued compensated absences	5,314	805	6,119
Other post employment benefits	54,792	19,177	73,969
Total Long-term Liabilities	<u>537,444</u>	<u>19,982</u>	<u>557,426</u>
Total Liabilities	<u>1,228,856</u>	<u>232,178</u>	<u>1,461,034</u>
<b>NET ASSETS</b>			
Invested in Capital Assets			
Net of restricted debt	27,592,541	563,390	28,155,931
Restricted for Debt Service	143,915	-	143,915
Restricted for Construction	5,115,486	-	5,115,486
Net assets - unrestricted	<u>1,928,056</u>	<u>1,508,192</u>	<u>3,436,248</u>
Total Net Assets	<u>\$ 34,779,998</u>	<u>\$ 2,071,582</u>	<u>\$ 36,851,580</u>

The accompanying notes are an integral part of this financial statement.

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Solid Waste	Total
Operating Revenues			
Water sales	\$ 1,831,058	\$ -	\$ 1,831,058
Sewer charges	1,961,133	-	1,961,133
Tap and line maintenance fees	291,724	-	291,724
Garbage pickup	-	1,322,928	1,322,928
Penalties and other	162,189	4,287	166,476
Total Operating Revenues	<u>4,246,104</u>	<u>1,327,215</u>	<u>5,573,319</u>
Operating Expenses			
Water treatment	1,072,286	-	1,072,286
Water and wastewater distribution	947,938	-	947,938
Wastewater treatment	755,705	-	755,705
Billing/collections	332,443	-	332,443
Solid waste	-	892,705	892,705
Depreciation and amortization	1,317,157	137,362	1,454,519
Total Operating Expenses	<u>4,425,529</u>	<u>1,030,067</u>	<u>5,455,596</u>
Operating Income (Loss)	<u>(179,425)</u>	<u>297,148</u>	<u>117,723</u>
Nonoperating Revenues (Expenses)			
Interest revenue	12,902	2,524	15,426
Miscellaneous	(30,531)	14,618	(15,913)
Total Nonoperating Revenues (Expenses)	<u>(17,629)</u>	<u>17,142</u>	<u>(487)</u>
Income (Loss) Before Capital Contributions and Transfers	(197,054)	314,290	117,236
Transfers from Other Fund	4,436,708	-	4,436,708
Transfers to Other Fund	(684,018)	(135,000)	(819,018)
	<u>3,752,690</u>	<u>(135,000)</u>	<u>3,617,690</u>
Change in Net Assets	3,555,636	179,290	3,734,926
Total Net Assets - Beginning	<u>31,224,362</u>	<u>1,892,292</u>	<u>33,116,654</u>
Total Net Assets at End of Year	<u>\$ 34,779,998</u>	<u>\$ 2,071,582</u>	<u>\$ 36,851,580</u>

The accompanying notes are an integral part of this financial statement.

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Solid Waste	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 4,180,660	\$ 1,325,908	\$ 5,506,568
Payments for goods and services	(1,425,829)	(495,660)	(1,921,489)
Payments to Employees	(1,527,066)	(378,197)	(1,905,263)
Net cash provided (used) by operating activities	<u>1,227,765</u>	<u>452,051</u>	<u>1,679,816</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers from other funds	4,436,708	-	4,436,708
Transfers to other funds	(684,018)	(135,000)	(819,018)
Net Cash provided by noncapital financing activities	<u>3,752,690</u>	<u>(135,000)</u>	<u>3,617,690</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of capital assets	(2,210,342)	(104,972)	(2,315,314)
Net cash provided (used) by financing activities	<u>(2,210,342)</u>	<u>(104,972)</u>	<u>(2,315,314)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	33,731	2,524	36,255
Investing activities	998,717	(650)	998,067
Other	(30,531)	14,618	(15,913)
Net cash provided (used) by investing activities	<u>1,001,917</u>	<u>16,492</u>	<u>1,018,409</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>3,772,030</u>	<u>228,571</u>	<u>4,000,601</u>
CASH AND CASH EQUIVALENTS OCTOBER 1	<u>2,935,429</u>	<u>859,122</u>	<u>3,794,551</u>
CASH AND CASH EQUIVALENTS SEPTEMBER 30	<u>\$ 6,707,459</u>	<u>\$ 1,087,693</u>	<u>\$ 7,795,152</u>
<b>CASH AND CASH EQUIVALENTS, OCTOBER 1, CONSIST OF</b>			
Unrestricted cash and Cash Equivalents	\$ 262,434	\$ 859,122	\$ 1,121,556
Restricted cash	2,672,995	-	2,672,995
	<u>\$ 2,935,429</u>	<u>\$ 859,122</u>	<u>\$ 3,794,551</u>
<b>CASH AND CASH EQUIVALENTS, SEPTEMBER 30, CONSIST OF</b>			
Unrestricted cash and Cash Equivalents	\$ 4,726,771	\$ 1,087,693	\$ 5,814,464
Restricted cash	1,980,688	-	1,980,688
	<u>\$ 6,707,459</u>	<u>\$ 1,087,693</u>	<u>\$ 7,795,152</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (179,425)	\$ 297,148	\$ 117,723
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>			
Depreciation	1,317,157	137,362	1,454,519
(Increase) decrease in accounts receivable	(65,444)	(1,307)	(66,751)
(Increase) decrease in inventories	3,514	-	3,514
Increase (decrease) in payables	12,178	24,319	36,497
Increase (decrease) in accrued liabilities	93,369	(364)	93,005
Increase (decrease) in interfund payables	2,430	(2,893)	(463)
Increase (decrease) in compensated absences and OPEB	15,326	(2,214)	13,112
Increase (decrease) in customer deposits	28,660	-	28,660
	<u>\$ 1,227,765</u>	<u>\$ 452,051</u>	<u>\$ 1,679,816</u>

The accompanying notes are an integral part of this financial statement.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The financial statements of the City of Nederland, Texas (the "City") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following represents the significant accounting policies used by the City.

**A. Reporting Entity**

The City of Nederland, Texas was incorporated in 1940, and was chartered as a Home Rule City in March, 1955. The City operates under a council-manager form of government and provides the following services as authorized by its charter: Public Safety-Police and Fire, Streets, Water and Sewer, Sanitation; Culture-Recreation, Public Improvements, and General Administrative Services.

As required by generally accepted accounting principles, the financial statements present the City of Nederland, Texas and its component unit. The discretely presented component unit is reported in a separate column of the financial statement after a total column for the primary government, to emphasize that it is legally separate from the primary government.

**B. Discretely Presented Component Unit**

The Nederland Economic Development Corporation (NEDC) was created under Section 4B of the Development Corporation Act of 1979, Texas Revised Civil Statutes Annotated Article 5190.6, as amended. The NEDC is governed by a board of directors appointed by the City Council. The NEDC is organized exclusively for the purpose of benefiting and accomplishing public purposes of the City of Nederland, Texas by promoting, assisting, and enhancing economic and community development activities for the City.

The NEDC is funded by one-quarter of one percent City sales and use tax. The City performs all accounting functions for the NEDC. The City tax provided to the Corporation during the year ended September 30, 2011 totaled \$607,206. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The notes to the financial statements include disclosures pertaining to the City as the primary government and also the EDC as a component unit. Separately issued financial statements for the EDC are not available.

**C. Related Organizations**

The City's elected officials are also responsible for appointing the members of the various boards and commissions established by City Charter and/or state statutes but the City's accountability for these boards and commissions does not extend beyond making the appointments. The City Council appoints board members of the following: Nederland Economic Development Corporation, Zoning Board of Appeals, Planning and Zoning Commission, Construction Board of Adjustments and Appeals, and the Civil Service Commission. Positions on these boards are appointed in certain instances in entirety, partially, or with City Council members.



**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**D. Joint Venture**

Mid-County Dispatch

The City of Nederland and two neighboring cities, Groves and Port Neches, have a contractual agreement to pool resources and share the costs, risks, and rewards of providing a central radio dispatching service for the participating cities in compliance with the "Interlocal Cooperation Act". Each of the participating cities has an ongoing financial interest in, and responsibility for the Mid-County Dispatch. Funds shall be provided by each City based on their population. Based on the agreement, there is no explicit, measurable equity interest for any of entities in the joint ventures resources. During the year ended September 30, 2011 the City contributed \$320,864 to the joint venture. Fund balance of the joint venture at September 30, 2011 was \$269,338. Separately issued financial statements are not available for this joint venture.

**E. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given structure or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide, proprietary, and fiduciary 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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., both measurable and available to finance expenditures of the fiscal period. Revenues are considered available when they are collectible within the

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

current period or soon enough thereafter to be pay liabilities of the current period. For this purpose, the government considers revenues 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, claims and judgments, are recorded only when the payment is due.

Property taxes, franchise taxes, sales taxes, industrial payments, 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major proprietary funds:

The *water and sewer fund* accounts for the activities of the water and sewer utility of the City. This fund operates the water treatment and distribution functions, along with the wastewater collection and treatment and the related revenue collection activity.

The *solid waste fund* accounts for the City's operation of garbage collection and green waste disposal services.

Additionally, the City reports the following fund types:

The *special revenue funds* account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

The *capital projects fund* accounts for the purchase of capital assets, including infrastructure acquisitions and construction from general government resources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following the subsequent private-sector guidance for their business-like activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, interfund services provided and used are not eliminated in the process of consolidation.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expense from non-operating 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 revenue of the water fund, of the solid waste fund are charges to customers for sales and services. Operating expenses for enterprise funds 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 non-operating revenue and expenses.

**G. Budgetary Data**

The following procedures are utilized in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to July 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1 (except the capital projects funds, which adopt project length budgets). The operating budget includes proposed expenditures and the means of financing them. Funds with legally adopted annual budgets are listed as follows: General fund, Police Narcotics fund, Library fund, Court Technology fund, Hotel/Motel Occupancy Tax fund, Fire Department fund, Capital Improvement fund, Debt Service fund, Water and Sewer fund, and Solid Waste fund.
- b. Public hearings are conducted, after proper official journal notification, to obtain taxpayer comments. The public hearing on the budget shall be held prior to August 15.
- c. Prior to August 31, the budget is legally enacted through passage of an ordinance.
- d. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.
- e. Budget appropriations lapse at year-end and are re-established in the succeeding year.
- f. Budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**H. Encumbrance Accounting**

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at September 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**I. Cash and Investments**

Cash includes amounts in demand and time deposit accounts. Investments are reported at fair value. Short-term investments, such as certificates of deposit and debt securities with a maturity date of less than one year, are reported at cost, which approximates fair value. Securities traded on a national or international exchange, if any, are valued at the last reported sales price or current exchange rates.

For the purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased. All certificates of deposits and investments in other securities and instruments are considered to be investments.

**Investments**

State statutes authorize the city to invest in obligations of the U.S. Treasury, the State of Texas, those unconditionally guaranteed by the United States of America or the State of Texas, agencies thereof, Counties, Cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm, and having received a rating of not less than "A" or its equivalent, as well as Certificates of Deposit, fully collateralized direct repurchase agreements purchased through a primary government securities dealer or a bank domiciled in Texas and joint pools of political subdivisions in the State of Texas, such as TexPool which is described in more detail below.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the city adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools states that governmental entities should make certain disclosures concerning their investments, including disclosures about any investments in local government investment pools.

Specifically, the statement directs a governmental entity to disclose "for any investment in an external investment pool that are not SEC-registered, a brief description of any regulatory oversight for the pool and whether the fair-value of the position in the pool is the same value as the value of the pool shares". To facilitate compliance with this disclosure requirement, the following description of TexPool is provided.

The City invests in TexPool, which is a public funds investment pool. The pool was organized in conformity with the Interlocal Cooperation Act and the Public Funds Investment Act of the Texas Government Code. The Comptroller of Public Accounts maintains oversight of the services provided to TexPool by Chase Bank of Texas, N.A. and First Southwest Asset Management, Inc., with additional oversight by the TexPool Advisory Board.

Public funds investment pools ("Pools") in Texas are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the Act), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**I. Cash and Investments, Continued**

**Investments, Continued**

no lower than AAA or AAAM or an equivalent rating by at least on nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within on half of one percent of the value of its shares.

