

# **CITY OF NEDERLAND, TEXAS**



## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**Fiscal Year Ended September 30, 2013**

# CITY OF NEDERLAND, TEXAS

## Comprehensive Annual Financial Report

*For the Year Ended September 30, 2013*

Prepared by the  
Finance Department

CITY OF NEDERLAND, TEXAS

Comprehensive Annual Financial Report

September 30, 2013

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# INTRODUCTORY SECTION



# City of Nederland

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

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

To The Honorable Mayor, Members of the City Council, and  
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, 2013.

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, 2013, 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, 2013, are fairly presented in conformity with GAAP. The independent 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.

*"Programmed for Progress"*

## **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 operates under 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 and are elected at-large. The City is divided into four council wards; each ward is represented by a councilmember. 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, code enforcement, 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 (e.g. General), 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.

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As other immigrants followed, Nederlanders began establishing truck and dairy farms. Rice farming was especially popular until overproduction, overspeculation, and the depression of 1907 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 is located in a metropolitan area in Southeast Texas frequently referred to as the "Golden Triangle" and is a component of the Beaumont-Port Arthur MSA, located in the Mid-County area of Jefferson County. For the past several years, the City has displayed stable, steady growth as the overall local economy remains strong relative to the significant downturn experienced by the majority of the country. 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. In general, the entire "Golden Triangle" area continues to display a fairly stable economy due to such factors as the existing petroleum and chemical industry, expansion of existing petrochemical plants, new commercial/retail businesses, and the construction of correctional facilities. Additionally, ad valorem revenue has increased by 5.4% per year over the past five years. However, assessed taxable values has only increased by 11.26% over the past five years or 2.81% per year.

During the past five years, sales tax collections have fluctuated greatly, averaging an increase of 3.59% per year. Beginning in fiscal year 2005-2006, the City experienced significant increases in sales tax revenues attributable to expansion projects at various crude oil and petrochemical facilities. But 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 3.9% and by 22.3% the following fiscal year but decreased by 0.89% the subsequent year. This volatility has resulted in staff conservatively estimating any potential growth. 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 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-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.

### **FY 2012-2013 IN REVIEW**

- ✓ Maintained one of the lowest municipal tax rates in Jefferson County (\$0.591853) and continued to provide \$15,000 Homestead Tax Exemptions for the elderly and the disabled.
- ✓ Completed the Nederland City Hall project—\$1.268M.
- ✓ Commenced the Homer E. Nagel Public Safety Complex project—\$3.18M.
- ✓ Completed the sale of 259 acres of land near the City's closed landfill to Sunoco through the Nederland Economic Development Corporation—\$1,450,650; the land sale will facilitate Sunoco's expansion project(s); and the land sale proceeds will go toward various City projects, including street improvements.
- ✓ Approved tax abatement requests from Sunoco, as well as negotiated pipeline easement and land use agreements with Keystone Pipeline and Seaway Crude, to promote economic development in the area.
- ✓ Completed and/or commenced street improvements to address the City's transportation network in the amount of \$1.6M, including concrete street repairs on Helena Avenue, the hot mix overlay of Canal Avenue (27<sup>th</sup> St. to Twin City Highway), Boston Avenue (10<sup>th</sup> St. to Gage Ave.), and North 13<sup>th</sup> Street (Nederland Ave. to Chicago Ave.), and various street re-surfacing projects with assistance from Jefferson County Precinct 2.
- ✓ Completed the Nederland Water Treatment Plant repairs/improvements project—\$2.15M.
- ✓ Completed the 18<sup>th</sup> Street Waterline Improvement project—\$905,000.
- ✓ Completed the interior re-painting of the Hardy Avenue elevated water tower.
- ✓ Commenced public infrastructure improvement projects with Hurricane Ike funds (Texas General Land Office CDBG Disaster Recovery Grant Round 2.2)—generators at the wastewater treatment plant and lift stations, traffic signal light upgrades, and sewer line replacement.
- ✓ Purchased a police patrol vehicle, a police SUV, cab and chassis for the Fire Department's Rescue 7 apparatus, 3 trucks for Public Works, and a replacement trash truck.
- ✓ Received \$4,846,612 in grant funding: \$2,682,017 – Texas General Land Office CDBG Disaster Recovery Grant Round 2.2, \$17,095 – 2012 SHSP (Fire), \$2,100,000 – 2012 PSG Emergency Operations Center (Fire/Police), \$43,000 – Wilton and Effie Mae Hebert Foundation (Library), \$2,500 – Foundation for South East Texas (Library), and \$2,000 – Entergy (Parks).

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- ✓ Issued \$2.6M in certificates of obligation to fund the Homer E. Nagel Public Safety Complex project and completed the re-financing of old debt saving the tax payer approximately \$160,000.
- ✓ Created a new Police Officer position dedicated to traffic enforcement.
- ✓ Continued to reduce the Crime Rate of the City.
- ✓ Negotiated collective bargaining agreements with the police and fire unions.
- ✓ Purchased and installed new playground equipment at Cropo LeBlanc and South 5<sup>th</sup> Street Parks and Americans with Disabilities Act-compliant chairlifts for the swimming pool, as well as renovated the pool concession stand and basket room.
- ✓ Revised the City's Floodplain Ordinance.
- ✓ Established a social media presence by creating a City Facebook page.
- ✓ Held "Coffee with the City Manager" and an "Afterhours Forum with the City Manager" meetings to improve the dialogue with the public.
- ✓ Continued the partnership with Adaptive Sports for Kids, which provides athletic/recreational activities, such as baseball, soccer, basketball, Tae Kwan Do, cheerleading, and flag football, for children and adults with disabilities.
- ✓ Awarded for the 15<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.
- ✓ Completed various technology upgrades, including the implementation of an Electronic Document Management system and the purchase of a ShoreTel IP Phone system for City Hall and the Police and Fire departments.
- ✓ Continued to provide community events including "Trash Bash", Nederland Nights and Dive-In Movies at the Pool, holiday decorating, Christmas on the Avenue, National Night Out, Art in the Park, and the 4<sup>th</sup> of July Fireworks Extravaganza.
- ✓ Continued a strong relationship with the Nederland Economic Development Corporation and Nederland Chamber of Commerce to promote commerce and industrial growth.
- ✓ Assessed all City departments and services to ensure efficiency and effectiveness of tax dollars by maximizing all resources and implementation of new ideas in order to provide a better municipal government.

#### **GOALS FOR FISCAL YEAR 2013-2014**

- Maintain the tax rate of \$0.591853 per \$100 assessed taxable value, which is lower than the effective tax rate and is one of the lowest municipal tax rates in Jefferson County; continue to provide \$15,000 Homestead Tax Exemptions for the elderly and the disabled.
- Complete the Homer E. Nagel Public Safety Complex project—\$3.264M.
- Continuation of street improvements to improve the transportation network—\$1.04M to include the re-surfacing of Canal Avenue between 27<sup>th</sup> Street and frontage road.
- Commence study of Nederland Avenue to evaluate re-surfacing options, utility issues, and aesthetics and to provide an estimated cost.
- Complete the Texas General Land Office CDBG Disaster Recovery Grant Round 2.2 projects—generators at the wastewater treatment plant and lift stations, traffic signal light upgrades, and sewer line replacement.
- Conduct the 2014 Community Survey to gather public input on City services
- Create a new Police Clerk position and a new Code Enforcement Officer position to protect Nederland neighborhoods and business areas.
- Complete repairs to the walking trail at Doornbos Park, to the sundeck at the Doornbos Park pond, and various improvements at Reinstra Park.
- Adopt a five-year Capital Improvement Plan.

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- Complete the re-design of the City website providing a greater amount of and better organized information, as well as a greater emphasis on financial transparency.
- Erect a “Welcome to Nederland” sign on Twin City Highway.
- Enhance payment by credit card in the Utility Billing and Municipal Court departments to include online bill pay options for citizen convenience.
- Adjust City Utility Rates to ensure the long-term fiscal stability of solid waste services.
- Purchase two Police patrol SUVs, eight Police patrol unit recording camera systems, a Streets concrete saw, an air compressor, a truck for Utility Billing, and two garbage trucks.
- Commence a Waterline Replacement project in the amount of \$700,000.
- Adopt a five-year Equipment Replacement Plan.
- Continue to reduce the crime rate.
- Continuation of water and sewer line improvements in order to upgrade the City’s utility infrastructure.
- 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.
- Continuation of residential and commercial growth in our City that will impact economic growth and opportunities for our citizenry.

### **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 lingering effects 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 natural disasters 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.

### **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 106.7% 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. Following a two-year study conducted with the help of a retiree insurance committee comprised of city employees, effective July 1, 2012, the City’s retiree insurance plan was amended from the “sliding scale benefit” provided since 1996 to a one-time flat rate contribution of no more than \$7,675 to retirees who meet the policy requirements. The funds are deposited into a Health Reimbursement Account to be utilized for qualifying medical expenses. Following the policy adoption, the City allocated funds in the fiscal year 2012-2013 budget for future retiree expenses.

The policy revision and annual expense allocation are necessary to manage the City's GASB 45 liability, to be financially prudent, and to properly assist existing and future City retirees.

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**

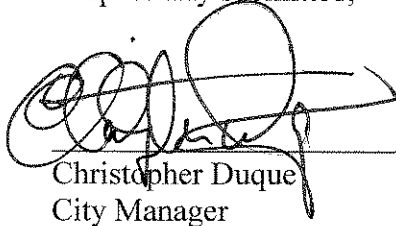
### **Awards**

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, 2012 marked the sixteenth 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, 2013 CAFR continues to meet the program requirements and this document will be submitted to GFOA for consideration.

### **Acknowledgments**

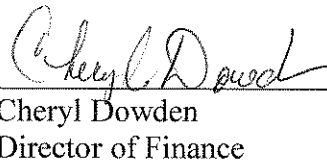
The preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the City. We would like to express our appreciation to all employees who assisted and contributed to its preparations. We would also like to thank the City Council for their 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 24, 2014



Government Finance Officers Association

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, 2012**

Executive Director/CEO

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**CITY OF NEDERLAND**

**NEDERLAND, TEXAS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

**CITY COUNCIL**

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

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

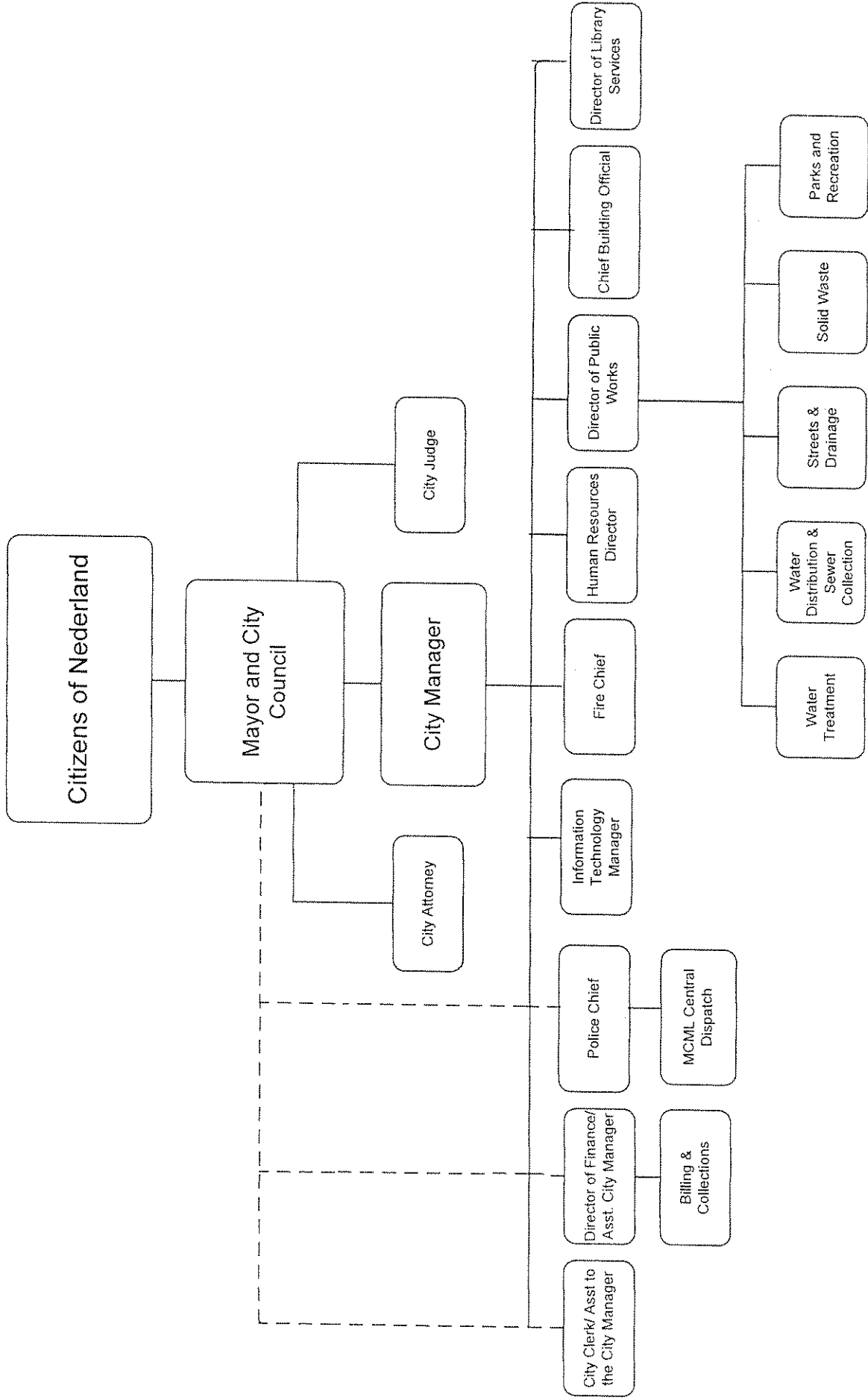
**CITY MANAGER**

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 24, 2014

### 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, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Nederland, Texas, as of and for the year ended September 30 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Nederland, Texas, as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 13-21 and 57-58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Nederland, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on 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, 2013. 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 and deferred outflows of resources of the City of Nederland (City) exceeded its liabilities at the close of fiscal year 2013 by \$56,725,244 net position.
- The City's total net position increased \$4,751,783 in 2013 largely due to sale of land and issuance of debt.
- The unrestricted net position of the City's governmental activities is (\$8,070,156) due to the fact that governmental activity funds account for debt issued in construction of business type activity assets. The unrestricted net position of the City's business type activities is \$4,421,146 and may be used to meet the ongoing obligations of the City's water, sewer, and solid waste business-type activities.
- As of September 30, 2013, the City's governmental funds reported a combined ending fund balance of \$16,815,605, which is an increase of \$5,087,428. Approximately \$9 million of the fund balance is considered unassigned at September 30, 2013 and is available for use within the City's designation and policies.
- The General Fund reported a fund balance of \$11,296,209 at the end of the current fiscal year. The unassigned fund balance for the General Fund is 8,809,119 or 78.65 percent of total General Fund expenditures (including transfers out.)
- At the end of the current fiscal year, unrestricted fund balance for the General Fund was \$10,159,119 or approximately 90.7% of total General Fund expenditures including transfers.

