

**CITY OF NEDERLAND, TEXAS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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

## *City of Nederland*

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

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 the public, 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, 2017.

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 Wathen, DeShong & Juncker, LLP, 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, 2017, 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, 2017, 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.

## **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 three 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. fire). 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 was George Rienstra; forty others arrived in November 1897.

As other immigrants followed, Nederlanders began establishing truck and dairy farms. Rice farming was especially popular until overproduction, overspeculation, and the depression of 1907 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. 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. The City, its residents, and local businesses have completed their recovery efforts from the impacts of Hurricane Rita in September 2005, Hurricane Humberto in August 2007, and Hurricane Ike in September 2008. This restoration has been a combination of repairs to return structures to pre-storm conditions, of major renovations, and new construction. As a result of this activity, the area was able to grow and experience a major financial boost. Recovery efforts had slowed or ended, and the economic impact had begun to show signs of returning to pre-storm conditions. Now, the devastating impact of Tropical Storm Harvey will need to be met.

The regional economy is substantially based on petroleum refining and the production and processing of chemicals and petrochemicals. Area refineries are aggressively expanding their refining infrastructure, several Liquefied Natural Gas facilities are operational and/or under development, and significant construction activity remains in progress to support the personnel and corresponding service needs associated with the industrial projects. These improvements, totaling approximately \$20 billion, have provided massive economic stimulus to communities throughout our regional energy corridor, creating a direct impact on the housing, retail, and service markets.

Recently, the Nederland Independent School District has completed a series of renovations/improvements to its elementary and middle schools and will soon commence similar work at the high school; this work has both an economic and quality life impact for our citizens. City officials and the Nederland Chamber of Commerce continue to aggressively market our community. The Nederland Economic Development Corporation continues to collaborate with the private sector to provide funding mechanisms that assist in the placement of new businesses in the community.

Over the past several years, ad valorem and sales tax have indicated marginal growth. In the past five years, taxable assessable values have increased by over \$99.7M or 10.4%. During the same period, ad valorem tax revenue has increased by 11.32% or 2.264% annually. In addition, during the past five years, sales tax collections modestly increased, 1.19% over that period. Looking beyond the past five years, long-term trends in taxable values, ad valorem revenue, and sales tax revenue, as well as the recent decline in the local economy due to oil prices, have resulted in staff conservatively estimating any potential short-term 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. With 88.8% votes of approval, the street sales tax was re-authorized during the May 2015 election.

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

### **FY 2016-2017 IN REVIEW**

- ✓ Maintained one of the lowest municipal tax rates in Jefferson County (\$0.594 per \$100 assessed taxable value); continued to provide \$15,000 Homestead Tax Exemptions for the elderly and the disabled.
- ✓ Completed street improvements to address the City's transportation network, approximately \$525,000, including the hot mix overlay of Atlanta Avenue (17<sup>th</sup> Street to 21<sup>st</sup> Street) and North 20<sup>th</sup> Street (Helena Ave to Canal Ave), various street re-surfacing projects with assistance from Jefferson County Precinct 2, and concrete raising.
- ✓ Completed the Nederland Avenue study; held two public forums to discuss two proposed approaches to the project – the full scale project (\$17.7M, 30 months to complete) that would address road re-surfacing, drainage, underground utilities, issues with driveways and intersections, address overhead utilities (new Entergy poles and bury certain perpendicular utility lines) and the narrowed scope project (\$6.3M, 4-6 months to complete) that includes the hot mix overlay and drainage improvements; following the two forums, the City Council unanimously elected to pursue the narrowed scope project.
- ✓ Engaged engineering firms for the two Nederland Avenue projects – drainage project (Action Civil Engineers \$115,000) and road re-surfacing project (Schaumburg & Polk, Inc. \$538,000).
- ✓ Completed the construction of the new Nederland Service Center (public works building), including a generator for the facility – \$1.0985M.
- ✓ Completed the Boston Avenue Repairs/Improvements project (\$129,241) that included repairing segments of the sidewalk between the museums and 17<sup>th</sup> Street, adding an ADA-compliant ramp and handicap parking in front of the museums, repairing the sinking brick pavers and broken concrete transition/ramps, and re-setting and painting the decorative lights.
- ✓ Replaced the roof at the Nederland Animal Shelter (\$4,769).
- ✓ Completed repairs and improvements to the Bob Henson Building, which is utilized by the Inspections Department, the Code Enforcement Officer, and the Information Technology Director - \$262,766.
- ✓ Resumed operating the Nederland Wastewater Treatment Plant with City employees, which was deemed more cost-effective than continuing to privatize the service.
- ✓ Created six new positions: one police officer, one water plant operator-trainee/maintenance worker, one wastewater treatment plant supervisor, two wastewater treatment plant operators, and one wastewater treatment plant maintenance worker.
- ✓ Equipped police officers with body cameras and adopted a body camera policy.
- ✓ Completed the installation of new fencing at the Pool – \$59,000.
- ✓ Completed the re-roofing of the Nederland Recreation Center and repairs to the exterior metal work (\$186,500).
- ✓ Continued to fund spay & neutering program of Nederland residents' pets in an effort to control the pet population and implemented a feline population control pilot program.
- ✓ Adjusted City Utility Rates to ensure the long-term fiscal stability of water/wastewater and solid waste services.

- ✓ Received \$80,296 in grant funding: \$15,618 – Edward Byrne Memorial Justice Assistance Grant – United State Department of Justice (Police), \$16,984 – Emergency Interoperable Communications Sustainability project – United States Department of Homeland Security (Police), \$5,694 – Community Policing Body Worn Camera Initiative – Texas Office of the Governor-Criminal Justice Division (Police), \$38,000 – Wilton and Effie Mae Hebert Foundation (Library), and \$4,000 – Friends of the Library (Library); received a donation of \$75,000 from Phillips 66 for a Fire rescue truck purchase.
- ✓ Approved a contract with M.A. Energy Resources for green waste removal services and a contract with Republic Services for landfill services.
- ✓ Sold a 2.146 acre tract of City property on Avenue G (being 2.146 acres of land, part of Lot 21, 22, and 23, Block 1, Hillcrest Second Addition “Acres”) for \$150,000; developer plans to build ten single family residential homes on the sold property.
- ✓ Renewed the Industrial District Agreement with Air Liquide America Corporation.
- ✓ Purchased three Police patrol SUVs, two trucks for the Streets Department, a dump truck for the Water/Sewer Distribution Department, a truck for the Solid Waste Department, a truck for the Public Works Administration Department, a Kubota tractor for the Parks & Recreation Department, and cab and chassis for Fire Department rescue truck.
- ✓ Implemented a Neighborhood Reinvestment Zone pilot program to encourage redevelopment and new construction in older neighborhoods, as well as development adjacent to the airport.
- ✓ Conducted a Main Sewer Line Evaluation (\$265,000), which included TV inspection of 15” or greater in diameter main sewer line and flow monitoring.
- ✓ Launched Trash Collection round-up events, providing service on a Saturday once a month.
- ✓ Implemented energy efficiency upgrades with the LED street light upgrades on 27<sup>th</sup> Street (city limits to city limits), Boston Avenue (Twin City Highway to 17<sup>th</sup> Street), and Avenue H (city limits to city limits) and LED lighting upgrades at the Homer E. Nagel Public Safety Complex.
- ✓ Approved the Preliminary Plat of N&P Addition, a private duplex subdivision, the Final Plat of Nelson Place, a private subdivision, and the Re-Plat of 19 lots throughout the City.
- ✓ Amended the City’s Purchasing Policy and adjusted the City’s Health Insurance Plan’s “defined contributions.”
- ✓ Continued to reduce the crime rate.
- ✓ Continuation of water and sewer line improvements in order to upgrade the City’s utility infrastructure.
- ✓ Awarded for the 20<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.
- ✓ Continued to provide community events including “Trash Bash”, Nederland Family Nights at the Pool, Monsters in the Park, holiday decorating, Christmas on the Avenue, National Night Out, Art in the Park, and the 4<sup>th</sup> of July Fireworks Extravaganza.
- ✓ Continued the Healthy Lifestyles Initiatives to improve City employees’ overall health.
- ✓ Improved workplace safety and reduce the number of injury claims.
- ✓ 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.
- ✓ Continued 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.
- ✓ 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 2017-2018**

- Adjust tax rate to \$0.609578 in order to fund the Nederland Avenue project debt, which will continue to be 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 Nederland Avenue projects – drainage and road re-surfacing.
- Continuation of street improvements to improve the transportation network—\$1,400,000.
- Issue approximately \$10M in certificates of obligation for a Main Sewer Line Repair/Improvements project.
- Commence Main Sewer Line Repair/Improvements project.
- Complete a waterline replacement project and other capital improvements to the Water System.
- Complete the re-roofing of the Nederland Swimming Pool, add covering to the pool motor equipment, and complete the pool overhang repair.
- Conduct Smoke Testing as part of the City’s participation in the Texas Commission on Environmental Quality’s Sanitary Sewer Overflow Initiative.
- Continue to fund spay & neutering program of Nederland residents’ pets in an effort to control the pet population and a feline population control program.
- Update the 5-year Capital Improvement Program.
- 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.
- Adjust City Utility Rates to ensure the long-term fiscal stability of water/wastewater services.
- Purchase two Police patrol SUVs, a truck for the Fire Department, a trailer for the Streets Department, a Kubota mini excavator for the Water/Sewer Distribution Department, and a garbage truck for the Solid Waste Department.
- Host public forums with City leadership to discuss various issues with the public and hold an online town hall meeting as part of a citizen engagement/outreach effort.
- Complete repairs/improvements to the electrical loop at Doornbos Park.
- Amend the Industrial District Agreement with Phillips 66.
- Complete phase 3 of the Nederland Veterans Park project – installation of an electronic kiosk at the park to display the Veterans’ Database information. The Marion & Ed Hughes continues to develop the veterans’ database; forms to participate are available on the library’s website and available at the library.
- Continue energy efficiency efforts with LED street light upgrades on Nederland Avenue and Helena Avenue.
- Continue to reduce the crime rate.
- Continuation of water and sewer line improvements in order to upgrade the City’s utility infrastructure.
- Continue to provide community events including “Trash Bash”, Nederland Family Nights at the Pool, Monsters in the Park, holiday decorating, Christmas on the Avenue, National Night Out, and the 4<sup>th</sup> of July Fireworks Extravaganza.
- 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.
- Continue to assess each City department’s delivery of services to ensure the maximum efficiency and effectiveness of tax dollars to provide a better municipal government.

## **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. 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.

Development opportunities continue to be pursued by the Nederland Economic Development Corporation with the greatest focus on the Jack Brooks Airport Development. Annexed in 2010, this highway frontage acreage is marketed for retail and commercial development. The Nederland EDC actively works with the City of Nederland and Jefferson County. The City's efforts are focused on industrial development opportunities with Sunoco, Phillips 66, and Air Liquide.

## **Cash Management Policies and Practices**

Cash temporarily idle during the year was invested in certificates of deposit, approved investment pools, and interest bearing demand deposits. The maturities of the investments range from 1 to 365 days. The average yield on investments was 0.212% during fiscal year ended September 30, 2017.

## **Risk Management**

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

## **Pension and Other Postemployment Benefits**

The City provides pension benefits for all full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. As a matter of policy, the City fully funds each year's annual required contribution to the pension plan as determined by the actuary. The City has funded 102.14% 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 \$7,900 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 annually allocates funds in the budget for potential retiree's HRA. 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. In addition, the City now annually allocates funds in the budget for possible retiree's accrued leave compensation.

Additional information on the City's pension arrangements and post-employment benefits can be found in Note 9 and Note 11 in the notes to the financial statements.

## AWARDS AND ACKNOWLEDGMENTS

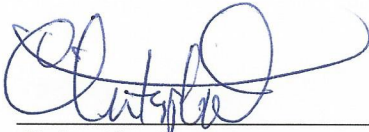
### Awards

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, 2016 marked the twentieth 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, 2017 CAFR continues to meet the program requirements and this document will be submitted to GFOA for consideration.

### Acknowledgments

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

Respectfully submitted,



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Christopher Duque  
City Manager



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Cheryl Dowden  
Director of Finance

March 26, 2018



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, 2016**

*Christopher P. Morill*

Executive Director/CEO

CITY OF NEDERLAND, TEXAS  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
September 30, 2017

**CITY OFFICIALS**

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**ELECTED POSITIONS**

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R.A. "Dick" Nugent

Mayor

Talmadge Austin

Council Member - Ward 1

Billy Neal

Council Member - Ward 2

Don Albanese

Council Member - Ward 3, Mayor Pro-Tem

Craig J. Belaire

Council Member - Ward 4

**KEY STAFF**

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**POSITION**

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Christopher Duque

City Manager

Cheryl Dowden

Director of Finance / Assistant City Manager

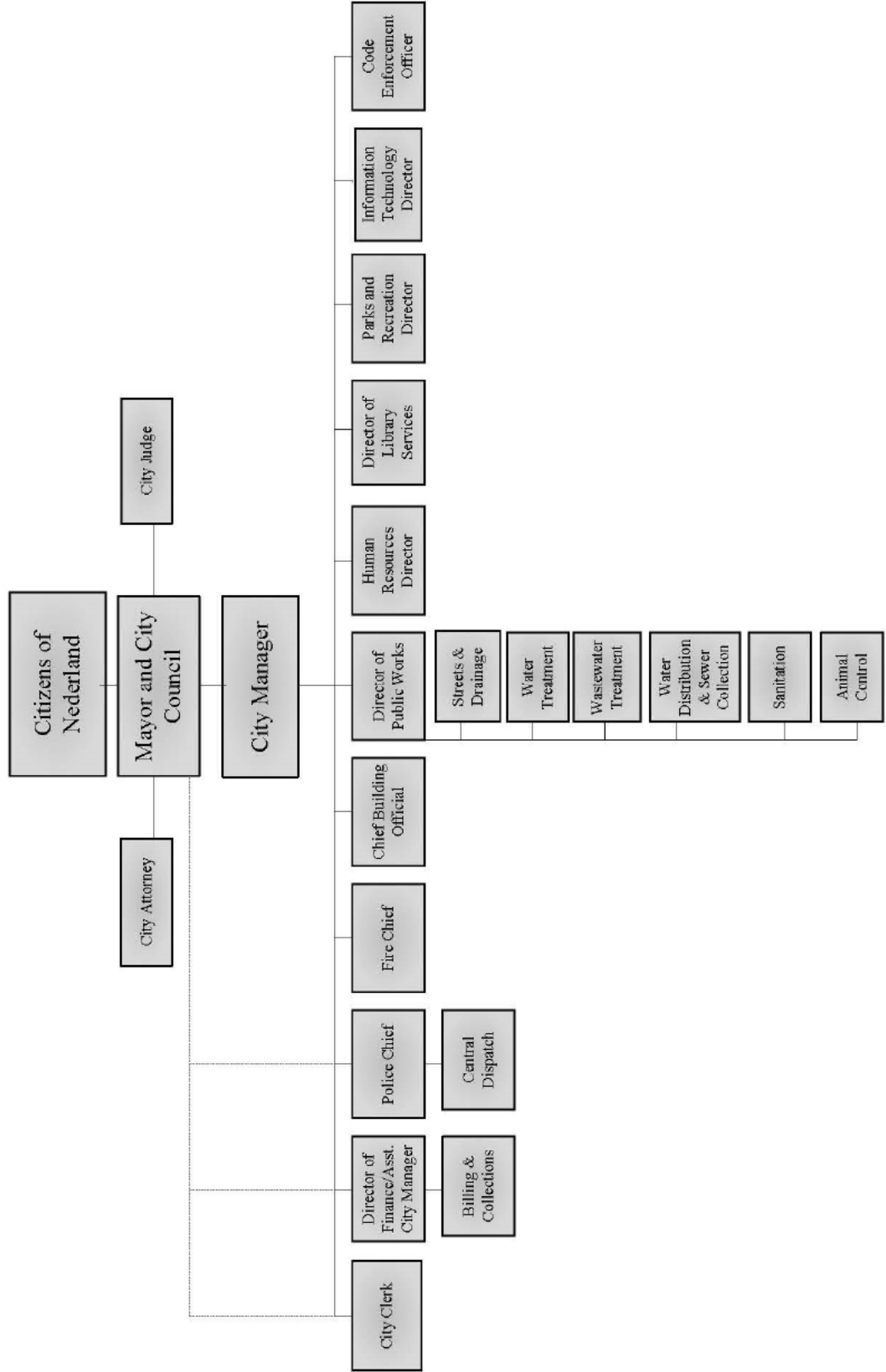
Gay Ferguson

City Clerk

Jesse Branick

City Attorney

# City of Nederland Organizational Chart



**FINANCIAL SECTION**

J. Pat O'Neill, III, CPA  
Michael W. Kiefer, CPA, CFE, CFF



Troy W. Domingue, CPA  
Stanley "Chip" Majors, Jr., CPA, CITP, CGMA  
Jane P. Burns, CPA, CDFA

March 26, 2018

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
City of Nederland, Texas

### Report on the Financial Statements

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 the City of Nederland, Texas (the "City") as of and for the year ended September 30, 2017, 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 of 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, 2017 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.