The City's investment in TexPool operates in a manner consistent with the Securities and Exchange Commission's (SEC) Rule 2a7 of the Investment Company Act of 1940. A 2a7-like pool is one which is not registered with the SEC as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

**J. Property Taxes Receivable**

Property appraisal within the City is the responsibility of the Jefferson County Appraisal District (Appraisal District). The Appraisal District is required under the Property Tax Code to appraise all property within the County on the basis of 100% of its market value. The value of real property within the Appraisal District must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the Appraisal District through various appeals and legal action. Under the Property Tax Code legislation, the City establishes tax rates for property within the City's corporate limits. However, if the new tax rate exceeds the effective tax rate after certain adjustments for the previous year by more than eight percent (8%), qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than eight percent (8%) above the effective tax rate.

The City's property taxes are levied annually in October on the basis of the Appraisal District's assessed values as of January 1 of that calendar year. Taxes are applicable to the fiscal year in which they are levied. They become delinquent, with an enforceable lien on property, on February 1 of the subsequent calendar year. The City has contracted with the Jefferson County Tax Assessor-Collector to bill and collect its taxes.

In the governmental fund financial statements, property taxes that are measurable and available (receivable within the current period and collected within the current period or within 60 days thereafter to be used to pay liabilities of the current period) are recognized as revenue in the year of levy. Property taxes that are measurable, but not available, are recorded, net of estimated uncollectible amounts, as deferred revenues in the year of levy. Such deferred revenues are recognized as revenue in the fiscal year in which they become available.

**K. Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated revenues from the Water and Sewer fund are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**L. Short-Term Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due to/from other funds” on the balance sheet.

**M. Inventories and Prepaid Items**

Inventories are valued at cost using the first in/first out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. The reserve for the inventory is equal to the amount of inventory to indicate that a portion of the fund balance is not available for future expenditure. Inventories in the Enterprise Fund consist of repair materials, spare parts and water meters, and water treatment and wastewater treatment chemicals. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**N. Restricted Assets**

Certain proceeds of general obligation and revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Restricted assets also include interest accrued on unexpended bond proceeds and cash received for customer utility deposits.

**O. Capital Assets**

Capital assets which include property, plant, equipment and infrastructure assets (e.g. streets and waterlines, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more 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. The City reports major general infrastructure for assets acquired beginning in 1980.

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. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Property, plant and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 25
Improvements other than buildings	5 - 20
Equipment	5 - 7
Infrastructure	20 - 50

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**P. 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 or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond 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.

**Q. Fund Equity**

Beginning with fiscal year 2011, the City of Nederland, Texas implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable Fund Balance – includes the portion of net resources that cannot be spent because of their form or because they must remain in-tact. As such, the inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet.

Restricted Fund Balance – includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include grant awards and bond proceeds.

Committed Fund Balance – includes the portion of net resources upon which the City Council has imposed limitations on use. Amounts that can be used only for the specific purposes determined by a formal action of the City Council, commitments may be changed or lifted only by the Council taking the same formal action that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements. The amount subject to the constraint may be determined in the subsequent period (i.e. the Council may approve the calculation or formula for determining the amount to be committed).

Assigned Fund Balance- includes the portion of net resources for which an intended use has been established by the City Council or the City Official authorized to do so by the City Council. The City Council authorizes the City Manager as the City Official responsible for the assignment of fund balance to a specific purpose.

Unassigned fund balance – includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund can includes all amounts not contained in other classifications.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

Order of Expenditure of Funds - When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

Minimum Unassigned Fund Balance - The City's goal is to achieve and maintain an unassigned fund balance in the general fund equal to 50% of expenditures. The City considers a balance of less than 25% to be cause for concern, barring unusual or deliberate circumstances. In the event that the unassigned fund balance is calculated to be less than the policy stipulates, the City shall plan to adjust budget resources in subsequent fiscal years to restore the balance.

Replenishment of Minimum Fund Balance Reserves - If unassigned fund balance unintentionally falls below 25% or if it is anticipated that at the completion of any fiscal year the projected unassigned fund balance will be less than the minimum requirement, the City Manager shall prepare and submit a plan to restore the minimum required level as soon as economic conditions allow. The plan shall detail the steps necessary for the replenishment of fund balance as well as an estimated timeline for achieving such. These steps may include, but are not limited to, identifying new, nonrecurring, or alternative sources of revenue; increasing existing revenues, charges and/or fees; use of year end surpluses; and/or enacting cost saving measures such as holding capital purchases, reducing departmental operating budgets, freezing vacant positions, and/or reducing the workforce. The replenishment of fund balance to the minimum level shall be accomplished within a three-year period. If restoration of the reserve cannot be accomplished within such a period without severe hardship to the City, then the Council shall establish an extended time line for attaining the minimum balance.

Appropriation of Unassigned Fund Balance - Appropriation from the minimum unassigned fund balance shall require the approval of the Council and shall be utilized only for one-time expenditures, such as capital purchases, and not for ongoing expenditures unless a viable revenue plan designed to sustain the expenditure is simultaneously adopted. The Council may appropriate unassigned fund balances for emergency purposes, as deemed necessary, even if such use decreases the fund balance below the established minimum.

**R. Compensated absences**

The City's employees earn vacation and sick leave, all of which may either be taken or accumulated, up to certain amounts, until paid upon voluntary termination or retirement. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

**S. Interfund Transactions**

Interfund transactions that would be treated as revenues, expenditures, or expenses if they involved organizations external to the city are accounted for as revenues, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from it which are properly applicable to another fund are recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed. These transfers are reported in the "Other Financing Sources (Uses)" section in the Statement



**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**S. Interfund Transactions, Continued**

of Revenues, Expenditures, and Changes in Fund Balances (governmental funds) and in the “Transfers” section in the Statement of Revenues, Expenses, and Changes in Fund Net Assets (proprietary fund).

**T. Grants from Other Governmental Agencies**

Federal and State governmental agencies represent an important source of supplementary funding to finance activities beneficial to the community. These funds, primarily in the form of grants, are recorded in the General, Special Revenue and Enterprise Funds. A grant receivable is recorded when the City has a right to reimbursement under the related grant. The grants normally specify the purpose for which the funds may be used and are subject to audit by the granting agency or its representative.

**U. Date of Management’s Review**

In preparing the financial statements, the City has evaluated events and transactions for potential recognition for disclosure through March 26, 2012, the date that the financial statements were available to be issued.

**NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS**

When governmental activities report debt that financed the acquisition of capital assets that business-type activities report, that debt is not considered to be capital-related debt of the governmental activities. Such debt should not be part of the calculation of net assets invested in capital assets, net of related debt within that reporting unit. However, when the total reporting entity is presented as the reporting unit, the debt is related to the capital assets within that reporting unit. Thus reconciliation is necessary as follows:

	Governmental Activities	Business-type Activities	Reclassifications	Total
Invested in capital assets, net of related debt	23,209,685	\$ 28,155,931	\$ (20,580,000)	\$ 30,785,616
Restricted for:				
Debt Service	290,641	143,915	-	434,556
Public Safety	182,002	-	-	182,002
Culture and Recreation	74,824	-	-	74,824
Capital Projects	1,587,935	5,115,486	-	6,703,421
Unrestricted	(13,647,652)	3,436,248	20,580,000	10,368,596
Total Net Assets	<u>\$ 11,697,435</u>	<u>\$ 36,851,580</u>	<u>\$ -</u>	<u>\$ 48,549,015</u>

**NOTE 3: CASH AND INVESTMENTS**

Cash Deposits

At year-end, the City’s carrying amount of deposits (including NEDC) was \$14,607,704 and the bank balance was \$15,210,683. Of the bank balance, 250,000 was covered by federal depository insurance. The remaining bank balance was collateralized by securities held by the City or by the City’s agent in name of the City.

**NOTE 3: CASH AND INVESTMENTS, Continued**

As of September 30, 2011, the City of Nederland (including NEDC) had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
TexPool	\$6,007,438	N/A
Certificates of Deposit	507,177	6 months - 1 Year

*Investment rate risk:* In accordance with the investment policy, the city manages exposure to declines in fair value by avoiding an over-concentration of assets in specific instruments other than U.S. Treasury Securities and Insured or Collateralized Certificates of Deposits.

*Credit risk.* It is the policy of the City to limit its investment in commercial paper and corporate bonds to those having received a top rating of "A" or its equivalent from a nationally recognized investment rating firm. Standard & Poor's rated TexPool AAA as of September 30, 2011.

*Concentration of credit risk.* The City's investment policy does not allow for an investment in TexPool that is in excess of sixty percent of the City's total investments and demand deposits.

*Custodial credit risk.* 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. Both the City and the NEDC, a discretely presented component unit, require that all deposits and investments be secured by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, the collateralization level is required to be 100% of the market value of the principal and interest, less an amount insured by the FDIC or FSLIC. Additionally, the collateral pledged shall be held by the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral.

**NOTE 4: RECEIVABLES**

Receivables as of September 30, 2011 for the City are as follows:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Funds</u>	<u>Total</u>
Taxes	\$ 526,509	\$ 166,769	\$ -	\$ 693,278
Accounts	188,135	1,921	37,409	227,465
Other	9,541	-	-	9,541
Due From Other Governments	267,258	-	33,883	301,141
Gross Receivables	<u>991,443</u>	<u>168,690</u>	<u>71,292</u>	<u>1,231,425</u>
Less: Allowance for Uncollectibles	<u>(42,714)</u>	<u>(28,351)</u>	<u>-</u>	<u>(71,065)</u>
Net Total Receivables	<u>\$ 948,729</u>	<u>\$ 140,339</u>	<u>\$ 71,292</u>	<u>\$ 1,160,360</u>

Accounts receivable utility service charges are recognized when earned with no allowance for uncollectible amounts since customer deposits are held against uncollectible amounts. An estimated amount has been recorded for services rendered but not yet billed at the close of the years involved.

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

**NOTE 4: RECEIVABLES, Continued**

At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

Delinquent Property Taxes Receivable (General Fund)	\$ 187,227
Delinquent Property Taxes Receivable (Debt Service Fund)	125,988
Other Unearned Revenue	22,946
Total Deferred Revenue for Governmental Funds	<u>\$ 336,161</u>

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the governmental activities for the year ended September 30, 2011 was as follows:

Governmental Activities	Beginning Balance	Current Year		Ending Balance
		Increases	Decreases	
Capital Assets, Not Being Depreciated:				
Land	\$ 4,323,941	\$ -	\$ -	\$ 4,323,941
Total Capital Assets, Not Being Depreciated	4,323,941	-	-	4,323,941
Capital Assets, Being Depreciated:				
Buildings	6,533,892	10,440	-	6,544,332
Machinery & Equipment	4,171,032	232,893	(34,571)	4,369,354
Infrastructure	26,622,666	894,966	-	27,517,632
Total Capital Assets, Being Depreciated:	37,327,590	1,138,299	(34,571)	38,431,318
Less Accumulated Depreciation:				
Buildings	(5,186,224)	(135,586)	-	(5,321,810)
Machinery & Equipment	(2,876,308)	(247,276)	34,571	(3,089,013)
Infrastructure	(10,471,661)	(663,090)	-	(11,134,751)
Total Accumulated Depreciation	(18,534,193)	(1,045,952)	34,571	(19,545,574)
Total Capital Assets, Being Depreciated, Net	18,793,397	92,347	-	18,885,744
Governmental Activities Capital Assets, Net	<u>\$ 23,117,338</u>	<u>\$ 92,347</u>	<u>\$ -</u>	<u>\$ 23,209,685</u>

Depreciation expense of the governmental activities was charged to functions/programs as follows:

General Government	\$ 19,679
Public Safety	164,870
Public Works	711,738
Culture & Recreation	149,665
Total Depreciation Expense - Governmental Activities	<u>\$ 1,045,952</u>

**NOTE 5: CAPITAL ASSETS, Continued**

Business-type Activities	Beginning	Current Year		Ending
	Balance	Increases	Decreases	Balance
Capital Assets, Not Being Depreciated:				
Construction in Progress	\$ 1,877,433	\$2,078,445	\$ (286,772)	\$ 3,669,106
Total Capital Assets, Not Being Depreciated:	1,877,433	2,078,445	(286,772)	3,669,106
Capital Assets, Being Depreciated:				
Buildings	21,421,902	28,438	-	21,450,340
Improvements other than Buildings	20,449,870	185,040	-	20,634,910
Machinery & Equipment	2,297,879	330,284	-	2,628,163
Total Capital Assets, Being Depreciated:	44,169,651	543,762	-	44,713,413
Less Accumulated Depreciation:				
Buildings	(5,890,719)	(481,647)	-	(6,372,366)
Improvements other than Buildings	(11,469,285)	(758,365)	-	(12,227,650)
Machinery & Equipment	(1,411,455)	(215,117)	-	(1,626,572)
Total Accumulated Depreciation	(18,771,459)	(1,455,129)	-	(20,226,588)
Total Capital Assets, Being Depreciated, Net	25,398,192	(911,367)	-	24,486,825
Business-type Activities Capital Assets, Net	\$27,275,625	\$1,167,078	\$ (286,772)	\$28,155,931