### 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 position* presents information on all of the City's assets and liabilities and deferred inflows/outflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of 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 nine 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, the Capital Improvement 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 33-56 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 57-58 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 60-71 of this Report.

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

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets and deferred outflows of resources exceeded liabilities by \$56.7 million at the close of the most recent fiscal year.

The largest portion of the City's net position (64.7%) 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

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

must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (10.6%) represents resources that are subject to restrictions as to how they may be used. The remaining balance of \$14,010,468 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

**NET POSITION**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Current and other assets	\$18,546,886	\$12,991,225	\$6,816,002	\$8,112,571	\$25,362,888	\$21,103,796
Capital assets	24,482,635	23,127,039	29,502,539	29,921,166	53,985,174	53,048,205
Total assets	<u>43,029,521</u>	<u>36,118,264</u>	<u>36,318,541</u>	<u>38,033,737</u>	<u>79,348,062</u>	<u>74,152,001</u>
Total deferred outflows of resources	<u>354,478</u>	-	-	-	<u>354,478</u>	-
Long-term liabilities outstanding	18,655,538	17,930,761	114,536	97,175	18,770,074	18,027,936
Other liabilities	3,328,291	2,250,744	878,931	1,899,860	4,207,222	4,150,604
Total liabilities	<u>21,983,829</u>	<u>20,181,505</u>	<u>993,467</u>	<u>1,997,035</u>	<u>22,977,296</u>	<u>22,178,540</u>
Net position						
Invested in capital assets, net of related debt	24,837,113	23,127,039	29,502,539	29,921,166	37,034,652	34,208,205
Restricted	4,633,213	2,405,754	1,401,389	2,324,808	6,034,602	4,730,562
Unrestricted	(8,070,156)	(9,596,034)	4,421,146	3,790,728	13,655,990	13,034,694
Total net position	<u>\$21,400,170</u>	<u>\$15,936,759</u>	<u>\$35,325,074</u>	<u>\$36,036,702</u>	<u>\$56,725,244</u>	<u>\$51,973,461</u>

At the end of the current fiscal year, the City is able to report positive balances in all categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's overall net position increased by \$4,751,783 during the current fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

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

**CHANGES IN NET POSITION**

	Governmental		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Charges for services	\$583,671	\$388,971	\$5,604,706	\$5,678,125	\$6,188,377	\$6,067,096
Operating grants and contributions	431,584	248,145	-	-	431,584	248,145
General Revenues						
Property taxes	5,727,560	5,634,574	-	-	5,727,560	5,634,574
Industrial payments	1,819,377	1,768,745	-	-	1,819,377	1,768,745
Sales taxes	3,681,434	3,713,845	-	-	3,681,434	3,713,845
Gross receipts tax	1,164,178	1,230,797	-	-	1,164,178	1,230,797
Interest	27,164	21,291	8,119	11,927	35,283	33,218
Gain on sale of land	1,125,155	-	-	-	1,125,155	-
Miscellaneous	81,126	55,811	11,876	(120,378)	93,002	(64,567)
Total revenues	<u>14,641,249</u>	<u>13,062,179</u>	<u>5,624,701</u>	<u>5,569,674</u>	<u>20,265,950</u>	<u>18,631,853</u>
Expenses						
General government	873,884	912,280	-	-	873,884	912,280
Public safety	4,991,907	4,873,250	-	-	4,991,907	4,873,250
Public works	1,805,477	1,825,249	-	-	1,805,477	1,825,249
Culture and recreation	1,160,750	1,075,263	-	-	1,160,750	1,075,263
Administrative and general	418,261	395,998	-	-	418,261	395,998
Interest on long-term debt	679,559	700,763	-	-	679,559	700,763
Water & sewer	-	-	4,480,355	4,408,929	4,480,355	4,408,929
Solid waste	-	-	1,103,974	1,015,675	1,103,974	1,015,675
Total expenses	<u>9,929,838</u>	<u>9,782,803</u>	<u>5,584,329</u>	<u>5,424,604</u>	<u>15,514,167</u>	<u>15,207,407</u>
Increase (decrease) in net position before transfers	4,711,411	3,279,376	40,372	145,070	4,751,783	3,424,446
Transfers	752,000	959,948	(752,000)	(959,948)	-	-
Increase (decrease) in net position	5,463,411	4,239,324	(711,628)	(814,878)	4,751,783	3,424,446
Net position, beginning						
As previously reported	15,936,759	11,697,435	36,036,702	36,851,580	51,973,461	48,549,015
Net position September 30	<u>\$21,400,170</u>	<u>\$15,936,759</u>	<u>\$35,325,074</u>	<u>\$36,036,702</u>	<u>\$56,725,244</u>	<u>\$51,973,461</u>

**Governmental activities:** Governmental activities increased the City's net position by \$5,463,411. The increase is due to several factors including greater than anticipated revenues from court fines and forfeitures and a gain on sale of land. 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 decrease is attributable to fuel price decreases throughout the fiscal year. In addition, budgeted expenditures were delayed due to weather and personnel changes as well as planned long-term street improvements.

**Business type activities.** Business-type activities decreased the City's net position by \$711,628. The decrease is due to increased costs of services due to market fluctuations as well as significant costs increases to purchase equipment utilized in providing solid waste services.

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

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

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

**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, 2013, the City's governmental funds reported combined ending fund balances of \$16.8 million, an increase of \$5,087,428 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 \$9 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 \$2,042 of the prior period, restricted for payment of debt service \$261,027, restricted for Public Safety \$221,153, restricted for Public Works \$1,135,048, restricted for Culture and Recreation spending of \$98,421 and committed for construction in the amount of \$4,938,795. In addition, \$1,350,000 has been assigned for street improvements.

The General Fund is the chief operating fund of the City. At September 30, 2013, the unassigned fund balance of the General Fund was \$8,809,119, while total fund balance was \$11,296,209. 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 78.6 percent of total general fund expenditures (including transfers out), while total fund balance represents 100.9 percent of that same amount.

The fund balance of the City's General Fund increased by \$1,960,513 during 2013. This increase was primarily due to sale of City property, favorable industrial contract amounts, gross receipts tax, sales tax and property tax revenue which exceeded budget estimates.

The Debt Service Fund has a total fund balance of \$261,027. The net decrease in fund balance during the fiscal year 2013 in this fund was \$47,626. The Debt Service Fund is funded with property tax revenue at the level necessary to meet debt service requirements.

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

The unrestricted net position at the end of the year amounted to \$2,592,960 for the Water and Sewer Fund. Net position in the Water and Sewer Fund decreased from the previous year by \$888,898 primarily due to less than anticipated revenues and higher than anticipated costs of services. Unrestricted net position at the end of the year amounted to \$1,828,186 for the Solid Waste Fund. The net position increase of the Solid Waste Fund was \$177,270 and was attributable to a 1.5% rate increase anticipated to cover fluctuations in market costs. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.



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

**General Fund Budgetary Highlights**

*Original budget compared to final budget.* The original budget adopted by City Council was designed to reduce fund balance by a small percentage while sustaining sufficient fund balance per policy. During the year, the City entered into several land and easement transactions that were unanticipated at the time the original budget was adopted. Because of these unanticipated revenues, the City appropriated funds from these land sales to fund construction of a New City Hall without the need to issue debt. In addition, the City allocated funds from these sales for major street reconstruction while maintaining sufficient fund balance in accordance with policy

During the year there were increases of \$1,830,650 in budgeted revenues and \$3,623,610 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	\$ 250,000	Increase in Current Taxes due to greater than anticipated revenues
	\$ 55,000	Increase In Lieu of Tax contracts due to reduction of abated values
	\$ 30,000	Greater than anticipated inspections fees
	\$ 45,000	Greater than anticipated Court Fees due to the designation of a traffic patrol officer
	\$1,450,650	Proceeds from sale of City owned property
General Fund Expenditures	\$ 24,035	Increase in legal fees due to additional work required in the land sale transaction
	\$ 50,000	Increase in Police Department overtime due to unanticipated costs
	\$ 35,500	Increase in computer systems due to addition of document management program
	\$ 26,388	Increase Parks Department budget
	\$1,833,650	Transfer to construction fund for purchase and construction and furnishing of a new City Hall
	\$ 400,000	Transfer to construction fund for the construction of a Public Safety Complex
	\$1,150,000	Increase to street improvements funded by land and easement sales
	\$ 104,037	Increases in various expenditure line items due to unexpected overtime costs and grant expenditures

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

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

Actual revenues in the General Fund exceeded budget amounts by \$1,579,540. Property tax revenue accounted for \$219,136, in lieu of tax contracts accounted for \$464,377, sales tax accounted for \$706,434, and gross receipts tax accounted for \$105,101 and small revenue increases in several line items accounted for the remainder. Expenditures as a whole were under budgeted expenditures by \$2,125,113 mainly due to budgeted funds for street improvements that were unspent due to weather issues.

**Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for governmental and business-type activities as of September 30, 2013, amounted to \$53,985,174 (net of accumulated depreciation). This investment in capital assets includes land, and other capital assets such as buildings, improvements and equipment.

	<b>CAPITAL ASSETS</b> (net of depreciation)					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Land and work in process	\$5,820,029	\$4,288,379	3,309,756	6,560,460	\$9,129,785	\$10,848,839
Other capital assets	18,662,606	18,838,660	26,192,783	23,360,706	44,855,389	42,199,366
<b>Total</b>	<b>\$24,482,635</b>	<b>\$23,127,039</b>	<b>\$29,502,539</b>	<b>\$29,921,166</b>	<b>\$53,985,174</b>	<b>\$53,048,205</b>

Major capital asset events during the fiscal year included the following:

- Donation of land from Economic Development Corporation for a new City Hall and the construction of the new City Hall allowing the existing building to be remodeled for a public safety building housing police, fire and emergency management operations.
- Upgrade to the City's water treatment plant as well as to existing water lines.
- Street improvements including concrete repair and hot mix.

Additional information on the City's capital assets can be found in Note 1 on pages 39 and Note 5 on pages 46-47 of this report.

**Long-term debt.** At September 30, 2013, the City had \$19,905,000 of long-term bonded debt and certificates of obligation 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>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	General obligation bonds	\$17,305,000	\$18,840,000	\$ -	\$ -	\$17,305,000
Certificates of obligation	2,600,000	-	-	-	2,600,000	-
<b>Total</b>	<b>\$19,905,000</b>	<b>\$18,840,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$19,905,000</b>	<b>\$18,840,000</b>

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

Total long term bonds and other liabilities outstanding at September 30, 2013 increased by \$1,065,000 over September 30, 2012. This increase was primarily due to the issuance of \$2.6 million in Certificates of Obligation issued to fund construction of a public safety complex. In addition, the City issued general obligation bonds to refinance previously outstanding general obligation bonds reported in governmental activities. This refinancing was done to take advantage of favorable interest rates.

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 48-50 of this report.

**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 2014 includes a small increase in property tax revenue due to properties added to the tax roll. The tax rate remained the same from fiscal year 2012 at .591853 per \$100 valuation. The City Council adjusted solid waste rates by 12.8% at the beginning of fiscal year 2013-14 in order to offset the rising cost of equipment utilized to provide these services. On the expenditure side, increases are expected in health insurance premiums and the City is actively taking steps to minimize these increases by providing healthy lifestyle incentives. The City also added a Code Enforcement Officer to protect neighborhoods and business areas from devaluation.

**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.

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# BASIC FINANCIAL STATEMENTS

## STATEMENT OF NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
<b>ASSETS</b>				
Cash and cash equivalents	\$ 11,250,195	\$ 3,927,410	\$ 15,177,605	\$ 3,492,633
Investments	4,434,719	960,251	5,394,970	491,387
Receivables - net of allowances for uncollectibles:				
Taxes	678,095	-	678,095	57,473
Accounts receivable	366,676	594,740	961,416	-
Federal agencies	230,186	-	230,186	-
Other	138,505	-	138,505	12,350
Due from primary government	-	-	-	368
Inventories	-	108,362	108,362	-
Prepays	2,042	-	2,042	575
Restricted assets:				
Cash and cash equivalents	1,367,290	669,407	2,036,697	-
Investments	79,178	555,832	635,010	-
Capital assets:				
Land, and work in process	5,820,029	3,309,756	9,129,785	598,697
Buildings, property, and equipment, net	18,662,606	26,192,783	44,855,389	-
Total Assets	<u>43,029,521</u>	<u>36,318,541</u>	<u>79,348,062</u>	<u>4,653,483</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charge on refunding	354,478	-	354,478	-
Total deferred outflows of resources	<u>354,478</u>	<u>-</u>	<u>354,478</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts payable	852,989	51,058	904,047	2
Accrued expenses and other liabilities	152,191	214,337	366,528	-
Due to component unit	368	-	368	-
Other Liabilities	-	1,423	1,423	348
Liabilities payable from restricted assets	-	555,832	555,832	-
Non-current liabilities:				
Due within one year	2,042,221	56,281	2,098,502	-
Due in more than one year	18,936,060	114,536	19,050,596	-
Total Liabilities	<u>21,983,829</u>	<u>993,467</u>	<u>22,977,296</u>	<u>350</u>
<b>NET POSITION</b>				
Net investment in capital assets	24,837,113	29,502,539	37,034,652	598,697
Restricted for:				
Debt service	261,027	144,305	405,332	-
Public safety	221,153	-	221,153	-
Public works	1,135,048	-	1,135,048	-
Culture and recreation	98,421	-	98,421	-
Construction	2,917,564	1,257,084	4,174,648	-
Unrestricted	(8,070,156)	4,421,146	13,655,990	4,054,436
Total Net Position	<u>\$ 21,400,170</u>	<u>\$ 35,325,074</u>	<u>\$ 56,725,244</u>	<u>\$ 4,653,133</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, 2013

