

CITY OF NEDERLAND, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

Prepared by:
FINANCE DEPARTMENT

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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, 2018.

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, 2018, 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 unmodified opinion that the City's financial statements for the fiscal year ended September 30, 2018, 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 31st. 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. In August 2017, the City and region were devastatingly impacted by Tropical Storm Harvey. The City's, residents', and businesses' clean-up and recovery efforts have slowed or ended, and the economic impact had begun to show signs of returning to pre-storm conditions.

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, as well as 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. And 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 modest growth. In the past five years, taxable assessable values have increased by over \$121.97M or 12.6%. During the same period, ad valorem tax revenue has increased by 19.5% or 6.5% annually, but this includes tax rate increases in October 2016 (fund new police officer position) and in October 2017 (Nederland Avenue project debt). In addition, during the past five years, sales tax collections increased by 18.4%; a significant increase resulted from the repairs and reconstruction following Tropical Storm Harvey. During this period, industrial in lieu of taxes revenues has increased by 11.8%. Looking beyond the past five years, long-term trends in taxable values, ad valorem revenue, and sales tax revenue, as well as the recent instability 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 2017-2018 IN REVIEW

- ✓ To pay the Nederland Avenue project debt, the tax rate was adjusted to \$0.609578, which remained one of the lowest municipal tax rates in Jefferson County; continued to provide \$15,000 Homestead Tax Exemptions for the elderly and the disabled.
- ✓ Commenced the Nederland Avenue Paving, Drainage, and Utility Improvements project - \$5,097,961; following two public forums to discuss the two proposed approaches to the project, the City Council unanimously elected to pursue the narrowed scope project (the hot mix overlay and drainage improvements requiring four to six months to complete).
- ✓ Completed street improvements to address the City's transportation network, approximately \$1,129,300, including the hot mix overlay of Holmes Road (Beauxart Garden Road to the city limits), 14th Street (500 block to Helena Avenue), 15th Street (Nederland Avenue to Helena Ave), South 14th Street (Nederland Ave to Avenue H), South 17th Street (Nederland Ave to Avenue E), and South 6th Street (DD7 ditch to Nederland Ave), curb and gutter replacement, and various street re-surfacing projects with assistance from Jefferson County Precinct 2.
- ✓ Completed the Tropical Storm Harvey debris operation with the City's trash truck fleet, in conjunction with DRC Emergency Services, LLC and Tetra Tech, Inc.; the City is pending reimbursement from FEMA.
- ✓ Completed the Tropical Storm Harvey reconstruction debris operation with the City's trash truck fleet; FEMA does not reimburse local entities for reconstruction operations; the City's Solid Waste Fund absorbed these costs with no solid waste rate increase.
- ✓ Submitted Hazard Mitigation Grant Program applications to FEMA (generators at four lift stations that lack a generator, new roof and generator at the Library, generator and storm shutters at the Recreation Center, and drainage improvements along South 35th Street between Avenue A and Avenue B).
- ✓ Approved an Interlocal Cooperation Agreement with Walker County for storm-term sheltering during an evacuation.
- ✓ Purchased new console furniture for Central Dispatch (\$66,100), the cost will be reimbursed by the 9-1-1 Emergency network; completed minor remodeling of the Central Dispatch offices (\$27,000).
- ✓ Completed the re-roofing of the Nederland Swimming Pool, add covering to the pool motor equipment, and completed the pool overhang repair (\$36,300).
- ✓ Continued to fund spay & neutering program of Nederland residents' pets in an effort to control the pet population and commenced a feline population control program.
- ✓ Received \$140,624 in grant funding and donations: \$24,678 - Interoperable Communications Sustainability Program - United States Department of Homeland Security (Police), \$20,982 - Interoperable Communications Sustainability Program - United States Department of Homeland Security (Police), \$2,134 - Law Enforcement Officer Standards and Education Funds (Police), \$2,000 - Koch Companies (Fire), \$15,755 - Meadows Foundation Grant (Fire), \$2,000 - Entergy (Parks & Recreation), \$36,000 - Wilton and Effie Mae Hebert Foundation (Library); received donations of \$5,000 from Shell Pipeline, \$20,870 from the Nederland Heritage Foundation (Police, Fire, Parks & Recreation, and Animal Control), \$2,805 from the Texas Forest Service (Fire), and \$8,400 from Sunoco (Fire).
- ✓ Updated the 5-year Capital Improvement Program.
- ✓ Adjusted City Utility Rates to ensure the long-term fiscal stability of water/wastewater services.
- ✓ Purchased 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, a garbage truck for the Solid Waste Department, and a truck for the Utility Billing Department.
- ✓ Commenced repairs/improvements to the electrical loop at Doornbos Park, including LED lighting upgrades to the light poles in the park.
- ✓ Completed 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 Library continues to develop the veterans' database; forms to participate are available on the library's website and available at the library.
- ✓ Implemented energy efficiency upgrades with the LED street light upgrades on Helena Avenue (Hwy 69 frontage road to Twin City Highway).
- ✓ Approved the Preliminary Plat of "the Landing" subdivision (airport development) and the Final Plat of "Laura Place, a private duplex subdivision."
- ✓ Purchased two lots (324 North 15th Street and 323 North 14th Street) abutting the Homer E. Nagel Public Safety Complex (\$243,097). One lot will be utilized for additional parking of the police and fire department fleets and additional staff parking, and the other lot will be held for a future project.
- ✓ Approved an ad valorem tax abatement request from Phillips 66 and the sale of a pipeline easement to ExxonMobil Oil Corporation.