**Construction Commitments**

The primary governmental has active construction projects as of September 30, 2011. At year end, the City's major commitments with contractors are as follows:

Project	Contract Amount	Spent thru 9/30/2011	Remaining Commitment
Wastewater Collection System	\$3,822,139	\$ 3,243,522	\$ 578,617

**NOTE 6: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of September 30, 2011, is as follows:

Receivable Fund	Payable Fund	Amount
General	Debt Service	\$ 2,430
General	Economic Development	12
Debt Service	Water and Sewer	2,430
		\$ 4,872

**NOTE 6: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS, Continued**

The outstanding balances between funds resulted mainly from a time lag between the dates (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Certain transfers occur among funds to allocate appropriate costs related to the operations of the funds as follows:

	Transfers in				Total
	General	Capital Improvement	Water & Sewer	Debt Service	
Transfers out					
General Fund	\$ -	\$ 375,000	\$ -	\$ -	\$ 375,000
Capital Improvements	50,000	-	4,436,708	-	4,486,708
Water & Sewer	280,000	-	-	404,018	684,018
Solid Waste	135,000	-	-	-	135,000
Total	<u>\$ 465,000</u>	<u>\$ 375,000</u>	<u>\$ 4,436,708</u>	<u>\$ 404,018</u>	<u>\$ 5,680,726</u>

Transfers are used to (1) move revenues from the fund with collection authorization to the Debt Service Fund as debt service principal and interest payments become due; (2) move unrestricted water and sewer revenues and solid waste revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs; (3) to move bond proceeds into the appropriate capital projects fund; and (4) transfer capital assets between departments.

**NOTE 7: LONG TERM DEBT**

The City issues general obligation bonds and certificates of obligation to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and certificates of obligation are direct obligations and pledge the full faith and credit of the government.

General obligation bonds payable at September 30, 2011, are summarized as follows:

Date of Issue	Original Issue	Final Maturity	Annual Installments	% Rate	Outstanding Balance
2002	6,805,000	2020	\$85,000 to \$655,000	3.00% - 5.00%	2,905,000
2005	1,640,000	2012	\$215,000 to \$255,000	3.50%-4.125%	255,000
2008	4,500,000	2023	\$125,000 to \$675,000	4.25% - 4.5%	4,075,000
2010	9,855,000	2019	\$1,010,000 to \$1,200,000	2.0%-4.0%	8,845,000
2011	4,500,000	2031	\$150,000 to \$320,000	1.85%-3.85%	4,500,000
					<u>\$ 20,580,000</u>

**NOTE 7: LONG TERM DEBT, Continued**

Component Unit Sales Tax Revenue Bonds funded from sales tax revenue in the Nederland Economic Development Corporation are payable at September 30, 2011:

Date of Issue	Original Issue	Final Maturity	Annual Installments	% Rate	Outstanding Balance
2001	2,660,000	2015	\$80,000 to \$255,000	3.35%-4.75%	-
					\$ -

Annual debt service requirements to maturity for the bonds are as follows:

Year Ending September 30,	Principal	Interest	Total
2012	2,505,000	723,521	3,228,521
2013	2,260,000	672,081	2,932,081
2014	2,215,000	627,092	2,842,092
2015	2,140,000	580,855	2,720,855
2016	1,785,000	526,680	2,311,680
2017-2021	6,685,000	1,587,747	8,272,747
2022-2026	1,630,000	459,921	2,089,921
2027-2031	1,360,000	166,029	1,526,029
Total	\$ 20,580,000	\$ 5,343,926	\$ 25,923,926

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Additions	Retirements/ Payments	Ending Balance	Due Within One Year
Governmental activities:					
Bonds Payable:					
General obligations bonds	\$ 17,720,000	\$ 4,500,000	\$ 1,640,000	\$ 20,580,000	\$ 2,505,000
Add: Premium on bonds	568,984	-	37,932	531,052	-
Compensated absences	246,046	430,619	427,777	248,888	202,694
OPEB liability	164,970	24,063	-	189,033	-
Governmental activities Long-Term Liabilities	\$ 18,700,000	\$ 4,954,682	\$ 2,105,709	\$ 21,548,973	\$ 2,707,694
Business-type activities:					
Compensated absences	\$ 62,243	\$ 131,201	\$ 134,096	\$ 59,348	\$ 53,229
OPEB liability	57,962	16,007	-	73,969	-
Business-type activity Long-Term Liabilities	\$ 120,205	\$ 16,007	\$ -	\$ 133,317	\$ 53,229
Component Unit:					
Bonds Payable	\$ 1,145,000	\$ -	\$ 1,145,000	\$ -	\$ -
	\$ 1,145,000	\$ -	\$ 1,145,000	\$ -	\$ -

**NOTE 7: LONG TERM DEBT, Continued**

Compensated absences represent amounts related to employee services already rendered and will be paid out of expendable available resources by December 31, 2011. For governmental activities, compensated absences and other long term liabilities are generally liquidated by the general fund. For business-type activities, compensated absences and other long term liabilities are generally liquidated by the water and sewer and solid waste fund.

Arbitrage Rebate Liability

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The City had no arbitrage liability as of September 30, 2011.

**NOTE 8: 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. During fiscal year 2010-2011, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance.

The City continues to carry commercial insurance for the risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**B. Contingent Liabilities**

Amounts received or receivable from grantor 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, if any, 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.

**C. Texas Municipal Retirement System (TMRS)**

*Plan Description.* The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement system (TMRS), an agent multi-employer public employee retirement system. The plan provision that have been adopted by the city are within the options available in the governing state statutes of TMRS

**NOTE 8: OTHER INFORMATION, CONTINUED**

**C. Texas Municipal Retirement System (TMRS), Continued**

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report is available on the TMRS' website at [www.TMRS.com](http://www.TMRS.com).

The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City of Nederland were as follows:

	Plan Year 2010	Plan Year 2011
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	10	10
Service retirement eligibility (expressed as age/years of service)	60/10, 0/20	60/10, 0/20
Updated Service Credit	100% Repeating	100% Repeating
Annuity Increase (to retirees)	0% of CPI	0% of CPI

*Contributions.* Under the state law governing TMRS, the City's contribution rate is annually determined by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percentage of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded actuarially liability over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributed to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and the net pension obligation are as follows:

Annual Required Contribution (ARC)	\$ 1,003,264
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost (APC)	1,003,264
Contributions Made	1,003,264
Increase in net pension obligation	-
Net Pension Obligation, beginning of year	-
Net Pension Obligation, end of year	-



**NOTE 8: OTHER INFORMATION, CONTINUED**

**C. Texas Municipal Retirement System (TMRS), Continued**

Fiscal Year Ended	Annual Pension Cost (ARC)	Actual Contribution Made	Percentage Contributed	Net OPEB Obligation
September 30, 2009	\$ 1,014,546	\$ 1,014,546	100%	\$ -
September 30, 2010	\$ 987,669	\$ 987,669	100%	\$ -
September 30, 2011	\$ 1,003,264	\$ 1,003,264	100%	\$ -

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Valuation Date	12/31/2008	12/31/2009	12/31/2010 - prior to restructuring	12/31/2010 - restructured
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	24.0 years; closed period	22.9 years; closed period	21.9 years; closed period	25.0 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years	25 years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return *	7.5%	7.5%	7.5%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	0.0%	0.0%	0.0%	0.0%

In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

**NOTE 8: OTHER INFORMATION, CONTINUED**

**C. Texas Municipal Retirement System (TMRS), Continued**

The funded status as of December 31, 2010, under the two separate actuarial valuations is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2008	23,440,520	27,619,476	84.9%	4,178,956	5,790,932	72.2%
12/31/2009	23,845,576	27,816,244	85.7%	3,970,668	5,631,043	70.5%

The funded status as of December 31, 2010, under the two separate actuarial valuations is presented as follows:

12/31/2010	(a)	25,544,649	29,553,470	86.4%	4,008,821	5,812,366	69.0%
12/31/2010	(b)	41,984,798	40,130,199	104.6%	(1,854,599)	5,812,366	-31.9%

(a) Actuarial valuation performed under the original fund structure

(b) Actuarial valuation performed under the new fund structure

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

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**NOTE 9: DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation 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. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City's plan was amended effective December 14, 1998 to provide that all assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

The City has delegated administrative and investment responsibilities to a third party administrator, ICMA Retirement Corporation, and as such, the plan assets do not meet the requirements for inclusion in the City's financial statements at September 30, 2011.

**NOTE 10: POST-EMPLOYEMENT HEALTH CARE BENEFITS**

The City provided health care benefits for employees who retire from the City and who are eligible to receive benefits from a City sponsored retirement program (Texas Municipal Retirement System). Benefit provisions are approved by Council. As of September 30 2011 the City had fourteen retirees participating in this plan. The City recognizes the cost of providing health care benefits to retired employees in the amount of \$25,878 for fiscal year 2011.

To be eligible for payment of standard group health insurance policy premiums as a retiree, an employee must meet the following criteria:

1. The employee must have a retirement date effective after January 1, 1997; and
2. The employee must be employed by the City of Nederland, Texas for a length of time that is equivalent to 75% of their work history at the time of retirement. The Texas Municipal Retirement System (TMRS) currently offers the following retirement options. Therefore, under provisions of this policy, an employee must be employed by the City of Nederland for the following length of time in order to be eligible for this plan at time of retirement.

<u>TMRS Retirement Options</u>	<u>Required Minimum Length of Time Employed with City of Nederland</u>
20 years of service; no minimum age	15 years
10 years of service; at least 60 years of age	7.5 years

3. Effective January 1, 1997, the City shall pay a portion of eligible retirees' monthly standard group health insurance policy premiums based on the following scale:

<u>Age Of Retiree</u>	<u>Percentage of Premium Paid by City</u>	<u>Percentage of Premium Paid by Retiree</u>
60	10%	90%
61	20%	80%
62	30%	70%
63	40%	60%
64	50%	50%

4. Once a retiree reaches age 65, the City will no longer pay any portion of standard group health insurance policy premium costs.
5. Should an employee retire prior to age 60 and remain under the City's standard group health insurance policy through payment of monthly premiums at their own expense, the retired employee will be eligible for the City contributions discussed above once he reaches age 60. If the retired employee drops coverage from the policy at any time prior to age 60, he will no longer be eligible to participate in this plan.

**NOTE 10: POST-EMPLOYEMENT HEALTH CARE BENEFITS, Continued**

**Annual OPEB Cost**

The City's annual other post employment (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City's annual OPEB cost for the fiscal year ending September 30, 2011 is as follows:

	<u>9/30/2010</u>	<u>9/30/2011</u>
Annual required contribution	\$ 226,009	\$ 184,188
Interest on OPEB obligation	4,942	10,032
Adjustment to ARC	<u>(4,579)</u>	<u>(9,294)</u>
Annual OPEB cost (expense)	\$ 226,372	\$ 184,926
Net estimated employer contributions	<u>(113,262)</u>	<u>(114,720)</u>
Increase in net OPEB obligation	\$ 113,110	\$ 70,206
Net OPEB obligation - beginning of year	<u>109,822</u>	<u>222,932</u>
Net OPEB obligation - end of year	<u><u>\$ 222,932</u></u>	<u><u>\$ 293,138</u></u>

At September 31, 2011 the City's share of the OPEB obligation is \$263,002 and \$30,016 relates to the Mid-County Dispatch.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2011 and the preceding fiscal year were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Amount Contributed</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
September 30, 2009	\$ 219,426	\$ 109,604	50%	\$ 109,822
September 30, 2010	\$ 226,372	\$ 113,262	50%	\$ 222,932
September 30, 2011	\$ 184,926	\$ 114,720	62%	\$ 293,138

**NOTE 10: POST-EMPLOYMENT HEALTH CARE BENEFITS, Continued**

**Funding status and funding progress**

The funded status of the City's retiree health care plan, under GASB Statement No. 45 as of December 31, 2010 is as follows:

Fiscal Year Ended	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
September 30, 2008	\$ -	\$ 2,637,927	\$ 2,637,927	0%
September 30, 2009		Not Calculated		
September 30, 2010		Not Calculated		
September 30, 2011	\$ -	\$ 2,534,131	\$ 2,534,131	0%

Under the reporting parameters, the City's retiree health care plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by \$2,534,131 at December 31, 2010.