To the Honorable Mayor and  
Members of City Council  
City of Nederland, Texas  
Page 2  
March 26, 2018

## **Other Matters**

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, the schedule of changes in net pension liability and related ratios on page 54, the schedule of employer contributions – pension plan on page 55, and the schedule of funding progress and employer contributions – other postemployment benefits on page 56, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Nederland, Texas's basic financial statements. The combining and individual fund financial statements and schedules, the other supplementary information, and the introductory and statistical sections, as referenced in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules and other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. 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 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 information is 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.

## **Other Reporting required by Governmental Auditing Standards**

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 26, 2018 on our consideration of the City of Nederland, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the City of Nederland, Texas's internal control over financial reporting and compliance.

*Wathen, DeShong & Juncker, L.L.P.*

**WATHEN, DeSHONG & JUNCKER, L.L.P.**  
Certified Public Accountants

## 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, 2017. 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 net position of the City at the close of the most recent fiscal year was \$79,054,920. This number must be viewed in the context that the majority of the City's net position of \$49,226,595 (62.27%) is the net investment in capital assets and that most capital assets in a government do not directly generate revenue nor can they be sold to generate liquid capital. The net position restricted for specific purposes totals \$5,618,250 (7.11%). The remaining \$24,210,075 (30.62%) is the unrestricted net position and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net position increased by \$208,724 in fiscal year 2017.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$23,685,055. Within this total \$2,171 is non-spendable for prepaid items, \$5,851,044 is restricted by specific legal requirements, such as by debt covenants and \$4,599,047 has been committed and assigned to specific expenditures. The remaining \$13,232,793 is unassigned fund balance in the general fund and can be used for any lawful purpose.

### 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 are comprised of four components: 1) government-wide financial statements, 2) fund financial statements 3) notes to the financial statements and 4) required supplementary information which includes this management's discussion and analysis and multi-year funding progress on the City's pension plan. In addition to the basic financial statements, this report also contains other supplementary information as listed in the Table of Contents.

**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 a private-sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities, 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 City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and 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; water and sewer system and a solid waste system. The government-wide financial statements can be found on pages 9-12 of this report

**Fund financial statements** - A fund is a self-balancing set of 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 current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Non-financial assets such as governmental buildings, roads, drainage ways, park land and long- term liabilities such as bonds payable or long term liabilities that will not be paid with current assets are excluded. 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eight governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds 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 five 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 the Comprehensive Annual Financial Report. The basic governmental funds financial statements can be found on pages 13-18.

**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 since they are considered to be major funds of the City. The basic proprietary fund financial statements can be found on pages 20-24 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 25-53 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's progress in funding its obligation to provide pension benefits to its employees

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position and especially net position by category may serve over time as a useful indicator of a government's financial position. The City's net position was \$79,054,920 as of September 30, 2017. The largest portion of the City's net position (62.27%) reflects its investments in capital assets (e.g., land, building, equipment, improvements and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently these assets are not available for future spending, and with exception of business type assets, do not generate direct revenue for the City. They do represent, however, an obligation on the part of the City to maintain these assets into the future. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net position (7.11%) represents resources that are subject to restrictions on how they may be used. The remaining balance of \$24,210,075 (30.62%) is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

### Net Position September 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 25,707,954	\$ 19,742,386	\$ 10,043,898	\$ 8,814,110	\$ 35,751,852	\$ 28,556,496
Capital Assets	33,103,378	32,275,213	28,413,217	29,443,855	61,516,595	61,719,068
Total Assets	<u>58,811,332</u>	<u>52,017,599</u>	<u>38,457,115</u>	<u>38,257,965</u>	<u>97,268,447</u>	<u>90,275,564</u>
Deferred Outflows	<u>2,909,363</u>	<u>3,693,418</u>	<u>698,939</u>	<u>911,785</u>	<u>3,608,302</u>	<u>4,605,203</u>
Current Liabilities	3,023,927	3,561,499	1,265,675	1,028,080	4,289,602	4,589,579
Long-term Liabilities						
Outstanding	<u>16,500,551</u>	<u>13,289,315</u>	<u>247,839</u>	<u>180,671</u>	<u>16,748,390</u>	<u>13,469,986</u>
Total Liabilities	<u>19,524,478</u>	<u>16,850,814</u>	<u>1,513,514</u>	<u>12,087,511</u>	<u>21,037,992</u>	<u>21,037,992</u>
Deferred outflows	<u>631,271</u>	<u>371,652</u>	<u>166,489</u>	<u>94,952</u>	<u>797,760</u>	<u>466,604</u>
Net Position						
Net Investment in						
Capital Assets	30,868,378	29,940,213	28,413,217	29,443,855	49,226,595	47,444,068
Restricted	4,829,729	3,977,350	788,521	931,829	5,618,250	4,909,179
Unrestricted	<u>5,880,762</u>	<u>4,570,988</u>	<u>8,274,313</u>	<u>7,490,363</u>	<u>24,210,075</u>	<u>24,001,351</u>
Total Net Position	<u>\$ 41,578,869</u>	<u>\$ 38,488,551</u>	<u>\$ 37,476,051</u>	<u>\$ 37,866,047</u>	<u>\$ 79,054,920</u>	<u>\$ 76,354,598</u>

**Governmental activities:** Governmental activities increased the City's net position by \$2,821,218. The increase is due to several factors including greater than anticipated revenues from the City's property taxes. Sales tax revenues have increased over the previous fiscal year due to spending increases because of an improving economy. Gross receipts taxes fluctuate with market values and the resulting increase is attributable to fuel price decreases throughout the fiscal year. In addition, street maintenance was delayed due to weather and personnel changes and the remaining unspent funds were considered in determining a budget for the current year Street Program.

**Business type activities.** Business-type activities decreased the City's net position by \$389,996. The decrease is attributable to an increase in expenditures during the year and in relation to Hurricane Harvey recovery.

The following table provides a summary of the City's operations for year ended September 30, 2017 with comparative totals for year ended September 30, 2016.

**Changes in Net Position**

For the fiscal years ended September 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Charges for Services	\$ 438,417	\$ 431,705	\$ 6,127,695	\$ 5,991,648	\$ 6,566,112	\$ 6,423,352
Operating Grants and Contributions	303,049	218,717	355,233	-	658,282	218,717
General Revenues						
Property Taxes	6,335,621	6,095,105	-	-	6,335,621	6,095,105
Industrial Payments	1,672,348	1,723,214	-	-	1,672,348	1,723,214
Sales Tax	3,725,211	4,104,845	-	-	3,725,211	4,104,845
Gross Receipts Tax	1,297,399	1,216,030	-	-	1,297,399	1,216,030
Interest	51,219	26,515	14,866	10,320	66,085	36,835
Grants and Contributions	279,208	-	-	-	279,208	-
Gain on sale of capital assets	-	317,411	-	-	-	317,411
Miscellaneous	219,290	97,460	23,026	77,187	242,316	174,647
Total Revenues	<u>14,321,762</u>	<u>14,231,002</u>	<u>6,520,820</u>	<u>6,079,155</u>	<u>20,842,582</u>	<u>20,310,156</u>
Expenses						
General Government	1,879,601	1,877,002	-	-	1,879,601	1,877,002
Public Safety	6,506,680	5,596,872	-	-	6,506,680	5,596,872
Public Works	1,116,983	1,908,479	-	-	1,116,983	1,908,479
Culture and recreation	1,360,968	1,410,272	-	-	1,360,968	1,410,272
Administrative and general	323,600	317,459	-	-	323,600	317,459
Interest on Long Term Debt	411,785	330,460	-	-	411,785	330,460
Capital outlay	634,102	-	-	-	634,102	-
Water & sewer	-	-	4,664,576	4,635,956	4,664,576	4,635,956
Solid waste	-	-	1,513,065	1,169,954	1,513,065	1,169,954
Total Expenses	<u>12,233,719</u>	<u>11,440,544</u>	<u>6,177,641</u>	<u>5,805,910</u>	<u>18,411,360</u>	<u>17,246,454</u>
Increase (Decrease) in Net Position before Transfers	2,088,043	2,790,458	343,179	273,245	2,431,222	3,063,702
Transfers	733,175	685,784	(733,175)	(685,784)	-	-
Increase (Decrease) in Net Position	2,821,218	3,476,242	(389,996)	(412,539)	2,431,222	3,063,702
Net Position at Beginning of Year	38,488,550	35,336,335	37,866,047	38,326,676	76,354,597	73,663,011
Prior Period Adjustment	269,101	(324,026)	-	(48,090)	269,101	(372,116)
Net Position at End of Year	<u>\$ 41,578,869</u>	<u>\$ 38,488,551</u>	<u>\$ 37,476,051</u>	<u>\$ 37,866,047</u>	<u>\$ 79,054,920</u>	<u>\$ 76,354,597</u>

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$23.7 million, an increase of \$6 million over the prior year. The increase is mainly attributable to activities in the General Fund, and the issuance of bonded debt. Property Tax revenues and gross receipts tax revenues were greater than anticipated. Approximately \$13 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 \$2,171, restricted for payment of debt service \$97,788, restricted for Capital Acquisition and Contractual Obligations \$5,326,105, restricted for Public Safety \$341,111, and restricted for Culture and Recreation \$86,040. In addition, \$1,646,252 is committed for capital projects and \$2,952,795 is assigned for Street Improvements.

The General Fund is the chief operating fund of the City. At September 30, 2017, the unassigned fund balance of the General Fund was \$13,232,793 while total fund balance was \$16,187,759. 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 124.32 percent of total general fund expenditures (including transfers out), while total fund balance represents 152.08 percent of that same amount.

Fund balance of the City's General Fund increased by \$1,644,946 during 2017. This increase was primarily due to an increase in property tax revenue and a FEMA grant related to Hurricane Harvey.

The Debt Service Fund has a total fund balance of \$97,788. The net decrease in fund balance during the fiscal year 2017 in this fund was \$76,290 and was due to less than anticipated ad valorem tax revenues. 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 \$4,752,951 for the Water and Sewer Fund, and \$3,521,362 for the Solid Waste Fund. The change in net position for the enterprise funds in 2017 were a decrease of \$694,025 for the Water & Sewer Fund and an increase of \$304,029 for the Solid Waste Fund.

### **General Fund Budgetary Highlights**

The City made revisions to the original appropriations approved by the City Council. Overall these changes resulted in a decrease in budgeted expenditures from the original budget of \$16,251 or 0.16%. The majority of the decrease was in Administrative and General due to minor budgetary needs

During the year budgeted revenues increased \$95,303 from the original budget which was attributable to better than expected ad valorem tax collections and greater than anticipated industrial in lieu of contract collections.

Major variances between budget and actual occurred in property tax revenues as well as sales tax revenues. Property tax revenue was budgeted conservatively and sales tax revenue exceeded projections due to a better than anticipated economy. It is anticipated sales tax revenue will continue to be strong due to the ongoing recovery of the region impacted by a hurricane disaster.

The City's highway and street expenditures were less than the anticipated budget due to weather preventing the completion of scheduled projects. Parks and recreation expenditures were less than budgeted since a large project was delayed also due to weather. The unexpended funds for the projects have been considered in the current budget year and are anticipated to be completed by fiscal 17-18 year end.

### **CAPITAL ASSETS**

**Capital assets.** The City's investment in capital assets for governmental and business-type activities as of September 30, 2017, amounted to \$61,516,596 (net of accumulated depreciation). This investment in capital assets includes land, and other capital assets such as buildings, improvements and equipment. The total decrease in capital assets for the current fiscal year was approximately 0.30% (2.57% increase for governmental activities and 3.50% decrease in business-type activities.)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 3,790,440	\$ 3,888,561	\$ -	\$ -	\$ 3,790,440	\$ 3,888,561
Construction in Progress	184,284	530,961	255,747	-	440,031	530,961
Buildings	14,819,865	13,369,446	21,450,340	21,450,340	36,270,205	34,819,786
Improvements other than buildings	-	-	31,667,668	31,548,171	31,667,668	31,548,171
Machinery and Equipment	5,214,036	4,912,703	3,819,006	3,558,685	9,033,042	8,471,388
Infrastructure	34,477,212	33,691,613	-	-	34,477,212	33,691,613
	58,485,837	56,393,284	57,192,761	56,557,196	115,678,598	112,950,480
Less: Accumulated Depreciation	<u>(25,382,459)</u>	<u>(24,118,071)</u>	<u>(28,779,544)</u>	<u>(27,113,340)</u>	<u>(54,162,003)</u>	<u>(51,231,411)</u>
Capital Assets, net	<u>\$ 33,103,378</u>	<u>\$ 32,275,213</u>	<u>\$ 28,413,217</u>	<u>\$ 29,443,856</u>	<u>\$ 61,516,595</u>	<u>\$ 61,719,069</u>

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

- Completion of Nederland Service Center totaling \$1, 098,500
- Completion of re-roofing and exterior metal repairs to Nederland Recreation Center totaling \$186,500
- Completion of Boston Avenue Repairs/Improvements totaling \$129,241
- Street improvements including overlays, chip seal and hot mix totaling \$525,000
- Completion of repairs and improvements to the Bob Henson Building totaling \$262,766

Additional information on the City's capital assets can be found in Note 1 on page 31 and Note 5 on pages 39-40 of this report.

## DEBT ADMINISTRATION

### Long-Term Debt

**Long-term debt.** At September 30, 2017, the City had \$19,413,655 of long-term bonded debt and other liabilities outstanding.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
General & Certificates of Obligations	\$ 6,560,000	\$ 8,260,000	-	\$ -	6,560,000	\$ 8,260,000
Tax & Revenue CO's	10,705,000	6,015,000	-	-	10,705,000	6,015,000
Unamortized Bond Premium	918,855	442,535	-	-	918,855	442,535
Compensated Absences	542,060	551,285	146,360	99,753	688,420	651,038
O PEB Liability	367,730	365,736	173,650	135,273	541,380	501,009
	<u>\$ 19,093,645</u>	<u>\$ 15,634,556</u>	<u>\$ 320,010</u>	<u>\$ 235,026</u>	<u>\$ 19,413,655</u>	<u>\$ 15,869,582</u>

Total long term bonds and other liabilities outstanding at September 30, 2017 increased by \$3,544,073 over September 30, 2016. This increase was primarily due to the bond issuance of \$4,975,000, and a reduction due to scheduled payments of bond principal.