- ✓ Amended the City's Zoning Ordinance addressing the minimum lot size for duplex residential and townhome development, townhome requirements, and other various sections.
- ✓ Continued to reduce the crime rate.
- ✓ Appointed Gary Porter as Chief of Police following the retirement of Darrell Bush and promoted Andy Arnold to Assistant Police Chief.
- ✓ Continued water and sewer line improvements in order to upgrade the City's utility infrastructure.
- ✓ Implemented a second Neighborhood Reinvestment Zone to encourage redevelopment of the old ISTC building along Highway 69.
- ✓ Approved an amendment to the Interlocal Agreement between the City, Nederland Economic Development Corporation, and Jefferson County to facilitate the installation of infrastructure for Judice's Restaurant at the airport property.
- ✓ 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, Memorial Day, Veterans' Day, and the 4th of July Fireworks Extravaganza.
- ✓ Awarded for the 21st 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 the Healthy Lifestyles Initiatives to improve City employees' overall health.
- ✓ 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.
- ✓ Improved workplace safety and reduce the number of injury claims.
- ✓ 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.
- ✓ Continued 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.

GOALS FOR FISCAL YEAR 2018-2019

- Maintain one of the lowest municipal tax rates in Jefferson County (\$0.609578 per \$100 assessed taxable value); continue to provide \$15,000 Homestead Tax Exemptions for the elderly and the disabled.
- Complete the Nederland Avenue Paving, Drainage and Utility Improvements project (\$5,097,961).
- Continuation of street improvements to improve the transportation network—\$1,295,000.
- Issue \$10M in certificates of obligation for a Main Sewer Line Repair/Improvements project.
- Commence Main Sewer Line Repair/Improvements project.
- Adjust City Utility Rates to fund the Main Sewer Line Repair/Improvements project costs and to ensure the long-term fiscal stability of water/wastewater services.
- Create two new Police Officer positions allowing assignment of two school resource officers at NISD's two middle schools and create new Accounting Assistant position.
- Complete a waterline replacement project and other capital improvements to the Water System.
- Complete the Doornbos Park Electrical Loop Repairs/Improvements project.
- Continue to fund spay & neutering program of Nederland residents' pets in an effort to control the pet population and a feline population control 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.
- Purchase a Police patrol SUV and a patrol 4X4 truck, a truck for the Chief Building Official, a truck for the Parks & Recreation Department, a dump truck for the Streets Department, a truck for the Water/Sewer Distribution Department, a dump truck for the Waste Water Treatment Department, and a trash 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.
- Continue energy efficiency efforts with LED street light upgrades on Nederland 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, Veterans' Day, Memorial Day, and the 4th 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 approved investment pools, and interest-bearing demand deposits. The average yield on investments was 0.79% during fiscal year ended September 30, 2018.

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 108.89% 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 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

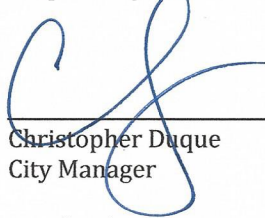
Awards

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, 2017 marked the twenty first 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, 2018 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,



Christopher Duque
City Manager



Cheryl Dowden
Director of Finance

March 25, 2019



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, 2017

Christopher P. Morill

Executive Director/CEO

CITY OF NEDERLAND, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
September 30, 2018