**Actuarial methods and assumptions**

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City's employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Inflation Rate	3.0% per annum
Investment rate of return	4.5%, net of expenses
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level as a percentage of payroll
Amortization period	30-year open period
Salary Growth Rate and inflation	3.0% per annum
Medical trend	Initial rate of 8.5% declining to an ultimate rate of 4.5% after 8 years.

**NOTE 11: PRIOR PERIOD ADJUSTMENT**

The City had a prior period adjustment in the amount of \$16,977 to correct prior year estimate of amounts due from other governmental agencies.

REQUIRED SUPPLEMENTARY  
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION  
 FUNDING PROGRAMS FOR EMPLOYEE RETIREMENT SYSTEMS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

TEXAS MUNICIPAL RETIREMENT SYSTEM  
 SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Unit Credit	Percentage Funded	Unfunded AAL (UAAL)	Annual Covered Payroll	Unfunded as a Percentage of Covered Payroll
12/31/2006	22,018,184	27,515,127	80.0%	5,496,943	4,942,603	111.2%
12/31/2007	21,294,267	25,448,859	83.7%	4,154,592	5,119,674	81.1%
12/31/2008	23,440,520	27,619,476	84.9%	4,178,956	5,790,932	72.2%
12/31/2009	23,845,576	27,816,244	85.7%	3,970,668	5,631,043	70.5%
12/31/2010 a	**25,544,649	29,553,470	86.4%	4,008,821	5,812,366	69.0%
12/31/2010 b	**41,984,798	40,130,199	104.6%	(1,854,599)	5,812,366	-31.9%

\*\* In June 2011, the Texas Legislature approved the restructure of TMRS funds

(a) Actuarial valuation performed under the original fund structure

(b) Actuarial valuation performed under the new fund structure

## REQUIRED SUPPLEMENTARY INFORMATION

## FUNDING PROGRAMS FOR OTHER POST EMPLOYMENT BENEFITS (OPEB)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

## RETIREE HEALTH INSURANCE PROGRAM

## ANALYSIS OF FUNDING PROGRESS

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Percentage Funded</u>	<u>Unfunded AAL (UAAL)</u>
12/31/2007	-	\$ 2,637,927	0.0%	\$ 2,637,927
12/31/2008		NOT CALCULATED		
12/31/2009		NOT CALCULATED		
12/31/2010	-	\$ 2,534,131	0.0%	\$ 2,534,131



COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES

## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for the proceeds of specific revenue sources other than expendable trust, or major capital projects that are for specific purposes. Included in this heading are the following individual funds:

Police Narcotics Fund – This fund was established to account for funds awarded to the City by the Courts from money and property seized during operations of the Jefferson County Narcotics Task Force.

Library Fund – This fund was established to account for revenues, including donations and grants, to fund special projects, purchase equipment, books and supplies not ordinarily provided for in the library's operating budget.

Court Technology Fund – This fund accounts for fines allocated to finance the purchase of technological enhancements for the municipal court.

Hotel/Motel Tax Fund – This fund accounts for revenue from hotel and motel occupancy tax. The funds generated by this tax are restricted by State law for disbursements to support convention and meeting facility construction, operation and maintenance, tourism, historical preservation and promotion of the arts.

Fire Department Fund – This fund was established to account for revenues, including donations and grants, to fund special projects, purchase equipment and supplies not ordinarily provided for in the fire department's operating budget.

	Special Revenue					Capital Projects	Total Other Governmental Funds
	Police Narcotics Fund	Library Fund	Court Technology Fund	Hotel/ Motel Occupancy Tax Fund	Fire Department Fund	Capital Projects Fund	
<b>ASSETS</b>							
Cash and cash equivalents	\$ 76,576	\$ 27,744	\$ 5,147	\$ 9,781	\$ 22,067	\$ 1,587,935	\$ 1,729,250
Investments	47,201	32,273	-	-	-	-	79,474
Accounts receivable	33,883	-	-	37,409	-	-	71,292
Other receivables	-	-	-	-	-	-	-
Total Assets	<u>\$ 157,660</u>	<u>\$ 60,017</u>	<u>\$ 5,147</u>	<u>\$ 47,190</u>	<u>\$ 22,067</u>	<u>\$ 1,587,935</u>	<u>\$ 1,880,016</u>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable	\$ 114	\$ -	\$ 2,758	\$ 32,383	\$ -	\$ -	\$ 35,255
Total Liabilities	<u>114</u>	<u>-</u>	<u>2,758</u>	<u>32,383</u>	<u>-</u>	<u>-</u>	<u>35,255</u>
Restricted Fund Balances:							
Public safety	157,546	-	2,389	-	22,067	-	182,002
Culture and recreation	-	60,017	-	14,807	-	-	74,824
Committed Fund Balance							
Capital projects	-	-	-	-	-	1,587,935	1,587,935
Total fund balances	<u>157,546</u>	<u>60,017</u>	<u>2,389</u>	<u>14,807</u>	<u>22,067</u>	<u>1,587,935</u>	<u>1,844,761</u>
Total Liabilities and Fund Balances	<u>\$ 157,660</u>	<u>\$ 60,017</u>	<u>\$ 5,147</u>	<u>\$ 47,190</u>	<u>\$ 22,067</u>	<u>\$ 1,587,935</u>	<u>\$ 1,880,016</u>

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

## NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Special Revenue					Capital Projects	Total Other Governmental Funds
	Police Narcotics Fund	Library Fund	Court Technology Fund	Hotel/ Motel Occupancy Tax Fund	Fire Department Fund	Capital Projects Fund	
REVENUES							
Other taxes	\$ -	\$ -	\$ -	\$ 105,328	\$ -	\$ -	\$ 105,328
Grants and private contributions	33,883	46,978	-	-	13,727	-	94,588
Interest	279	103	9	-	-	2,563	2,954
Forfeitures	19,286	-	-	-	-	-	19,286
Miscellaneous Income	6,449	1,000	4,597	25	41	-	12,112
Total revenue	<u>59,897</u>	<u>48,081</u>	<u>4,606</u>	<u>105,353</u>	<u>13,768</u>	<u>2,563</u>	<u>234,268</u>
EXPENDITURES							
Current:							
Public safety	90,308	-	7,869	-	13,556	-	111,733
Culture and recreation	-	45,120	-	100,642	-	-	145,762
Capital outlay	-	-	-	-	-	55,809	55,809
Debt Service:							
Principal retirement	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-
Fees and issuance costs	-	-	-	-	-	63,292	63,292
Total expenditures	<u>90,308</u>	<u>45,120</u>	<u>7,869</u>	<u>100,642</u>	<u>13,556</u>	<u>119,101</u>	<u>376,596</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(30,411)</u>	<u>2,961</u>	<u>(3,263)</u>	<u>4,711</u>	<u>212</u>	<u>(116,538)</u>	<u>(142,328)</u>
OTHER FINANCING SOURCES (USES)							
Issuance of general obligation debt	-	-	-	-	-	4,500,000	4,500,000
Transfers in	-	-	-	-	-	375,000	375,000
Transfers out	-	-	-	-	-	(4,486,708)	(4,486,708)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>388,292</u>	<u>388,292</u>
NET CHANGE IN FUND BALANCES	<u>(30,411)</u>	<u>2,961</u>	<u>(3,263)</u>	<u>4,711</u>	<u>212</u>	<u>271,754</u>	<u>245,964</u>
FUND BALANCES AT BEGINNING OF YEAR	<u>187,957</u>	<u>57,056</u>	<u>5,652</u>	<u>10,096</u>	<u>21,855</u>	<u>1,316,181</u>	<u>1,598,797</u>
FUND BALANCES AT END OF YEAR	<u>\$ 157,546</u>	<u>\$ 60,017</u>	<u>\$ 2,389</u>	<u>\$ 14,807</u>	<u>\$ 22,067</u>	<u>\$ 1,587,935</u>	<u>\$ 1,844,761</u>

## DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Orginal Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
<b>REVENUES</b>				
Property taxes, penalties and interest	\$ 1,974,161	\$ 1,974,161	\$ 1,937,646	\$ (36,515)
Interest	1,000	1,000	8,006	7,006
Total revenue	<u>1,975,161</u>	<u>1,975,161</u>	<u>1,945,652</u>	<u>(29,509)</u>
<b>EXPENDITURES</b>				
Debt service:				
Principal retirement	1,605,000	1,605,000	1,640,000	(35,000)
Interest and fiscal charges	771,179	771,179	655,216	115,963
Fees	3,000	3,000	2,900	100
Total expenditures	<u>2,379,179</u>	<u>2,379,179</u>	<u>2,298,116</u>	<u>81,063</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(404,018)</u>	<u>(404,018)</u>	<u>(352,464)</u>	<u>51,554</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	404,018	404,018	404,018	-
Total other financing sources and uses	<u>404,018</u>	<u>404,018</u>	<u>404,018</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	-	51,554	51,554
FUND BALANCES AT BEGINNING OF YEAR	<u>239,098</u>	<u>239,098</u>	<u>239,098</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 239,098</u>	<u>\$ 239,098</u>	<u>\$ 290,652</u>	<u>\$ 51,554</u>

## POLICE NARCOTICS FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Grants and private contributions	\$ 2,000	\$ 60,000	\$ 33,883	\$ (26,117)
Interest	-	-	279	279
Forfeitures	10,000	10,000	19,286	9,286
Miscellaneous	-	4,375	6,449	2,074
Total revenue	<u>12,000</u>	<u>74,375</u>	<u>59,897</u>	<u>(14,478)</u>
EXPENDITURES				
Public safety	<u>14,400</u>	<u>76,775</u>	<u>90,308</u>	<u>(13,533)</u>
Total expenditures	<u>14,400</u>	<u>76,775</u>	<u>90,308</u>	<u>(13,533)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(2,400)</u>	<u>(2,400)</u>	<u>(30,411)</u>	<u>(28,011)</u>
NET CHANGE IN FUND BALANCES				
	(2,400)	(2,400)	(30,411)	(28,011)
FUND BALANCES AT BEGINNING OF YEAR				
	<u>187,957</u>	<u>187,957</u>	<u>187,957</u>	<u>-</u>
FUND BALANCE AT END OF YEAR				
	<u>\$ 185,557</u>	<u>\$ 185,557</u>	<u>\$ 157,546</u>	<u>\$ (28,011)</u>

## LIBRARY FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Orginal Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Grants and private contributions	\$ 72,100	\$ 72,100	\$ 46,978	\$ (25,122)
Interest	1,000	1,000	103	(897)
Miscellaneous	22,500	22,500	1,000	(21,500)
Total revenue	<u>95,600</u>	<u>95,600</u>	<u>48,081</u>	<u>(47,519)</u>
EXPENDITURES				
Culture and recreation	<u>95,600</u>	<u>95,600</u>	<u>45,120</u>	<u>50,480</u>
Total expenditures	<u>95,600</u>	<u>95,600</u>	<u>45,120</u>	<u>50,480</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>-</u>	<u>-</u>	<u>2,961</u>	<u>2,961</u>
NET CHANGE IN FUND BALANCES				
	<u>-</u>	<u>-</u>	<u>2,961</u>	<u>2,961</u>
FUND BALANCES AT BEGINNING OF YEAR				
	<u>57,056</u>	<u>57,056</u>	<u>57,056</u>	<u>-</u>
FUND BALANCE AT END OF YEAR				
	<u>\$ 57,056</u>	<u>\$ 57,056</u>	<u>\$ 60,017</u>	<u>\$ 2,961</u>