Functions / Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Governmental activities:</b>			
General government	\$ 873,884	\$ -	\$ -
Public safety	4,991,907	350,177	370,834
Public works	1,805,477	147,864	14,640
Culture and recreation	1,160,750	85,630	46,110
Administrative and general	418,261	-	-
Interest and fees on long-term debt	679,559	-	-
<b>Total governmental activities</b>	<b>9,929,838</b>	<b>583,671</b>	<b>431,584</b>
<b>Business-type activities:</b>			
Water and sewer	4,480,355	4,198,873	-
Solid Waste	1,103,974	1,405,833	-
<b>Total business-type activities</b>	<b>5,584,329</b>	<b>5,604,706</b>	<b>-</b>
<b>Total Primary Government</b>	<b>15,514,167</b>	<b>6,188,377</b>	<b>431,584</b>
<b>Component Unit:</b>			
Nederland Economic Development Corporation	\$ (849,251)	\$ -	\$ -

Property taxes, penalties and interest  
 In lieu of tax contracts  
 Sales tax  
 Gross receipts tax  
 Interest  
 Gain on sale of capital assets  
 Other miscellaneous  
 Total general revenues  
 Transfers  
 Total general revenues and transfers  
 Change in Net Position  
 Net Position- Beginning  
 Prior period adjustment  
 Net Position - Restated  
 Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Corporation
\$ (873,884)	\$ -	\$ (873,884)	\$ -
(4,270,896)	-	(4,270,896)	-
(1,642,973)	-	(1,642,973)	-
(1,029,010)	-	(1,029,010)	-
(418,261)	-	(418,261)	-
(679,559)	-	(679,559)	-
<u>(8,914,583)</u>	<u>-</u>	<u>(8,914,583)</u>	<u>-</u>
-	(281,482)	(281,482)	-
-	301,859	301,859	-
-	20,377	20,377	-
<u>(8,914,583)</u>	<u>20,377</u>	<u>(8,894,206)</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (849,251)</u>
5,727,560	-	5,727,560	-
1,819,377	-	1,819,377	-
3,681,434	-	3,681,434	736,287
1,164,178	-	1,164,178	-
27,164	8,119	35,283	5,635
1,125,155	-	1,125,155	419,644
81,126	11,876	93,002	1,800
<u>13,625,994</u>	<u>19,995</u>	<u>13,645,989</u>	<u>1,163,366</u>
752,000	(752,000)	-	-
<u>14,377,994</u>	<u>(732,005)</u>	<u>13,645,989</u>	<u>1,163,366</u>
5,463,411	(711,628)	4,751,783	314,115
<u>15,936,759</u>	<u>36,036,702</u>	<u>51,973,461</u>	<u>5,065,137</u>
-	-	-	(726,119)
<u>15,936,759</u>	<u>36,036,702</u>	<u>51,973,461</u>	<u>4,339,018</u>
<u>\$ 21,400,170</u>	<u>\$ 35,325,074</u>	<u>\$ 56,725,244</u>	<u>\$ 4,653,133</u>

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



## BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2013

	General	Capital Improvement	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 6,712,236	\$ 5,434,217	\$ 232,242	\$ 238,790	\$ 12,617,485
Investments	4,355,096	-	79,178	79,623	4,513,897
Receivables (net of allowances for doubtful accounts)					
Taxes receivable	528,966	-	149,129	-	678,095
Accounts receivable	164,965	-	1,687	17,577	184,229
Other	5,871	132,634	-	-	138,505
Due from other governmental agencies	230,186	-	-	-	230,186
Due from other funds	74,334	-	-	-	74,334
Prepaid items	2,042	-	-	-	2,042
<b>TOTAL ASSETS</b>	<b><u>\$ 12,073,696</u></b>	<b><u>\$ 5,566,851</u></b>	<b><u>\$ 462,236</u></b>	<b><u>\$ 335,990</u></b>	<b><u>\$ 18,438,773</u></b>
LIABILITIES AND FUND BALANCES:					
LIABILITIES:					
Accounts payable	\$ 220,994	\$ 622,074	\$ -	\$ 9,921	\$ 852,989
Accrued expenses and other liabilities	107,412	-	-	-	107,412
Due to component unit	368	-	-	-	368
Due to other funds	-	5,982	61,857	6,495	74,334
Other liabilities	227,221	-	-	-	227,221
<b>TOTAL LIABILITIES</b>	<b><u>555,995</u></b>	<b><u>628,056</u></b>	<b><u>61,857</u></b>	<b><u>16,416</u></b>	<b><u>1,262,324</u></b>
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenue - property tax	221,492	-	139,352	-	360,844
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b><u>221,492</u></b>	<b><u>-</u></b>	<b><u>139,352</u></b>	<b><u>-</u></b>	<b><u>360,844</u></b>
FUND BALANCES:					
Nonspendable					
Prepaid items	2,042	-	-	-	2,042
Restricted Fund Balance					
Debt service	-	-	261,027	-	261,027
Public safety	-	-	-	221,153	221,153
Public works	1,135,048	-	-	-	1,135,048
Culture and recreation	-	-	-	98,421	98,421
Committed Fund Balance					
Capital projects	-	4,938,795	-	-	4,938,795
Assigned	1,350,000	-	-	-	1,350,000
Unassigned Fund Balance	8,809,119	-	-	-	8,809,119
<b>Total fund balances</b>	<b><u>11,296,209</u></b>	<b><u>4,938,795</u></b>	<b><u>261,027</u></b>	<b><u>319,574</u></b>	<b><u>16,815,605</u></b>
<b>TOTAL LIABILITIES DEFERRED INFLOWS AND FUND BALANCE</b>	<b><u>\$ 12,073,696</u></b>	<b><u>\$ 5,566,851</u></b>	<b><u>\$ 462,236</u></b>	<b><u>\$ 335,990</u></b>	<b><u>\$ 18,438,773</u></b>

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

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RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2013

Governmental fund balance as reported on the balance sheet for governmental funds.	\$ 16,815,605
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	24,482,635
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(20,795,838)
Recognition of deferred revenue as revenue increases net position.	360,843
Effect of amortizing bond premium and issuance costs on issuance of bonds.	354,478
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 Position, they are considered accounts receivable and recorded.	
Warrants and fines outstanding	<u>182,447</u>
Total net position as reported on the Statement of Net Position for Governmental Activities.	<u>\$ 21,400,170</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, 2013

	General	Capital Projects	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes, penalties and interest	\$ 3,789,136	\$ -	\$ 1,910,295	\$ -	\$ 5,699,431
In lieu of tax contracts	1,819,377	-	-	-	1,819,377
Sales tax	3,681,434	-	-	-	3,681,434
Other tax	1,096,601	-	-	67,577	1,164,178
Permits, licenses and fees	233,494	-	-	-	233,494
Fines, forfeits and penalties	245,683	-	-	30,787	276,470
Interest	14,669	3,885	8,210	400	27,164
Grants and Private contributions	106,935	247,399	-	77,250	431,584
Other miscellaneous	72,211	-	-	8,915	81,126
Total revenue	<u>11,059,540</u>	<u>251,284</u>	<u>1,918,505</u>	<u>184,929</u>	<u>13,414,258</u>
<b>EXPENDITURES:</b>					
Current:					
General government	965,139	-	-	-	965,139
Public safety	4,793,478	-	-	41,183	4,834,661
Public works	1,630,399	-	-	13,796	1,644,195
Culture and recreation	1,033,244	-	-	98,843	1,132,087
Administrative and general	369,587	-	-	-	369,587
Capital outlay	-	2,120,742	-	-	2,120,742
Debt service:					
Principal retirement	-	-	1,680,000	-	1,680,000
Interest and fiscal charges	-	-	853,412	-	853,412
Fees and issuance costs	-	128,867	69,595	-	198,462
Total expenditures	<u>8,791,847</u>	<u>2,249,609</u>	<u>2,603,007</u>	<u>153,822</u>	<u>13,798,285</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>					
	<u>2,267,693</u>	<u>(1,998,325)</u>	<u>(684,502)</u>	<u>31,107</u>	<u>(384,027)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of debt	-	2,600,000	-	-	2,600,000
Issuance of refunding bonds	-	-	3,520,000	-	3,520,000
Premium on bonds	-	133,109	204,876	-	337,985
Payment to refunded bond escrow agent	-	-	(3,375,000)	-	(3,375,000)
Transfers in	465,000	2,408,650	287,000	-	3,160,650
Transfers out	(2,408,650)	-	-	-	(2,408,650)
Sale of general capital assets	1,636,470	-	-	-	1,636,470
Total other financing sources and uses	<u>(307,180)</u>	<u>5,141,759</u>	<u>636,876</u>	<u>-</u>	<u>5,471,455</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>1,960,513</u>	<u>3,143,434</u>	<u>(47,626)</u>	<u>31,107</u>	<u>5,087,428</u>
<b>FUND BALANCES - BEGINNING</b>	<u>9,335,696</u>	<u>1,795,361</u>	<u>308,653</u>	<u>288,467</u>	<u>11,728,177</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 11,296,209</u>	<u>\$ 4,938,795</u>	<u>\$ 261,027</u>	<u>\$ 319,574</u>	<u>\$ 16,815,605</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, 2013

Net change in fund balances - total governmental funds (Exhibit D) \$ 5,087,428

Revenues in the statement of activities that do not provide current financial resources  
are not reported as revenues in the funds. 28,129

Prior year warrants and fines, net of allowance	\$ (108,740)	
Current year warrants and fines, net of allowance	<u>182,447</u>	73,707

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	\$ 2,941,299	
Depreciation	<u>(1,052,839)</u>	1,888,460

The net effect of various miscellaneous transactions involving disposal of capital assets is to decrease net position. (532,865)

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 position. 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. (1,078,292)

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>47,622</u>	47,622
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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	\$ (2,104)	
Other post employment benefits	<u>(48,674)</u>	<u>(50,778)</u>

Change in net position of governmental activities (Exhibit B) \$ 5,463,411

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, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes, penalties and interest	\$ 3,320,000	\$ 3,570,000	\$ 3,789,136	\$ 219,136
In lieu of tax contracts	1,300,000	1,355,000	1,819,377	464,377
Sales tax	2,975,000	2,975,000	3,681,434	706,434
Other tax	991,500	991,500	1,096,601	105,101
Permits, licenses and fees	172,000	202,000	233,494	31,494
Fines, forfeits and penalties	165,000	210,000	245,683	35,683
Interest	10,000	10,000	14,669	4,669
Grants and private contributions	76,000	76,000	106,935	30,935
Other miscellaneous	90,500	90,500	72,211	(18,289)
Total revenue	<u>9,100,000</u>	<u>9,480,000</u>	<u>11,059,540</u>	<u>1,579,540</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,007,473	1,052,764	965,139	87,625
Public safety	4,766,937	4,946,599	4,793,478	153,121
Public works	2,180,595	3,300,878	1,630,399	1,670,479
Culture and recreation	988,495	1,078,719	1,033,244	45,475
Administrative and general	569,500	524,000	369,587	154,413
Capital Outlay	14,000	14,000	-	14,000
Total expenditures	<u>9,527,000</u>	<u>10,916,960</u>	<u>8,791,847</u>	<u>2,125,113</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>(427,000)</u>	<u>(1,436,960)</u>	<u>2,267,693</u>	<u>3,704,653</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	465,000	465,000	465,000	-
Transfers out	(175,000)	(2,408,650)	(2,408,650)	-
Sale of general capital assets	-	1,450,650	1,636,470	185,820
Total other financing sources and uses	<u>290,000</u>	<u>(493,000)</u>	<u>(307,180)</u>	<u>185,820</u>
<b>NET CHANGE IN FUND BALANCES</b>				
	<u>(137,000)</u>	<u>(1,929,960)</u>	<u>1,960,513</u>	<u>3,890,473</u>
<b>FUND BALANCES AT BEGINNING OF YEAR</b>				
	<u>9,335,696</u>	<u>9,335,696</u>	<u>9,335,696</u>	<u>-</u>
<b>FUND BALANCE AT END OF YEAR</b>				
	<u>\$ 9,198,696</u>	<u>\$ 7,405,736</u>	<u>\$ 11,296,209</u>	<u>\$ 3,890,473</u>

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

## STATEMENT OF NET POSITION

## PROPRIETARY FUNDS

SEPTEMBER 30, 2013

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Solid Waste	Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 2,541,940	\$ 1,385,470	\$ 3,927,410
Investments	450,411	509,840	960,251
Receivables - net of allowances for uncollectibles:			
Accounts receivable	426,785	167,955	594,740
Inventories	108,362	-	108,362
Total Current Assets	<u>3,527,498</u>	<u>2,063,265</u>	<u>5,590,763</u>
Noncurrent Assets			
Restricted assets:			
Cash and cash equivalents	669,407	-	669,407
Investments	555,832	-	555,832
Total capital assets, net of accumulated depreciation	<u>28,892,815</u>	<u>609,724</u>	<u>29,502,539</u>
Total Noncurrent Assets	<u>30,118,054</u>	<u>609,724</u>	<u>30,727,778</u>
Total Assets	<u>\$ 33,645,552</u>	<u>\$ 2,672,989</u>	<u>\$ 36,318,541</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	\$ 37,079	\$ 13,979	\$ 51,058
Accrued expenses and other liabilities	34,724	179,613	214,337
Compensated absences	43,696	12,585	56,281
Total Current Liabilities	<u>115,499</u>	<u>206,177</u>	<u>321,676</u>
Noncurrent Liabilities			
Payable from restricted assets:			
Refundable customer deposits	555,832	-	555,832
Unclaimed deposits	1,423	-	1,423
Accrued compensated absences	5,485	850	6,335
Other post employment benefits	80,149	28,052	108,201
Total Long-term Liabilities	<u>642,889</u>	<u>28,902</u>	<u>671,791</u>
Total Liabilities	<u>758,388</u>	<u>235,079</u>	<u>993,467</u>
NET POSITION			
Net Investment in Capital Assets	28,892,815	609,724	29,502,539
Restricted for Debt Service	144,305	-	144,305
Restricted for Construction	1,257,084	-	1,257,084
Unrestricted	<u>2,592,960</u>	<u>1,828,186</u>	<u>4,421,146</u>
Total Net Position	<u>\$ 32,887,164</u>	<u>\$ 2,437,910</u>	<u>\$ 35,325,074</u>