CITY OFFICIALS

ELECTED POSITIONS

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

POSITION

Christopher Duque

City Manager

Cheryl Dowden

Director of Finance / Assistant City Manager

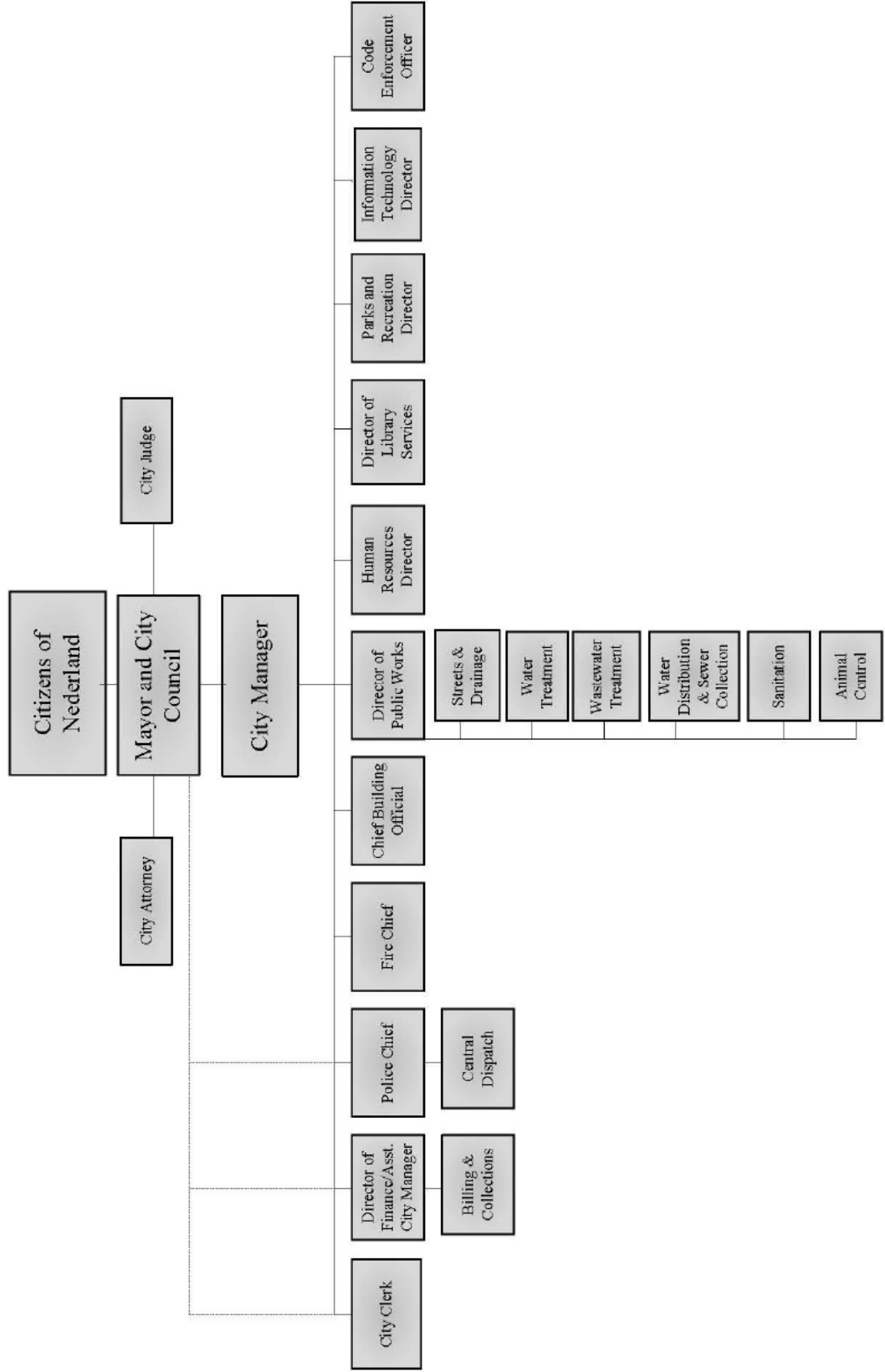
Gay Ferguson

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 25, 2019

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, 2018, 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, 2018 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 25, 2019

Emphasis of Matter

As discussed in Notes 11 and 13 to the financial statements, in the current fiscal year, the City adopted new accounting guidance prescribed by GASB Statement No. 75 for its Other Post-Employment Benefit (OPEB) plan – a single-employer postemployment benefit plan. Because GASB Statement No. 75 implements new measurement criteria and reporting provisions, significant information has been added to the Government-Wide Statements. Exhibit A discloses the City's Net OPEB Liability and Deferred Resource Outflows related to the City's OPEB plan. Exhibit B discloses the adjustment to the City's Beginning Net Position. Our opinion is not modified with respect to the matter.

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 55, the schedule of employer contributions – pension plan on page 56, and the schedule of changes in the total OPEB liability and related ratio on page 57, 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 25, 2019 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, 2018. 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 \$82,837,033. This number must be viewed in the context that the majority of the City's net position of \$50,256,979 (60.67%) 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 \$9,111,312 (11.00%). The remaining \$23,468,742 (28.33%) 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 decreased by \$741,333 in fiscal year 2018.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$23,976,902. Within this total \$12,414 is non-spendable for prepaid items, \$6,792,788 is restricted by specific legal requirements, such as by debt covenants and \$4,159,247 has been committed and assigned to specific expenditures. The remaining \$13,012,453 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 25-54 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this Report also presents certain required supplementary information concerning the City'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 \$82,837,033 as of September 30, 2018. The largest portion of the City's net position (60.67%) 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 (11.00%) represents resources that are subject to restrictions on how they may be used. The remaining balance of \$23,468,742 (28.33%) is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