The City's General Obligation bond rating is AA-.

Additional information regarding the City's long-term debt can be found in Note 7 on pages 41-42 of this report.

### **ECONOMIC FACTORS AND NET YEAR'S BUDGET**

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 2018 includes a small increase in property tax revenue due to properties added to the tax roll. The tax rate increased slightly from fiscal year 2017 at .609 per \$100 valuation. 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.

### Requests for Information

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

## **BASIC FINANCIAL STATEMENTS**



CITY OF NEDERLAND  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Economic Development Corporation
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 13,457,801	\$ 6,723,092	\$ 20,180,893	\$ 2,579,904
Investments - Current	9,871,967	847,600	10,719,567	3,737,513
Taxes Receivable	468,776	-	468,776	57,450
Allowance for Uncollectible Taxes	(79,691)	-	(79,691)	-
Accounts Receivable (Net)	1,084,627	879,576	1,964,203	-
Miscellaneous Receivables	31,836	-	31,836	261
Due from Jefferson County	5,707	-	5,707	-
Inventories	-	117,497	117,497	-
Prepaid Items	2,171	-	2,171	-
Restricted Assets:				
Permanently Restricted:				
Cash and Cash Equivalents	-	539,616	539,616	-
Investments	-	684,731	684,731	-
Capital Assets:				
Land	3,790,440	-	3,790,440	-
Infrastructure and Improvements (Net)	19,348,441	14,630,059	33,978,500	-
Buildings (Net)	8,677,714	12,232,377	20,910,091	-
Machinery and Equipment (Net)	1,102,499	1,295,034	2,397,533	171,412
Construction in Progress	184,284	255,747	440,031	-
Net Pension Asset	864,760	251,786	1,116,546	20,698
Total Assets	<u>58,811,332</u>	<u>38,457,115</u>	<u>97,268,447</u>	<u>6,567,238</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>				
Deferred Charge for Refunding	140,590	-	140,590	-
Deferred Outflow Related to Pension Plan	2,768,773	698,939	3,467,712	65,772
Total Deferred Outflows of Resources	<u>2,909,363</u>	<u>698,939</u>	<u>3,608,302</u>	<u>65,772</u>

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Economic Development Corporation
<b>LIABILITIES</b>				
Accounts Payable	107,751	423,163	530,914	107
Wages and Salaries Payable	223,366	85,610	308,976	-
Compensated Absences Payable	290,208	72,171	362,379	-
Payable from Restricted Assets	-	684,731	684,731	-
Intergovernmental Payable	35,830	-	35,830	-
Due to Component Unit	261	-	261	-
Accrued Interest Payable	49,422	-	49,422	-
Unearned Revenues	14,203	-	14,203	-
Debt Due Within One Year	2,302,886	-	2,302,886	-
Noncurrent Liabilities:				
Due in More Than One Year	16,500,551	247,839	16,748,390	-
Total Liabilities	<u>19,524,478</u>	<u>1,513,514</u>	<u>21,037,992</u>	<u>107</u>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Deferred Inflow Related to Pension Plan	617,348	166,489	783,837	14,539
Total Deferred Inflows of Resources	<u>617,348</u>	<u>166,489</u>	<u>783,837</u>	<u>14,539</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets (See Note 2)	30,868,378	28,413,217	49,226,595	163,981
Restricted for:				
Restricted for Construction	355,493	391,845	747,338	-
Restricted for TMRS Pension Asset	864,760	251,786	1,116,546	20,698
Restricted for Debt Service	293,041	144,890	437,931	-
Restricted for Public Works	2,952,795	-	2,952,795	-
Restricted for Other Funds	427,151	-	427,151	-
Unrestricted Net Position (See Note 2)	5,817,251	8,274,313	24,146,564	6,433,685
Total Net Position	<u>\$ 41,578,869</u>	<u>\$ 37,476,051</u>	<u>\$ 79,054,920</u>	<u>\$ 6,618,364</u>

The notes to the financial statements are an integral part of this statement.

CITY OF NEDERLAND  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	
<b>Primary Government:</b>			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 1,879,601	\$ -	\$ -
Public Safety	6,506,680	231,213	230,789
Public Works	1,116,983	101,530	-
Culture and Recreation	1,360,968	105,674	72,260
Administrative and General	323,600	-	-
Bond Interest	369,155	-	-
Other Debt Service	42,630	-	-
Capital Outlay	634,102	-	-
Total Governmental Activities	12,233,719	438,417	303,049
BUSINESS-TYPE ACTIVITIES:			
Water and Sewer Fund	4,664,576	4,444,922	136,719
Solid Waste Fund	1,513,065	1,682,773	218,514
Total Business-Type Activities	6,177,641	6,127,695	355,233
TOTAL PRIMARY GOVERNMENT	\$ 18,411,360	\$ 6,566,112	\$ 658,282
<b>Primary Government:</b>			
Nonmajor Component Unit	\$ 454,551	\$ -	\$ -
TOTAL PRIMARY GOVERNMENT	\$ 454,551	\$ -	\$ -

General Revenues:

Taxes:
Property Taxes, Penalties and Interest
Sales Taxes
In Lieu of Tax Contracts
Other Taxes
Grants and Contributions Not Restricted
Investment Earnings
Miscellaneous Revenue
Transfers In (Out)
Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning
Prior Period Adjustment
Net Position--Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Economic Development Corporation
\$ (1,879,601)	\$ -	\$ (1,879,601)	\$ -
(6,044,678)	-	(6,044,678)	-
(1,015,453)	-	(1,015,453)	-
(1,183,034)	-	(1,183,034)	-
(323,600)	-	(323,600)	-
(369,155)	-	(369,155)	-
(42,630)	-	(42,630)	-
(634,102)	-	(634,102)	-
<u>(11,492,253)</u>	<u>-</u>	<u>(11,492,253)</u>	<u>-</u>
-	(82,935)	(82,935)	-
-	388,222	388,222	-
-	305,287	305,287	-
<u>(11,492,253)</u>	<u>305,287</u>	<u>(11,186,966)</u>	<u>-</u>
-	-	-	(454,551)
-	-	-	(454,551)
6,335,621	-	6,335,621	-
3,725,211	-	3,725,211	745,042
1,672,348	-	1,672,348	-
1,297,399	-	1,297,399	-
279,208	-	279,208	-
51,219	14,866	66,085	7,701
219,290	23,026	242,316	3,343
733,175	(733,175)	-	-
<u>14,313,471</u>	<u>(695,283)</u>	<u>13,618,188</u>	<u>756,086</u>
2,821,218	(389,996)	2,431,222	301,535
38,488,550	37,866,047	76,354,597	6,316,829
269,101	-	269,101	-
<u>\$ 41,578,869</u>	<u>\$ 37,476,051</u>	<u>\$ 79,054,920</u>	<u>\$ 6,618,364</u>

CITY OF NEDERLAND  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Capital Projects
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 11,349,730	\$ 136,991	\$ 1,668,289
Investments - Current	4,401,773	80,027	5,309,783
Taxes Receivable	296,691	172,085	-
Allowance for Uncollectible Taxes	(50,437)	(29,254)	-
Accounts Receivable (Net)	880,118	-	-
Miscellaneous Receivables	31,836	-	-
Due from Jefferson County	4,152	1,555	-
Due from Other Funds	68,363	-	1,000,000
Prepaid Items	2,171	-	-
Total Assets	<u>\$ 16,984,397</u>	<u>\$ 361,404</u>	<u>\$ 7,978,072</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 72,002	\$ -	\$ 5,715
Wages and Salaries Payable	223,366	-	-
Compensated Absences Payable	290,208	-	-
Intergovernmental Payable	35,830	-	-
Due to Other Funds	1,000,000	68,363	-
Due to Component Unit	261	-	-
Unearned Revenues	280	-	-
Total Liabilities	<u>1,621,947</u>	<u>68,363</u>	<u>5,715</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	233,814	136,130	-
Total Deferred Inflows of Resources	<u>233,814</u>	<u>136,130</u>	<u>-</u>
<b>FUND BALANCES</b>			
Nonspendable Fund Balance:			
Prepaid Items	2,171	-	-
Restricted Fund Balance:			
Capital Acquisition & Contractual Obligation	-	-	5,330,493
Retirement of Long-Term Debt	-	156,911	-
Other Restricted Fund Balance	-	-	-
Committed Fund Balance:			
Other Committed Fund Balance	-	-	2,641,864
Assigned Fund Balance:			
Other Assigned Fund Balance	2,952,795	-	-
Unassigned Fund Balance	12,173,670	-	-
Total Fund Balances	<u>15,128,636</u>	<u>156,911</u>	<u>7,972,357</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 16,984,397</u>	<u>\$ 361,404</u>	<u>\$ 7,978,072</u>

The notes to the financial statements are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ 302,791	\$ 13,457,801
80,384	9,871,967
-	468,776
-	(79,691)
87,933	968,051
-	31,836
-	5,707
-	1,068,363
-	2,171
<u>\$ 471,108</u>	<u>\$ 25,794,981</u>
\$ 30,034	\$ 107,751
-	223,366
-	290,208
-	35,830
-	1,068,363
-	261
13,923	14,203
<u>43,957</u>	<u>1,739,982</u>
-	369,944
<u>-</u>	<u>369,944</u>
-	2,171
-	5,330,493
-	156,911
427,151	427,151
-	2,641,864
-	2,952,795
-	12,173,670
<u>427,151</u>	<u>23,685,055</u>
<u>\$ 471,108</u>	<u>\$ 25,794,981</u>

CITY OF NEDERLAND  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2017

<b>Total Fund Balances - Governmental Funds</b>	\$	23,685,055
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		33,103,378
Deferred outflow of resources are not reported in the governmental funds:		2,909,363
Deferred outflows related to pension	\$2,768,773	
Deferred amounts on refunding bonds	140,590	
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(18,435,707)
Other post employment benefits are not due and payable in the current period and, therefore, are not reported in the funds.		(367,730)
The net pension asset related to TMRS is not a current financial resource and is not included in the governmental funds.		864,760
Property taxes receivable are not available to pay for current period expenditures and, therefore, are deferred in the funds.		383,867
Accrued interest on bonds is not reported in the funds.		(49,422)
Deferred inflow of resources are not reported in the governmental funds.		(631,271)
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.		116,576
<b>Net Position of Governmental Activities</b>	<u>\$</u>	<u>41,578,869</u>

The notes to the financial statements are an integral part of this statement.

CITY OF NEDERLAND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Capital Projects
<b>REVENUES:</b>			
Taxes:			
Property Taxes, Penalties and Interest	\$ 4,191,101	\$ 2,135,188	\$ -
Sales Tax	3,725,211	-	-
In Lieu of Tax Contracts	1,672,348	-	-
Other Taxes	1,174,354	-	-
Grants and Private Contributions	384,280	-	-
Charges for Services	207,204	-	-
Fines & Court Costs	208,348	-	-
Forfeitures	-	-	-
Investment Earnings	38,220	639	11,600
Other Revenue	89,973	-	-
Total Revenues	<u>11,691,039</u>	<u>2,135,827</u>	<u>11,600</u>
<b>EXPENDITURES:</b>			
Current:			
General Government	1,144,264	-	184,134
Public Safety	5,747,530	-	273,101
Public Works	1,908,454	-	-
Culture and Recreation	1,320,047	-	-
Administrative and General	323,600	-	-
Debt Service:			
Bond Principal	-	1,985,000	-
Bond Interest	-	517,041	-
Fiscal Agent's Fees	-	3,250	-
Capital Outlay:			
Capital Outlay	-	-	769,887
Total Expenditures	<u>10,443,895</u>	<u>2,505,291</u>	<u>1,227,122</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,247,144</u>	<u>(369,464)</u>	<u>(1,215,522)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Issuance of Bonds	-	-	4,975,000
Sale of Real and Personal Property	147,802	-	-
Transfers In	622,802	352,297	1,200,000
Premium or Discount on Issuance of Bonds	-	-	624,206
Transfers Out (Use)	(1,431,925)	-	-
Total Other Financing Sources (Uses)	<u>(661,321)</u>	<u>352,297</u>	<u>6,799,206</u>
Net Change in Fund Balances	585,823	(17,167)	5,583,684
Fund Balance - October 1 (Beginning)	<u>14,542,813</u>	<u>174,078</u>	<u>2,388,673</u>
Fund Balance - September 30 (Ending)	<u>\$ 15,128,636</u>	<u>\$ 156,911</u>	<u>\$ 7,972,357</u>

The notes to the financial statements are an integral part of this statement.



Other Funds	Total Governmental Funds
\$ -	\$ 6,326,289
-	3,725,211
-	1,672,348
123,045	1,297,399
197,977	582,257
-	207,204
5,948	214,296
16,917	16,917
760	51,219
10,701	100,674
<u>355,348</u>	<u>14,193,814</u>
-	1,328,398
158,412	6,179,043
-	1,908,454
176,641	1,496,688
-	323,600
-	1,985,000
-	517,041
-	3,250
-	769,887
<u>335,053</u>	<u>14,511,361</u>
<u>20,295</u>	<u>(317,547)</u>
-	4,975,000
-	147,802
-	2,175,099
-	624,206
<u>(10,000)</u>	<u>(1,441,925)</u>
<u>(10,000)</u>	<u>6,480,182</u>
10,295	6,162,635
<u>416,856</u>	<u>17,522,420</u>
<u>\$ 427,151</u>	<u>\$ 23,685,055</u>

CITY OF NEDERLAND  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	6,162,635
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		420
Prior year deferred property taxes	\$(360,612)	
Current year deferred property taxes	369,944	
Prior year warrants and fines	(125,488)	
Current year warrants and fines	116,576	
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.		828,166
Capital outlays	\$2,404,483	
Depreciation	(1,424,445)	
Disposition of assets	(146,753)	
Transfer from enterprise fund	(5,119)	
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; however, neither transaction has an effect on net position.		(2,990,000)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. Conversely, certain items reported as expenditures in the governmental funds are considered assets in the government-wide statements.		(1,180,003)
Bond premium amortization	\$(476,320)	
Decrease in net pension asset	(692,640)	
Increase in other post employment benefits	(1,994)	
Decrease in compensated absences	30,332	
Decrease in deferred charge on refunding	(28,118)	
Increase in interest payable	(11,263)	
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>2,821,218</b>

The notes to the financial statements are an integral part of this statement.