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITIN - PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Solid Waste	Total
Operating Revenues			
Water sales	\$ 1,924,533	\$ -	\$ 1,924,533
Sewer charges	1,873,634	-	1,873,634
Tap and line maintenance fees	266,823	-	266,823
Garbage pickup	-	1,400,135	1,400,135
Penalties and other	133,883	5,698	139,581
Total Operating Revenues	<u>4,198,873</u>	<u>1,405,833</u>	<u>5,604,706</u>
Operating Expenses			
Water treatment	1,112,278	-	1,112,278
Water and wastewater distribution	797,092	-	797,092
Wastewater treatment	678,361	-	678,361
Billing/collections	319,019	-	319,019
Solid waste	-	919,420	919,420
Depreciation and amortization	1,573,605	184,554	1,758,159
Total Operating Expenses	<u>4,480,355</u>	<u>1,103,974</u>	<u>5,584,329</u>
Operating Income (Loss)	<u>(281,482)</u>	<u>301,859</u>	<u>20,377</u>
Nonoperating Revenues (Expenses)			
Interest revenue	5,666	2,453	8,119
Miscellaneous	(16,082)	27,958	11,876
Total Nonoperating Revenues (Expenses)	<u>(10,416)</u>	<u>30,411</u>	<u>19,995</u>
Income (Loss) Before Capital Contributions and Transfers	(291,898)	332,270	40,372
Transfers to Other Fund	<u>(597,000)</u>	<u>(155,000)</u>	<u>(752,000)</u>
Change in Net Position	(888,898)	177,270	(711,628)
Total Net Position - Beginning	<u>33,776,062</u>	<u>2,260,640</u>	<u>36,036,702</u>
Total Net Position - Ending	<u>\$ 32,887,164</u>	<u>\$ 2,437,910</u>	<u>\$ 35,325,074</u>

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

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Solid Waste	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 4,175,089	\$ 1,387,812	\$ 5,562,901
Payments for goods and services	(2,504,348)	(490,047)	(2,994,395)
Payments to Employees	(1,451,261)	(407,920)	(1,859,181)
Net cash provided (used) by operating activities	<u>219,480</u>	<u>489,845</u>	<u>709,325</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds	(597,000)	(155,000)	(752,000)
Net Cash provided by noncapital financing activities	<u>(597,000)</u>	<u>(155,000)</u>	<u>(752,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition of capital assets	(984,201)	(234,434)	(1,218,635)
Net cash provided (used) by financing activities	<u>(984,201)</u>	<u>(234,434)</u>	<u>(1,218,635)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest income	5,666	2,453	8,119
Investing activities	(953)	(481)	(1,434)
Other	(16,082)	27,958	11,876
Net cash provided (used) by investing activities	<u>(11,369)</u>	<u>29,930</u>	<u>18,561</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(1,373,090)</u>	<u>130,341</u>	<u>(1,242,749)</u>
<b>CASH AND CASH EQUIVALENTS OCTOBER 1</b>	<u>4,584,437</u>	<u>1,255,129</u>	<u>5,839,566</u>
<b>CASH AND CASH EQUIVALENTS SEPTEMBER 30</b>	<u>\$ 3,211,347</u>	<u>\$ 1,385,470</u>	<u>\$ 4,596,817</u>
<b>CASH AND CASH EQUIVALENTS, OCTOBER 1, CONSIST OF</b>			
Unrestricted cash and Cash Equivalents	\$ 3,701,744	\$ 1,225,129	\$ 4,926,873
Restricted cash	882,693	-	882,693
	<u>\$ 4,584,437</u>	<u>\$ 1,225,129</u>	<u>\$ 5,809,566</u>
<b>CASH AND CASH EQUIVALENTS, SEPTEMBER 30, CONSIST OF</b>			
Unrestricted cash and Cash Equivalents	\$ 2,541,940	\$ 1,385,470	\$ 3,927,410
Restricted cash	669,407	-	669,407
	<u>\$ 3,211,347</u>	<u>\$ 1,385,470</u>	<u>\$ 4,596,817</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (281,482)	\$ 301,859	\$ 20,377
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>			
Depreciation	1,573,605	184,554	1,758,159
(Increase) decrease in accounts receivable	(23,788)	(18,021)	(41,809)
(Increase) decrease in inventories	9,160	-	9,160
Increase (decrease) in payables	(971,221)	(658)	(971,879)
Increase (decrease) in accrued liabilities	(95,574)	14,103	(81,471)
Increase (decrease) in interfund payables	(32,992)	-	(32,992)
Increase (decrease) in compensated absences and OPEB	5,031	8,008	13,039
Increase (decrease) in customer deposits	36,741	-	36,741
	<u>\$ 219,480</u>	<u>\$ 489,845</u>	<u>\$ 709,325</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, 2013 totaled \$736,287. 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, Parks Advisory Board, Animal shelter advisory committee 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, 2013 the City contributed \$428,846 to the joint venture. Fund balance of the joint venture at September 30, 2013 was \$321,506. 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 *capital projects fund* accounts for the purchase of capital assets, including infrastructure acquisitions and construction from general government resources.

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.

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. By August 31<sup>st</sup>, 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. A Public hearing is conducted, after proper official journal notification, to obtain taxpayer comments.
- c. Prior to September 30<sup>th</sup>, the budget is legally enacted through passage of an ordinance.
- d. The City Manager is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alters 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<sup>th</sup>, 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 2013, 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). The City establishes (and modifies or rescinds) fund balance commitments by passage of a resolution.

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 by resolution has authorized the City Manager as the City Official responsible for the assignment of fund balance to a specific purpose. Assignments generally only exist temporarily. Additional action does not normally have to be taken for the removal of an assignment.



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

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.

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. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

**R. Deferred Outflows/Inflows of Resources, Continued**

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

**S. Net Position flow assumption**

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

**T. Fund balance flow assumptions**

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

**U. 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.

**V. 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 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).

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

**W. 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.

**X. Date of Management’s Review**

In preparing the financial statements, the City has evaluated events and transactions for potential recognition for disclosure through March 24, 2014, the date that the financial statements were available to be issued.

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

**Explanation of Reclassification Required on the Government-Wide Statement of Net Position**

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	24,837,113	\$ 29,502,539	\$ (17,305,000)	\$ 37,034,652
Restricted for:				
Debt Service	261,027	144,305	-	405,332
Public Safety	221,153	-	-	221,153
Public Works	1,135,048	-	-	1,135,048
Culture and Recreation	98,421	-	-	98,421
Capital Projects	2,917,564	1,257,084	-	4,174,648
Unrestricted	(8,070,156)	4,421,146	17,305,000	13,655,990
Total Net Assets	<u>\$ 21,400,170</u>	<u>\$ 35,325,074</u>	<u>\$ -</u>	<u>\$ 56,725,244</u>

**NOTE 3: CASH AND INVESTMENTS**

Cash Deposits

At year-end, the City's carrying amount of deposits (including NEDC) was \$20,706,935 and the bank balance was \$21,428,559. 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.

Investments – The City has a written investment policy regarding the investment of its funds. The investments of the City are in compliance with the investment policy, the City Charter, the Public Funds Investment Act (Chapter 2256 of the Government Code, as amended) and all other state and local statutes governing the investment of public funds. The City is authorized to invest in U.S. government obligations and its agencies or instrumentalities, collateralized certificates of deposit, fully collateralized repurchase agreements, no load money market mutual funds and approved government investment pools.

As of September 30, 2013, the City of Nederland (including NEDC) had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
TexPool	\$6,019,976	N/A
Certificates of Deposit	501,886	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, 2013.

*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.

Local government Investment Pools are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (PFIA), Chapter 2236 of the Texas Government Code. In addition to other provisions of the PFIA designed to promote liquidity and safety of principle, the (PFIA) 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 no lower than AAA or AAA-m or an equivalent rating by at least on nationally recognized rating service; and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares. In addition, the Texas State of Comptroller of Public Accounts exercises oversight responsibility over TexPool.

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

The City's investments in a 2a7-like pool are reported at share value. A 2a7-like pool is one that is not registered with the Securities and Exchange Commission (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.

**NOTE 4: RECEIVABLES**

In the 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 unavailable revenues in the year of levy. Such unavailable revenues are recognized as revenue in the fiscal year in which they become available.

The balance of property taxes receivable and property tax assessments included in unavailable revenues as of September 30, 2013 are as follows:

	General Fund	Debt Service	Total
Property Taxes Receivable	\$ 289,039	\$ 179,674	\$ 468,713
Less: Allowance for Doubtful Accounts	(49,137)	(30,545)	(79,682)
Net Property Taxes Receivable	<u>\$ 239,902</u>	<u>\$ 149,129</u>	<u>\$ 389,031</u>
Unavailable Property Taxes	<u>\$ 221,492</u>	<u>\$ 139,352</u>	<u>\$ 360,844</u>

Other Receivables as of September 30, 2013 for the City are as follows:

	General Fund	Capital Improvement	Debt Service	Other Funds	Total
Taxes - Other	\$ 289,064	\$ -	\$ -	\$ -	\$ 289,064
Accounts	164,965	-	1,687	17,577	184,229
Other	5,871	132,634	-	-	138,505
Due From Other Governments	<u>230,186</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>230,186</u>
Gross Receivables	690,086	132,634	1,687	17,577	841,984
Less: Allowance for Uncollectibles	-	-	-	-	-
Net Total Receivables	<u>\$ 690,086</u>	<u>\$ 132,634</u>	<u>\$ 1,687</u>	<u>\$ 17,577</u>	<u>\$ 841,984</u>

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the governmental activities for the year ended September 30, 2013 was as follows:

Governmental Activities	Beginning Balance	Current Year		Ending Balance
		Increases	Decreases	
Capital assets not being depreciated:				
Land	\$ 4,288,379	\$ 111,497	\$ (511,315)	\$ 3,888,561
Construction in progress	-	1,931,468	-	1,931,468
Total capital assets not being depreciated:	4,288,379	2,042,965	(511,315)	5,820,029
Capital assets being depreciated:				
Buildings	6,566,828	5,905	-	6,572,733
Machinery and equipment	4,549,531	314,616	(339,806)	4,524,341
Infrastructure	28,173,164	577,813	-	28,750,977
Total capital assets being depreciated:	39,289,523	898,334	(339,806)	39,848,051
Less accumulated depreciation:				
Buildings	(5,393,279)	-	(71,469)	(5,464,748)
Machinery and equipment	(3,261,009)	318,256	(296,641)	(3,239,394)
Infrastructure	(11,796,574)	-	(684,729)	(12,481,303)
Total accumulated depreciation	(20,450,862)	318,256	(1,052,839)	(21,185,445)
Total capital assets being depreciated, net	18,838,661	1,216,590	(1,392,645)	18,662,606
Governmental activities capital assets, net	\$ 23,127,040	\$ 3,259,555	\$ (1,903,960)	\$ 24,482,635

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

General Government	\$ 18,136
Public Safety	167,740
Public Works	739,095
Culture & Recreation	127,868
Total Depreciation Expense - Governmental Activities	<u>\$ 1,052,839</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	\$ 6,560,460	\$ 887,739	\$ (4,138,443)	\$ 3,309,756
Total capital assets not being depreciated	6,560,460	887,739	(4,138,443)	3,309,756
Capital assets being depreciated				
Buildings	21,450,340	-	-	21,450,340
Improvements other than buildings	20,903,800	4,207,937	-	25,111,737
Machinery and equipment	2,708,378	261,402	(152,473)	2,817,307
Total capital assets being depreciated:	45,062,518	4,469,339	(152,473)	49,379,384
Less accumulated depreciation:				
Buildings	(6,851,921)	(479,556)	-	(7,331,477)
Improvements other than buildings	(12,988,145)	(910,578)	-	(13,898,723)
Machinery and equipment	(1,861,746)	(247,128)	152,473	(1,956,401)
Total accumulated depreciation	(21,701,812)	(1,637,262)	152,473	(23,186,601)
Total capital assets being depreciated, net	23,360,706	2,832,077	-	26,192,783
Business-type activities capital assets, net	\$ 29,921,166	\$ 3,719,816	\$ (4,138,443)	\$ 29,502,539

**Construction Commitments**

The primary governmental has active construction projects as of September 30, 2013. At year end, the City's major commitments with contractors are as follows:

Project	Contract Amount	Spent thru 9/30/2013	Remaining Commitment
City Hall Construction	\$1,265,000	\$ 1,231,530	\$ 33,470
Public Safety Complex	\$3,180,000	\$ 176,670	\$ 3,003,330
Concrete Street Rehab	\$381,469	\$ 199,926	\$ 181,543

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

The composition of interfund balances as of September 30, 2013, is as follows:

Receivable Fund	Payable Fund	Amount
General	Debt Service	\$ 61,857
General	Capital Improvement	5,982
General	Special Revenue	6,495
		\$ 74,334

**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			
	General	Capital Improvement	Debt Service	Total
Transfers out				
General Fund	\$ -	\$ 2,408,650	\$ -	\$ 2,408,650
Water & Sewer	310,000	-	287,000	597,000
Solid Waste	155,000	-	-	155,000
Total	<u>\$ 465,000</u>	<u>\$ 2,408,650</u>	<u>\$ 287,000</u>	<u>\$ 3,160,650</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 and certificates of obligation payable at September 30, 2013, are summarized as follows:

Date of Issue	Original Issue	Final Maturity	Annual Installments	% Rate	Outstanding Balance
2008	4,500,000	2023	\$175,000 to \$200,000	4.25% - 4.5%	375,000
2010	9,855,000	2019	\$1,010,000 to \$1,200,000	2.0%-4.0%	6,765,000
2011	4,500,000	2031	\$150,000 to \$320,000	1.85%-3.85%	4,190,000
2012	2,750,000	2020	\$295,000 to \$600,000	1.00%-1.45%	2,455,000
2013	3,520,000	2023	\$25,000 to \$665,000	2.00%-3.50%	3,520,000
2013	2,600,000	2020	\$80,000 to \$185,000	3.75%-4.50%	2,600,000
					<u>\$ 19,905,000</u>



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

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

Year Ending September 30,	Principal	Interest	Total
2014	1,815,000	767,088	2,582,088
2015	1,890,000	709,230	2,599,230
2016	1,925,000	511,780	2,436,780
2017	1,985,000	457,919	2,442,919
2018	2,055,000	401,319	2,456,319
2019-2013	6,455,000	1,225,811	7,680,811
2013-2028	2,005,000	573,370	2,578,370
2029-2033	1,775,000	186,316	1,961,316
Total	\$ 19,905,000	\$ 4,832,833	\$ 24,737,833

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds Payable:					
General obligations bonds	\$ 18,840,000	\$ 6,120,000	\$ 5,308,000	\$ 19,652,000	\$ 1,815,000
Add: Premium on bonds	493,120	337,985	60,465	770,640	-
Compensated absences	253,857	497,210	475,948	275,119	227,221
OPEB liability	231,848	48,674	-	280,522	-
Governmental activities Long-Term Liabilities	<u>\$ 19,818,825</u>	<u>\$ 7,003,869</u>	<u>\$ 5,844,413</u>	<u>\$ 20,978,281</u>	<u>\$ 2,042,221</u>
Business-type activities:					
Compensated absences	\$ 65,718	\$ 150,012	\$ 153,114	\$ 62,616	\$ 56,281
OPEB liability	92,058	16,143	-	108,201	-
Business-type activity Long-Term Liabilities	<u>\$ 157,776</u>	<u>\$ 166,155</u>	<u>\$ 153,114</u>	<u>\$ 170,817</u>	<u>\$ 56,281</u>

Compensated absences represent amounts related to employee services already rendered and will be paid out of expendable available resources by December 31, 2013. 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.