Net Position September 30, 2018 and 2017

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 29,938,042	\$ 25,707,954	\$ 11,757,458	\$ 10,043,898	\$ 41,695,500	\$ 35,751,852
Capital Assets	35,373,824	33,103,378	27,438,324	28,413,217	62,812,148	61,516,595
Total Assets	<u>65,311,866</u>	<u>58,811,332</u>	<u>39,195,782</u>	<u>38,457,115</u>	<u>104,507,648</u>	<u>97,268,447</u>
Deferred Outflows	<u>2,179,009</u>	<u>2,909,363</u>	<u>513,731</u>	<u>698,939</u>	<u>2,692,740</u>	<u>3,608,302</u>
Current Liabilities	3,992,840	3,023,927	1,186,340	1,265,675	5,179,180	4,289,602
Long-term Liabilities						
Outstanding	15,031,706	16,500,551	583,049	247,839	15,614,755	16,748,390
Total Liabilities	<u>19,024,546</u>	<u>19,524,478</u>	<u>1,769,389</u>	<u>1,513,514</u>	<u>20,793,935</u>	<u>21,037,992</u>
Deferred Inflows	<u>2,787,442</u>	<u>631,271</u>	<u>781,978</u>	<u>166,489</u>	<u>3,569,420</u>	<u>797,760</u>
Net Position						
Net Investment in						
Capital Assets	30,923,655	30,868,378	27,438,324	28,413,217	50,256,979	49,226,595
Restricted	7,634,601	4,829,729	1,476,711	788,521	9,111,312	5,681,761
Unrestricted	7,120,631	5,880,762	8,243,111	8,274,313	23,468,742	24,146,564
Total Net Position	<u>\$ 45,678,887</u>	<u>\$ 41,578,869</u>	<u>\$ 37,158,146</u>	<u>\$ 37,476,051</u>	<u>\$ 82,837,033</u>	<u>\$ 79,054,920</u>

Governmental activities: Governmental activities increased the City's net position by \$4,100,018. 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 \$317,905. 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, 2018 with comparative totals for year ended September 30, 2017.

Changes in Net Position

For the fiscal years ended September 30, 2018 and 2017

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues						
Charges for Services	\$ 551,701	\$ 438,417	\$ 6,421,774	\$ 6,127,695	\$ 6,973,475	\$ 6,566,112
Operating Grants and Contributions	287,856	303,049	296,417	355,233	584,273	658,282
General Revenues						
Property Taxes	6,748,020	6,335,621	-	-	6,748,020	6,335,621
Industrial Payments	1,995,382	1,672,348	-	-	1,995,382	1,672,348
Sales Tax	4,550,091	3,725,211	-	-	4,550,091	3,725,211
Gross Receipts Tax	1,364,631	1,297,399	-	-	1,364,631	1,297,399
Interest	216,153	51,219	39,213	14,866	255,366	66,085
Grants and Contributions	-	279,208	-	-	-	279,208
Miscellaneous	420,003	219,290	167,311	23,026	587,314	242,316
Total Revenues	<u>16,133,837</u>	<u>14,321,762</u>	<u>6,924,715</u>	<u>6,520,820</u>	<u>23,058,552</u>	<u>20,842,582</u>
Expenses						
General Government	1,453,810	1,879,601	-	-	1,453,810	1,879,601
Public Safety	6,090,633	6,506,680	-	-	6,090,633	6,506,680
Public Works	1,984,912	1,116,983	-	-	1,984,912	1,116,983
Culture and recreation	1,352,159	1,360,968	-	-	1,352,159	1,360,968
Administrative and general	540,643	323,600	-	-	540,643	323,600
Interest on Long Term Debt	470,165	411,785	-	-	470,165	411,785
Capital outlay	-	634,102	-	-	-	634,102
Water & sewer	-	-	4,842,030	4,664,576	4,842,030	4,664,576
Solid waste	-	-	1,599,620	1,513,065	1,599,620	1,513,065
Total Expenses	<u>11,892,322</u>	<u>12,233,719</u>	<u>6,441,650</u>	<u>6,177,641</u>	<u>18,333,972</u>	<u>18,411,360</u>
Increase (Decrease) in Net Position before Transfers	4,241,515	2,088,043	483,065	343,179	4,724,580	2,431,222
Transfers	552,030	733,175	(552,030)	(733,175)	-	-
Increase (Decrease) in Net Position	4,793,545	2,821,218	(68,965)	(389,996)	4,724,580	2,431,222
Net Position at Beginning of Year	41,578,871	38,488,550	37,476,051	37,866,047	79,054,922	76,354,597
Prior Period Adjustment	(693,529)	269,101	(248,940)	-	(942,469)	269,101
Net Position at End of Year	<u>\$ 45,678,887</u>	<u>\$ 41,578,869</u>	<u>\$ 37,158,146</u>	<u>\$ 37,476,051</u>	<u>\$ 82,837,033</u>	<u>\$ 79,054,920</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 \$23.98 million, an increase of \$291,846 over the prior year. The increase is mainly attributable to activities in the General Fund. 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 \$12,414, restricted for payment of debt service \$136,158, restricted for Capital Acquisition and Contractual Obligations \$6,355,226, restricted for Public Safety \$109,334, and restricted for Culture and Recreation \$192,070. In addition, \$3,936,729 is committed for capital projects and \$222,518 is assigned for Culture and Recreation.

The General Fund is the chief operating fund of the City. At September 30, 2018, the unassigned fund balance of the General Fund was \$13,012,453 while total fund balance was \$16,423,574. 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 102.78 percent of total general fund expenditures (including transfers out), while total fund balance represents 129.72 percent of that same amount.