CITY OF NEDERLAND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes, Penalties and Interest	\$ 3,789,000	\$ 3,848,123	\$ 4,191,101	\$ 342,978
Sales Tax	2,750,000	2,750,000	3,725,211	975,211
In Lieu of Tax Contracts	1,625,000	1,661,180	1,672,348	11,168
Other Taxes	1,004,400	1,004,400	1,174,354	169,954
Grants and Private Contributions	-	-	384,280	384,280
Charges for Services	241,200	241,200	207,204	(33,996)
Fines & Court Costs	185,000	185,000	208,348	23,348
Investment Earnings	11,000	11,000	38,220	27,220
Other Revenue	155,000	155,000	89,973	(65,027)
Total Revenues	9,760,600	9,855,903	11,691,039	1,835,136
<b>EXPENDITURES:</b>				
Current:				
General Government:				
City Council	13,645	16,051	15,026	1,025
Legal	74,550	74,550	73,471	1,079
City Manager	442,681	448,183	440,151	8,032
Financial Administration	289,804	290,280	274,779	15,501
Personnel	282,313	275,863	266,201	9,662
Civil Service	4,100	6,200	4,931	1,269
City Hall	71,390	72,690	69,705	2,985
Public Safety	5,744,155	5,819,576	5,747,530	72,046
Public Works	281,833	318,796	313,343	5,453
Highways and Streets	1,069,230	1,043,730	1,453,563	(409,833)
Animal Control	149,467	147,217	141,548	5,669
Culture and Recreation:				
Parks and Recreation	613,851	613,600	881,188	(267,588)
Libraries	462,319	459,294	438,859	20,435
Administrative and General	491,262	388,319	323,600	64,719
Total Expenditures	9,990,600	9,974,349	10,443,895	(469,546)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(230,000)	(118,446)	1,247,144	1,365,590
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of Real and Personal Property	-	147,802	147,802	-
Transfers In	450,000	450,000	622,802	172,802
Transfers Out (Use)	(220,000)	(1,476,925)	(1,431,925)	45,000
Total Other Financing Sources (Uses)	230,000	(879,123)	(661,321)	217,802
Net Change in Fund Balances	-	(997,569)	585,823	1,583,392
Fund Balance - October 1 (Beginning)	14,542,813	14,542,813	14,542,813	-
Fund Balance - September 30 (Ending)	\$ 14,542,813	\$ 13,545,244	\$ 15,128,636	\$ 1,583,392

The notes to the financial statements are an integral part of this statement.

CITY OF NEDERLAND  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2017

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 3,785,847	\$ 2,937,245	\$ 6,723,092
Investments - Current	332,296	515,304	847,600
Accounts Receivable (Net)	463,245	416,331	879,576
Inventories	117,497	-	117,497
Total Current Assets	<u>4,698,885</u>	<u>3,868,880</u>	<u>8,567,765</u>
Noncurrent Assets:			
Restricted Assets - Noncurrent:			
Cash and Cash Equivalents	539,616	-	539,616
Investments	684,731	-	684,731
Capital Assets:			
Infrastructure and Improvements	31,667,668	-	31,667,668
Accumulated Depreciation - Infra. & Improv.	(17,037,609)	-	(17,037,609)
Buildings	21,450,340	-	21,450,340
Accumulated Depreciation - Buildings	(9,217,963)	-	(9,217,963)
Machinery and Equipment	1,908,947	1,910,058	3,819,005
Accumulated Depreciation - Machinery & Equipment	(1,187,629)	(1,336,342)	(2,523,971)
Construction in Progress	255,747	-	255,747
Net Pension Asset	187,759	64,027	251,786
Total Noncurrent Assets	<u>29,251,607</u>	<u>637,743</u>	<u>29,889,350</u>
Total Assets	<u>33,950,492</u>	<u>4,506,623</u>	<u>38,457,115</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflow Related to Pension Plan	524,822	174,117	698,939
Total Deferred Outflows of Resources	<u>524,822</u>	<u>174,117</u>	<u>698,939</u>

The notes to the financial statements are an integral part of this statement.

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	67,744	355,419	423,163
Wages and Salaries Payable	52,329	33,281	85,610
Compensated Absences Payable	50,483	21,688	72,171
Refundable Customer Deposits	684,731	-	684,731
Total Current Liabilities	855,287	410,388	1,265,675
Noncurrent Liabilities:			
Compensated Absences	49,720	24,469	74,189
Other Post Employment Benefits	127,684	45,966	173,650
Total Noncurrent Liabilities	177,404	70,435	247,839
Total Liabilities	1,032,691	480,823	1,513,514
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflow Related to Pension Plan	125,677	40,812	166,489
Total Deferred Inflows of Resources	125,677	40,812	166,489
<b>NET POSITION</b>			
Net Investment in Capital Assets	27,839,501	573,716	28,413,217
Restricted for Construction	391,845	-	391,845
Restricted for Pension Benefits	187,759	64,027	251,786
Restricted for Debt Service	144,890	-	144,890
Unrestricted	4,752,951	3,521,362	8,274,313
Total Net Position	\$ 33,316,946	\$ 4,159,105	\$ 37,476,051

The notes to the financial statements are an integral part of this statement.

CITY OF NEDERLAND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
<b>OPERATING REVENUES:</b>			
Intergovernmental Revenue and Grants	\$ -	\$ 218,514	\$ 218,514
Charges for Water Services	2,191,490	-	2,191,490
Charges for Sewerage Services	2,116,910	-	2,116,910
Penalties and Interest	136,522	-	136,522
Charges for Sanitation Services	-	1,682,773	1,682,773
Contributions & Donations from Private Sources	136,719	-	136,719
Other Revenue	22,482	544	23,026
Total Operating Revenues	<u>4,604,123</u>	<u>1,901,831</u>	<u>6,505,954</u>
<b>OPERATING EXPENSES:</b>			
Other Operating Costs			
Water Treatment	1,351,884	-	1,351,884
W & S Distribution	753,771	-	753,771
Wastewater Treatment	655,000	-	655,000
Billing/collections	450,332	-	450,332
Solid Waste	-	1,312,566	1,312,566
Other Operating Expenses	43,874	-	43,874
Total Other Operating Costs	<u>3,254,861</u>	<u>1,312,566</u>	<u>4,567,427</u>
Depreciation	1,409,715	200,499	1,610,214
Total Operating Expenses	<u>4,664,576</u>	<u>1,513,065</u>	<u>6,177,641</u>
Operating Income (Loss)	<u>(60,453)</u>	<u>388,766</u>	<u>328,313</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment Earnings	9,603	5,263	14,866
Total Nonoperating Revenue (Expenses)	<u>9,603</u>	<u>5,263</u>	<u>14,866</u>
Income (Loss) Before Transfers	(50,850)	394,029	343,179
Transfers Out (Use)	<u>(643,175)</u>	<u>(90,000)</u>	<u>(733,175)</u>
Change in Net Position	<u>(694,025)</u>	<u>304,029</u>	<u>(389,996)</u>
Total Net Position - October 1 (Beginning)	<u>34,010,971</u>	<u>3,855,076</u>	<u>37,866,047</u>
Total Net Position - September 30 (Ending)	<u>\$ 33,316,946</u>	<u>\$ 4,159,105</u>	<u>\$ 37,476,051</u>

The notes to the financial statements are an integral part of this statement.

CITY OF NEDERLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT H

	Business-Type Activities		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$ 4,697,474	\$ 1,454,516	\$ 6,151,990
Operating Grant	-	218,514	218,514
Cash Payments to Employees for Services	(1,313,793)	(463,980)	(1,777,773)
Cash Payments for Goods and Services	(1,773,061)	(585,752)	(2,358,813)
Net Cash Provided by Operating Activities	<u>1,610,620</u>	<u>623,298</u>	<u>2,233,918</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Transfers from Other Funds	473,503	323,858	797,361
Transfers to Other Funds	(1,116,678)	(413,858)	(1,530,536)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(643,175)</u>	<u>(90,000)</u>	<u>(733,175)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition of Capital Assets	(412,182)	(30,672)	(442,854)
<u>Cash Flows from Investing Activities:</u>			
Investment Income	9,603	5,263	14,866
Investment Activity	(7,017)	(3,555)	(10,572)
Net Cash Provided by Investing Activities	<u>2,586</u>	<u>1,708</u>	<u>4,294</u>
Net Increase in Cash and Cash Equivalents	557,849	504,334	1,062,183
Cash and Cash Equivalents at the Beginning of the Year	<u>3,767,614</u>	<u>2,432,911</u>	<u>6,200,525</u>
Cash and Cash Equivalents at the End of the Year	4,325,463	2,937,245	7,262,708
Cash and Cash Equivalents End of Year, Restricted	<u>(539,616)</u>	<u>-</u>	<u>(539,616)</u>
Cash on Balance Sheet	<u>\$ 3,785,847</u>	<u>\$ 2,937,245</u>	<u>\$ 6,723,092</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:</u>			
Operating Income (Loss)	\$ (60,453)	\$ 388,766	\$ 328,313
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	1,409,715	200,499	1,610,214
Noncash Donations	(136,719)	-	(136,719)
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	189,080	(228,801)	(39,721)
Decrease (increase) in Inventories	(9,566)	-	(9,566)
Increase (decrease) in Accounts Payable	(15,335)	170,739	155,404
Increase (decrease) in Payroll Deductions	19,513	23,110	42,623
Increase (decrease) in Net Pension Asset	(80,014)	(27,732)	(107,746)
Increase (decrease) in Customer Deposits	40,990	-	40,990
Increase (decrease) in Noncurrent Liabilities	41,206	24,537	65,743
Increase (decrease) in Pension Outflows & Inflows	212,203	72,180	284,383

The notes to the financial statements are an integral part of this statement.

CITY OF NEDERLAND  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT H

	Business-Type Activities		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
Net Cash Provided by Operating Activities	\$ 1,610,620	\$ 623,298	\$ 2,233,918

The notes to the financial statements are an integral part of this statement.



**NOTES TO THE FINANCIAL STATEMENTS**

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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

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, 2017 totaled \$745,042. 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.

CITY OF NEDERLAND, TEXAS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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 and information technology services 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 for dispatch operations based on their population and evenly split for information technology services. 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, 2017 the City contributed \$534,413 to the joint venture. Fund balance of the joint venture at September 30, 2017 was \$392,428. 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 Position and the Statement of Changes in Net Position) 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. 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.

CITY OF NEDERLAND, TEXAS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 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. Grant revenue is considered available if collected within twelve months. 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 non-major governmental funds:

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

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.

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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, 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 the departmental supplies and contractual services categories within any fund. All other budget 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.

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**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.

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Cash and Investments, (Continued)**

**Investments, (Continued)**

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 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 outflow in the year of levy. Such deferred outflows are recognized as revenue in the fiscal year in which they become available.

**K. Tax Abatements**

During the fiscal year ending September 30, 2017, the City did not participate in a tax abatement agreement relating to the property taxes levied for the 2016 tax year levy.

**L. 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.

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. 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.

**N. 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.

**O. 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. A restricted asset is shown on the balance sheet related to TMRS. The use of this asset is limited to pension benefits. Restricted assets also include interest accrued on unexpended bond proceeds and cash received for customer utility deposits.

**P. 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 reported at acquisition 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



**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Q. 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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

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

**R. Fund Equity**

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

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

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

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

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**R. Fund Equity, (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.

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.

**S. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position and/or balance sheet 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 has the following items that qualify for reporting in this category:

- a. A 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.

CITY OF NEDERLAND, TEXAS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Deferred Outflows/Inflows of Resources, (Continued)

- b. Pension contributions made after the measurement date. These contributions are deferred and recognized in the following fiscal year.
- c. Difference in projected and actual earnings on pension assets. This is the difference deferred and amortized over a closed five year period.

In addition to liabilities, the statement of financial position and/or balance sheet 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 the following items that qualify for reporting in this category:

- a. A deferred inflow which arises under the accrual basis of accounting and reported in the statement of financial position. The deferred inflow is the difference in the expected and actual pension experience and is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- b. A deferred inflow 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.

T. 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 be 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.

As of September 30, 2017, Restricted for Other Funds included these balances:

Public Safety:	
Police Narcotics	\$ 162,274
Court Technology	3,146
Fire Department	175,691
	<hr/>
	341,111
Culture and Recreation:	
Library	41,143
Hotel/Motel	44,897
	<hr/>
	86,040
	<hr/>
Total Restricted for Other Funds	\$ 427,151

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**U. 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.

**V. 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.

**W. 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 Position (proprietary fund).

**X. 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.

**Y. Pensions**

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

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Z. Date of Management's Review**

In preparing the financial statements, the City has evaluated events and transactions for potential recognition for disclosure through March 26, 2018, 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 investment in capital assets. 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	Reclassif- ications	Total
Net investment in capital assets	\$ 30,868,378	\$ 28,413,217	\$ (10,055,000)	\$ 49,226,595
Restricted for:				
Debt Service	293,041	144,890	-	437,931
Other Funds	427,151	-	-	427,151
Public Works	2,952,795	-	-	2,952,795
Construction	355,493	391,845	-	747,338
TMRS Pension Asset	864,760	251,786	-	1,116,546
Unrestricted	5,817,251	8,274,313	10,055,000	24,146,564
Total Net Position	<u>\$ 41,578,869</u>	<u>\$ 37,476,051</u>	<u>\$ -</u>	<u>\$ 79,054,920</u>

**NOTE 3: CASH AND INVESTMENTS**

**Cash Deposits**

At year-end, the City's carrying amount of deposits (including NEDC) was \$23,300,413 and the bank balance was \$24,216,688. 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, 2017, the City of Nederland (including NEDC) had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
TexPool	\$ 14,658,377	N/A
Certificates of Deposit	483,434	6 months - 1 year

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 3: CASH AND INVESTMENTS, (CONTINUED)**

*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, 2017.

*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.

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.

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 4: RECEIVABLES, (CONTINUED)**

The balance of property taxes receivable and property tax assessments included in unavailable revenues as of September 30, 2017 are as follows:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total</u>
Property Taxes Receivable:			
Gross Receivables	\$ 296,691	\$ 172,085	\$ 468,776
Less: Allowance for Doubtful Accounts	<u>(50,437)</u>	<u>(29,254)</u>	<u>(79,691)</u>
Net Property Taxes Receivable	<u>\$ 246,254</u>	<u>\$ 142,831</u>	<u>\$ 389,085</u>
Unavailable Property Taxes	<u>\$ 233,814</u>	<u>\$ 136,130</u>	<u>\$ 369,944</u>

Other Receivables as of September 30, 2017 for the City are as follows:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Funds</u>	<u>Total</u>
Accounts	\$ 1,095,737	\$ -	\$ 87,933	\$ 1,183,670
Miscellaneous	31,836	-	-	31,836
Due From Other				
Governments	<u>4,152</u>	<u>1,555</u>	<u>-</u>	<u>5,707</u>
Gross Receivables	1,131,725	1,555	87,933	1,221,213
Less: Allowance for				
Uncollectibles	<u>(215,619)</u>	<u>-</u>	<u>-</u>	<u>(215,619)</u>
Net Total Receivables	<u>\$ 916,106</u>	<u>\$ 1,555</u>	<u>\$ 87,933</u>	<u>\$ 1,005,594</u>

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the governmental activities for the year ended September 30, 2017 is described in the table below.

<b>Governmental Activities</b>	Beginning	Current Year		Ending
	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land	\$ 3,888,561	\$ -	\$ (98,121)	\$ 3,790,440
Construction in progress	530,961	1,023,569	(1,370,246)	184,284
Total capital assets not being depreciated	<u>4,419,522</u>	<u>1,023,569</u>	<u>(1,468,367)</u>	<u>3,974,724</u>
Capital assets being depreciated:				
Buildings	13,369,446	1,450,419	-	14,819,865
Machinery and equipment	4,912,703	515,142	(213,809)	5,214,036
Infrastructure	33,691,613	785,599	-	34,477,212
Total capital assets being depreciated	<u>51,973,762</u>	<u>2,751,160</u>	<u>(213,809)</u>	<u>54,511,113</u>
Less accumulated depreciation:				
Buildings	(5,873,466)	(268,685)	-	(6,142,151)
Machinery and equipment	(3,844,514)	(427,080)	160,057	(4,111,537)
Infrastructure	(14,400,091)	(728,680)	-	(15,128,771)
Total accumulated depreciation	<u>(24,118,071)</u>	<u>(1,424,445)</u>	<u>160,057</u>	<u>(25,382,459)</u>
Total capital assets being depreciated, net	<u>27,855,691</u>	<u>1,326,715</u>	<u>(53,752)</u>	<u>29,128,654</u>
Governmental activities capital assets, net	<u>\$ 32,275,213</u>	<u>\$ 2,350,284</u>	<u>\$ (1,522,119)</u>	<u>\$ 33,103,378</u>

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

General Government	\$ 83,036
Public Safety	364,841
Public Works	809,786
Culture & Recreation	166,782
Total Depreciation Expense - Governmental Activities	<u>\$ 1,424,445</u>

Construction in progress consisted of engineering fees for a major street and drainage project to commence in fiscal year 2017-18.