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

Advance and Current Refundings

The City issued \$3.52 million of general obligation refunding for the purpose of refunding a portion of the City's outstanding debt in order to lower the overall annual debt service requirements of the City and to pay the costs of issuance of the bonds. The reacquisition price exceeded the net carrying amount by \$281,181. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. The transaction resulted in a net present value savings of \$144,842 and a reduction of \$216,975 in future debt service payments.

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, 2013.

**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 2012-2013, 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 2012	Plan Year 2013
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
Supplement death benefit		
For active employees	No	No
For retirees	No	No

*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 cost contribution rate, which is calculated to be a level percentage of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded 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)	\$ 528,638
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost (APC)	528,638
Contributions Made	528,638
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, 2011	\$ 1,003,264	\$ 1,003,264	100%	\$ -
September 30, 2012	\$ 657,184	\$ 657,184	100%	\$ -
September 30, 2013	\$ 528,638	\$ 528,638	100%	\$ -

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

Valuation Date	12/31/10	12/31/11	12/31/12
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	25 years; closed period	25.0 years; closed period	24.9 years; closed period
Amortizaion Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at Cost-of-Living Adjustments	3.0%	3.0%	3.0%
	0.0%	0.0%	0.0%

**NOTE 8: OTHER INFORMATION, CONTINUED**

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

The funded status as of December 31, 2012, under the most recent actuarial valuation is presented along with the previous two years valuations:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/10	41,984,798	40,130,199	104.6%	(1,854,599)	5,812,366	-31.9%
12/31/11	44,408,596	41,629,733	106.7%	(2,778,863)	6,006,517	-46.3%
12/31/12	46,807,335	43,574,998	107.4%	(3,232,337)	6,308,345	-51.2%

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 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, 2013.

**NOTE 10: POST-EMPLOYMENT 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 2013 the City had twelve retirees participating in this plan. The City recognizes the cost of providing health care benefits to retired employees in the amount of \$53,208 for fiscal year 2013.

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

Pursuant to approval by the City Council, the policy for eligibility to participate in retiree health and dental insurance plans require a retiree to be age 58 to receive the benefit and must have a minimum of 20 years of service of which 20 years must be with the City of Nederland; for the TMRS retirement option of “10 years of service, at least 60 years of age” and “TMRS Disability” a retiree must have a minimum of 7.5 years of service with the City of Nederland. A retiree would become ineligible for the benefit if they gained full-time employment with an employer that offers medical insurance. A retiree would be ineligible to participate in the City’s retirement insurance plan if there was a disruption in their enrollment or failure to pay their monthly premiums on time.

- Employees who retire after July 1, 2012 would receive a one-time flat rate contribution of \$7,675 that would be deposited in an employer-controlled Health Reimbursement Account to be utilized for qualifying medical expenses including health insurance premiums, co-pays, prescriptions, etc. The age requirement is not applicable
- Employees who retire after July 1, 2015 would receive a one-time flat rate contribution of \$7,900 that would be deposited in an employer-controlled Health Reimbursement Account to be utilized for qualifying medical expenses including health insurance premiums, co-pays, prescriptions, etc.
- Retirees who retired between January 1, 1997 and July 1, 2012 would receive:
  - i. For those retirees who have remained eligible but have yet to receive the SSB subsidy, they would receive a one-time flat rate contribution of \$7,675 that would be deposited in an employer-controlled Health Reimbursement Account to be utilized for qualifying medical expenses including health insurance premiums, co-pays, prescriptions, etc.
  - ii. For those retirees who have already begun to receive the SSB subsidy, they would receive a one-time flat rate contribution equivalent to \$7,675 minus the calculated SSB subsidy the retiree has already received (i.e. retiree is age 62 and City’s subsidy equaled \$2,000, then the retiree would receive a contribution of \$5,765) that would be deposited in an employer-controlled Health Reimbursement Account to be utilized for qualifying medical expenses including health insurance premiums, co-pays, prescriptions, etc.
  - iii. The age requirement of 58 years old does not apply to these groups of retirees.
  - iv. Retirees who have not remained eligible for the previous “Sliding Scale Benefit” would not receive any additional benefit

Once a retiree reaches age 65, he/she is no longer eligible to participate in the Health Insurance Plan and coverage is terminated.

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, 2013 is as follows:

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

**Annual OPEB Cost**

	<u>09/30/12</u>	<u>09/30/13</u>
Annual required contribution	\$ 189,714	\$ 195,405
Interest on OPEB obligation	13,191	16,417
Adjustment to ARC	(12,222)	(15,210)
Annual OPEB cost (expense)	<u>\$ 190,683</u>	<u>\$ 196,612</u>
Net estimated employer contributions	<u>(119,001)</u>	<u>(124,619)</u>
Increase in net OPEB obligation	\$ 71,682	\$ 71,993
Net OPEB obligation - beginning of year	<u>293,138</u>	<u>364,820</u>
Net OPEB obligation - end of year	\$ 364,820	\$ 436,813
Less portion related to Mid-County Dispatch	<u>\$ (40,914)</u>	<u>\$ (48,090)</u>
Net OPEB obligation - City portion End of Year	<u><u>\$ 323,906</u></u>	<u><u>\$ 388,723</u></u>

The City's annual OPEB cost (including Mid-County Dispatch), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2013 and the preceding fiscal year were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Amount Contributed	Percentage Contributed	Net OPEB Obligation
September 30, 2011	\$ 184,926	\$ 114,720	62.0%	\$ 293,138
September 30, 2012	\$ 190,683	\$ 119,001	62.4%	\$ 364,820
September 30, 2013	\$ 196,612	\$ 124,619	63.4%	\$ 436,813

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

Actuarial Valuation Date as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Estimated Covered Payroll	UAAL to Annual Covered Payroll (b-a)/d
12/31/2007	\$ -	\$ 2,637,927	\$ 2,637,927	0%	\$ 5,119,674	51.5%
12/31/2010	\$ -	\$ 2,534,131	\$ 2,534,131	0%	\$ 5,812,366	43.6%

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

**Funding status and funding progress**

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. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered payroll is 43.6%.

**Actuarial methods and assumptions**

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.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**NOTE 11: PRIOR PERIOD ADJUSTMENT**

A prior period adjustment was necessary on the government wide statements to correctly reflect the amount of land owned by the Economic Development Corporation.



REQUIRED SUPPLEMENTARY  
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION  
 FUNDING PROGRAMS FOR EMPLOYEE RETIREMENT SYSTEMS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

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
12/31/06	22,018,184	27,515,127	80.0%	5,496,943	4,942,603	111.2%
12/31/07	21,294,267	25,448,859	83.7%	4,154,592	5,119,674	81.1%
12/31/08	23,440,520	27,619,476	84.9%	4,178,956	5,790,932	72.2%
12/31/09	23,845,576	27,816,244	85.7%	3,970,668	5,631,043	70.5%
12/31/10	41,984,798	40,130,199	104.6%	(1,854,599)	5,812,366	-31.9%
12/31/11	44,408,596	41,629,733	106.7%	(2,778,863)	6,006,517	-46.3%
12/31/12	46,807,335	43,574,998	107.4%	(3,232,337)	6,308,345	-51.2%

## REQUIRED SUPPLEMENTARY INFORMATION

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

FOR THE YEAR ENDED SEPTEMBER 30, 2013

## RETIREE HEALTH INSURANCE PROGRAM

## ANALYSIS OF FUNDING PROGRESS

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percentage Funded	Unfunded AAL (UAAL)	Annual Covered Payroll	Ratio of UAAL to Annual Covered Payroll (b-a)/d
12/31/07	-	\$ 2,637,927	0.0%	\$ 2,637,927	\$ 5,119,674	51.5%
12/31/08		NOT CALCULATED				
12/31/09		NOT CALCULATED				
12/31/10	-	\$ 2,534,131	0.0%	\$ 2,534,131	\$ 5,812,366	43.6%
12/31/11		NOT CALCULATED				
12/31/12		NOT CALCULATED				

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.

CDBG Grant Fund – This fund was established to account for revenues and expenditures in accordance with the Community Development Block Grant Disaster Recovery Program.

	Special Revenue						Total Other Governmental Funds
	Police Narcotics Fund	Library Fund	Court Technology Fund	Hotel/ Motel Occupancy Tax Fund	Fire Department Fund	CDBG Grant Fund	
<b>ASSETS</b>							
Cash and cash equivalents	\$ 124,451	\$ 44,932	\$ 4,670	\$ 20,005	\$ 44,732	\$ -	\$ 238,790
Investments	47,300	32,323	-	-	-	-	79,623
Accounts receivable	-	-	-	11,082	-	6,495	17,577
Total Assets	<u>\$ 171,751</u>	<u>\$ 77,255</u>	<u>\$ 4,670</u>	<u>\$ 31,087</u>	<u>\$ 44,732</u>	<u>\$ 6,495</u>	<u>\$ 335,990</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable	\$ -	\$ 13	\$ -	\$ 9,908	\$ -	\$ -	\$ 9,921
Due to other funds	-	-	-	-	-	6,495	6,495
Total Liabilities	<u>-</u>	<u>13</u>	<u>-</u>	<u>9,908</u>	<u>-</u>	<u>6,495</u>	<u>16,416</u>
<b>Restricted Fund Balances:</b>							
Public safety	171,751	-	4,670	-	44,732	-	221,153
Culture and recreation	-	77,242	-	21,179	-	-	98,421
Total fund balances	<u>171,751</u>	<u>77,242</u>	<u>4,670</u>	<u>21,179</u>	<u>44,732</u>	<u>-</u>	<u>319,574</u>
Total Liabilities and Fund Balances	<u>\$ 171,751</u>	<u>\$ 77,255</u>	<u>\$ 4,670</u>	<u>\$ 31,087</u>	<u>\$ 44,732</u>	<u>\$ 6,495</u>	<u>\$ 335,990</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Special Revenue						Total Other Governmental Funds
	Police Narcotics Fund	Library Fund	Court Technology Fund	Hotel/ Motel Occupancy Tax Fund	Fire Department Fund	CDBG Grant Fund	
REVENUES							
Other taxes	\$ -	\$ -	\$ -	\$ 67,577	\$ -	\$ -	\$ 67,577
Grants and private contributions	-	46,110	-	-	16,500	14,640	77,250
Interest	209	96	4	32	58	-	399
Forfeitures	30,787	-	-	-	-	-	30,787
Miscellaneous Income	500	1,000	7,416	-	-	-	8,916
Total revenue	<u>31,496</u>	<u>47,206</u>	<u>7,420</u>	<u>67,609</u>	<u>16,558</u>	<u>14,640</u>	<u>184,929</u>
EXPENDITURES							
Current:							
Public safety	29,319	-	4,705	-	7,159	-	41,183
Culture and recreation	-	35,049	-	63,794	-	-	98,843
Public works	-	-	-	-	-	13,796	13,796
Total expenditures	<u>29,319</u>	<u>35,049</u>	<u>4,705</u>	<u>63,794</u>	<u>7,159</u>	<u>13,796</u>	<u>153,822</u>
NET CHANGE IN FUND BALANCES	2,177	12,157	2,715	3,815	9,399	844	31,107
FUND BALANCES - BEGINNING	<u>169,574</u>	<u>65,085</u>	<u>1,955</u>	<u>17,364</u>	<u>35,333</u>	<u>(844)</u>	<u>288,467</u>
FUND BALANCES - ENDING	<u>\$ 171,751</u>	<u>\$ 77,242</u>	<u>\$ 4,670</u>	<u>\$ 21,179</u>	<u>\$ 44,732</u>	<u>\$ -</u>	<u>\$ 319,574</u>

## DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Orginal Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
<b>REVENUES</b>				
Property taxes, penalties and interest	\$ 1,969,030	\$ 1,969,030	\$ 1,910,295	\$ (58,735)
Interest	500	500	8,210	7,710
Total revenue	<u>1,969,530</u>	<u>1,969,530</u>	<u>1,918,505</u>	<u>(51,025)</u>
<b>EXPENDITURES</b>				
Debt service:				
Principal retirement	1,680,000	1,680,000	1,680,000	-
Interest and fiscal charges	573,530	573,530	853,412	(279,882)
Fees	3,000	3,000	69,595	(66,595)
Total expenditures	<u>2,256,530</u>	<u>2,256,530</u>	<u>2,603,007</u>	<u>(346,477)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>(287,000)</u>	<u>(287,000)</u>	<u>(684,502)</u>	<u>(397,502)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond Proceeds	-	-	3,520,000	3,520,000
Premium on bonds	-	-	204,876	204,876
Payment to refunded bond escrow agent	-	-	(3,375,000)	(3,375,000)
Transfers in	287,000	287,000	287,000	-
Total other financing sources and uses	<u>287,000</u>	<u>287,000</u>	<u>636,876</u>	<u>349,876</u>
<b>NET CHANGE IN FUND BALANCES</b>				
	-	-	(47,626)	(47,626)
<b>FUND BALANCES - BEGINNING</b>				
	<u>308,653</u>	<u>308,653</u>	<u>308,653</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>				
	<u>\$ 308,653</u>	<u>\$ 308,653</u>	<u>\$ 261,027</u>	<u>\$ (47,626)</u>



## POLICE NARCOTICS FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Interest	\$ 500	\$ 500	\$ 209	\$ (291)
Forfeitures	5,000	5,000	30,787	25,787
Miscellaneous	1,000	1,000	500	(500)
Total revenue	<u>6,500</u>	<u>6,500</u>	<u>31,496</u>	<u>24,996</u>
EXPENDITURES				
Public safety	<u>18,000</u>	<u>18,000</u>	<u>29,319</u>	<u>(11,319)</u>
Total expenditures	<u>18,000</u>	<u>18,000</u>	<u>29,319</u>	<u>(11,319)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(11,500)</u>	<u>(11,500)</u>	<u>2,177</u>	<u>13,677</u>
NET CHANGE IN FUND BALANCES	(11,500)	(11,500)	2,177	13,677
FUND BALANCES - BEGINNING	<u>169,574</u>	<u>169,574</u>	<u>169,574</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 158,074</u>	<u>\$ 158,074</u>	<u>\$ 171,751</u>	<u>\$ 13,677</u>