## COURT TECHNOLOGY FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Interest	\$ -	\$ -	\$ 9	\$ 9
Court technology revenue	500	5,000	4,597	(403)
Total revenue	<u>500</u>	<u>5,000</u>	<u>4,606</u>	<u>(394)</u>
EXPENDITURES				
Public safety	5,000	5,000	7,869	(2,869)
Total expenditures	<u>5,000</u>	<u>5,000</u>	<u>7,869</u>	<u>(2,869)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(4,500)</u>	<u>-</u>	<u>(3,263)</u>	<u>(3,263)</u>
NET CHANGE IN FUND BALANCES	(4,500)	-	(3,263)	(3,263)
FUND BALANCES AT BEGINNING OF YEAR	<u>5,652</u>	<u>5,652</u>	<u>5,652</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 1,152</u>	<u>\$ 5,652</u>	<u>\$ 2,389</u>	<u>\$ (3,263)</u>



## HOTEL/MOTEL OCCUPANCY TAX FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Orginal Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Other taxes	\$ 60,000	\$ 60,000	\$ 105,328	\$ 45,328
Miscellaneous	-	-	25	25
Total revenue	<u>60,000</u>	<u>60,000</u>	<u>105,353</u>	<u>45,353</u>
EXPENDITURES				
Culture and recreation	<u>61,329</u>	<u>61,329</u>	<u>100,642</u>	<u>(39,313)</u>
Total expenditures	<u>61,329</u>	<u>61,329</u>	<u>100,642</u>	<u>(39,313)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,329)</u>	<u>(1,329)</u>	<u>4,711</u>	<u>6,040</u>
NET CHANGE IN FUND BALANCES	(1,329)	(1,329)	4,711	6,040
FUND BALANCES AT BEGINNING OF YEAR	<u>10,096</u>	<u>10,096</u>	<u>10,096</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 8,767</u>	<u>\$ 8,767</u>	<u>\$ 14,807</u>	<u>\$ 6,040</u>

## FIRE DEPARTMENT FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Grants and private contributions	\$ 265,785	\$ 265,785	\$ 13,727	\$ (252,058)
Miscellaneous revenue	-	-	41	41
Total revenue	<u>265,785</u>	<u>265,785</u>	<u>13,768</u>	<u>(252,017)</u>
EXPENDITURES				
Public safety	184,000	184,000	13,556	170,444
Total expenditures	<u>184,000</u>	<u>184,000</u>	<u>13,556</u>	<u>170,444</u>
NET CHANGE IN FUND BALANCES	81,785	81,785	212	(81,573)
FUND BALANCES AT BEGINNING OF YEAR	<u>21,855</u>	<u>21,855</u>	<u>21,855</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 103,640</u>	<u>\$ 103,640</u>	<u>\$ 22,067</u>	<u>\$ (81,573)</u>

## CAPITAL IMPROVEMENT FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Orginal Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Interest	\$ -	\$ -	\$ 2,563	\$ 2,563
Total revenue	<u>-</u>	<u>-</u>	<u>2,563</u>	<u>2,563</u>
EXPENDITURES				
Capital outlay	70,000	70,000	55,809	14,191
Total expenditures	<u>70,000</u>	<u>70,000</u>	<u>55,809</u>	<u>14,191</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(70,000)</u>	<u>(70,000)</u>	<u>(53,246)</u>	<u>16,754</u>
OTHER FINANCING SOURCES (USES)				
Issuance of Certificates of Obligation	-	-	4,500,000	4,500,000
Bond proceeds	-	-	(63,292)	(63,292)
Transfers in	175,000	375,000	375,000	-
Transfers out	-	(50,000)	(4,486,708)	(4,436,708)
Total other financing sources and uses	<u>175,000</u>	<u>325,000</u>	<u>325,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	105,000	255,000	271,754	16,754
FUND BALANCES AT BEGINNING OF YEAR	<u>1,316,181</u>	<u>1,316,181</u>	<u>1,316,181</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 1,421,181</u>	<u>\$ 1,571,181</u>	<u>\$ 1,587,935</u>	<u>\$ 16,754</u>

COMPONENT UNIT

COMPONENT UNIT  
 NEDERLAND ECONOMIC DEVELOPMENT CORPORATION  
 BALANCE SHEET  
 SEPTEMBER 30, 2011

	General	Debt Service	Total Funds
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 2,499,833	\$ -	\$ 2,499,833
Investments	497,176	-	497,176
Receivables (net of allowances for doubtful accounts)			
Taxes receivable	54,805	-	54,805
Other	-	-	-
Due from other governmental agencies	5,250	-	5,250
Due from primary government	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 3,057,064</b>	<b>\$ -</b>	<b>\$ 3,057,064</b>
<b>LIABILITIES AND FUND BALANCES:</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 2	\$ -	\$ 2
Due to primary government	12	-	12
Accrued expenses and other liabilities	-	-	-
<b>TOTAL LIABILITIES</b>	<b>14</b>	<b>-</b>	<b>14</b>
<b>FUND BALANCES:</b>			
Reserved for:			
Debt service	-	-	-
Unreserved:			
General fund	3,057,050	-	3,057,050
Total fund balances	3,057,050	-	3,057,050
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,057,064</b>	<b>\$ -</b>	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in these funds.			1,581,289
Long term liabilities are not due and payable in the current period, and therefore are not reported in these funds.			-
			<u>\$ 4,638,339</u>

## COMPONENT UNIT

## NEDERLAND ECONOMIC DEVELOPMENT CORPORATION

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

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General	Debt Service	Total Funds
REVENUES			
Sales tax	607,206	-	607,206
Interest	6,513	-	6,513
Other miscellaneous	144,679	-	144,679
Total revenue	<u>758,398</u>	<u>-</u>	<u>758,398</u>
EXPENDITURES:			
Current:			
Economic development	566,839	-	566,839
Debt service:			
Principal retirement	1,145,000	-	1,145,000
Interest and fiscal charges	13,056	-	13,056
Fees	-	-	-
Total expenditures	<u>1,724,895</u>	<u>-</u>	<u>1,724,895</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(966,497)</u>	<u>-</u>	<u>(966,497)</u>
NET CHANGE IN FUND BALANCES	(966,497)	-	(966,497)
FUND BALANCES - BEGINNING	<u>4,023,546</u>	<u>-</u>	
FUND BALANCES - ENDING	<u>\$ 3,057,049</u>	<u>\$ -</u>	
The change in capital assets are reflected in the current financial resources of governmental funds, however has no effect on net assets.			-
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.			<u>1,145,000</u>
CHANGE IN NET ASSETS			<u>\$ 178,503</u>

## COMPONENT UNIT

## NEDERLAND ECONOMIC DEVELOPMENT CORPORATION

## GENERAL OPERATING FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Orginal Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Sales tax	\$ 550,000	\$ 550,000	\$ 607,207	\$ 57,207
Interest	10,000	10,000	6,513	(3,487)
Miscellaneous	1,500	1,500	144,679	143,179
Total revenue	<u>561,500</u>	<u>561,500</u>	<u>758,399</u>	<u>196,899</u>
EXPENDITURES				
Current:				
Economic development	703,300	703,300	566,839	136,461
Debt service:				
Principal retirement	205,000	1,145,000	1,145,000	-
Interest and fiscal charges	52,223	13,056	13,056	-
Fees	500	500	-	500
Total expenditures	<u>961,023</u>	<u>1,861,856</u>	<u>1,724,895</u>	<u>136,961</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(399,523)</u>	<u>(1,300,356)</u>	<u>(966,496)</u>	<u>333,860</u>
NET CHANGE IN FUND BALANCES	(399,523)	(1,300,356)	(966,496)	333,860
FUND BALANCES AT BEGINNING OF YEAR	<u>3,712,755</u>	<u>3,712,755</u>	<u>3,712,755</u>	-
FUND BALANCE AT END OF YEAR	<u>\$ 3,313,232</u>	<u>\$ 2,412,399</u>	<u>\$ 2,746,259</u>	<u>\$ 333,860</u>

# STATISTICAL SECTION



## STATISTICAL SECTION

This part of the City of Nederland, Texas' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

<b>Contents</b>	<b>Page</b>
Financial Trends	71-80
These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.	
Revenue Capacity	81-84
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	
Debt Capacity	85-91
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	
Demographic and Economic Information	92-93
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	
Operating Information	94-98
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	

CITY OF NEDERLAND, TEXAS

NET ASSETS BY COMPONENT

LAST NINE FISCAL YEARS (1)

(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year		
	2003	2004	2005
Governmental Activities			
Invested in capital assets, net of related debt	\$ (11,171,152)	\$ (9,774,113)	\$ 9,826,617
Restricted	1,033,750	262,834	149,744
Unrestricted	4,728,304	4,558,749	(15,738,862)
Total governmental activities net assets	<u>\$ (5,409,098)</u>	<u>\$ (4,952,530)</u>	<u>\$ (5,762,501)</u>
Business-type Activities			
Invested in capital assets, net of related debt	\$ 25,695,533	\$27,624,365	\$29,178,615
Restricted	2,308,820	1,203,980	728,992
Unrestricted	3,153,693	2,224,260	2,116,636
Total business-type activities net assets	<u>\$ 31,158,046</u>	<u>\$31,052,605</u>	<u>\$32,024,243</u>
Primary Government			
Invested in capital assets, net of related debt	\$ 14,524,381	\$17,850,252	\$39,005,232
Restricted	3,342,570	1,466,814	878,736
Unrestricted	7,881,997	6,783,009	(13,622,226)
Total primary government net assets	<u>\$ 25,748,948</u>	<u>\$26,100,075</u>	<u>\$26,261,742</u>

(1) The requirement for statistical data is ten years; only nine years are available at this time.

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$20,722,686	\$20,335,426	\$19,922,807	\$20,580,788	\$23,117,338	\$ 23,209,685
357,097	476,598	3,376,182	2,839,102	1,555,269	1,878,576
<u>(12,714,121)</u>	<u>(10,818,321)</u>	<u>(16,035,419)</u>	<u>(13,426,738)</u>	<u>(11,350,064)</u>	<u>(13,390,826)</u>
<u>\$ 8,365,662</u>	<u>\$ 9,993,703</u>	<u>\$ 7,263,570</u>	<u>\$ 9,993,152</u>	<u>\$13,322,543</u>	<u>\$ 11,697,435</u>
\$28,661,994	\$28,306,854	\$27,548,912	\$27,042,159	\$27,275,625	\$ 28,155,931
416,907	150,955	4,677,882	4,098,350	2,949,052	5,259,401
<u>2,780,434</u>	<u>2,516,589</u>	<u>2,518,191</u>	<u>2,978,574</u>	<u>2,891,977</u>	<u>3,436,248</u>
<u>\$31,859,335</u>	<u>\$30,974,398</u>	<u>\$34,744,985</u>	<u>\$34,119,083</u>	<u>\$33,116,654</u>	<u>\$ 36,851,580</u>
\$49,384,680	\$48,642,280	\$47,471,719	\$47,622,947	\$32,672,963	\$ 30,785,616
774,004	627,553	8,054,064	6,937,452	4,504,321	7,394,803
<u>(9,933,687)</u>	<u>(8,301,732)</u>	<u>(13,517,228)</u>	<u>(10,448,164)</u>	<u>9,261,913</u>	<u>10,368,596</u>
<u>\$40,224,997</u>	<u>\$40,968,101</u>	<u>\$42,008,555</u>	<u>\$44,112,235</u>	<u>\$46,439,197</u>	<u>\$ 48,549,015</u>

## CITY OF NEDERLAND, TEXAS

## CHANGES IN NET ASSETS

LAST NINE FISCAL YEARS (1)