**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 5: CAPITAL ASSETS, (CONTINUED)**

<b>Business-type Activities</b>	Beginning Balance	Current Year		Ending Balance
		Increases	Decreases	
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 255,747	\$ -	\$ 255,747
Total capital assets not being depreciated	-	255,747	-	255,747
Capital assets being depreciated				
Buildings	21,450,340	-	-	21,450,340
Improvements other than buildings	31,548,171	119,497	-	31,667,668
Machinery and equipment	3,558,685	260,321	-	3,819,006
Total capital assets being depreciated	56,557,196	379,818	-	56,937,014
Less accumulated depreciation:				
Buildings	(8,746,342)	(471,621)		(9,217,963)
Improvements other than buildings	(16,273,955)	(763,654)		(17,037,609)
Machinery and equipment	(2,093,043)	(430,929)		(2,523,972)
Total accumulated depreciation	(27,113,340)	(1,666,204)	-	(28,779,544)
 Total capital assets being depreciated, net	 29,443,856	 (1,286,386)	 -	 28,157,470
 Business-type activities capital assets, net	 \$ 29,443,856	 \$ (1,030,639)	 \$ -	 \$ 28,413,217

Construction in progress consisted of engineering fees for preliminary evaluation work and railroad permits in anticipation of a 10.25 million dollar sanitary sewer line project.

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

The composition of interfund balances as of September 30, 2017, is as follows:

Receivable Fund	Payable Fund	Amount
General	Debt Service	\$ 127,486

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**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	Debt Service	Capital Projects	Total
Transfers out				
General Fund	\$ -	\$ -	\$ 200,000	\$ 200,000
Other Governmental				
Funds	10,000	-	-	10,000
Water & Sewer	350,000	293,174	-	643,174
Solid Waste	90,000	-	-	90,000
	\$ 450,000	\$ 293,174	\$ 200,000	\$ 943,174

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 monies 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, 2017, are summarized as follows:

Date of Issue	Original Issue	Final Maturity	Annual Installments	% Rate	Outstanding Balance
2010	\$ 9,855,000	2019	\$1,010,000 to \$1,200,000	2.0%-4.0%	\$ 2,310,000
2011	4,500,000	2031	\$150,000 to \$320,000	1.85%-3.85%	3,495,000
2012	2,750,000	2020	\$295,000 to \$600,000	1.00%-1.45%	1,235,000
2013	3,520,000	2023	\$25,000 to \$665,000	2.00%-3.50%	3,015,000
2013	2,600,000	2033	\$80,000 to \$185,000	3.75%-4.50%	2,235,000
2017	4,975,000	2027	\$100,000 to \$680,000	3.00%-4.00%	4,975,000
					\$ 17,265,000

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**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
2018	\$ 2,155,000	\$ 593,069	\$ 2,748,069
2019	2,075,000	523,958	2,598,958
2020	2,030,000	457,221	2,487,221
2021	1,500,000	406,231	1,906,231
2022	1,550,000	356,258	1,906,258
2023-2027	5,745,000	1,049,165	6,794,165
2028-2032	2,025,000	265,241	2,290,241
2033	185,000	8,325	193,325
Total	<u>\$ 17,265,000</u>	<u>\$ 3,659,468</u>	<u>\$ 20,924,468</u>

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds Payable:					
General obligations bonds	\$ 14,275,000	\$ 4,975,000	\$ 1,985,000	\$ 17,265,000	\$ 2,155,000
Add: Premium on bonds	442,535	624,206	147,886	918,855	147,886
Compensated absences	551,285	298,050	307,275	542,060	290,208
OPEB liability	365,736	66,100	64,106	367,730	-
Governmental activities Long-Term Liabilities	<u>\$ 15,634,556</u>	<u>\$ 5,963,356</u>	<u>\$ 2,504,267</u>	<u>\$ 19,093,645</u>	<u>\$ 2,593,094</u>
Business-type activities:					
Compensated absences	\$ 99,753	\$ 89,167	\$ 42,560	\$ 146,360	\$ 72,171
OPEB liability	135,273	38,377	-	173,650	-
Business-type activity Long-Term Liabilities	<u>\$ 235,026</u>	<u>\$ 127,544</u>	<u>\$ 42,560</u>	<u>\$ 320,010</u>	<u>\$ 72,171</u>

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. The OPEB liability represents a liability for the amount of actuarially required contribution for retiree health care benefits in excess of the actual contributions made.

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, 2017.

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**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 2016-2017, 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.

From time to time the City is a defendant in legal proceedings relating to its operations. Although the outcome of the legal proceedings is not presently determinable, in the opinion of the City's counsel, the legal proceedings are without merit. Counsel believes there is little, if any, adverse exposure to the City.

**NOTE 9: DEFINED BENEFIT PENSION PLAN**

Plan Description

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) that administers the Pension Trust Fund, as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

TMRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarially methods and assumptions used by the system. This report may be obtained from TMRS' website at [www.tmr.com](http://www.tmr.com).

All eligible employees of the city are required to participate in TMRS

CITY OF NEDERLAND, TEXAS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NOTE 9: DEFINED BENEFIT PENSION PLAN, (CONTINUED)

Benefits Provided

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

Upon retirement, benefits depend on the sum of the employee's contributions, with interest, and the city-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven options: retiree life only, one of three survivor lifetime options, or one of three guaranteed term options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution. A member city may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of a calendar year.

A summary of plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	10
Service retirement eligibility	20 years at any age, 10 years at age 60 and above
Updated Service Credit	100% Repeating
Annuity Increase to retirees	0% of CPI Repeating

Employees covered by benefit terms –

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	93
Inactive employees entitled to but not yet receiving benefits	21
Active employees	<u>118</u>
	232

CITY OF NEDERLAND, TEXAS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NOTE 9: DEFINED BENEFIT PENSION PLAN, (CONTINUED)

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the State law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method.

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. Funds are budgeted in the General Fund, Water/Sewer Fund and the Sanitation Fund to provide funding for the pension obligation on an annual basis.

Employees for The City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 5.42% and 6.63% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$496,719, and were equal to the required contributions.

Net Pension Asset

The City's Net Pension Asset (NPA) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Asset was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 9: DEFINED BENEFIT PENSION PLAN, (CONTINUED)**

Actuarial assumptions, Continued

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. These assumptions apply to both the Pension Trust and the Supplemental Death Benefits Fund, as applicable.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core-Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

**Discount Rate**

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 9: DEFINED BENEFIT PENSION PLAN, Continued**

Changes in the Net Pension Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at 12/31/2015	\$ 51,759,917	\$ 52,472,987	\$ (713,070)
Charges for year:			
Service cost	1,131,700	-	1,131,700
Interest	3,440,413	-	3,440,413
Difference between expected and actual experience	(563,449)	-	(563,449)
Changes in assumptions	-	-	-
Contributions - employer	-	405,945	(405,945)
Contributions - employee	-	524,282	(524,282)
Net investment income	-	3,544,819	(3,544,819)
Benefit payments, including refunds of employee contributions	(2,713,373)	(2,713,373)	-
Administrative expense	-	(40,050)	40,050
Other changes	-	(2,158)	2,158
Net change	1,295,291	1,719,465	(424,174)
Balance at 12/31/2016	\$ 53,055,208	\$ 54,192,452	\$ (1,137,244)

*Sensitivity of the net pension asset to changes in the discount rate.* The following presents the net pension asset of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
City's net pension liability (asset)	\$ 5,288,524	\$ (1,137,244)	\$ (6,523,227)



**CITY OF NEDERLAND, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 9: DEFINED BENEFIT PENSION PLAN, (CONTINUED)**

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmr.com](http://www.tmr.com).

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

For the year ended September 30, 2017, the City recognized pension expense of \$1,382,516.

At September 30, 2017, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 796,062
Changes in actuarial assumptions	672,543	-
Differences between projected and actual investment earnings	2,479,165	2,314
Contributions subsequent to the measurement date	381,777	-
Total	\$ 3,533,485	\$ 798,376

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$381,777 will be recognized as a reduction of the net pension asset for the year ending September 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	
<u>December 31:</u>	
2017	\$ 834,404
2018	834,403
2019	780,629
2020	(64,211)
2021	(31,894)
Thereafter	-
	\$ 2,353,331

**CITY OF NEDERLAND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 10: 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, 2017.

**NOTE 11: 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 and represent a single-employer postemployment benefit plan. As of September 30, 2017 the City had two retirees participating in this plan. The City recognizes the cost of providing health care benefits to retired employees in the amount of \$17,087 for fiscal year 2017.

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.

**CITY OF NEDERLAND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 11: POST-EMPLOYMENT HEALTH CARE BENEFITS, (CONTINUED)**

- 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 benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover 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, 2017 is as follows:

**Annual OPEB Cost**

	9/30/2016	9/30/2017
Annual required contribution	\$ 126,559	\$ 109,576
Interest on OPEB obligation	23,276	22,846
Adjustment to ARC	(21,565)	(22,256)
Annual OPEB cost (expense)	128,270	110,166
Net estimated employer contributions	(74,372)	(68,432)
Increase in net OPEB obligation	53,898	41,734
Net OPEB obligation - beginning of year	517,252	571,150
Net OPEB obligation - end of year	571,150	612,884
Less portion related to Mid-County Dispatch	(70,141)	(71,504)
Net OPEB obligation - City portion End of Year	\$ 501,009	\$ 541,380

**CITY OF NEDERLAND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 11: POST-EMPLOYMENT HEALTH CARE BENEFITS, (CONTINUED)**

The City's annual OPEB cost (including Mid-County Dispatch), the amount contributed by the employer, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2017 and the preceding two fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Amount Contributed	Percentage Contributed	Net OPEB Obligation
September 30, 2015	\$ 124,445	\$ 82,376	66.2%	\$ 517,252
September 30, 2016	\$ 128,270	\$ 74,372	58.0%	\$ 571,150
September 30, 2017	\$ 178,598	\$ 68,432	38.3%	\$ 612,884

The funded status of the City's retiree health care plan, under GASB Statement No. 45 as of December 31, 2016 is as follows:

Actuarial Valuation Date as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	Ratio of UAAL to Annual Covered Payroll (b-a)/d
12/31/2010	\$ -	\$ 2,534,131	\$ 2,534,131	0%	\$ 5,812,366	43.6%
12/31/2013	\$ -	\$ 1,498,021	\$ 1,498,021	0%	\$ 6,418,451	23.3%
12/31/2016	\$ -	\$ 1,548,060	\$ 1,548,060	0%	\$ 7,489,760	20.7%

**CITY OF NEDERLAND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 11: 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 the actuarial accrued liability exceeding actuarial assets by \$1,548,060 at December 31, 2016. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered payroll is 20.7%.

**Actuarial methods and assumptions**

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

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

Inflation Rate	2.5% per annum
Investment rate of return	4.0% per annum, net of expenses
Actuarial cost method	Individual Entry Age Normal Cost Method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Payroll Growth	3.0% per annum
Medical trend	Initial rate of 7.30% declining to an ultimate rate of 4.25% after 14 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.

**CITY OF NEDERLAND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**NOTE 12: PRIOR PERIOD ADJUSTMENT**

During the year ended September 30, 2017 management determined that a prior period adjustment was necessary for correct presentation of the beginning noncurrent liabilities and beginning net position for the governmental activities on the government-wide statements. The adjustment of \$269,100 reduced the beginning noncurrent liability balance and increased the beginning net position.

**NOTE 13: SUBSEQUENT EVENTS**

On August 28-29, 2017, the City of Nederland was negatively impacted by the record rainfalls of Tropical Storm Harvey. The City remained operational and implemented a recovery plan to help restore services and aid the citizens in debris removal and with their recovery efforts. Due to the severity and magnitude of the damage resulting from Hurricane Harvey in the State of Texas, the President designated parts of Texas, including Nederland, to be a federally declared disaster area. As part of the major disaster declaration of August 25, 2017, the President authorized a 90 percent Federal cost share for debris removal and 100 percent Federal cost share for emergency protective measures. The funds relating to the federal cost share will be distributed to recipients by FEMA.

The City of Nederland recorded the anticipated receivables, payables and revenues for FEMA reimbursement on both the governmental fund level and the government-wide level of accounting. The amounts of expenses, receivables and revenues were calculated based on the criteria and guidelines made available to the City at the time of this report. The City elected to recognize revenue in relation to the anticipated FEMA reimbursement in the governmental funds in the current reporting period to match the timing of the revenue to the related expenditures.

**REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SEPTEMBER 30, 2017

	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
<b>A. Total Pension Liability</b>			
Service Cost	\$ 1,131,700	\$ 1,107,837	\$ 933,120
Interest (on the Total Pension Liability)	3,440,413	3,369,020	3,258,955
Changes of Benefit Terms	-0-	-0-	-0-
Difference between Expected and Actual Experience	(563,449)	(190,195)	(521,515)
Changes of Assumptions	-0-	1,086,415	-0-
Benefit Payments, including refunds of employee contributions	(2,713,373)	(2,376,190)	(1,994,954)
Net change in Total Pension Liability	\$ 1,295,291	\$ 2,996,887	\$ 1,675,606
Total Pension Liability - Beginning	51,759,917	48,763,030	47,087,424
Total Pension Liability - Ending	\$ 53,055,208	\$ 51,759,917	\$ 48,763,030
<b>B. Total Fiduciary Net Position</b>			
Contributions - Employer	\$ 405,945	\$ 462,351	\$ 516,968
Contributions - Employee	524,282	525,397	470,583
Net Investment Income	3,544,819	79,424	2,968,745
Benefit Payments, including refunds of employee contributions	(2,713,373)	(2,376,190)	(1,994,954)
Administrative Expense	(40,050)	(48,383)	(31,001)
Other	(2,158)	(2,390)	(2,549)
Net Change in Plan Fiduciary Net Position	\$ 1,719,465	\$ (1,359,791)	\$ 1,927,792
Plan Fiduciary Net Position - Beginning	52,472,987	53,832,778	51,904,986
Plan Fiduciary Net Position - Ending	\$ 54,192,452	\$ 52,472,987	\$ 53,832,778
<b>C. Net Pension Liability</b>	\$ (1,137,244)	\$ (713,070)	\$ (5,069,748)
<b>D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	102.14%	101.38%	110.40%
<b>E. Covered Employee Payroll</b>	\$ 7,489,760	\$ 7,505,674	\$ 6,722,617
<b>F. Net Pension Liability as a Percentage of Covered Employee Payroll</b>	15.18%	9.50%	75.41%

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only three years of data are presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."



## CITY OF NEDERLAND, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**SCHEDULE OF CONTRIBUTIONS****TEXAS MUNICIPAL RETIREMENT SYSTEM**

	<u>2017</u>	<u>2016</u>
Actuarially Determined Contributions	\$ 496,719	\$ 414,694
Contributions in Relation to the Actuarially Determined Contributions	<u>496,719</u>	<u>414,694</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	\$ 7,879,026	\$ 7,409,498
Contributions as a Percentage of Covered Employee Payroll	6.30%	5.60%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31, 2014 for Fiscal Year 2015, December 31, 2015 for Fiscal Year 2016 and December 31, 2016 for Fiscal Year 2017.