## LIBRARY FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Grants and private contributions	\$ 56,300	\$ 56,300	\$ 46,110	\$ (10,190)
Interest	150	150	96	(54)
Miscellaneous	21,350	21,350	1,000	(20,350)
Total revenue	<u>77,800</u>	<u>77,800</u>	<u>47,206</u>	<u>(30,594)</u>
EXPENDITURES				
Culture and recreation	113,100	113,100	35,049	78,051
Total expenditures	<u>113,100</u>	<u>113,100</u>	<u>35,049</u>	<u>78,051</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(35,300)</u>	<u>(35,300)</u>	<u>12,157</u>	<u>47,457</u>
NET CHANGE IN FUND BALANCES				
	(35,300)	(35,300)	12,157	47,457
FUND BALANCES - BEGINNING				
	<u>65,085</u>	<u>65,085</u>	<u>65,085</u>	<u>-</u>
FUND BALANCES - ENDING				
	<u>\$ 29,785</u>	<u>\$ 29,785</u>	<u>\$ 77,242</u>	<u>\$ 47,457</u>

## COURT TECHNOLOGY FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Interest	\$ -	\$ -	\$ 4	\$ 4
Court technology revenue	5,000	5,000	7,416	2,416
Total revenue	<u>5,000</u>	<u>5,000</u>	<u>7,420</u>	<u>2,420</u>
EXPENDITURES				
Public safety	5,000	5,000	4,705	295
Total expenditures	<u>5,000</u>	<u>5,000</u>	<u>4,705</u>	<u>295</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>2,715</u>	<u>2,715</u>
NET CHANGE IN FUND BALANCES	-	-	2,715	2,715
FUND BALANCES - BEGINNING	<u>1,955</u>	<u>1,955</u>	<u>1,955</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 1,955</u>	<u>\$ 1,955</u>	<u>\$ 4,670</u>	<u>\$ 2,715</u>

## HOTEL/MOTEL OCCUPANCY TAX FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Orginal Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Other taxes	\$ 62,000	\$ 62,000	\$ 67,577	\$ 5,577
Interest	-	-	32	32
Total revenue	<u>62,000</u>	<u>62,000</u>	<u>67,609</u>	<u>5,609</u>
EXPENDITURES				
Culture and recreation	63,060	63,060	63,794	(734)
Total expenditures	<u>63,060</u>	<u>63,060</u>	<u>63,794</u>	<u>(734)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,060)</u>	<u>(1,060)</u>	<u>3,815</u>	<u>4,875</u>
NET CHANGE IN FUND BALANCES	(1,060)	(1,060)	3,815	4,875
FUND BALANCES - BEGINNING	<u>17,364</u>	<u>17,364</u>	<u>17,364</u>	-
FUND BALANCES - ENDING	<u>\$ 16,304</u>	<u>\$ 16,304</u>	<u>\$ 21,179</u>	<u>\$ 4,875</u>

## FIRE DEPARTMENT FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Grants and private contributions	\$ 32,000	\$ 32,000	\$ 16,500	\$ (15,500)
Interest	-	-	58	
Miscellaneous revenue	1,000	1,000	-	(1,000)
Total revenue	<u>33,000</u>	<u>33,000</u>	<u>16,558</u>	<u>(16,442)</u>
EXPENDITURES				
Public safety	<u>28,000</u>	<u>35,000</u>	<u>7,159</u>	<u>27,841</u>
Total expenditures	<u>28,000</u>	<u>35,000</u>	<u>7,159</u>	<u>27,841</u>
NET CHANGE IN FUND BALANCES	5,000	(2,000)	9,399	11,399
FUND BALANCES - BEGINNING	<u>35,333</u>	<u>35,333</u>	<u>35,333</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 40,333</u>	<u>\$ 33,333</u>	<u>\$ 44,732</u>	<u>\$ 11,399</u>

## CDBG DISASTER RECOVERY GRANT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Orginal Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Federal grant revenue	\$ 2,682,017	\$ 2,682,017	\$ 14,640	\$ (2,667,377)
Total revenue	<u>2,682,017</u>	<u>2,682,017</u>	<u>14,640</u>	<u>(2,667,377)</u>
EXPENDITURES				
Capital outlay	2,682,573	2,682,573	13,796	2,668,777
Total expenditures	<u>2,682,573</u>	<u>2,682,573</u>	<u>13,796</u>	<u>2,668,777</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(556)</u>	<u>(556)</u>	<u>844</u>	<u>1,400</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	556	556	-	(556)
Total other financing sources and uses	<u>556</u>	<u>556</u>	<u>-</u>	<u>(556)</u>
NET CHANGE IN FUND BALANCES	-	-	844	844
FUND BALANCES - BEGINNING	<u>(844)</u>	<u>(844)</u>	<u>(844)</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ (844)</u>	<u>\$ (844)</u>	<u>\$ -</u>	<u>\$ 844</u>

COMPONENT UNIT

COMPONENT UNIT  
 NEDERLAND ECONOMIC DEVELOPMENT CORPORATION  
 BALANCE SHEET  
 SEPTEMBER 30, 2013

	<u>General</u>	<u>Total Funds</u>
ASSETS:		
Cash and cash equivalents	\$ 3,492,633	\$ 3,492,633
Investments	491,387	491,387
Receivables (net of allowances for doubtful accounts)		
Taxes receivable	57,473	57,473
Due from other governmental agencies	12,350	12,350
Due from primary government	368	368
Prepaid items	575	575
TOTAL ASSETS	<u>\$ 4,054,786</u>	<u>\$ 4,054,786</u>
LIABILITIES AND FUND BALANCES:		
LIABILITIES:		
Accounts payable	\$ 2	\$ 2
Accrued expenses and other liabilities	348	348
TOTAL LIABILITIES	<u>350</u>	<u>350</u>
FUND BALANCES:		
Unassigned Fund Balance	<u>4,054,436</u>	<u>4,054,436</u>
Total fund balances	<u>4,054,436</u>	<u>4,054,436</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 4,054,786</u>	
 Capital assets used in governmental activities are not financial resources, and therefore, are not reported in these funds.		 <u>598,697</u>
		<u>\$ 4,653,133</u>



## COMPONENT UNIT

## NEDERLAND ECONOMIC DEVELOPMENT CORPORATION

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

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	<u>General</u>	<u>Total Funds</u>
REVENUES		
Sales tax	736,287	736,287
Interest	5,635	5,635
Other miscellaneous	1,800	1,800
Total revenue	<u>743,722</u>	<u>743,722</u>
EXPENDITURES:		
Current:		
Economic development	<u>858,629</u>	<u>858,629</u>
Total expenditures	<u>858,629</u>	<u>858,629</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(114,907)</u>	<u>(114,907)</u>
OTHER FINANCING SOURCES (USES)		
Sale of land	2,128,165	2,128,165
Purchase of land	<u>(1,442,670)</u>	<u>(1,442,670)</u>
Total other financing sources and uses	<u>685,495</u>	<u>685,495</u>
NET CHANGE IN FUND BALANCES	570,588	570,588
FUND BALANCES - BEGINNING	<u>3,483,848</u>	
FUND BALANCES - ENDING	<u>\$ 4,054,436</u>	
The change in capital assets are reflected in the current financial resources of governmental funds, however has no effect on net assets.		<u>(256,473)</u>
CHANGE IN NET ASSETS		<u>\$ 314,115</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, 2013

	Orginal Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Sales tax	\$ 615,000	\$ 615,000	\$ 736,287	\$ 121,287
Interest	6,000	6,000	5,635	(365)
Miscellaneous	1,000	1,000	1,800	800
Total revenue	<u>622,000</u>	<u>622,000</u>	<u>743,722</u>	<u>121,722</u>
EXPENDITURES				
Current:				
Economic development	602,000	1,022,000	858,629	163,371
Total expenditures	<u>602,000</u>	<u>1,022,000</u>	<u>858,629</u>	<u>163,371</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>20,000</u>	<u>(400,000)</u>	<u>(114,907)</u>	<u>285,093</u>
OTHER FINANCING SOURCES (USES)				
Sale of general capital assets	-	-	2,128,165	2,128,165
Purchase of general capital assets	-	-	(1,442,670)	(1,442,670)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>685,495</u>	<u>685,495</u>
NET CHANGE IN FUND BALANCES				
	20,000	(400,000)	570,588	970,588
FUND BALANCES AT BEGINNING OF YEAR				
	<u>3,483,848</u>	<u>3,483,848</u>	<u>3,483,848</u>	<u>-</u>
FUND BALANCE AT END OF YEAR				
	<u>\$ 3,503,848</u>	<u>\$ 3,083,848</u>	<u>\$ 4,054,436</u>	<u>\$ 970,588</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	73-82
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	83-86
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	
Debt Capacity	87-93
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	94-95
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	96-101
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 POSITION BY COMPONENT  
LAST TEN FISCAL YEARS  
(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	2004	2005	2006	2007
Governmental Activities				
Net investment in capital assets	\$ (9,774,113)	\$ 9,826,617	\$20,722,686	\$20,335,426
Restricted	262,834	149,744	357,097	476,598
Unrestricted	4,558,749	(15,738,862)	(12,714,121)	(10,818,321)
Total governmental activities net position	<u>\$ (4,952,530)</u>	<u>\$ (5,762,501)</u>	<u>\$ 8,365,662</u>	<u>\$ 9,993,703</u>
Business-type Activities				
Invested in capital assets, net of related debt	\$ 27,624,365	\$29,178,615	\$28,661,994	\$28,306,854
Restricted	1,203,980	728,992	416,907	150,955
Unrestricted	2,224,260	2,116,636	2,780,434	2,516,589
Total business-type activities net position	<u>\$ 31,052,605</u>	<u>\$32,024,243</u>	<u>\$31,859,335</u>	<u>\$30,974,398</u>
Primary Government				
Invested in capital assets, net of related debt	\$ 17,850,252	\$39,005,232	\$49,384,680	\$48,642,280
Restricted	1,466,814	878,736	774,004	627,553
Unrestricted	6,783,009	(13,622,226)	(9,933,687)	(8,301,732)
Total primary government net position	<u>\$ 26,100,075</u>	<u>\$26,261,742</u>	<u>\$40,224,997</u>	<u>\$40,968,101</u>

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 19,922,807	\$ 20,580,788	\$ 23,117,338	\$ 23,209,685	\$ 23,127,039	\$ 24,837,113
3,376,182	2,839,102	1,555,269	1,878,576	2,405,754	4,633,213
<u>(16,035,419)</u>	<u>(13,426,738)</u>	<u>(11,350,064)</u>	<u>(13,390,826)</u>	<u>(9,596,034)</u>	<u>(8,070,156)</u>
<u>\$ 7,263,570</u>	<u>\$ 9,993,152</u>	<u>\$ 13,322,543</u>	<u>\$ 11,697,435</u>	<u>\$ 15,936,759</u>	<u>\$ 21,400,170</u>
\$ 27,548,912	\$ 27,042,159	\$ 27,275,625	\$ 28,155,931	\$ 29,921,166	\$ 29,502,539
4,677,882	4,098,350	2,949,052	5,259,401	2,324,808	1,401,389
<u>2,518,191</u>	<u>2,978,574</u>	<u>2,891,977</u>	<u>3,436,248</u>	<u>3,790,728</u>	<u>4,421,146</u>
<u>\$ 34,744,985</u>	<u>\$ 34,119,083</u>	<u>\$ 33,116,654</u>	<u>\$ 36,851,580</u>	<u>\$ 36,036,702</u>	<u>\$ 35,325,074</u>
\$ 47,471,719	\$ 47,622,947	\$ 32,672,963	\$ 30,785,616	\$ 34,208,205	\$ 37,034,652
8,054,064	6,937,452	4,504,321	7,394,803	4,730,562	6,034,602
<u>(13,517,228)</u>	<u>(10,448,164)</u>	<u>9,261,913</u>	<u>10,368,596</u>	<u>13,034,694</u>	<u>13,655,990</u>
<u>\$ 42,008,555</u>	<u>\$ 44,112,235</u>	<u>\$ 46,439,197</u>	<u>\$ 48,549,015</u>	<u>\$ 51,973,461</u>	<u>\$ 56,725,244</u>

CITY OF NEDERLAND, TEXAS

CHANGES IN NET POSITION

LAST TEN FISCAL YEARS (1)

(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	2004	2005	2006	2007
Governmental activities				
General government	\$ 1,665,118	\$ 1,000,138	\$ 1,017,303	\$ 1,127,311
Public safety	3,914,039	4,052,612	4,209,461	4,413,585
Public works	957,755	1,465,853	1,748,796	1,814,987
Culture and recreation	752,682	765,294	952,248	1,032,854
Administrative and general	268,493	127,749	199,434	149,048
Interest on long-term debt	842,767	847,017	838,482	790,941
Total governmental activities	<u>8,400,854</u>	<u>8,258,663</u>	<u>8,965,724</u>	<u>9,328,726</u>
Business-type activities				
Water and sewer	3,223,537	3,760,887	3,917,220	4,258,833
Solid Waste	911,319	986,948	1,180,200	1,049,490
Total business-type activities	<u>4,134,856</u>	<u>4,747,835</u>	<u>5,097,420</u>	<u>5,308,323</u>
Total Primary Government Expenses	<u>\$ 12,535,710</u>	<u>\$ 13,006,498</u>	<u>\$ 14,063,144</u>	<u>\$ 14,637,049</u>
Program Revenues				
Governmental activities:				
Charges for services:				
Public safety	\$ 145,348	\$ 176,561	\$ 384,731	\$ 285,255
Public works	81,242	130,430	125,468	116,174
Culture and recreation	69,438	50,711	19,122	44,448
Operating grants and contributions	480,752	196,739	73,597	287,084
Capital grants and contributions	-	58,245	24,450	86,135
Total governmental activities program revenues	<u>776,780</u>	<u>612,686</u>	<u>627,368</u>	<u>819,096</u>
Business activities:				
Charges for services:				
Water & sewer	3,407,583	3,439,172	3,592,610	3,678,167
Solid waste	1,176,041	1,219,741	1,349,841	1,277,770
Capital grants and contributions	-	-	-	194,821
Total business-type activities program revenues	<u>4,583,624</u>	<u>4,658,913</u>	<u>4,942,451</u>	<u>5,150,758</u>
Total primary government program revenues	<u>\$ 5,360,404</u>	<u>\$ 5,271,599</u>	<u>\$ 5,569,819</u>	<u>\$ 5,969,854</u>
Net (expense) revenue				
Governmental activities	\$ (7,624,074)	\$ (7,645,977)	\$ (8,338,356)	\$ (8,509,630)
Business-type activities	448,768	(88,922)	(154,969)	(157,565)
Total primary government net expense	<u>\$ (7,175,306)</u>	<u>\$ (7,734,899)</u>	<u>\$ (8,493,325)</u>	<u>\$ (8,667,195)</u>