Fund balance of the City's General Fund increased by \$1,294,938 during 2018. This increase was primarily due to an increase in property tax revenue, sales tax revenue due to the economy, in lieu of tax contracts due to abated value reductions and investment earnings increase due to a favorable market.

The Debt Service Fund has a total fund balance of \$136,158. The net decrease in fund balance during the fiscal year 2018 in this fund was \$20,754 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 \$4,808,509 for the Water and Sewer Fund, and \$3,434,602 for the Solid Waste Fund. The change in net position for the enterprise funds in 2018 were a decrease of \$549,773 for the Water & Sewer Fund and an increase of \$231,868 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 an increase in budgeted expenditures from the original budget of \$621,206 or 5.47%. The majority of the decrease was in Administrative and General due to minor budgetary needs and Public Safety due to unanticipated equipment purchase, overtime due to greater than expected departmental absences. During the year budgeted revenues increased \$1,117,152 from the original budget which was attributable to better than expected ad valorem tax collections, sales 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 \$271,053 less than the anticipated budget due to weather preventing the completion of scheduled projects. Parks and recreation expenditures were \$187,565 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 18-19 year end.

CAPITAL ASSETS

Capital assets. The City's investment in capital assets for governmental and business-type activities as of September 30, 2018, amounted to \$62,812,148 (net of accumulated depreciation). This investment in capital assets includes land, and other capital assets such as buildings, improvements and equipment. The total increase in capital assets for the current fiscal year was approximately 2.11% (6.86% increase for governmental activities and 3.43% decrease in business-type activities.)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 4,035,559	\$ 3,790,440	\$ -	\$ -	\$ 4,035,559	\$ 3,790,440
Construction in Progress	2,341,372	184,284	478,846	255,747	2,820,218	440,031
Buildings	14,874,491	14,819,865	21,450,340	21,450,340	36,324,831	36,270,205
Improvements other than buildings	-	-	31,681,771	31,667,668	31,681,771	31,667,668
Machinery and Equipment	5,226,737	5,214,036	4,195,570	3,819,006	9,422,307	9,033,042
Infrastructure	35,572,299	34,477,212	-	-	35,572,299	34,477,212
	62,050,458	58,485,837	57,806,527	57,192,761	119,856,985	115,678,598
Less: Accumulated Depreciation	<u>(26,676,634)</u>	<u>(25,382,459)</u>	<u>(30,368,203)</u>	<u>(28,779,544)</u>	<u>(57,044,837)</u>	<u>(54,162,003)</u>
Capital Assets, net	<u>\$ 35,373,824</u>	<u>\$ 33,103,378</u>	<u>\$ 27,438,324</u>	<u>\$ 28,413,217</u>	<u>\$ 62,812,148</u>	<u>\$ 61,516,595</u>

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

- Street improvements including overlays, chip seal and hot mix totaling \$1,129,300
- Completion of the Nederland Swimming Pool re-roof, addition of pool motor equipment cover, and pool overhang repair totaling \$36,300
- Purchase of two lots abutting the Public Safety Complex for additional parking and future expansion at a total cost of \$243,097

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, 2018, the City had \$18,239,430 of long-term bonded debt and other liabilities outstanding.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
General & Certificates of Obligations	\$ 4,800,000	\$ 6,560,000	\$ -	\$ -	\$ 4,800,000	\$ 6,560,000
Tax & Revenue CO's	10,310,000	10,705,000	-	-	10,310,000	10,705,000
Unamortized Bond Premium	770,969	918,855	-	-	770,969	918,855
Compensated Absences	648,460	542,060	191,053	146,360	839,513	688,420
OPEB Liability	1,041,437	367,730	477,511	173,650	1,518,948	541,380
	<u>\$ 17,570,866</u>	<u>\$ 19,093,645</u>	<u>\$ 668,564</u>	<u>\$ 320,010</u>	<u>\$ 18,239,430</u>	<u>\$ 19,413,655</u>

Total long term bonds and other liabilities outstanding at September 30, 2018 decreased by \$1,174,225 over September 30, 2017. This reduction of bond debt was due to scheduled payments of bond principal and the increase in OPEB liability was due to the adoption of Government Accounting Standards Board (GASB) Statement No. 75 effective October 1, 2017.