Note: In accordance with GASB 68, Paragraph 138, only three years of data are presented this reporting period. "This information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

**NOTES TO SCHEDULE OF CONTRIBUTIONS**

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

**Methods and Assumptions Used to Determine Contribution Rates:**

Actual Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

**Other Information:**

Notes: There were no benefit changes during the year.

## CITY OF NEDERLAND, TEXAS

**REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFITS (OPEB)****RETIREE HEALTH INSURANCE PROGRAM**

<u>Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Percentage Funded</u>	<u>AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>Covered Payroll (b-a)/d</u>
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				
12/31/13	-	\$ 1,498,021	0.0%	\$ 1,498,021	\$ 6,418,451	23.3%
12/31/14		NOT CALCULATED				
12/31/15		NOT CALCULATED				
12/31/16	-	\$ 1,548,060	0.0%	\$ 1,548,060	\$ 7,489,760	20.7%

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

**CITY OF NEDERLAND, TEXAS**

**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.

CITY OF NEDERLAND  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2017

	Police Narcotics Fund	Library Fund	Court Technology Fund	Hotel/Motel Occupancy Tax Fund
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 90,335	\$ 22,539	\$ 3,146	\$ 44,389
Investments - Current	47,807	32,577	-	-
Accounts Receivable (Net)	24,132	-	-	30,492
Total Assets	<u>\$ 162,274</u>	<u>\$ 55,116</u>	<u>\$ 3,146</u>	<u>\$ 74,881</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ -	\$ 50	\$ -	\$ 29,984
Unearned Revenues	-	13,923	-	-
Total Liabilities	<u>-</u>	<u>13,973</u>	<u>-</u>	<u>29,984</u>
<b>FUND BALANCES</b>				
Restricted Fund Balance:				
Other Restricted Fund Balance	162,274	41,143	3,146	44,897
Total Fund Balances	<u>162,274</u>	<u>41,143</u>	<u>3,146</u>	<u>44,897</u>
Total Liabilities and Fund Balances	<u>\$ 162,274</u>	<u>\$ 55,116</u>	<u>\$ 3,146</u>	<u>\$ 74,881</u>

Fire Department Fund	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
\$ 142,382	\$ 302,791	\$ 302,791
-	80,384	80,384
33,309	87,933	87,933
<u>\$ 175,691</u>	<u>\$ 471,108</u>	<u>\$ 471,108</u>
\$ -	\$ 30,034	\$ 30,034
-	13,923	13,923
<u>-</u>	<u>43,957</u>	<u>43,957</u>
175,691	427,151	427,151
<u>175,691</u>	<u>427,151</u>	<u>427,151</u>
<u>\$ 175,691</u>	<u>\$ 471,108</u>	<u>\$ 471,108</u>

CITY OF NEDERLAND  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Police Narcotics Fund	Library Fund	Court Technology Fund	Hotel/Motel Occupancy Tax Fund
<b>REVENUES:</b>				
Taxes:				
Other Taxes	\$ -	\$ -	\$ -	\$ 123,045
Grants and Private Contributions	45,444	24,909	-	-
Fines & Court Costs	-	-	5,948	-
Forfeitures	16,917	-	-	-
Investment Earnings	394	196	2	28
Other Revenue	7,244	3,457	-	-
Total Revenues	<u>69,999</u>	<u>28,562</u>	<u>5,950</u>	<u>123,073</u>
<b>EXPENDITURES:</b>				
Public Safety	46,743	-	5,718	-
Culture and Recreation	-	64,264	-	112,377
Total Expenditures	<u>46,743</u>	<u>64,264</u>	<u>5,718</u>	<u>112,377</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>23,256</u>	<u>(35,702)</u>	<u>232</u>	<u>10,696</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers Out (Use)	<u>(10,000)</u>	-	-	-
Total Other Financing Sources (Uses)	<u>(10,000)</u>	-	-	-
Net Change in Fund Balance	13,256	(35,702)	232	10,696
Fund Balance - October 1 (Beginning)	<u>149,018</u>	<u>76,845</u>	<u>2,914</u>	<u>34,201</u>
Fund Balance - September 30 (Ending)	<u>\$ 162,274</u>	<u>\$ 41,143</u>	<u>\$ 3,146</u>	<u>\$ 44,897</u>

Fire Department Fund	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ 123,045	\$ 123,045
127,624	197,977	197,977
-	5,948	5,948
-	16,917	16,917
140	760	760
-	10,701	10,701
<u>127,764</u>	<u>355,348</u>	<u>355,348</u>
105,951	158,412	158,412
-	176,641	176,641
<u>105,951</u>	<u>335,053</u>	<u>335,053</u>
<u>21,813</u>	<u>20,295</u>	<u>20,295</u>
-	(10,000)	(10,000)
-	(10,000)	(10,000)
21,813	10,295	10,295
<u>153,878</u>	<u>416,856</u>	<u>416,856</u>
<u>\$ 175,691</u>	<u>\$ 427,151</u>	<u>\$ 427,151</u>



CITY OF NEDERLAND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final	GAAP BASIS (See Note)	
<b>REVENUES:</b>				
Property Taxes, Penalties and Interest	\$ 2,512,744	\$ 2,505,041	\$ 2,135,188	\$ (369,853)
Investment Earnings	-	-	639	639
Total Revenues	2,512,744	2,505,041	2,135,827	(369,214)
<b>EXPENDITURES:</b>				
Debt Service:				
Bond Principal	1,985,000	1,985,000	1,985,000	-
Bond Interest	457,918	517,041	517,041	-
Fiscal Agent's Fees	3,000	3,000	3,250	(250)
Total Expenditures	2,445,918	2,505,041	2,505,291	(250)
Excess (Deficiency) of Revenues Over (Under) Expenditures	66,826	-	(369,464)	(369,464)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	-	-	352,297	352,297
Total Other Financing Sources (Uses)	-	-	352,297	352,297
Change in Fund Balance	66,826	-	(17,167)	(17,167)
Fund Balance - October 1 (Beginning)	174,078	174,078	174,078	-
Fund Balance - September 30 (Ending)	\$ 240,904	\$ 174,078	\$ 156,911	\$ (17,167)

CITY OF NEDERLAND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - POLICE NARCOTIC FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual	Variance With
	Original	Final	GAAP BASIS (See Note)	Final Budget Positive or (Negative)
<b>REVENUES:</b>				
Grants and Private Contributions	\$ -	\$ 12,882	\$ 45,444	\$ 32,562
Forfeitures	34,600	34,600	16,917	(17,683)
Investment Earnings	400	400	394	(6)
Other Revenue	-	-	7,244	7,244
Total Revenues	35,000	47,882	69,999	22,117
<b>EXPENDITURES:</b>				
Public Safety:				
Public Safety	35,000	60,000	46,743	13,257
Total Expenditures	35,000	60,000	46,743	13,257
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(12,118)	23,256	35,374
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers Out (Use)	-	-	(10,000)	(10,000)
Total Other Financing Sources (Uses)	-	-	(10,000)	(10,000)
Change in Fund Balance	-	(12,118)	13,256	25,374
Fund Balance - October 1 (Beginning)	149,018	149,018	149,018	-
Fund Balance - September 30 (Ending)	\$ 149,018	\$ 136,900	\$ 162,274	\$ 25,374

CITY OF NEDERLAND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - LIBRARY SPECIAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final	GAAP BASIS (See Note)	
<b>REVENUES:</b>				
Grants and Private Contributions	\$ 58,545	\$ 58,545	\$ 24,909	\$ (33,636)
Investment Earnings	150	150	196	46
Other Revenue	3,550	3,550	3,457	(93)
Total Revenues	62,245	62,245	28,562	(33,683)
<b>EXPENDITURES:</b>				
Culture and Recreation:				
Libraries	105,310	105,310	64,264	41,046
Total Expenditures	105,310	105,310	64,264	41,046
Change in Fund Balance	(43,065)	(43,065)	(35,702)	7,363
Fund Balance - October 1 (Beginning)	76,845	76,845	76,845	-
Fund Balance - September 30 (Ending)	\$ 33,780	\$ 33,780	\$ 41,143	\$ 7,363

CITY OF NEDERLAND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - COURT TECHNOLOGY FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual	Variance With
	Original	Final	GAAP BASIS (See Note)	Final Budget Positive or (Negative)
<b>REVENUES:</b>				
Fines & Court Costs	\$ 5,500	\$ 5,500	\$ 5,948	\$ 448
Investment Earnings	-	-	2	2
Total Revenues	<u>5,500</u>	<u>5,500</u>	<u>5,950</u>	<u>450</u>
<b>EXPENDITURES:</b>				
Public Safety:				
Public Safety	5,500	5,500	5,718	(218)
Total Expenditures	<u>5,500</u>	<u>5,500</u>	<u>5,718</u>	<u>(218)</u>
Change in Fund Balance	-	-	232	232
Fund Balance - October 1 (Beginning)	<u>2,914</u>	<u>2,914</u>	<u>2,914</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 2,914</u>	<u>\$ 2,914</u>	<u>\$ 3,146</u>	<u>\$ 232</u>

CITY OF NEDERLAND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - HOTEL/MOTEL OCCUPANCY TAX FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final	GAAP BASIS (See Note)	
<b>REVENUES:</b>				
Other Taxes	\$ 70,000	\$ 90,000	\$ 123,045	\$ 33,045
Investment Earnings	-	-	28	28
Other Revenue	5,000	5,000	-	(5,000)
Total Revenues	75,000	95,000	123,073	28,073
<b>EXPENDITURES:</b>				
Culture and Recreation	75,000	95,000	112,377	(17,377)
Total Expenditures	75,000	95,000	112,377	(17,377)
Change in Fund Balance	-	-	10,696	10,696
Fund Balance - October 1 (Beginning)	34,201	34,201	34,201	-
Fund Balance - September 30 (Ending)	\$ 34,201	\$ 34,201	\$ 44,897	\$ 10,696

CITY OF NEDERLAND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - FIRE DEPARTMENT FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final	GAAP BASIS (See Note)	
<b>REVENUES:</b>				
Grants and Private Contributions	\$ 25,000	\$ 25,000	\$ 127,624	\$ 102,624
Investment Earnings	-	-	140	140
Total Revenues	25,000	25,000	127,764	102,764
<b>EXPENDITURES:</b>				
Public Safety:				
Fire Protection	25,000	100,000	105,951	(5,951)
Total Expenditures	25,000	100,000	105,951	(5,951)
Change in Fund Balance	-	(75,000)	21,813	96,813
Fund Balance - October 1 (Beginning)	153,878	153,878	153,878	-
Fund Balance - September 30 (Ending)	\$ 153,878	\$ 78,878	\$ 175,691	\$ 96,813

**CITY OF NEDERLAND**  
**COMPONENT UNIT**  
**NEDERLAND ECONOMIC DEVELOPMENT CORPORATION**  
**BALANCE SHEET**

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	General	Total Funds
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 2,579,904	\$ 2,579,904
Investments	3,737,513	3,737,513
Receivables (net of allowances for doubtful accounts)		
Taxes receivable	57,450	57,450
Other	-	-
Due from primary government	261	261
Total Assets	\$ 6,375,128	\$ 6,375,128
 <b>LIABILITIES AND FUND BALANCES:</b>		
<b>LIABILITIES:</b>		
Accrued expenses and other liabilities	\$ 107	\$ 107
Total Liabilities	107	107
 <b>FUND BALANCES:</b>		
Committed for Airport Development	2,200,000	2,200,000
Committed for Emergency Fund	750,000	750,000
Unassigned Fund Balance	3,425,021	3,425,021
Total Fund Balances	6,375,021	6,375,021
Total Liabilities and Fund Balances	\$ 6,375,128	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in these funds.		171,412
Included in restricted assets is the recognition of the City's proportionate share of the net pension asset required by GASB 68 in the amount of \$20,698, a Deferred Resource Outflow related to TMRS in the amount of \$65,772, and a Deferred Resource Outflow related to TMRS in the amount of \$14,539. This amounted to an increase in Net Position in the amount of \$71,931.		71,931
		\$ 6,618,364

## CITY OF NEDERLAND

**COMPONENT UNIT  
NEDERLAND ECONOMIC DEVELOPMENT CORPORATION  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	<u>General</u>	<u>Total Funds</u>
REVENUES:		
Sales tax	\$ 745,042	\$ 745,042
Interest	13,254	13,254
Other miscellaneous	2,008	2,008
Total Revenues	<u>760,304</u>	<u>760,304</u>
EXPENDITURES:		
Current:		
Economic development	<u>443,716</u>	<u>443,716</u>
Total Expenditures	<u>443,716</u>	<u>443,716</u>
Net Change in Fund Balances	316,588	316,588
Fund Balance - October 1 (Beginning)	<u>6,058,433</u>	
Fund Balance - September 30 (Ending)	<u><u>\$ 6,375,021</u></u>	
The change in capital assets are reflected in the current financial resources of governmental funds, however has no effect on net position		1,468
The implementation of GASB 68 eliminates pension expenditures reflected in the current financial resources and decreases net position.		<u>(16,521)</u>
CHANGE IN NET POSITION		<u><u>\$ 301,535</u></u>



## CITY OF NEDERLAND

## COMPONENT UNIT

## NEDERLAND ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Sales tax	\$ 750,962	\$ 750,962	\$ 745,042	\$ (5,920)
Interest	5,000	5,000	13,254	8,254
Other miscellaneous	1,800	1,800	2,008	208
Total Revenues	<u>757,762</u>	<u>757,762</u>	<u>760,304</u>	<u>2,542</u>
EXPENDITURES:				
Current:				
Economic development	<u>757,762</u>	<u>757,762</u>	<u>443,716</u>	<u>314,046</u>
Total Expenditures	<u>757,762</u>	<u>757,762</u>	<u>443,716</u>	<u>314,046</u>
Net Change in Fund Balances	-	-	316,588	316,588
Fund Balance - October 1 (Beginning)	<u>6,058,433</u>	<u>6,058,433</u>	<u>6,058,433</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 6,058,433</u>	<u>\$ 6,058,433</u>	<u>\$ 6,375,021</u>	<u>\$ 316,588</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><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.	72-77
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	78-81
<b>Debt Capacity</b> 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.	82-87
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	88-89
<b>Operating Information</b> 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.	90-94