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 974,048	\$ 959,939	\$ 938,214	\$ 894,890	\$ 912,280	\$ 873,884
4,706,590	4,510,332	3,960,690	4,719,003	4,873,250	4,991,907
1,854,510	1,439,306	1,620,899	1,893,707	1,825,249	1,805,477
916,500	927,717	1,636,562	1,076,490	1,075,263	1,160,750
836,226	503,838	498,380	396,221	395,998	418,261
755,903	939,966	1,057,191	645,953	700,763	679,559
<u>10,043,777</u>	<u>9,281,098</u>	<u>9,711,936</u>	<u>9,626,264</u>	<u>9,782,803</u>	<u>9,929,838</u>
4,455,575	4,419,694	4,332,049	4,406,019	4,408,929	4,480,355
1,499,256	1,884,277	1,118,966	1,030,067	1,015,675	1,103,974
<u>5,954,831</u>	<u>6,303,971</u>	<u>5,451,015</u>	<u>5,436,086</u>	<u>5,424,604</u>	<u>5,584,329</u>
<u>\$ 15,998,608</u>	<u>\$ 15,585,069</u>	<u>\$ 15,162,951</u>	<u>\$ 15,062,350</u>	<u>\$ 15,207,407</u>	<u>\$ 15,514,167</u>
\$ 122,117	\$ 143,095	\$ 200,573	\$ 183,564	\$ 166,945	\$ 350,177
123,557	104,147	106,104	105,158	126,566	147,864
64,620	41,959	53,487	81,098	95,460	85,630
210,090	147,617	295,370	272,166	248,145	431,584
-	-	-	-	-	-
<u>520,384</u>	<u>436,818</u>	<u>655,534</u>	<u>641,986</u>	<u>637,116</u>	<u>1,015,255</u>
3,762,599	3,850,024	4,005,958	4,246,104	4,313,232	4,198,873
1,281,762	1,293,806	1,310,495	1,327,215	1,364,893	1,405,833
842,783	867,484	-	-	-	-
<u>5,887,144</u>	<u>6,011,314</u>	<u>5,316,453</u>	<u>5,573,319</u>	<u>5,678,125</u>	<u>5,604,706</u>
<u>\$ 6,407,528</u>	<u>\$ 6,448,132</u>	<u>\$ 5,971,987</u>	<u>\$ 6,215,305</u>	<u>\$ 6,315,241</u>	<u>\$ 6,619,961</u>
\$ (9,523,393)	\$ (8,844,280)	\$ (9,056,402)	\$ (8,984,278)	\$ (9,145,687)	\$ (8,914,583)
(67,687)	(292,657)	(134,562)	137,233	253,521	20,377
<u>\$ (9,591,080)</u>	<u>\$ (9,136,937)</u>	<u>\$ (9,190,964)</u>	<u>\$ (8,847,045)</u>	<u>\$ (8,892,166)</u>	<u>\$ (8,894,206)</u>



## CITY OF NEDERLAND, TEXAS

## CHANGES IN NET POSITION (continued)

	Fiscal Year			
	2004	2005	2006	2007
General Revenues and Other Changes in Net Assets				
Governmental Activities				
Property taxes, penalties and interest	\$ 3,945,663	\$ 4,075,342	\$ 4,401,412	\$ 4,369,718
In lieu of tax contracts	715,899	703,139	762,244	851,566
Sales tax	1,597,100	1,746,581	2,373,145	2,480,048
Gross receipts tax	899,871	914,567	912,714	955,884
Interest	68,461	174,563	304,561	403,250
Gain on sale of capital assets	-	-	-	-
Other governmental agencies	-	-	1,096,853	-
Other miscellaneous	536,307	201,812	954,638	209,989
Transfers	604,871	(979,998)	779,509	867,216
Total government activities	<u>8,368,172</u>	<u>6,836,006</u>	<u>11,585,076</u>	<u>10,137,671</u>
Business-type activities				
Interest	\$ 50,662	\$ 80,559	\$ 118,951	\$ 139,844
Other miscellaneous	-	-	536,645	-
Transfers	(604,871)	979,998	(779,509)	(867,216)
Total business-type activities	<u>(554,209)</u>	<u>1,060,557</u>	<u>(123,913)</u>	<u>(727,372)</u>
Total primary government	<u>\$ 7,813,963</u>	<u>\$ 7,896,563</u>	<u>\$ 11,461,163</u>	<u>\$ 9,410,299</u>
Change in Net Position				
Governmental activities	\$ 744,098	\$ (809,971)	\$ 3,246,720	\$ 1,628,041
Business-type activities	(105,441)	971,635	(278,882)	(884,937)
Total primary government	<u>\$ 638,657</u>	<u>\$ 161,664</u>	<u>\$ 2,967,838</u>	<u>\$ 743,104</u>

Fiscal Year					
2008	2009	2010	2011	2012	2013
\$ 4,551,330	\$ 5,012,060	\$ 5,370,920	\$ 5,547,369	\$ 5,634,574	\$ 5,727,560
783,582	839,560	940,850	1,006,261	1,768,745	1,819,377
2,781,508	3,283,262	2,922,006	3,036,033	3,713,845	3,681,434
1,056,941	913,653	1,298,937	1,299,828	1,230,797	1,164,178
233,143	64,742	28,537	21,941	21,291	27,164
-	-	-	-	-	1,125,155
834,827	52,991	-	-	-	-
137,331	621,448	1,018,745	82,405	55,811	81,126
(3,585,402)	760,600	805,798	(3,617,690)	959,948	752,000
<u>6,793,260</u>	<u>11,548,316</u>	<u>12,385,793</u>	<u>7,376,147</u>	<u>13,385,011</u>	<u>14,377,994</u>
\$ 86,343	\$ 85,369	\$ 40,989	\$ 15,426	\$ 11,927	\$ 8,119
166,529	361,509	(103,058)	(35,423)	(120,378)	11,876
3,585,402	(760,600)	(805,798)	3,617,690	(959,948)	(752,000)
<u>3,838,274</u>	<u>(313,722)</u>	<u>(867,867)</u>	<u>3,597,693</u>	<u>(1,068,399)</u>	<u>(732,005)</u>
<u>\$ 10,631,534</u>	<u>\$ 11,234,594</u>	<u>\$ 11,517,926</u>	<u>\$ 10,973,840</u>	<u>\$ 12,316,612</u>	<u>\$ 13,645,989</u>
\$ (2,730,133)	\$ 2,704,036	\$ 3,329,391	\$ (1,608,131)	\$ 4,239,324	\$ 5,463,411
3,770,587	(606,379)	(1,002,429)	3,734,926	(814,878)	(711,628)
<u>\$ 1,040,454</u>	<u>\$ 2,097,657</u>	<u>\$ 2,326,962</u>	<u>\$ 2,126,795</u>	<u>\$ 3,424,446</u>	<u>\$ 4,751,783</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>
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
2012	5,635	1,769	3,714	1,231	12,349
2013	5,728	1,819	3,681	1,164	12,392

## FUND BALANCES OF GOVERNMENTAL FUNDS

LAST NINE FISCAL YEARS (1)

(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

(AMOUNTS EXPRESSED IN THOUSANDS)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund										
Reserved	\$ 13	\$ 13	\$ 3	\$ 6	\$ 5	\$ 5	\$ 4	\$ -	\$ -	\$ -
Unreserved	4,439	4,747	5,792	6,418	4,390	5,591	6,255	-	-	-
Nonspendable	-	-	-	-	-	-	-	4	3	2
Restricted	-	-	-	-	-	-	-	-	-	1,135
Assigned	-	-	-	-	-	-	-	-	-	1,350
Unassigned	-	-	-	-	-	-	-	7,043	9,332	8,809
Total general fund	<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>	<u>\$ 9,335</u>	<u>\$ 11,296</u>
All other governmental funds										
Reserved	165	150	189	215	254	225	239	-	-	-
Unreserved, reported in:										
Special revenue funds	154	168	219	246	249	238	282	-	-	-
Capital projects funds	98	(548)	62	262	3,123	2,627	1,316	-	-	-
Restricted										
Debt Service	-	-	-	-	-	-	-	290	309	261
Grants and Awards	-	-	-	-	-	-	-	257	289	320
Committed										
Capital projects	-	-	-	-	-	-	-	1,588	1,795	4,939
Total all other governmental funds	<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>	<u>\$ 2,393</u>	<u>\$ 5,520</u>
Total governmental funds	<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>	<u>\$ 11,728</u>	<u>\$ 16,816</u>

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

CITY OF NEDERLAND, TEXAS

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS (1)

(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

Revenues	Fiscal Year			
	2004	2005	2006	2007
Property taxes, penalties and interest	\$ 3,921,007	\$ 4,044,904	4,399,262	4,347,001
In lieu of tax contracts	715,899	703,139	762,244	851,567
Sales Tax	1,597,100	1,746,581	2,373,145	2,480,048
Other tax	961,005	976,471	924,753	1,054,163
Permits, licences and fees	135,857	181,141	144,590	160,622
Fines, forfeits and penalties	121,124	130,629	224,269	150,079
Insurance	-	-	819,256	-
Interest	68,461	174,562	304,561	403,250
Other governmental agencies	-	-	1,096,853	121,616
Grants and Private contributions	465,745	326,261	146,229	314,213
Other miscellaneous	78,029	141,193	122,476	115,445
<b>Total revenues</b>	<b>8,064,227</b>	<b>8,424,881</b>	<b>11,317,638</b>	<b>9,998,004</b>
Expenditures				
Current:				
General government	841,296	855,039	912,778	870,539
Public safety	3,643,181	3,900,773	4,138,623	4,300,647
Public works	1,048,086	1,192,976	1,163,977	1,198,699
Culture and recreation	736,072	746,340	850,940	904,903
Administration and general	268,493	127,749	199,434	149,048
Capital Outlay	1,125,180	797,109	1,051,212	528,262
Debt Service:				
Principal retirement	855,000	915,000	1,195,000	1,245,000
Interest and fiscal charges	848,339	849,929	841,671	794,449
Issuance Costs	-	38,628	-	-
<b>Total expenditures</b>	<b>9,365,647</b>	<b>9,423,543</b>	<b>10,353,635</b>	<b>9,991,547</b>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(1,301,420)	(998,662)	964,003	6,457
Other Financing Sources (Uses)				
Bonds issued	-	1,640,000	-	-
Premium on bonds	-	-	-	-
Bond issuance costs	-	-	-	-
Payment to refunded escrow agent	-	-	-	-
Transfers in	646,172	627,550	1,670,844	1,117,216
Transfers out	(41,300)	(1,607,548)	(891,335)	(250,000)
Sale of general capital assets	-	-	-	-
<b>Total Other Financing Sources and Uses</b>	<b>604,872</b>	<b>660,002</b>	<b>779,509</b>	<b>867,216</b>
Net Change in Fund Balance	\$ (696,548)	\$ (338,660)	\$ 1,743,512	\$ 873,673
Debt service as a percentage of non-capital expenditures	26.1%	26.4%	28.0%	27.5%

Fiscal Year					
2008	2009	2010	2011	2012	2013
4,550,883	5,044,628	5,328,245	5,533,376	5,615,078	5,699,431
783,582	839,560	940,850	1,006,261	1,768,745	1,819,377
2,781,508	3,283,262	2,922,006	3,036,033	3,713,845	3,681,434
1,056,941	913,653	1,298,937	1,299,828	1,230,797	1,164,178
171,126	127,703	159,591	186,255	222,026	233,494
178,162	160,306	196,265	193,588	187,836	276,470
-	-	-	-	-	-
233,143	64,742	28,537	21,941	21,291	27,164
834,827	52,991	-	-	-	-
210,090	147,617	295,370	272,166	248,145	431,584
137,329	621,448	819,761	82,405	91,373	81,126
<u>10,937,591</u>	<u>11,255,910</u>	<u>11,989,562</u>	<u>11,631,853</u>	<u>13,099,136</u>	<u>13,414,258</u>
929,419	913,358	890,651	908,602	910,170	965,139
4,619,928	4,517,773	4,592,380	4,681,227	4,718,219	4,834,661
1,280,070	1,475,481	1,273,637	1,357,089	1,408,350	1,644,195
969,199	810,886	1,483,363	1,011,563	1,096,082	1,132,087
1,017,305	503,838	333,410	372,158	353,183	369,587
62,891	774,521	2,450,174	719,846	511,508	2,120,742
1,295,000	1,475,000	1,545,000	1,640,000	1,825,000	1,680,000
743,261	905,654	857,622	658,116	713,822	853,412
61,856	2,900	157,111	63,292	61,537	69,595
<u>10,978,929</u>	<u>11,379,411</u>	<u>13,583,348</u>	<u>11,411,893</u>	<u>11,597,871</u>	<u>13,669,418</u>
<u>(41,338)</u>	<u>(123,501)</u>	<u>(1,593,786)</u>	<u>219,960</u>	<u>1,501,265</u>	<u>(255,160)</u>
4,500,000	-	198,984	4,500,000	85,000	6,120,000
-	-	-	-	-	337,985
-	-	-	-	-	(128,867)
-	-	-	-	-	(3,375,000)
3,803,545	1,000,333	1,443,738	1,244,018	1,334,948	3,160,650
(7,388,947)	(239,733)	(637,940)	(4,861,708)	(375,000)	(2,408,650)
-	-	-	-	-	1,636,470
<u>914,598</u>	<u>760,600</u>	<u>1,004,782</u>	<u>882,310</u>	<u>1,044,948</u>	<u>5,342,588</u>
<u>\$ 873,260</u>	<u>\$ 637,099</u>	<u>\$ (589,004)</u>	<u>\$ 1,102,270</u>	<u>\$ 2,546,213</u>	<u>\$ 5,087,428</u>
23.8%	29.0%	29.9%	29.8%	32.4%	27.7%

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			
2004	2003	473,247,730	173,991,890	8,156,770	33,423,100	621,973,290	0.6600000
2005	2004	483,161,160	187,106,760	7,585,390	35,871,340	641,981,970	0.6589030
2006	2005	524,571,900	203,853,760	7,594,810	37,248,200	698,772,270	0.6524560
2007	2006	487,717,280	194,455,150	8,510,950	33,622,240	657,061,140	0.6850000
2008	2007	607,348,770	196,472,939	9,814,960	55,757,900	757,878,769	0.5948300
2009	2008	706,764,372	200,627,370	21,320,050	71,374,455	857,337,337	0.5780000
2010	2009	734,045,590	207,697,690	26,618,370	50,625,730	917,735,920	0.0578000
2011	2010	762,111,830	215,348,700	7,993,330	40,563,276	944,890,584	0.0578000
2012	2011	759,356,680	223,565,400	9,378,740	31,566,020	960,734,800	0.0578000
2013	2012	752,795,130	220,034,960	13,785,390	29,928,476	956,687,004	0.0591853

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
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
2012	0.370566	0.207434	\$0.578000	0.365000	1.109500	0.140949	0.027311
2013	0.390395	0.201458	\$0.591853	0.365000	1.105000	0.140949	0.278700

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.