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 2019 includes a small increase in property tax revenue due to properties added to the tax roll. The tax remained the same from fiscal year 2018 at .609578 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, 2018

	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Nonmajor Component Unit
ASSETS				
Cash and Cash Equivalents	\$ 8,605,222	\$ 5,206,451	\$ 13,811,673	\$ 396,476
Investments - Current	16,080,668	2,826,904	18,907,572	6,439,734
Taxes Receivable	358,508	-	358,508	66,860
Accounts Receivable, Net	1,033,554	1,196,778	2,230,332	-
Miscellaneous Receivables	-	-	-	4,322
Due from Other Governments	54,607	-	54,607	-
Due from Other Funds	5,130	(5,130)	-	121,969
Due from Others	30,918	-	30,918	-
Inventories	-	126,229	126,229	-
Prepaid Items	12,414	-	12,414	-
Restricted Assets:				
Permanently Restricted:				
Cash and Cash Equivalents	-	599,928	599,928	-
Investments	-	740,721	740,721	-
Capital Assets:				
Land Purchase and Improvements	4,035,559	-	4,035,559	-
Infrastructure and Improvements, Net	19,698,273	13,880,046	33,578,319	-
Buildings, Net	8,368,267	11,760,756	20,129,023	163,963
Machinery and Equipment, Net	930,353	1,318,676	2,249,029	-
Construction in Progress	2,341,372	478,846	2,820,218	-
Net Pension Asset	3,757,021	1,065,577	4,822,598	87,899
Total Assets	<u>65,311,866</u>	<u>39,195,782</u>	<u>104,507,648</u>	<u>7,281,223</u>
DEFERRED OUTFLOW OF RESOURCES				
Deferred Charge for Refunding	112,472	-	112,472	-
Deferred Outflow Related to Pension Plan	1,974,193	471,389	2,445,582	47,026
Deferred Resource Outflow Related to OPEB	92,344	42,342	134,686	17,949
Total Deferred Outflows of Resources	<u>2,179,009</u>	<u>513,731</u>	<u>2,692,740</u>	<u>64,975</u>

	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Nonmajor Component Unit
LIABILITIES				
Accounts Payable	855,544	280,167	1,135,711	173
Wages and Salaries Payable	243,108	79,937	323,045	-
Compensated Absences Payable	316,274	85,515	401,789	-
Refundable Customer Deposits	-	740,721	740,721	-
Retainage Payable	135,785	-	135,785	-
Intergovernmental Payable	42,191	-	42,191	-
Due to Component Unit	121,969	-	121,969	-
Accrued Interest Payable	43,663	-	43,663	-
Unearned Revenues	11,420	-	11,420	-
Bonds Payable - Current	2,222,886	-	2,222,886	-
Noncurrent Liabilities:				
Bonds Payable - Noncurrent	13,990,269	105,538	14,095,807	-
Net OPEB Liability	1,041,437	477,511	1,518,948	202,435
Total Liabilities	19,024,546	1,769,389	20,793,935	202,608
DEFERRED INFLOW OF RESOURCES				
Deferred Inflow Related to Pension Plan	2,787,442	781,978	3,569,420	65,310
Total Deferred Inflows of Resources	2,787,442	781,978	3,569,420	65,310
NET POSITION				
Net Investment in Capital Assets	30,923,655	27,438,324	50,256,979	163,963
Restricted for:				
Restricted for Construction	624,206	266,344	890,550	-
Restricted for TMRS Pension Asset	3,757,021	1,065,577	4,822,598	87,899
Restricted for Debt Service	260,456	144,790	405,246	-
Restricted for Public Works	2,691,514	-	2,691,514	-
Restricted for Other Funds	301,404	-	301,404	-
Unrestricted	7,120,631	8,243,111	23,468,742	6,826,418
Total Net Position	\$ 45,678,887	\$ 37,158,146	\$ 82,837,033	\$ 7,078,280

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, 2018

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 1,453,810	\$ -	\$ -
Public Safety	6,090,633	290,766	182,929
Public Works	1,984,912	156,561	-
Culture and Recreation	1,352,159	104,374	84,722
Administrative and General	540,643	-	20,205
Interest on Debt	470,165	-	-
Total Governmental Activities	11,892,322	551,701	287,856
BUSINESS-TYPE ACTIVITIES:			
Water and Sewer Fund	4,842,030	4,730,022	-
Solid Waste Fund	1,599,620	1,691,752	296,417
Total Business-Type Activities	6,441,650	6,421,774	296,417
TOTAL PRIMARY GOVERNMENT	\$ 18,333,972	\$ 6,973,475	\$ 584,273
Primary Government:			
Nonmajor Component Unit	\$ 386,816	\$ -	\$ -
TOTAL PRIMARY GOVERNMENT	\$ 386,816	\$ -	\$ -

General Revenues:

Taxes:

- Property Taxes, Levied for General Purposes
- Sales Tax
- In Lieu of Tax Contracts
- Other Taxes
- Penalty and Interest on Taxes
- Miscellaneous Revenue
- Investment Earnings
- 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	Nonmajor Component Unit
\$ (1,453,810)	\$ -	\$ (1,453,810)	\$ -
(5,616,938)	-	(5,616,938)	-
(1,828,351)	-	(1,828,351)	-
(1,163,063)	-	(1,163,063)	-
(520,438)	-	(520,438)	-
(470,165)	-	(470,165)	-
<u>(11,052,765)</u>	<u>-</u>	<u>(11,052,765)</u>	<u>-</u>
-	(112,008)	(112,008)	-
-	388,549	388,549	-
-	276,541	276,541	-
<u>(11,052,765)</u>	<u>276,541</u>	<u>(10,776,224)</u>	<u>-</u>
-	-	-	(386,816)
-	-	-	(386,816)
6,612,893	-	6,612,893	-
4,550,091	-	4,550,091	910,018
1,995,382	-	1,995,382	-
1,364,631	-	1,364,631	-
135,127	-	135,127	-
420,003	167,311	587,314	13,335
216,153	39,213	255,366	102,530
552,030	(552,030)	-	-
<u>15,846,310</u>	<u>(345,506)</u>	<u>15,500,804</u>	<u>1,025,883</u>
4,793,545	(68,965)	4,724,580	639,067
41,578,871	37,476,051	79,054,922	6,618,364
(693,529)	(248,940)	(942,469)	(179,151)
<u>\$ 45,678,887</u>	<u>\$ 37,158,146</u>	<u>\$ 82,837,033</u>	<u>\$ 7,078,280</u>