## NET POSITION BY COMPONENT

LAST TEN FISCAL YEARS

(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental Activities										
Net investment in capital assets	\$ 19,922,807	\$ 20,580,788	\$ 23,117,338	\$ 23,209,685	\$ 23,127,039	\$ 24,837,113	\$ 29,440,152	\$ 28,104,077	\$ 29,940,213	\$ 30,868,378
Restricted	3,376,182	2,839,102	1,555,269	1,878,576	2,405,754	4,633,213	3,161,349	7,880,701	3,977,350	4,893,240
Unrestricted	(16,035,419)	(13,426,738)	(11,350,064)	(13,390,826)	(9,596,034)	(8,070,156)	(5,404,853)	(396,078)	4,570,988	5,817,251
Total governmental activities net position	<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>	<u>\$ 27,196,648</u>	<u>\$ 35,588,700</u>	<u>\$ 38,488,551</u>	<u>\$ 41,578,869</u>
Business-type Activities										
Net investment in capital assets	\$ 27,548,912	\$ 27,042,159	\$ 27,275,625	\$ 28,155,931	\$ 29,921,166	\$ 29,502,539	\$ 29,813,324	\$ 29,931,590	\$ 29,443,855	\$ 28,413,217
Restricted	4,677,882	4,098,350	2,949,052	5,259,401	2,324,808	1,401,389	1,402,225	2,114,473	931,829	788,521
Unrestricted	2,518,191	2,978,574	2,891,977	3,436,248	3,790,728	4,421,146	5,042,025	6,280,610	7,490,363	8,274,313
Total business-type activities net position	<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>	<u>\$ 36,257,574</u>	<u>\$ 38,326,673</u>	<u>\$ 37,866,047</u>	<u>\$ 37,476,051</u>
Primary Government										
Net investment in capital assets	\$ 47,471,719	\$ 47,622,947	\$ 32,672,963	\$ 30,785,616	\$ 34,208,205	\$ 37,034,652	\$ 43,683,476	\$ 44,265,667	\$ 47,444,068	\$ 49,226,595
Restricted	8,054,064	6,937,452	4,504,321	7,394,803	4,730,562	6,034,602	4,563,574	9,995,174	4,909,179	5,681,761
Unrestricted	(13,517,228)	(10,448,164)	9,261,913	10,368,596	13,034,694	13,655,990	15,207,172	19,654,532	24,001,351	24,146,564
Total primary government net position	<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>	<u>\$ 63,454,222</u>	<u>\$ 73,915,373</u>	<u>\$ 76,354,598</u>	<u>\$ 79,054,920</u>

## CHANGES IN NET POSITION

LAST TEN FISCAL YEARS (1)

(ACCRUAL BASIS OF ACCOUNTING)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Governmental activities</b>										
General government	\$ 974,048	\$ 959,939	\$ 938,214	\$ 894,890	\$ 912,280	\$ 873,884	\$ 1,022,795	\$ 1,133,595	\$ 1,877,002	\$ 1,879,601
Public safety	4,706,590	4,510,332	3,960,690	4,719,003	4,873,250	4,991,907	5,447,749	5,380,222	5,596,872	6,506,680
Public works	1,854,510	1,439,306	1,620,899	1,893,707	1,825,249	1,805,477	1,839,892	2,276,934	1,908,479	1,116,983
Culture and recreation	916,500	927,717	1,636,562	1,076,490	1,075,263	1,160,750	1,280,927	1,225,890	1,410,272	1,360,968
Administrative and general	836,226	503,838	498,380	396,221	395,998	418,261	349,660	313,638	317,459	323,600
Interest on long-term debt	755,903	939,966	1,057,191	645,953	700,763	679,559	616,072	513,579	330,460	411,785
Capital Outlay	-	-	-	-	-	-	-	-	-	634,102
Total governmental activities	<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>	<u>10,557,095</u>	<u>10,843,858</u>	<u>11,440,544</u>	<u>12,233,719</u>
<b>Business-type activities</b>										
Water and sewer	4,455,575	4,419,694	4,332,049	4,406,019	4,408,929	4,480,355	4,387,935	4,193,292	4,635,956	4,664,576
Solid Waste	1,499,256	1,884,277	1,118,966	1,030,067	1,015,675	1,103,974	1,092,862	1,076,963	1,169,954	1,513,065
Total business-type activities	<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>5,480,797</u>	<u>5,270,255</u>	<u>5,805,910</u>	<u>6,177,641</u>
<b>Total Primary Government Expenses</b>	<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>	<u>\$ 16,037,892</u>	<u>\$ 16,114,113</u>	<u>\$ 17,246,454</u>	<u>\$ 18,411,360</u>
<b>Program Revenues</b>										
<b>Governmental activities:</b>										
Charges for services:										
Public safety	\$ 122,117	\$ 143,095	\$ 200,573	\$ 183,564	\$ 166,945	\$ 350,177	\$ 193,761	\$ 317,684	\$ 153,263	\$ 231,213
Public works	123,557	104,147	106,104	105,158	126,566	147,864	147,716	146,329	154,082	101,530
Culture and recreation	64,620	41,959	53,487	81,098	95,460	85,630	92,762	110,178	124,360	105,674
Operating grants and contributions	210,090	147,617	295,370	272,166	248,145	431,584	3,458,451	1,333,094	218,717	303,049
Total governmental activities program revenues	<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>	<u>3,892,690</u>	<u>1,907,285</u>	<u>650,422</u>	<u>741,466</u>
<b>Business activities:</b>										
Charges for services:										
Water & sewer	3,762,599	3,850,024	4,005,958	4,246,104	4,313,232	4,198,873	4,233,087	4,525,083	4,348,123	4,444,922
Solid waste	1,281,762	1,293,806	1,310,495	1,327,215	1,364,893	1,405,833	1,590,802	1,631,189	1,643,525	1,682,773
Capital grants and contributions	842,783	867,484	-	-	-	-	-	-	-	355,233
Total business-type activities program revenues	<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>5,823,889</u>	<u>6,156,272</u>	<u>5,991,648</u>	<u>6,482,928</u>
<b>Total primary government program revenues</b>	<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>	<u>\$ 9,716,579</u>	<u>\$ 8,063,557</u>	<u>\$ 6,642,070</u>	<u>\$ 7,224,394</u>
<b>Net (expense) revenue</b>										
Governmental activities	\$ (9,523,393)	\$ (8,844,280)	\$ (9,056,402)	\$ (8,984,278)	\$ (9,145,687)	\$ (8,914,583)	\$ (6,664,405)	\$ (8,936,573)	\$ (10,790,122)	\$ (11,492,253)
Business-type activities	(67,687)	(292,657)	(134,562)	137,233	253,521	20,377	343,092	886,017	185,738	305,287
<b>Total primary government net expense</b>	<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>	<u>\$ (6,321,313)</u>	<u>\$ (8,050,556)</u>	<u>\$ (10,604,384)</u>	<u>\$ (11,186,966)</u>

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Revenues and Other Changes in Net Position										
Governmental Activities										
Property taxes, penalties and interest	\$ 4,551,330	\$ 5,012,060	\$ 5,370,920	\$ 5,547,369	\$ 5,634,574	\$ 5,727,560	\$ 5,786,607	\$ 5,929,520	\$ 6,095,105	\$ 6,335,621
In lieu of tax contracts	783,582	839,560	940,850	1,006,261	1,768,745	1,819,377	1,784,626	1,737,247	1,723,214	1,672,348
Sales tax	2,781,508	3,283,262	2,922,006	3,036,033	3,713,845	3,681,434	3,844,714	4,227,148	4,104,845	3,725,211
Other taxes	1,056,941	913,653	1,298,937	1,299,828	1,230,797	1,164,178	1,219,125	1,261,713	1,216,030	1,297,399
Interest	233,143	64,742	28,537	21,941	21,291	27,164	19,828	17,529	26,515	51,219
Gain on sale of capital assets	-	-	-	-	-	-	-	-	-	-
Grants and Contributions Not Restricted	834,827	52,991	-	-	-	-	678,376	155,000	317,411	-
Other miscellaneous	137,331	621,448	1,018,745	82,405	55,811	81,126	103,041	124,263	97,460	219,290
Transfers	(3,585,402)	760,600	805,798	(3,617,690)	959,948	752,000	(620,963)	(198,629)	685,784	733,175
Total government activities	<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>	<u>12,815,354</u>	<u>13,253,791</u>	<u>14,266,364</u>	<u>14,313,471</u>
Business-type activities										
Interest	\$ 86,343	\$ 85,369	\$ 40,989	\$ 15,426	\$ 11,927	\$ 8,119	\$ 7,703	\$ 7,302	\$ 10,320	\$ 14,866
Other miscellaneous	166,529	361,509	(103,058)	(35,423)	(120,378)	11,876	(39,258)	(62,007)	77,187	23,026
Transfers	3,585,402	(760,600)	(805,798)	3,617,690	(959,948)	(752,000)	620,963	198,629	(685,784)	(733,175)
Total business-type activities	<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>589,408</u>	<u>143,924</u>	<u>(598,277)</u>	<u>(695,283)</u>
Total primary government	<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>	<u>\$ 13,404,762</u>	<u>\$ 13,397,715</u>	<u>\$ 13,668,087</u>	<u>\$ 13,618,188</u>
Change in Net Position										
Governmental activities	\$ (1,716,370)	\$ 2,024,923	\$ 3,329,391	\$ (1,608,131)	\$ 4,239,324	\$ 5,463,411	\$ 6,150,949	\$ 4,317,218	\$ 3,476,242	\$ 2,821,218
Business-type activities	3,680,709	(381,409)	(1,002,429)	3,734,926	(814,878)	(711,628)	932,500	1,029,941	(412,539)	(389,996)
Prior Period Adjustment	-	-	-	-	-	-	-	-	(372,116)	269,101
Total primary government	<u>\$ 1,964,339</u>	<u>\$ 1,643,514</u>	<u>\$ 2,326,962</u>	<u>\$ 2,126,795</u>	<u>\$ 3,424,446</u>	<u>\$ 4,751,783</u>	<u>\$ 7,083,449</u>	<u>\$ 5,347,159</u>	<u>\$ 2,691,587</u>	<u>\$ 2,700,323</u>

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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>Other Taxes</u>	<u>Total</u>
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
2014	5,787	1,785	3,845	1,219	12,636
2015	5,930	1,737	4,227	1,262	13,156
2016	6,095	1,723	4,105	1,216	13,139
2017	6,326	1,672	3,725	1,297	13,020

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Fund										
Reserved	\$ 5	\$ 5	\$ 4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	4,390	5,591	6,255	-	-	-	-	-	-	-
Nonspendable	-	-	-	4	3	2	2	3	1	2
Restricted	-	-	-	-	-	1,135	-	197	-	-
Assigned	-	-	-	-	-	1,350	-	2,800	2,692	2,953
Unassigned	-	-	-	7,043	9,332	8,809	12,660	10,817	11,850	12,174
Total general fund	<u>\$ 4,395</u>	<u>\$ 5,596</u>	<u>\$ 6,259</u>	<u>\$ 7,047</u>	<u>\$ 9,335</u>	<u>\$ 11,296</u>	<u>\$ 12,662</u>	<u>\$ 13,817</u>	<u>\$ 14,543</u>	<u>\$ 15,129</u>
All other governmental funds										
Reserved	254	225	239	-	-	-	-	-	-	-
Unreserved, reported in:										
Special revenue funds	249	238	282	-	-	-	-	-	-	-
Capital projects funds	3,123	2,627	1,316	-	-	-	-	-	-	-
Restricted										
Debt Service	-	-	-	290	309	261	229	224	174	157
Grants and Awards	-	-	-	257	289	320	310	414	417	427
Construction	-	-	-	-	-	-	-	280	4	5,330
Committed										
Capital projects	-	-	-	1,588	1,795	4,939	3,029	2,495	2,384	2,642
Total all other governmental funds	<u>\$ 3,626</u>	<u>\$ 3,090</u>	<u>\$ 1,837</u>	<u>\$ 2,135</u>	<u>\$ 2,393</u>	<u>\$ 5,520</u>	<u>\$ 3,568</u>	<u>\$ 3,413</u>	<u>\$ 2,979</u>	<u>\$ 8,556</u>
Total governmental funds	<u>\$ 8,021</u>	<u>\$ 8,686</u>	<u>\$ 8,096</u>	<u>\$ 9,182</u>	<u>\$ 11,728</u>	<u>\$ 16,816</u>	<u>\$ 16,230</u>	<u>\$ 17,230</u>	<u>\$ 17,522</u>	<u>\$ 23,685</u>

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



CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS (1)

(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

Revenues	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Property taxes, penalties and interest	4,550,883	5,044,628	5,328,245	5,533,376	5,615,078	5,699,431	5,785,757	5,911,963	6,113,742	6,326,289
In lieu of tax contracts	783,582	839,560	940,850	1,006,261	1,768,745	1,819,377	1,784,628	1,737,247	1,723,214	1,672,348
Sales Tax	2,781,508	3,283,262	2,922,006	3,036,033	3,713,845	3,681,434	3,844,714	4,227,148	4,104,845	3,725,211
Other taxes	1,056,941	913,653	1,298,937	1,299,828	1,230,797	1,164,178	1,219,125	1,261,713	1,216,030	1,297,399
Charges for services	171,126	127,703	159,591	186,255	222,026	233,494	240,478	256,507	278,442	207,204
Fines, forfeits and penalties	178,162	160,306	196,265	193,588	187,836	276,470	226,571	267,359	227,737	231,213
Interest	233,143	64,742	28,537	21,941	21,291	27,164	19,826	17,528	26,515	51,219
Other governmental agencies	834,827	52,991	-	-	-	-	-	-	-	-
Grants and Private contributions	210,090	147,617	295,370	272,166	248,145	431,584	3,458,451	1,333,096	218,717	582,257
Other miscellaneous	137,329	621,448	819,761	82,405	91,373	81,126	103,041	124,261	97,460	100,674
<b>Total revenues</b>	<b>10,937,591</b>	<b>11,255,910</b>	<b>11,989,562</b>	<b>11,631,853</b>	<b>13,099,136</b>	<b>13,414,258</b>	<b>16,682,591</b>	<b>15,136,822</b>	<b>14,006,702</b>	<b>14,193,814</b>
<b>Expenditures</b>										
<b>Current:</b>										
General government	929,419	913,358	890,651	908,602	910,170	965,139	1,008,005	2,561,602	1,217,555	1,328,398
Public safety	4,619,928	4,517,773	4,592,380	4,681,227	4,718,219	4,834,661	5,227,808	5,311,775	5,402,174	6,179,043
Public works	1,280,070	1,475,481	1,273,637	1,357,089	1,408,350	1,644,195	1,619,023	2,983,236	1,908,454	1,908,454
Culture and recreation	969,199	810,886	1,483,363	1,011,563	1,096,082	1,132,087	1,148,460	1,297,498	1,499,537	1,496,688
Administration and general	1,017,305	503,838	333,410	372,158	353,183	369,587	323,473	296,162	317,459	323,600
Capital Outlay	62,891	774,521	2,450,174	719,846	511,508	2,120,742	4,030,394	555,478	812,262	769,887
<b>Debt Service:</b>										
Principal retirement	1,295,000	1,475,000	1,545,000	1,640,000	1,825,000	1,680,000	1,815,000	1,890,000	1,925,000	1,985,000
Interest and fiscal charges	743,261	905,654	857,622	658,116	713,822	853,412	617,638	559,780	511,780	517,041
Issuance Costs	61,856	2,900	157,111	63,292	61,537	198,462	2,325	2,724	2,225	3,250
<b>Total expenditures</b>	<b>10,978,929</b>	<b>11,379,411</b>	<b>13,583,348</b>	<b>11,411,893</b>	<b>11,597,871</b>	<b>13,798,285</b>	<b>17,325,081</b>	<b>14,094,042</b>	<b>14,671,228</b>	<b>14,511,361</b>
Excess (Deficiency) of Revenues										
Over (Under) Expenditures	(41,338)	(123,501)	(1,593,786)	219,960	1,501,265	(384,027)	(642,490)	1,042,780	(664,526)	(317,547)
<b>Other Financing Sources (Uses)</b>										
Bonds issued	4,500,000	-	198,984	4,500,000	85,000	6,120,000	-	-	-	4,975,000
Premium on bonds	-	-	-	-	-	337,985	-	-	-	624,206
Bond issuance costs	-	-	-	-	-	-	-	-	-	-
Payment to refunded escrow agent	-	-	-	-	-	(3,375,000)	-	-	-	-
Transfers in	3,803,545	1,000,333	1,443,738	1,244,018	1,334,948	3,160,650	1,799,078	1,170,298	2,243,055	2,175,099
Transfers out	(7,388,947)	(239,733)	(637,940)	(4,861,708)	(375,000)	(2,408,650)	(2,420,041)	(1,368,927)	(1,557,272)	(1,441,925)
Sale of general capital assets	-	-	-	-	-	1,636,470	678,376	155,000	317,412	147,802
<b>Total Other Financing Sources and Uses</b>	<b>914,598</b>	<b>760,600</b>	<b>1,004,782</b>	<b>882,310</b>	<b>1,044,948</b>	<b>5,471,455</b>	<b>57,413</b>	<b>(43,629)</b>	<b>1,003,195</b>	<b>6,480,182</b>
<b>Net Change in Fund Balance</b>	<b>\$ 873,260</b>	<b>\$ 637,099</b>	<b>\$ (589,004)</b>	<b>\$ 1,102,270</b>	<b>\$ 2,546,213</b>	<b>\$ 5,087,428</b>	<b>\$ (585,077)</b>	<b>\$ 999,151</b>	<b>\$ 338,669</b>	<b>\$ 6,162,635</b>
Debt service as a percentage of non-capital expenditures	19.56%	24.06%	24.31%	22.51%	24.01%	23.77%	21.57%	20.71%	20.97%	20.67%