CITY OF NEDERLAND, TEXAS  
 PRINCIPAL PROPERTY TAXPAYERS  
 Current Year and Nine Years Ago

Schedule VIII

TAXPAYER	Fiscal Year 2004		Fiscal Year 2013	
	Assessed Valuation	Percent of Estimated Actual Value	Assessed Valuation	Percent of Estimated Actual Value
Philpott Ford, Inc.	11,014,920	1.77%	13,673,320	1.43%
Entergy Texas, Inc.	7,697,480	1.24%	9,127,940	0.95%
Southwestern Bell	7,410,660	1.19%	-	-
Beaumont Hospital Holdings	6,441,450	1.04%	-	-
Megas Constantine	3,636,070	0.58%	7,242,560	0.76%
Emhugh, Ltd	3,564,790	0.57%	3,848,340	0.40%
Texas Cable Partners	3,196,420	0.51%		0.00%
Wentworth Nederland LP	3,083,540	0.50%	-	-
Spherion Atlantic Enterprises	3,055,220	0.49%	-	-
Atrium of Nederland LLC	2,804,510	0.45%	-	-
Fivepoint Federal Credit Union	-	-	8,480,240	0.89%
Nederland Avenue Apartments	-	-	7,981,360	0.83%
Iasis Healthcare Holdings	-	-	4,931,690	0.52%
JAG Nederland Properties LTD	-	-	4,813,760	0.50%
Albanese Nederland Spe LLC	-	-	3,781,570	0.40%
Chateau Residential LP	-	-	3,673,850	0.38%
Total	<u>\$51,905,060</u>	8.35%	<u>\$67,554,630</u>	7.06%

Source: Jefferson County Appraisal District

Notes:

Total taxable value including real and personal property for tax year 2003 (fiscal year 2004) is \$621,973,290

Total taxable value including real and personal property for tax year 2012 (fiscal year 2013) is \$956,687,004

## 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
2004	3,883,109	3,787,129	97.53%	83,547	3,870,676	99.68%
2005	4,031,859	3,923,234	97.31%	97,180	4,020,414	99.72%
2006	4,343,817	4,259,544	98.06%	72,540	4,332,084	99.73%
2007	4,296,092	4,201,893	97.81%	81,184	4,283,077	99.70%
2008	4,492,340	4,387,683	97.67%	88,616	4,476,299	99.64%
2009	4,960,815	4,838,230	97.53%	99,915	4,938,145	99.54%
2010	5,304,515	5,140,742	96.91%	131,735	5,272,477	99.40%
2011	5,461,469	5,315,110	97.32%	91,934	5,407,044	99.00%
2012	5,553,049	5,422,024	97.64%	57,761	5,479,785	98.68%
2013	5,662,181	5,502,387	97.18%	-	5,502,387	97.18%

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			
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
2012	4,350,000	-	14,490,000	-	18,840,000	4.10%	\$ 1,074
2013	6,914,234	-	13,508,405	-	20,422,639	4.44%	\$ 1,164

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	Amounts Available in Debt Service Fund	Total		
2004	19,620,000	-	-	164,872	\$19,455,128	3.13%	1,117
2005	18,705,000	1,640,000	-	149,744	\$20,195,256	3.15%	1,159
2006	17,725,000	1,425,000	-	196,735	\$18,953,265	2.71%	1,088
2007	16,700,000	1,205,000	-	214,725	\$17,690,275	2.69%	1,015
2008	15,630,000	980,000	4,500,000	253,570	\$20,856,430	2.75%	1,197
2009	14,515,000	745,000	4,375,000	225,173	\$19,409,827	2.26%	1,114
2010	12,990,000	505,000	4,225,000	239,088	\$17,480,912	1.90%	1,003
2011	16,250,000	255,000	4,075,000	290,642	\$20,289,358	2.15%	1,156
2012	4,350,000	-	14,490,000	308,653	\$18,531,347	1.93%	1,056
2013	6,790,000	-	13,115,000	261,027	\$19,643,973	2.05%	1,120

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, 2013

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	\$23,020,000	55.96%	\$12,881,992
Jefferson County, Texas	52,700,561	3.98%	2,097,482
Jefferson County Drainage District #7	-	10.73%	-
Subtotal overlapping debt			14,979,474
City direct debt			20,675,640
TOTAL			\$ 35,655,114

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, 2013

<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	\$ 19,905,000	100.00%	\$ 19,905,000

CITY OF NEDERLAND, TEXAS

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

(AMOUNTS EXPRESSED IN THOUSANDS)

**Debt Margin Calculation for Fiscal Year 2013**

Assessed value	\$ 956,687
Debt Limit (25% of assessed value)	<u>239,172</u>

Debt applicable to limit:	
General Obligation Bonds	19,905
Less: amount set aside for repayment of general obligation debt	<u>(261)</u>
Total net debt applicable to limit	<u>19,644</u>

<b>Debt Margin</b>	<u><u>\$ 219,528</u></u>
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	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Debt limit	\$ 163,849	\$ 160,495	\$ 174,693	\$ 164,265
Total net debt applicable to limit	<u>19,455</u>	<u>20,195</u>	<u>18,961</u>	<u>17,690</u>
Legal debt margin	<u><u>\$ 144,394</u></u>	<u><u>\$ 140,300</u></u>	<u><u>\$ 155,732</u></u>	<u><u>\$ 146,575</u></u>
Legal debt margin as a percentage of the debt limit	88.13%	87.42%	89.15%	89.23%

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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 189,469	\$ 214,334	\$ 211,953	\$ 215,934	\$ 221,641	\$ 219,528
<u>20,856</u>	<u>19,410</u>	<u>17,481</u>	<u>20,289</u>	<u>18,543</u>	<u>19,644</u>
<u>\$ 168,613</u>	<u>\$ 194,924</u>	<u>\$ 194,472</u>	<u>\$ 195,645</u>	<u>\$ 203,098</u>	<u>\$ 199,884</u>
88.99%	90.94%	91.75%	90.60%	91.63%	91.05%



## 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
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	-	-	-
2012	4,127,641	3,089,241	1,038,400	-	-	-
2013	4,064,990	2,906,750	1,158,240	-	-	-

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
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%
2012	17,547	441,863	26,285	37.3	5,022	** 9.89%
2013	17,547	440,529	26,246	37.3	5,026	** 9.70%

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	2013	
	Employees	Percentage of Total City Employment
Nederland Independent School District	622	7.70%
Philpott Motors	225	2.78%
Mid Jefferson Extended Care Hospital	138	1.71%
Time Warner	132	1.63%
Sun Oil Co.	115	1.42%
City of Nederland	108	1.34%
Dupont	75	0.93%
JK Chevrolet	70	0.87%
Unocal	65	0.80%
Air Liquide	40	0.49%

Source: Nederland Economic Development Corporation

Note: Historical Information not available.

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<u>Function/Program</u>										
General government										
City manager	3	3	3	3	3	3	3	3	3	3
Finance	1	1	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	26	26	26	26	26	27
Fire	15	15	15	15	15	15	15	15	15	15
Dispatch	8	8	8	9	10	10	10	10	10	10
Information Technology	-	-	-	-	-	-	1	1	1	2
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	8	8	8	8	8	8	8	8	8	8
City shop	2	2	2	2	2	2	2	2	2	2
Culture and recreation										
Parks and recreation	3	3	3	3	3	3	3	3	3	3
Library	3	3	3	3	3	4	4	4	4	4
Water and sewer										
Water treatment	6	6	6	6	6	6	6	6	6	6
Water utility billing/collections	6	4	4	4	4	4	4	4	4	4
Wastewater treatment <sup>a</sup>	-	-	-	-	-	-	-	-	-	-
Water and sewer distribution	9	9	10	10	10	10	10	10	10	10
Solid Waste	6	7	7	7	7	7	7	7	7	7
Total	100	99	100	101	104	105	106	106	106	108

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>	2004	2005	2006
General government			
Building permits issued	1,147	1,090	1,838
Public safety			
Police			
Physical arrests	354	401	225
Traffic violations	1,315	1,110	1,394
Dispatch calls for service	12,893	10,429	11,388
Offense reports filled	2,171	2,041	1,873
Fire			
Fire runs	86	84	159
EMS & other non-fire runs	751	874	976
Library			
Total volumes borrowed	107,993	97,711	81,374
Water and sewer			
Number of connections	7,929	7,950	7,969
Water main breaks	162	202	210
Average daily consumption (thousands of gallons)	2.275	2.051	1.950
Peak daily consumption (thousands of gallons)	3.558	3.172	3.134
Solid waste			
Refuse collected average yards per day (compacted)	91.800	98.270	111.650
Refuse collected average yards per day (non-compacted)	112.670	71.950	67.630

Source: City Departments

Note: N/A - Data not available

\* Change in method of connection count per TCEQ

## Schedule XIX

2007	2008	2009	2010	2011	2012	2013
2,047	1,045	1,101	1,005	1,026	1,026	1,028
212	264	408	345	377	360	245
1,431	1,568	1,877	2,158	1,744	2,058	3,503
11,227	10,436	10,257	10,109	12,258	12,463	14,455
1,976	2,005	2,000	1,805	2,050	2,049	2,195
125	104	75	99	103	91	66
1,031	1,241	1,480	1,566	1,556	1,608	1,632
100,694	96,887	103,171	115,311	106,380	103,602	106,526
7,955	8,246	8,259	7825*	7,848	7,865	7,926
257	157	115	288	446	176	248
1,970	2.32	2.21	2.25	2.32	2	2.13
3.150	3.75	3.49	3.49	3.59	3.47	3.43
99,000	93,000	91,000	90,000	104,000	128,000	117,000
96,000	73,000	97,000	112,000	96,000	104,000	192,000

CAPITAL ASSET STATISTICS BY FUNCTION  
LAST TEN FISCAL YEARS

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles	13	14	14	14	14	14	14	20	20	19
Fire stations	1	1	1	1	1	1	1	1	1	1
Aerials	1	1	1	1	1	1	1	1	1	1
Engines	3	3	3	3	3	3	3	3	3	3
Rescue	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	7	6	6	6	6	6	6	6	6	7
Parks and recreation										
Parks	7	7	7	7	7	7	7	5	6	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	94
Fire hydrants	N/A	N/A	407	407	407	407	407	407	407	407

Source: City Departments

Note: N/A - Data not available

## Industrial Contracts

<b>2006-2007 Fiscal Year</b>	<u>2006 Assessed Valuation</u>	<u>Taxable Value</u>	<u>Payments</u>
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
<b>Total</b>	<u>\$ 178,386,160</u>	<u>\$ 124,316,344</u>	<u>\$ 851,566</u>
<b>2007-2008 Fiscal Year</b>	<u>2007 Assessed Valuation</u>	<u>Taxable Value</u>	<u>Payments</u>
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
<b>Total</b>	<u>\$ 202,735,910</u>	<u>\$ 140,459,369</u>	<u>\$ 835,494</u>
<b>2008-2009 Fiscal Year</b>	<u>2008 Assessed Valuation</u>	<u>Taxable Value</u>	<u>Payments</u>
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
<b>Total</b>	<u>\$ 221,763,400</u>	<u>\$ 145,252,519</u>	<u>\$ 839,559</u>
<b>2009-2010 Fiscal Year</b>	<u>2009 Assessed Valuation</u>	<u>Taxable Value</u>	<u>Payments</u>
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
<b>Total</b>	<u>\$ 225,766,530</u>	<u>\$ 152,927,512</u>	<u>\$ 940,850</u>
<b>2010-2011 Fiscal Year</b>	<u>2010 Assessed Valuation</u>	<u>Taxable Value</u>	<u>Payments</u>
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
<b>Total</b>	<u>\$ 249,674,015</u>	<u>\$ 174,523,315</u>	<u>\$ 1,006,261</u>
<b>2011-2012 Fiscal Year</b>	<u>2011 Assessed Valuation</u>	<u>Taxable Value</u>	<u>Payments</u>
Air Liquide America Corporation	\$ 31,177,290	\$ 23,211,219	\$ 134,161
Union Oil of California	149,718,890	61,835,512	357,409
Sun Pipeline Company	301,584,310	220,964,553	1,277,175
<b>Total</b>	<u>\$ 482,480,490</u>	<u>\$ 306,011,284</u>	<u>\$ 1,768,745</u>



Industrial Contracts**2012-2013 Fiscal Year**

	2012 Assessed Valuation	Taxable Value	Payments
Air Liquide America Corporation	\$ 24,067,050	\$ 17,907,656	\$ 105,987
Union Oil of California	-	57,674,339	341,347
Sun Pipeline Company	-	231,821,470	1,372,042
Total	<u>\$ 24,067,050</u>	<u>\$ 307,403,465</u>	<u>\$ 1,819,377</u>

OVERALL COMPLIANCE AND  
INTERNAL CONTROLS

# J. R. Edwards & Associates, LLC

## Certified Public Accountants

March 24, 2014

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

The Honorable Mayor and City Council  
City of Nederland, Texas

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Nederland, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Nederland, Texas' basic financial statements, and have issued our report thereon dated March 24, 2014.

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

In planning and performing our audit of the financial statements, we considered City of Nederland, Texas internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Nederland, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Nederland, Texas' internal control.

*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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Nederland, Texas' financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

Honorable Mayor and City Council  
City of Nederland, Texas

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*J.R. Edwards & Associates, LLC*