CITY OF NEDERLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	General Fund	Debt Service Fund	Capital Projects
ASSETS			
Cash and Cash Equivalents	\$ 5,238,879	\$ 137,069	\$ 2,998,350
Investments - Current	11,426,046	81,264	4,491,731
Taxes Receivable	272,554	159,383	-
Allowance for Uncollectible Taxes (credit)	(46,334)	(27,095)	-
Accounts Receivable - Net	865,603	-	-
Due from Other Governments	34,248	20,359	-
Due from Other Funds	115,654	-	-
Due from Others	30,918	-	-
Prepaid Items	12,414	-	-
Total Assets	<u>\$ 17,949,982</u>	<u>\$ 370,980</u>	<u>\$ 7,490,081</u>
LIABILITIES			
Accounts Payable	\$ 553,869	\$ -	\$ 275,438
Wages and Salaries Payable	243,108	-	-
Compensated Absences Payable	316,274	-	-
Retainage Payable	36,908	-	98,877
Intergovernmental Payable	42,191	-	-
Due to Other Funds	-	110,524	-
Due to Component Unit	121,969	-	-
Unearned Revenues	240	-	-
Total Liabilities	<u>1,314,559</u>	<u>110,524</u>	<u>374,315</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	211,849	124,298	-
Total Deferred Inflows of Resources	<u>211,849</u>	<u>124,298</u>	<u>-</u>
FUND BALANCES			
Nonspendable Fund Balance:			
Prepaid Items	12,414	-	-
Restricted Fund Balance:			
Capital Acquisition and Contractual Obligation	3,176,189	-	3,179,037
Retirement of Long-Term Debt	-	136,158	-
Other Restricted Fund Balance	-	-	-
Committed Fund Balance:			
Other Committed Fund Balance	-	-	3,936,729
Assigned Fund Balance:			
Other Assigned Fund Balance	222,518	-	-
Unassigned Fund Balance	13,012,453	-	-
Total Fund Balances	<u>16,423,574</u>	<u>136,158</u>	<u>7,115,766</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 17,949,982</u>	<u>\$ 370,980</u>	<u>\$ 7,490,081</u>

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

Other Funds	Total Governmental Funds
\$ 230,924	\$ 8,605,222
81,627	16,080,668
-	431,937
-	(73,429)
26,270	891,873
-	54,607
-	115,654
-	30,918
-	12,414
<u>\$ 338,821</u>	<u>\$ 26,149,864</u>
\$ 26,237	\$ 855,544
-	243,108
-	316,274
-	135,785
-	42,191
-	110,524
-	121,969
11,180	11,420
<u>37,417</u>	<u>1,836,815</u>
-	336,147
<u>-</u>	<u>336,147</u>
-	12,414
-	6,355,226
-	136,158
301,404	301,404
-	3,936,729
-	222,518
-	13,012,453
<u>301,404</u>	<u>23,976,902</u>
<u>\$ 338,821</u>	<u>\$ 26,149,864</u>

CITY OF NEDERLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

Total Fund Balances - Governmental Funds	\$	23,976,902
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		35,373,824
Deferred outflow of resources are not reported in the governmental funds:		2,179,009
Deferred outflows related to pension	\$1,974,193	
Deferred outflows related to OPEB	92,344	
Deferred amounts on refunding bonds	112,472	
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(16,213,155)
OPEB liability are not due and payable in the current period and, therefore, are not reported in the funds.		(1,041,437)
The net pension asset related to TMRS is not a current financial resource and is not included in the governmental funds.		3,757,021
Property taxes receivable are not available to pay for current period expenditures and, therefore, are deferred in the funds.		336,147
Accrued interest on bonds is not reported in the funds.		(43,663)
Deferred inflow of resources are not reported in the governmental funds.		(2,787,442)
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.		141,681
Net Position of Governmental Activities	\$	45,678,887