(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year		
	2003	2004	2005
Governmental activities			
General government	\$ 960,936	\$ 1,665,118	\$ 1,000,138
Public safety	3,409,078	3,914,039	4,052,612
Public works	1,216,183	957,755	1,465,853
Culture and recreation	775,755	752,682	765,294
Administrative and general	154,710	268,493	127,749
Interest on long-term debt	912,413	842,767	847,017
Total governmental activities	<u>7,429,075</u>	<u>8,400,854</u>	<u>8,258,663</u>
Business-type activities			
Water and sewer	3,286,017	3,223,537	3,760,887
Solid Waste	917,981	911,319	986,948
Total business-type activities	<u>4,203,998</u>	<u>4,134,856</u>	<u>4,747,835</u>
Total Primary Government Expenses	<u>\$ 11,633,073</u>	<u>\$ 12,535,710</u>	<u>\$ 13,006,498</u>
Program Revenues			
Governmental activities:			
Charges for services:			
Public safety	\$ 120,658	\$ 145,348	\$ 176,561
Public works	74,048	81,242	130,430
Culture and recreation	78,073	69,438	50,711
Operating grants and contributions	135,991	480,752	196,739
Capital grants and contributions	-	-	58,245
Total governmental activities program revenues	<u>408,770</u>	<u>776,780</u>	<u>612,686</u>
Business activities:			
Charges for services:			
Water & sewer	3,602,854	3,407,583	3,439,172
Solid waste	999,295	1,176,041	1,219,741
Capital grants and contributions	-	-	-
Total business-type activities program revenues	<u>4,602,149</u>	<u>4,583,624</u>	<u>4,658,913</u>
Total primary government program revenues	<u>\$ 5,010,919</u>	<u>\$ 5,360,404</u>	<u>\$ 5,271,599</u>
Net (expense) revenue			
Governmental activities	\$ (7,020,305)	\$ (7,624,074)	\$ (7,645,977)
Business-type activities	398,151	448,768	(88,922)
Total primary government net expense	<u>\$ (6,622,154)</u>	<u>\$ (7,175,306)</u>	<u>\$ (7,734,899)</u>

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$ 1,017,303	\$ 1,127,311	\$ 974,048	\$ 959,939	\$ 938,214	\$ 894,890
4,209,461	4,413,585	4,706,590	4,510,332	3,960,690	4,719,003
1,748,796	1,814,987	1,854,510	1,439,306	1,620,899	1,893,707
952,248	1,032,854	916,500	927,717	1,636,562	1,076,490
199,434	149,048	836,226	503,838	498,380	396,221
838,482	790,941	755,903	939,966	1,057,191	645,953
<u>8,965,724</u>	<u>9,328,726</u>	<u>10,043,777</u>	<u>9,281,098</u>	<u>9,711,936</u>	<u>9,626,264</u>
3,917,220	4,258,833	4,455,575	4,419,694	4,332,049	4,406,019
1,180,200	1,049,490	1,499,256	1,884,277	1,118,966	1,030,067
<u>5,097,420</u>	<u>5,308,323</u>	<u>5,954,831</u>	<u>6,303,971</u>	<u>5,451,015</u>	<u>5,436,086</u>
<u>\$ 14,063,144</u>	<u>\$ 14,637,049</u>	<u>\$ 15,998,608</u>	<u>\$ 15,585,069</u>	<u>\$ 15,162,951</u>	<u>\$ 15,062,350</u>
\$ 384,731	\$ 285,255	\$ 122,117	\$ 143,095	\$ 200,573	\$ 183,564
125,468	116,174	123,557	104,147	106,104	105,158
19,122	44,448	64,620	41,959	53,487	81,098
73,597	287,084	210,090	147,617	295,370	272,166
24,450	86,135	-	-	-	-
<u>627,368</u>	<u>819,096</u>	<u>520,384</u>	<u>436,818</u>	<u>655,534</u>	<u>641,986</u>
3,592,610	3,678,167	3,762,599	3,850,024	4,005,958	4,246,104
1,349,841	1,277,770	1,281,762	1,293,806	1,310,495	1,327,215
-	194,821	842,783	867,484	-	-
<u>4,942,451</u>	<u>5,150,758</u>	<u>5,887,144</u>	<u>6,011,314</u>	<u>5,316,453</u>	<u>5,573,319</u>
<u>\$ 5,569,819</u>	<u>\$ 5,969,854</u>	<u>\$ 6,407,528</u>	<u>\$ 6,448,132</u>	<u>\$ 5,971,987</u>	<u>\$ 6,215,305</u>
\$ (8,338,356)	\$ (8,509,630)	\$ (9,523,393)	\$ (8,844,280)	\$ (9,056,402)	\$ (8,984,278)
(154,969)	(157,565)	(67,687)	(292,657)	(134,562)	137,233
<u>\$ (8,493,325)</u>	<u>\$ (8,667,195)</u>	<u>\$ (9,591,080)</u>	<u>\$ (9,136,937)</u>	<u>\$ (9,190,964)</u>	<u>\$ (8,847,045)</u>

CITY OF NEDERLAND, TEXAS

CHANGES IN NET ASSETS (continued)

	Fiscal Year		
	2003	2004	2005
General Revenues and Other Changes in Net Assets			
Governmental Activities			
Property taxes, penalties and interest	\$ 3,695,581	\$ 3,945,663	\$ 4,075,342
In lieu of tax contracts	557,046	715,899	703,139
Sales tax	1,669,895	1,597,100	1,746,581
Gross receipts tax	917,681	899,871	914,567
Interest	90,149	68,461	174,563
Other governmental agencies	-	-	-
Other miscellaneous	169,052	536,307	201,812
Transfers	(891,573)	604,871	(979,998)
Total government activities	<u>6,207,831</u>	<u>8,368,172</u>	<u>6,836,006</u>
Business-type activities			
Interest	\$ 55,901	\$ 50,662	\$ 80,559
Other miscellaneous	-	-	-
Transfers	1,018,820	(604,871)	979,998
Total business-type activities	<u>1,074,721</u>	<u>(554,209)</u>	<u>1,060,557</u>
Total primary government	<u>\$ 7,282,552</u>	<u>\$ 7,813,963</u>	<u>\$ 7,896,563</u>
Change in Net Assets			
Governmental activities	\$ (812,474)	\$ 744,098	\$ (809,971)
Business-type activities	1,472,872	(105,441)	971,635
Total primary government	<u>\$ 660,398</u>	<u>\$ 638,657</u>	<u>\$ 161,664</u>

(1) The requirement for statistical data is ten years; only nine years are available at this time.

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$ 4,401,412	\$ 4,369,718	\$ 4,551,330	\$ 5,012,060	\$ 5,370,920	\$ 5,547,369
762,244	851,566	783,582	839,560	940,850	1,006,261
2,373,145	2,480,048	2,781,508	3,283,262	2,922,006	3,036,033
912,714	955,884	1,056,941	913,653	1,298,937	1,299,828
304,561	403,250	233,143	64,742	28,537	21,941
1,096,853	-	834,827	52,991	-	-
954,638	209,989	137,331	621,448	1,018,745	82,405
779,509	867,216	(3,585,402)	760,600	805,798	(3,617,690)
<u>11,585,076</u>	<u>10,137,671</u>	<u>6,793,260</u>	<u>11,548,316</u>	<u>12,385,793</u>	<u>7,376,147</u>
\$ 118,951	\$ 139,844	\$ 86,343	\$ 85,369	\$ 40,989	\$ 15,426
536,645	-	166,529	361,509	(103,058)	(35,423)
<u>(779,509)</u>	<u>(867,216)</u>	<u>3,585,402</u>	<u>(760,600)</u>	<u>(805,798)</u>	<u>3,617,690</u>
<u>(123,913)</u>	<u>(727,372)</u>	<u>3,838,274</u>	<u>(313,722)</u>	<u>(867,867)</u>	<u>3,597,693</u>
<u>\$ 11,461,163</u>	<u>\$ 9,410,299</u>	<u>\$ 10,631,534</u>	<u>\$ 11,234,594</u>	<u>\$ 11,517,926</u>	<u>\$ 10,973,840</u>
\$ 3,246,720	\$ 1,628,041	\$ (2,730,133)	\$ 2,704,036	\$ 3,329,391	\$ (1,608,131)
(278,882)	(884,937)	3,770,587	(606,379)	(1,002,429)	3,734,926
<u>\$ 2,967,838</u>	<u>\$ 743,104</u>	<u>\$ 1,040,454</u>	<u>\$ 2,097,657</u>	<u>\$ 2,326,962</u>	<u>\$ 2,126,795</u>

## GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE

LAST NINE FISCAL YEARS (1)

(ACCRUAL BASIS OF ACCOUNTING)

(AMOUNTS EXPRESSED IN THOUSANDS)

<u>Fiscal Year</u>	<u>Property Tax</u>	<u>In Lieu of Tax</u>	<u>Sales Tax</u>	<u>Gross Receipts Tax</u>	<u>Total</u>
2003	\$ 3,696	\$ 557	\$ 1,670	\$ 978	\$ 6,901
2004	3,946	716	1,597	900	7,159
2005	4,075	703	1,747	915	7,440
2006	4,401	762	2,373	913	8,449
2007	4,370	852	2,480	956	8,658
2008	4,551	784	2,782	1,057	9,174
2009	5,045	840	3,283	914	10,082
2010	5,328	941	2,922	1,299	10,490
2011	5,547	1,006	3,036	1,300	10,889

(1) The requirement for statistical data is ten years; only nine years are available at this time.



FUND BALANCES OF GOVERNMENTAL FUNDS  
 LAST NINE FISCAL YEARS (1)  
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)  
 (AMOUNTS EXPRESSED IN THOUSANDS)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund									
Reserved	\$ 9	\$ 13	\$ 13	\$ 3	\$ 6	\$ 5	\$ 5	\$ 4	\$ -
Unreserved	4,371	4,439	4,747	5,792	6,418	4,390	5,591	6,255	-
Nonspendable	-	-	-	-	-	-	-	-	4
Unassigned	-	-	-	-	-	-	-	-	7,043
Total general fund	<u>\$ 4,380</u>	<u>\$ 4,452</u>	<u>\$ 4,760</u>	<u>\$ 5,795</u>	<u>\$ 6,424</u>	<u>\$ 4,395</u>	<u>\$ 5,596</u>	<u>\$ 6,259</u>	<u>\$ 7,047</u>
All other governmental funds									
Reserved	124	165	150	189	215	254	225	239	-
Unreserved, reported in:									
Special revenue funds	121	154	168	219	246	249	238	282	-
Capital projects funds	940	98	(548)	62	262	3,123	2,627	1,316	-
Restricted									
Debt Service	-	-	-	-	-	-	-	-	290
Grants and Awards	-	-	-	-	-	-	-	-	257
Committed									
Capital projects	-	-	-	-	-	-	-	-	1,588
Total all other governmental funds	<u>\$ 1,185</u>	<u>\$ 417</u>	<u>\$ (230)</u>	<u>\$ 470</u>	<u>\$ 723</u>	<u>\$ 3,626</u>	<u>\$ 3,090</u>	<u>\$ 1,837</u>	<u>\$ 2,135</u>
Total governmental funds	<u>\$ 5,565</u>	<u>\$ 4,869</u>	<u>\$ 4,530</u>	<u>\$ 6,265</u>	<u>\$ 7,147</u>	<u>\$ 8,021</u>	<u>\$ 8,686</u>	<u>\$ 8,096</u>	<u>\$ 9,182</u>

(1) The requirement for statistical data is ten years; only nine years are available at this time.

(2) Fund balance classifications were changed in FY 2011 per GASB 54

CITY OF NEDERLAND, TEXAS

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

LAST NINE FISCAL YEARS (1)

(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

Revenues	Fiscal Year		
	2003	2004	2005
Property taxes, penalties and interest	\$ 3,715,628	\$ 3,921,007	\$ 4,044,904
In lieu of tax contracts	557,046	715,899	703,139
Sales Tax	1,669,895	1,597,100	1,746,581
Other tax	974,266	961,005	976,471
Permits, licences and fees	138,008	135,857	181,141
Fines, forfeits and penalties	136,567	121,124	130,629
Insurance	-	-	-
Interest	90,149	68,461	174,562
Other governmental agencies	-	-	-
Grants and Private contributions	431,831	465,745	326,261
Other miscellaneous	112,468	78,029	141,193
<b>Total revenues</b>	<b>7,825,858</b>	<b>8,064,227</b>	<b>8,424,881</b>
<b>Expenditures</b>			
<b>Current:</b>			
General government	812,826	841,296	855,039
Public safety	3,178,672	3,643,181	3,900,773
Public works	1,084,723	1,048,086	1,192,976
Culture and recreation	730,873	736,072	746,340
Administration and general	110,510	268,493	127,749
Capital Outlay	656,637	1,125,180	797,109
<b>Debt Service:</b>			
Principal retirement	715,000	855,000	915,000
Interest and fiscal charges	841,850	848,339	849,929
Issuance Costs	47,623	-	38,628
<b>Total expenditures</b>	<b>8,178,714</b>	<b>9,365,647</b>	<b>9,423,543</b>
<b>Excess (Deficiency) of Revenues</b>			
<b>Over (Under) Expenditures</b>	<b>(352,856)</b>	<b>(1,301,420)</b>	<b>(998,662)</b>
<b>Other Financing Sources (Uses)</b>			
Bonds issued	1,545,000		1,640,000
Transfers in	516,820	646,172	627,550
Transfers out	(1,706,027)	(41,300)	(1,607,548)
<b>Total Other Financing Sources and Uses</b>	<b>355,793</b>	<b>604,872</b>	<b>660,002</b>
<b>Net Change in Fund Balance</b>	<b>\$ 2,937</b>	<b>\$ (696,548)</b>	<b>\$ (338,660)</b>
<b>Debt service as a percentage of</b>			
<b>non-capital expenditures</b>	<b>27.1%</b>	<b>26.1%</b>	<b>26.4%</b>

(1) The requirement for statistical data is ten years; only nine years are available at this time.