ASSESED 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			
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
2014	2013	762,806,954	228,548,890	46,558,802	72,936,303	964,978,343	0.0591853
2015	2014	784,202,131	218,685,410	69,521,792	80,972,053	991,437,280	0.0591853
2016	2015	813,977,607	224,764,320	95,130,156	112,331,501	1,021,540,582	0.0591853
2017	2016	841,020,598	232,242,560	94,158,834	111,045,255	1,056,376,737	0.0594000

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
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	0.027870
2014	0.371479	0.220374	\$0.591853	0.365000	1.120000	0.149917	0.029374
2015	0.372368	0.219485	\$0.591853	0.365000	1.145000	0.170602	0.089374
2016	0.385689	0.206164	\$0.591853	0.365000	1.160000	0.165305	0.091640
2017	0.390828	0.203172	\$0.594000	0.365000	1.160000	0.160545	0.091640

Source: Jefferson County Tax Office

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

## PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

TAXPAYER	Fiscal Year 2008		Fiscal Year 2017	
	Assessed Valuation	Percent of Estimated Actual Value	Assessed Valuation	Percent of Estimated Actual Value
Philpott Ford, Inc.	14,603,750	1.93%	14,666,810	1.39%
Entergy Texas, Inc.	6,927,010	0.91%	11,094,560	1.05%
Nederland Avenue Apartments	7,979,940	1.05%	9,634,070	0.91%
Megas Constantine	6,440,410	0.85%	9,291,430	0.88%
Fivepoint Federal Credit Union	-	-	8,349,940	0.79%
Chateau Residential LP	-	-	7,030,110	0.67%
JK Chevrolet Isuzu	-	-	6,950,370	0.66%
JAG Nederland Properties LTD	3,960,120	0.52%	5,829,952	0.55%
Medical Center of SE Texas	6,259,220	0.83%	4,826,340	0.46%
Albanese Nederland Spe LLC	3,696,510	0.49%	3,929,850	0.37%
Southwestern Bell	6,382,390	0.84%	-	-
Emhugh, Ltd	3,860,990	0.51%	-	-
M & E Food Mart, Inc.	3,371,450	0.44%	-	-
Total	<u>\$63,481,790</u>	8.38%	<u>\$81,603,432</u>	7.72%

Source: Jefferson County Appraisal District

Notes:

Total taxable value including real and personal property for tax year 2007 (fiscal year 2008) is \$757,878,769

Total taxable value including real and personal property for tax year 2016 (fiscal year 2017) is \$1,056,376,737

CITY OF NEDERLAND  
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
2008	4,492,171	4,387,683	97.67%	92,941	4,480,624	99.74%
2009	4,960,797	4,838,230	97.53%	107,808	4,946,038	99.70%
2010	5,304,235	5,140,742	96.92%	147,340	5,288,082	99.70%
2011	5,461,469	5,315,110	97.32%	123,216	5,438,326	99.58%
2012	5,556,768	5,422,024	97.58%	109,547	5,531,571	99.55%
2013	5,639,752	5,502,387	97.56%	108,862	5,611,249	99.49%
2014	5,692,778	5,555,702	97.59%	99,938	5,655,640	99.35%
2015	5,858,830	5,726,009	97.73%	80,065	5,806,074	99.10%
2016	6,031,333	5,908,543	97.96%	52,438	5,960,981	98.83%
2017	6,273,197	6,139,152	97.86%	-	6,139,152	97.86%

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			
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	4.26%	\$ 1,074
2013	6,914,234	-	13,508,405	-	20,422,639	4.64%	\$ 1,164
2014	6,660,360	-	11,914,996	-	18,575,356	4.41%	\$ 1,059
2015	6,448,900	-	10,400,809	-	16,849,709	3.82%	\$ 960
2016	6,349,772	-	8,367,763	-	14,717,535	3.34%	\$ 839
2017	11,373,884	-	6,809,971	-	18,183,855	4.13%	\$ 1,036

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		
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
2014	6,545,000	-	11,545,000	228,616	\$17,861,384	1.85%	1,018
2015	6,285,000	-	9,915,000	223,567	\$15,976,433	1.61%	910
2016	6,349,772	-	8,367,763	174,078	\$14,543,457	1.42%	829
2017	11,373,884	-	6,809,971	156,911	\$18,026,944	1.71%	1,027

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, 2017

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	\$28,190,000	36.96%	\$10,419,024
Jefferson County, Texas	31,380,000	3.67%	1,151,646
Jefferson County Drainage District #7	17,700,000	7.29%	1,290,330
Subtotal overlapping debt			12,861,000
City direct debt			18,183,855
TOTAL			\$ 31,044,855

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.



DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT  
 AS OF SEPTEMBER 30, 2017

<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	\$ 13,770,000	100.00%	\$ 13,770,000

LEGAL DEBT MARGIN INFORMATION  
 LAST TEN FISCAL YEARS  
 (AMOUNTS EXPRESSED IN THOUSANDS)

**Debt Margin Calculation for Fiscal Year 2017**

Assessed value	<u>\$1,056,376,737</u>
Debt Limit (25% of assessed value)	<u>264,094,184</u>
Debt applicable to limit:	
General Obligation Bonds	13,770
Less: amount set aside for repayment of general obligation debt	<u>(98)</u>
Total net debt applicable to limit	<u>13,672</u>
<b>Debt Margin</b>	<u><u>\$ 264,080,512</u></u>

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Debt limit	\$ 189,469	\$ 214,334	\$ 211,953	\$ 215,934	\$ 221,641	\$ 219,528	\$ 223,384	\$ 231,883	\$ 241,284	\$ 264,081
Total net debt applicable to limit	<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>17,861</u>	<u>15,976</u>	<u>14,101</u>	<u>13,672</u>
Legal debt margin	<u><u>\$ 168,613</u></u>	<u><u>\$ 194,924</u></u>	<u><u>\$ 194,472</u></u>	<u><u>\$ 195,645</u></u>	<u><u>\$ 203,098</u></u>	<u><u>\$ 199,884</u></u>	<u><u>\$ 205,523</u></u>	<u><u>\$ 215,907</u></u>	<u><u>\$ 227,183</u></u>	<u><u>\$ 250,409</u></u>
Legal debt margin as a percentage of the debt limit	88.99%	90.94%	91.75%	90.60%	91.63%	91.05%	92.00%	93.11%	94.16%	94.82%

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.

**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
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	-	-	-
2014	4,065,404	2,975,514	1,089,890	-	-	-
2015	4,364,421	2,983,052	1,381,369	-	-	-
2016	4,348,123	3,233,957	1,114,166	-	-	-
2017	4,444,922	3,254,861	1,190,061	-	-	-

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
2008	17,422	410,741	23,576	N/A	5,073	4.50%
2009	17,422	471,230	27,048	N/A	5,024	5.00%
2010	17,422	456,753	26,217	N/A	4,898	5.00%
2011	17,547	459,679	26,197	N/A	4,999	** 11.4%
2012	17,547	461,223	26,285	37.3	5,022	** 9.89%
2013	17,547	460,539	26,246	37.3	5,026	** 9.70%
2014	17,547	483,157	27,535	36.8	5,006	** 7.3%
2015	17,547	545,431	31,084	36.6	5,156	** 6.4%
2016	17,547	541,571	30,864	38.7	5,030	** 7.2%
2017	17,547	566,259	32,271	38.8	5,229	** 8.2%

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

Notes:

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

N/A-Data not available

## PRINCIPAL EMPLOYERS

CURRENT YEAR

Employer	2014	
	Employees	Percentage of Total City Employment
Nederland Independent School District	648	8.02%
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	114	1.41%
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

<u>Function/Program</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>General government</b>										
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
<b>Public safety</b>										
Police	26	26	26	26	26	27	27	28	28	29
Fire	15	15	15	15	15	15	15	15	15	15
Dispatch	10	10	10	10	10	10	10	11	11	11
Information Technology	-	-	1	1	1	2	2	3	3	3
<b>Public works</b>										
Inspections	2	2	2	2	2	2	2	2	2	2
Code Enforcement	-	-	-	-	-	-	1	1	1	1
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	3	2	2	**
Animal Control	-	-	-	-	-	-	-	1	1	1
<b>Culture and recreation</b>										
Parks and recreation	3	3	3	3	3	3	3	4	4	4
Library	3	4	4	4	4	4	4	4	4	4
<b>Water and sewer</b>										
Water treatment	6	6	6	6	6	6	6	6	6	7
Water utility billing/collections	4	4	4	4	4	4	5	5	5	5
Wastewater treatment	*	*	*	*	*	*	*	*	*	4
Water and sewer distribution	10	10	10	10	10	10	9	9	9	9
<b>Solid Waste</b>										
	7	7	7	7	7	7	7	7	7	9
<b>Total</b>	<b>104</b>	<b>105</b>	<b>106</b>	<b>106</b>	<b>106</b>	<b>108</b>	<b>110</b>	<b>114</b>	<b>114</b>	<b>120</b>

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.

\* The wastewater treatment operation had been contracted in 2004 and the City took over operations in FY 16-17

\*\* Operations of City Shop were moved under Solid Waste

OPERATING INDICATORS BY FUNCTION/PROGRAM  
LAST TEN CALENDAR YEARS

Function/Program	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government										
Building permits issued	1,045	1,101	1,005	1,026	1,026	1,028	981	1,035	1,127	815
Public safety										
Police										
Physical arrests	264	408	345	377	360	245	364	459	413	438
Traffic violations	1,568	1,877	2,158	1,744	2,058	3,503	2,589	2,508	1,704	1,735
Dispatch calls for service	10,436	10,257	10,109	12,258	12,463	14,455	14,667	17,377	17,199	19,246
Offense reports filled	2,005	2,000	1,805	2,050	2,049	2,195	2,015	2,161	1,973	2,151
Fire										
Fire runs	104	75	99	103	91	66	72	52	77	602
EMS & other non-fire runs	1,241	1,480	1,566	1,556	1,608	1,632	1,731	1,830	1,700	1,402
Library										
Total volumes borrowed	96,887	103,171	115,311	106,380	103,602	106,526	96,449	94,428	89,490	86,499
Water and sewer										
Number of connections	8,246	8,259	7825*	7,848	7,865	7,926	8,308	8,569	8,680	8,680
Water main breaks	157	115	288	446	176	248	114	129	103	133
Average daily consumption (thousands of gallons)	2.32	2.21	2.25	2.32	2	2.13	2.01	1.97	1.97	2.00
Peak daily consumption (thousands of gallons)	3.75	3.49	3.49	3.59	3.47	3.43	3.63	3.16	2.77	2.76
Solid waste										
Refuse collected average yards per day (compacted)	93.000	91.000	90.000	104.000	128.000	117.000	120.000	85.000	117.000	85.000
Refuse collected average yards per day (non-compacted)	73.000	97.000	112.000	96.000	104.000	192.000	117.000	110.000	144.000	138.000

Source: City Departments

\* Change in method of connection count per TCEQ

CAPITAL ASSET STATISTIC  
LAST TEN FISCAL YEARS

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles	14	14	14	20	20	19	19	19	19	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	6	6	6	6	6	7	7	7	7	7
Parks and recreation										
Parks	7	7	7	5	6	5	5	6	6	6
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	94	94	94	94	94
Fire hydrants	407	407	407	407	407	407	407	407	407	407

Source: City Departments



## Industrial Contracts

**2007-2008 Fiscal Year**

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

**2008-2009 Fiscal Year**

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

**2009-2010 Fiscal Year**

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

**2010-2011 Fiscal Year**

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

**2011-2012 Fiscal Year**

	2011 Assessed Valuation	Taxable Value	Payments
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	301,689,110	220,964,553	1,277,175
<b>Total</b>	<b>\$ 482,585,290</b>	<b>\$ 306,011,284</b>	<b>\$ 1,768,745</b>

## Industrial Contracts

**2012-2013 Fiscal Year**

	2012		
	Assessed	Taxable	
	Valuation	Value	Payments
Air Liquide America Corporation	\$ 24,067,050	\$ 17,907,656	\$ 105,987
Union Oil of California	125,825,490	57,674,339	341,347
Sun Pipeline Company	321,881,020	231,821,470	1,372,042
<b>Total</b>	<b>\$ 471,773,560</b>	<b>\$ 307,403,465</b>	<b>\$ 1,819,376</b>

**2013-2014 Fiscal Year**

	2013		
	Assessed	Taxable	
	Valuation	Value	Payments
Air Liquide America Corporation	\$ 22,792,750	\$ 16,950,446	\$ 100,322
Union Oil of California	130,086,870	57,687,463	341,425
Sun Pipeline Company	344,778,530	226,894,368	1,342,881
<b>Total</b>	<b>\$ 497,658,150</b>	<b>\$ 301,532,277</b>	<b>\$ 1,784,628</b>

**2014-2015 Fiscal Year**

	2014		
	Assessed	Taxable	
	Valuation	Value	Payments
Air Liquide America Corporation	\$ 22,583,320	\$ 16,781,950	\$ 99,324
Union Oil of California	59,708,970	11,971,863	70,856
Phillips 66	56,523,680	42,086,025	249,087
Sun Pipeline Company	325,835,540	222,686,850	1,317,979
<b>Total</b>	<b>\$ 464,651,510</b>	<b>\$ 293,526,688</b>	<b>\$ 1,737,246</b>

**2015-2016 Fiscal Year**

	2015		
	Assessed	Taxable	
	Valuation	Value	Payments
Air Liquide America Corporation	\$ 22,620,890	\$ 16,815,589	\$ 99,524
Union Oil of California	35,522,610	7,134,591	42,226
Phillips 66	56,314,170	41,921,193	248,112
Sun Pipeline Company	456,923,780	225,284,313	1,333,352
<b>Total</b>	<b>\$ 571,381,450</b>	<b>\$ 291,155,686</b>	<b>\$ 1,723,214</b>

**2016-2017 Fiscal Year**

	2016		
	Assessed	Taxable	
	Valuation	Value	Payments
Air Liquide America Corporation	\$ 21,797,760	\$ 16,213,438	\$ 96,308
Union Oil of California	19,236,810	3,877,431	23,032
Phillips 66	55,326,810	41,193,103	244,687
Sun Pipeline Company	562,028,080	220,256,137	1,308,321
<b>Total</b>	<b>\$ 658,389,460</b>	<b>\$ 281,540,109</b>	<b>\$ 1,672,348</b>