Fiscal Year					
2006	2007	2008	2009	2010	2011
4,399,262	4,347,001	4,550,883	5,044,628	5,328,245	5,533,376
762,244	851,567	783,582	839,560	940,850	1,006,261
2,373,145	2,480,048	2,781,508	3,283,262	2,922,006	3,036,033
924,753	1,054,163	1,056,941	913,653	1,298,937	1,299,828
144,590	160,622	171,126	127,703	159,591	186,255
224,269	150,079	178,162	160,306	196,265	193,588
819,256	-	-	-	-	-
304,561	403,250	233,143	64,742	28,537	21,941
1,096,853	121,616	834,827	52,991	-	-
146,229	314,213	210,090	147,617	295,370	272,166
122,476	115,445	137,329	621,448	819,761	82,405
<u>11,317,638</u>	<u>9,998,004</u>	<u>10,937,591</u>	<u>11,255,910</u>	<u>11,989,562</u>	<u>11,631,853</u>
912,778	870,539	929,419	913,358	890,651	908,602
4,138,623	4,300,647	4,619,928	4,517,773	4,592,380	4,681,227
1,163,977	1,198,699	1,280,070	1,475,481	1,273,637	1,357,089
850,940	904,903	969,199	810,886	1,483,363	1,011,563
199,434	149,048	1,017,305	503,838	333,410	372,158
1,051,212	528,262	62,891	774,521	2,450,174	719,846
1,195,000	1,245,000	1,295,000	1,475,000	1,545,000	1,640,000
841,671	794,449	743,261	905,654	857,622	658,116
-	-	61,856	2,900	157,111	63,292
<u>10,353,635</u>	<u>9,991,547</u>	<u>10,978,929</u>	<u>11,379,411</u>	<u>13,583,348</u>	<u>11,411,893</u>
<u>964,003</u>	<u>6,457</u>	<u>(41,338)</u>	<u>(123,501)</u>	<u>(1,593,786)</u>	<u>219,960</u>
-	-	4,500,000	-	198,984	4,500,000
1,670,844	1,117,216	3,803,545	1,000,333	1,443,738	1,244,018
(891,335)	(250,000)	(7,388,947)	(239,733)	(637,940)	(4,861,708)
<u>779,509</u>	<u>867,216</u>	<u>914,598</u>	<u>760,600</u>	<u>1,004,782</u>	<u>882,310</u>
<u>\$ 1,743,512</u>	<u>\$ 873,673</u>	<u>\$ 873,260</u>	<u>\$ 637,099</u>	<u>\$ (589,004)</u>	<u>\$ 1,102,270</u>
28.0%	27.5%	23.8%	29.0%	29.9%	29.8%

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY  
LAST TEN FISCAL YEARS

FISCAL YEAR	TAX ROLL YEAR	ESTIMATED MARKET VALUE			LESS: TAX-EXEMPT PROPERTY	TOTAL TAXABLE ASSESSED VALUE	TOTAL DIRECT TAX RATE
		RESIDENTIAL PROPERTY	COMMERCIAL PROPERTY	INDUSTRIAL PROPERTY			
2002	2001	421,638,850	169,907,120	8,177,690	28,803,300	570,920,360	0.650000
2003	2002	431,431,440	179,320,120	8,203,510	31,254,880	587,700,190	0.660000
2004	2003	473,247,730	173,991,890	8,156,770	33,423,100	621,973,290	0.660000
2005	2004	483,161,160	187,106,760	7,585,390	35,871,340	641,981,970	0.658903
2006	2005	524,571,900	203,853,760	7,594,810	37,248,200	698,772,270	0.652456
2007	2006	487,717,280	194,455,150	8,510,950	33,622,240	657,061,140	0.685000
2008	2007	629,768,370	174,499,779	9,368,520	55,757,900	757,878,769	0.594830
2009	2008	724,314,882	186,694,690	17,702,220	71,374,455	857,337,337	0.578000
2010	2009	752,597,170	189,146,110	26,618,370	50,625,730	917,735,920	0.057800
2011	2010	783,651,670	193,808,860	7,993,330	40,563,276	944,890,584	0.057800

Source: Jefferson County Appraisal District

Note: Property in Jefferson County is reassessed once every two years

## PROPERTY TAX RATES- DIRECT AND OVERLAPPING GOVERNMENTS

Last Ten Fiscal Years

Fiscal Year	City Direct Rates			Overlapping Rates			
	Maintenance & Operations Rate	Debt Service Rate	Total Direct Rate	Jefferson County	Nederland ISD	Drainage District #7	Navigation District
2002	0.363740	0.286260	\$0.650000	0.365000	1.530000	0.170500	0.023023
2003	0.391802	0.268198	\$0.660000	0.365000	1.560000	0.188100	0.033023
2004	0.385277	0.274723	\$0.660000	0.365000	1.550000	0.188100	0.031868
2005	0.398307	0.260596	\$0.658903	0.425000	1.550000	0.188100	0.031021
2006	0.400995	0.251461	\$0.652456	0.425000	1.550000	0.179063	0.029699
2007	0.416421	0.268579	\$0.685000	0.400000	1.380000	0.160000	0.026322
2008	0.374462	0.220368	\$0.594830	0.390000	1.120000	0.145809	0.024257
2009	0.351731	0.226269	\$0.578000	0.365000	1.120000	0.139650	0.022418
2010	0.360319	0.217681	\$0.578000	0.365000	1.215000	0.138977	0.025431
2011	0.371852	0.206148	\$0.578000	0.365000	1.113000	0.138977	0.027398

Source: Jefferson County Tax Office

Note: The City establishes tax rates based on values established by the Jefferson County Appraisal District. An effective tax rate is calculated as the tax rate which would raise the same amount of revenue as the previous year. Qualified voters may petition for an election to limit the tax rate to no more than eight percent above the effective tax rate.

## PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

TAXPAYER	Fiscal Year 2002		Fiscal Year 2011	
	Assessed Valuation	Percent of Estimated Actual Value	Assessed Valuation	Percent of Estimated Actual Value
Philpott Ford, Inc.	9,603,710	1.68%	11,361,900	1.20%
Mid Jefferson County Hospital	9,089,260	1.59%	-	-
Wal-Mart Stores, Inc	7,836,690	1.37%	-	-
Southwestern Bell	7,515,140	1.32%	4,533,900	0.48%
Gulf States Utilities Co.	6,628,830	1.16%	7,994,030	0.85%
Edward Hughes	4,169,130	0.73%	3,924,930	0.42%
Megas Constantine	3,593,100	0.63%	7,742,250	0.82%
Hertz Equipment Rental Corp.	3,492,620	0.61%	4,389,520	0.46%
Wentworth Nederland I LP	2,796,020	0.49%	-	-
M & E Food Mart, Inc.	2,141,680	0.38%	-	-
Albanese Nederland LLC	-	-	3,963,960	0.42%
JAG Nederland Properties LTD	-	-	5,035,820	0.53%
Fivepoint Federal Credit Union	-	-	8,937,170	0.95%
Nederland Avenue Apartments	-	-	8,603,980	0.91%
Total	<u>\$56,866,180</u>	9.96%	<u>\$66,487,460</u>	7.04%

Source: Jefferson County Appraisal District

Notes:

Total taxable value including real and personal property for tax year 2001 (fiscal year 2002) is \$570,920,360

Total taxable value including real and personal property for tax year 2010 (fiscal year 2011) is \$944,890,584

## PROPERTY TAX LEVIES AND COLLECTIONS

## LAST TEN FISCAL YEARS

FISCAL YEAR ENDED SEPTEMBER 30,	TAXES LEVIED FOR FISCAL YEAR	COLLECTED WITHIN THE FISCAL YEAR OF LEVY		COLLECTIONS IN SUBSEQUENT YEAR	TOTAL COLLECTIONS TO DATE	
		AMOUNT	PERCENTAGE OF LEVY		AMOUNT	PERCENTAGE OF LEVY
2002	3,532,520	3,455,812	97.83%	64,235	3,520,047	99.65%
2003	3,685,319	3,595,617	97.57%	79,514	3,675,131	99.72%
2004	3,883,109	3,787,129	97.53%	81,949	3,869,078	99.64%
2005	4,031,859	3,923,234	97.31%	94,563	4,017,797	99.65%
2006	4,343,817	4,259,544	98.06%	69,774	4,329,318	99.67%
2007	4,296,092	4,201,893	97.81%	78,545	4,280,438	99.64%
2008	4,492,340	4,387,683	97.67%	82,962	4,470,645	99.52%
2009	4,960,815	4,838,230	97.53%	84,652	4,922,882	99.24%
2010	5,304,515	5,140,742	96.91%	92,062	5,232,804	98.65%
2011	5,461,469	5,315,110	97.32%	-	5,315,110	97.32%

Source: Jefferson County Appraisal District and Jefferson County Tax Office

RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities			Business-type Activities	Total Primary Government	Percentage of Personal Income	Per Capita
	Certificates of Obligation	Tax Notes	General Obligation Bonds	Water & Sewer Revenue Bonds			
2002	19,645,000	-	-	575,000	20,220,000	N/A	\$ 1,161
2003	20,475,000	-	-	475,000	20,950,000	N/A	\$ 1,203
2004	19,620,000	-	-	365,000	19,985,000	N/A	\$ 1,147
2005	18,705,000	1,640,000	-	250,000	20,595,000	N/A	\$ 1,182
2006	17,725,000	1,425,000	-	130,000	19,280,000	5.42%	\$ 1,107
2007	16,700,000	1,205,000	-	-	17,905,000	4.23%	\$ 1,028
2008	15,630,000	980,000	4,500,000	-	21,110,000	5.16%	\$ 1,212
2009	14,515,000	745,000	4,375,000	-	19,635,000	4.17%	\$ 1,127
2010	12,990,000	505,000	4,225,000	-	17,720,000	3.88%	\$ 1,017
2011	16,250,000	255,000	4,075,000	-	20,580,000	4.48%	\$ 1,173

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.  
Population data can be found in Schedule XVI



RATIOS OF GENERAL BONDED DEBT OUTSTANDING  
LAST TEN FISCAL YEARS

Fiscal Year	General Bonded Debt Outstanding				Percentage of Estimated Actual Taxable Value of Property	Per Capita
	Certificates of Obligation	Tax Notes	General Obligation Bonds	Total		
2002	19,645,000	-	-	\$19,645,000	3.44%	1,128
2003	20,475,000	-	-	\$20,475,000	3.48%	1,175
2004	19,620,000	-	-	\$19,620,000	3.15%	1,126
2005	18,705,000	1,640,000	-	\$20,345,000	3.17%	1,168
2006	17,725,000	1,425,000	-	\$19,150,000	2.74%	1,099
2007	16,700,000	1,205,000	-	\$17,905,000	2.73%	1,028
2008	15,630,000	980,000	4,500,000	\$21,110,000	2.79%	1,212
2009	14,515,000	745,000	4,375,000	\$19,635,000	2.29%	1,127
2010	12,990,000	505,000	4,225,000	\$17,720,000	1.93%	1,017
2011	16,250,000	255,000	4,075,000	\$20,580,000	2.18%	1,173

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements  
Population data can be found in Schedule XVI

## SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT

ALL DIRECT AND OVERLAPPING GOVERNMENTS

SEPTEMBER 30, 2011

UNAUDITED

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable (1)	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes			
Nederland Independent School District	\$8,845,000	55.96%	\$4,949,662
Jefferson County, Texas	60,770,000	3.98%	2,418,646
Jefferson County Drainage District #7	-	10.73%	-
Subtotal overlapping debt			7,368,308
City direct debt			20,580,000
TOTAL			\$ 27,948,308

Notes: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Nederland. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and therefore responsible for repaying the debt of each overlapping government.

(1) For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using applicable percentages and were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value.

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DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2011

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes; City	\$ 20,580,000	100%	\$ 20,580,000

CITY OF NEDERLAND, TEXAS  
 LEGAL DEBT MARGIN INFORMATION  
 LAST TEN FISCAL YEARS  
 (AMOUNTS EXPRESSED IN THOUSANDS)

**Debt Margin Calculation for Fiscal Year 2011**

Assessed value	\$ 944,891
Debt Limit (25% of assessed value)	<u>236,223</u>
Debt applicable to limit:	
General Obligation Bonds	20,580
Less: amount set aside for repayment of general obligation debt	<u>(291)</u>
Total net debt applicable to limit	<u>20,289</u>
<b>Debt Margin</b>	<u><u>\$ 215,934</u></u>

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Debt limit	\$ 142,730	\$ 146,886	\$ 163,849
Total net debt applicable to limit	<u>19,487</u>	<u>20,351</u>	<u>19,455</u>
Legal debt margin	<u>\$ 123,243</u>	<u>\$ 126,535</u>	<u>\$ 144,394</u>
Legal debt margin as a percentage of the debt limit	86.35%	86.15%	88.13%

Note: There is no debt limit established by law; therefore, the limit is governed by the City's ability to levy and collect taxes to service the debt. The Attorney General of the State of Texas will not approve more than \$1.00 of the tax rate for debt service. The City's maximum legal tax rate is \$2.00 per \$100 valuation assessed at 100% of market value. Twenty-five percent of the assessed value has been applied as a "rule of thumb" procedure.

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<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
\$ 160,495	\$ 174,693	\$ 164,265	\$ 189,469	\$ 214,334	\$ 211,953	\$ 215,934
<u>20,195</u>	<u>18,961</u>	<u>17,690</u>	<u>20,856</u>	<u>19,410</u>	<u>17,481</u>	<u>20,289</u>
<u>\$ 140,300</u>	<u>\$ 155,732</u>	<u>\$ 146,575</u>	<u>\$ 168,613</u>	<u>\$ 194,924</u>	<u>\$ 194,472</u>	<u>\$ 195,645</u>
87.42%	89.15%	89.23%	88.99%	90.94%	91.75%	90.60%

## PLEDGED-REVENUE COVERAGE

## LAST TEN FISCAL YEARS

Fiscal Year	Water Revenue Bonds					
	Water & Sewer Charges for Services	Less: Operating Expenses	Net Available Revenue	Principal	Interest	Coverage
2002	3,477,022	2,529,499	947,523	95,000	40,390	7.00
2003	3,539,516	2,521,190	1,018,326	100,000	34,500	7.57
2004	3,390,242	2,572,955	817,287	110,000	28,500	5.90
2005	3,417,875	2,848,817	569,058	115,000	21,900	4.16
2006	3,522,692	2,873,188	649,504	120,000	15,000	4.81
2007	3,626,384	3,003,530	622,854	130,000	7,800	4.52
2008	3,762,599	3,184,860	577,739	-	-	-
2009	3,850,024	3,123,797	726,227	-	-	-
2010	3,851,928	3,034,597	817,331	-	-	-
2011	4,083,915	3,108,372	975,543	-	-	-

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

Operating expenses do not include interest, depreciation, or amortization expenses.

## DEMOGRAPHIC AND ECONOMIC STATISTICS

## LAST TEN CALENDAR YEARS

Calendar Year	Population	Personal Income (amounts expressed in thousands)	Per Capita Personal Income	Median Age	School Enrollment	Unemployment Rate
2002	17,422	N/A	N/A	*	N/A	N/A
2003	17,422	N/A	N/A	*	N/A	N/A
2004	17,422	N/A	N/A	*	N/A	N/A
2005	17,422	355,548	20,408	*	5,122	3.70%
2006	17,422	422,815	24,269	*	4,986	3.00%
2007	17,422	409,487	23,504	*	5,188	3.70%
2008	17,422	410,741	23,576	*	5,073	4.50%
2009	17,422	471,230	27,048	*	5,024	5.00%
2010	17,422	456,753	26,217	*	4,898	5.00%
2011	17,547	459,679	26,197	*	4,999	** 11.4%

Sources: U.S. Census Bureau, State and local economic development entities

Notes: \*Medium age only available in census years

\*\* Local unemployment rate is no longer available, the rate reported is area wide

N/A-Data not available

PRINCIPAL EMPLOYERS

CURRENT YEAR

Employer	2011	
	Employees	Percentage of Total City Employment
Nederland Independent School District	646	7.54%
Philpott Motors	233	2.72%
Mid Jefferson Extended Care Hospital	138	1.61%
Time Warner	132	1.54%
City of Nederland	106	1.24%
Dupont	75	0.88%
JK Chevrolet	70	0.82%
Sun Oil Co.	69	0.81%
Unocal	65	0.76%
Air Liquide	40	0.47%

Source: Nederland Economic Development Corporation

Note: Historical Information not available.



FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<u>Function/Program</u>										
General government										
City manager	3	3	3	3	3	3	3	3	3	3
Finance	2	2	1	1	1	1	1	1	1	1
Personnel	2	2	2	2	2	2	2	2	2	2
Public safety										
Police	24	24	24	24	24	24	26	26	26	26
Fire	15	15	15	15	15	15	15	15	15	15
Dispatch	8	8	8	8	8	9	10	10	11	11
Public works										
Inspections	2	2	2	2	2	2	2	2	2	2
Public works administration	2	2	2	2	2	2	2	2	2	2
Streets	10	10	8	8	8	8	8	8	8	8
City shop	3	3	2	2	2	2	2	2	2	2
Culture and recreation										
Parks and recreation	4	3	3	3	3	3	3	3	3	3
Library	4	4	3	3	3	3	3	4	4	4
Water and sewer										
Water treatment	6	6	6	6	6	6	6	6	6	6
Water utility billing/collections	6	6	6	4	4	4	4	4	4	4
Wastewater treatment <sup>a</sup>	5	5	-	-	-	-	-	-	-	-
Water and sewer distribution	12	12	9	9	10	10	10	10	10	10
Solid Waste										
	7	7	6	7	7	7	7	7	7	7
Total	115	114	100	99	100	101	104	105	106	106

Source: Finance Department

Notes: A full-time employee (except for firefighter) is scheduled to work 2,080 hours per year (including vacation and sick leave.) Firefighters are scheduled to work 2,912 hours per year including vacation, sick and Kelly days.) Full-time equivalent employment is calculated by dividing total labor hours by 2,080 for employees other than firefighters and 2,912 for firefighters.

<sup>a</sup>The wastewater treatment operation was contracted in 2004.

CITY OF NEDERLAND, TEXAS

OPERATING INDICATORS BY FUNCTION/PROGRAM  
LAST TEN CALENDAR YEARS

<u>Function/Program</u>	2002	2003	2004
General government			
Building permits issued	1,241	1,460	1,147
Public safety			
Police			
Physical arrests	N/A	465	354
Traffic violations	N/A	1,684	1,315
Dispatch calls for service	14,653	14,260	12,893
Offense reports filled	2,451	2,243	2,171
Fire			
Fire runs	98	91	86
EMS & other non-fire runs	958	793	751
Library			
Total volumes borrowed	119,543	115,379	107,993
Water and sewer			
Number of connections	7,901	7,916	7,929
Water main breaks	224	128	162
Average daily consumption (thousands of gallons)	3.052	2.423	2.275
Peak daily consumption (thousands of gallons)	4.431	3.487	3.558
Solid waste			
Refuse collected average yards per day (compacted)	126.340	106.230	91.800
Refuse collected average yards per day (non-compacted)	78.350	106.400	112.670

Source: City Departments

Note: N/A - Data not available

\* Change in method of connection count per TCEQ

## Schedule XIX

2005	2006	2007	2008	2009	2010	2011
1,090	1,838	2,047	1,045	1,101	1,005	1,026
401	225	212	264	408	345	377
1,110	1,394	1,431	1,568	1,877	2,158	1,744
10,429	11,388	11,227	10,436	10,257	10,109	12,258
2,041	1,873	1,976	2,005	2,000	1,805	2,050
84	159	125	104	75	99	103
874	976	1,031	1,241	1,480	1,566	1,556
97,711	81,374	100,694	96,887	103,171	115,311	106,380
7,950	7,969	7,955	8,246	8,259	7825*	7,848
202	210	257	157	115	288	446
2.051	1.950	1.970	2.32	2.21	2.25	2.32
3.172	3.134	3.150	3.75	3.49	3.49	3.59
98.270	111.650	99.000	93.000	91.000	90.000	104.000
71.950	67.630	96.000	73.000	97.000	112.000	96.000

CAPITAL ASSET STATISTICS BY FUNCTION  
LAST TEN FISCAL YEARS

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	13	13	13	14	14	14	14	14	14	20
Fire stations	1	1	1	1	1	1	1	1	1	1
Public works										
Streets (lane miles)	175	175	175	175	175	175	175	175	175	175
Traffic signals	N/A	7	7	6	6	6	6	6	6	6
Parks and recreation										
Parks	7	7	7	7	7	7	7	7	7	5
Swimming pools	1	1	1	1	1	1	1	1	1	1
Water and sewer										
Water mains (miles)	103.96	103.96	103.96	103.96	103.96	103.96	103.96	103.96	103.96	103.96
Sewer mains (miles)	93.67	93.67	93.67	93.67	93.67	93.67	93.67	93.67	93.67	93.67
Fire hydrants	N/A	N/A	N/A	N/A	407	407	407	407	407	407

Source: City Departments

Note: N/A - Data not available

## Industrial Contracts

**2006-2007 Fiscal Year**

	2006 Assessed Valuation	Taxable Value	Payments
Air Liquide America Corporation	\$ 40,010,060	\$ 28,188,679	\$ 193,092
Union Oil of California	32,807,580	24,447,445	167,465
Sun Pipeline Company	105,568,520	71,680,220	491,009
Total	<u>\$ 178,386,160</u>	<u>\$ 124,316,344</u>	<u>\$ 851,566</u>

**2007-2008 Fiscal Year**

	2007 Assessed Valuation	Taxable Value	Payments
Air Liquide America Corporation	\$ 40,816,820	\$ 28,653,191	\$ 170,438
Union Oil of California	35,933,270	26,422,228	157,167
Sun Pipeline Company	125,985,820	85,383,950	507,889
Total	<u>\$ 202,735,910</u>	<u>\$ 140,459,369</u>	<u>\$ 835,494</u>

**2008-2009 Fiscal Year**

	2008 Assessed Valuation	Taxable Value	Payments
Air Liquide America Corporation	\$ 40,878,510	\$ 30,484,819	\$ 176,202
Union Oil of California	38,610,500	28,109,737	162,474
Sun Pipeline Company	142,274,390	86,657,963	500,883
Total	<u>\$ 221,763,400</u>	<u>\$ 145,252,519</u>	<u>\$ 839,559</u>

**2009-2010 Fiscal Year**

	2009 Assessed Valuation	Taxable Value	Payments
Air Liquide America Corporation	\$ 34,974,880	\$ 26,042,978	\$ 150,529
Union Oil of California	36,617,210	27,437,894	158,591
Sun Pipeline Company	154,174,440	99,446,640	631,730
Total	<u>\$ 225,766,530</u>	<u>\$ 152,927,512</u>	<u>\$ 940,850</u>

**2010-2011 Fiscal Year**

	2010 Assessed Valuation	Taxable Value	Payments
Air Liquide America Corporation	\$ 32,310,550	\$ 24,050,467	\$ 139,012
Union Oil of California	43,262,850	32,366,959	184,597
Sun Pipeline Company	174,100,615	118,105,889	682,652
Total	<u>\$ 249,674,015</u>	<u>\$ 174,523,315</u>	<u>\$ 1,006,261</u>

# J. R. Edwards & Associates, LLC

## Certified Public Accountants

March 22, 2012

### ***REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS***

The Honorable Mayor and City Council  
City of Nederland, Texas

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Nederland, Texas (the "City") as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 22, 2012. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

Management of the City of Nederland, Texas is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a significant deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not necessarily designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

The Honorable Mayor and City Council  
City of Nederland, Texas  
March 22, 2012

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City's Trustees and management, the Texas Education Agency, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*J.R. Edwards & Associates, LLC*