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

CITY OF NEDERLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	General Fund	Debt Service Fund	Capital Projects
REVENUES:			
Taxes:			
Property Taxes	\$ 4,261,952	\$ 2,384,738	\$ -
Sales Tax	4,550,091	-	-
In Lieu of Tax Contracts	1,995,382	-	-
Other Taxes	1,202,123	-	-
Penalty and Interest on Taxes	86,241	48,886	-
Grants and Private Contributions	221,610	-	-
Charges for Services	260,935	-	-
Fines and Court Costs	242,095	-	-
Forfeitures	-	-	-
Investment Earnings	130,491	1,314	82,936
Other Revenue	74,594	-	-
Total Revenues	<u>13,025,514</u>	<u>2,434,938</u>	<u>82,936</u>
EXPENDITURES:			
Current:			
General Government	1,159,482	-	105,558
Public Safety	5,965,659	-	1,929,098
Public Works	2,254,408	-	-
Culture and Recreation	1,093,102	-	-
Administrative and General	785,762	-	-
Debt Service:			
Bond Principal	-	2,154,999	-
Bond Interest	-	593,068	-
Fiscal Agent Fees	-	2,625	-
Total Expenditures	<u>11,258,413</u>	<u>2,750,692</u>	<u>2,034,656</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,767,101</u>	<u>(315,754)</u>	<u>(1,951,720)</u>
OTHER FINANCING SOURCES (USES):			
Sale of Real and Personal Property	332,448	-	-
Transfers In	680,000	295,000	1,313,098
Transfers Out (Use)	(1,402,448)	-	(217,970)
Total Other Financing Sources (Uses)	<u>(390,000)</u>	<u>295,000</u>	<u>1,095,128</u>
Net Change in Fund Balances	1,377,101	(20,754)	(856,592)
Fund Balance - October 1 (Beginning)	15,128,636	156,912	7,972,358
Prior Period Adjustment	(82,163)	-	-
Fund Balance - September 30 (Ending)	<u>\$ 16,423,574</u>	<u>\$ 136,158</u>	<u>\$ 7,115,766</u>

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

Other Funds	Total Governmental Funds
\$ -	\$ 6,646,690
-	4,550,091
-	1,995,382
162,508	1,364,631
-	135,127
66,247	287,857
-	260,935
7,457	249,552
16,110	16,110
1,412	216,153
12,960	87,554
266,694	15,810,082
-	1,265,040
32,063	7,926,820
-	2,254,408
187,286	1,280,388
-	785,762
-	2,154,999
-	593,068
-	2,625
219,349	16,263,110
47,345	(453,028)
-	332,448
-	2,288,098
(115,650)	(1,736,068)
(115,650)	884,478
(68,305)	431,450
427,150	23,685,056
(57,441)	(139,604)
\$ 301,404	\$ 23,976,902

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, 2018

Total Net Change in Fund Balances - Governmental Funds	\$	431,450
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(8,693)
Prior year deferred property taxes	\$(369,944)	
Current year deferred property taxes	336,147	
Prior year warrants and fines	(116,576)	
Current year warrants and fines	141,680	
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.		2,270,446
Capital outlays	\$3,681,703	
Depreciation	(1,411,257)	
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.		2,155,000
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.		(54,658)
Bond premium amortization	\$147,886	
Increase in net pension asset	(72,413)	
Increase OPEB liability	(27,438)	
Increase in compensated absences	(80,334)	
Decrease in deferred charge on refunding	(28,118)	
Decrease in interest payable	5,759	
Change in Net Position of Governmental Activities	\$	4,793,545

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, 2018

	Budgeted Amounts		Actual GAAP BASIS	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 3,840,000	\$ 4,180,000	\$ 4,261,952	\$ 81,952
Sales Tax	3,500,000	3,900,000	4,550,091	650,091
In Lieu of Tax Contracts	1,700,000	1,951,789	1,995,382	43,593
Other Taxes	994,800	994,800	1,202,123	207,323
Penalty and Interest on Taxes	75,000	75,000	86,241	11,241
Grants and Private Contributions	115,000	165,363	221,610	56,247
Charges for Services	237,000	237,000	260,935	23,935
Fines and Court Costs	189,200	189,200	242,095	52,895
Investment Earnings	16,400	91,400	130,491	39,091
Other Revenue	70,750	70,750	74,594	3,844
Total Revenues	<u>10,738,150</u>	<u>11,855,302</u>	<u>13,025,514</u>	<u>1,170,212</u>
EXPENDITURES:				
Current:				
General Government:				
City Council	13,245	12,445	12,158	287
Legal	76,450	76,450	75,621	829
City Manager	465,105	480,905	483,006	(2,101)
Financial Administration	293,766	294,366	272,355	22,011
Personnel	285,782	263,182	252,173	11,009
Civil Service	4,100	7,100	6,270	830
City Hall	72,140	56,640	57,899	(1,259)
Public Safety:				
Police	3,925,106	4,074,055	3,930,255	143,800
Fire Protection	1,691,333	1,762,137	1,739,299	22,838
Protective Inspections	223,889	220,409	209,063	11,346
Code Enforcement	98,347	98,347	87,042	11,305
Public Works	272,566	293,566	294,004	(438)
Highways and Streets	2,089,120	2,096,553	1,825,500	271,053
Animal Control	134,670	133,670	134,904	(1,234)
Culture and Recreation:				
Parks and Recreation	715,631	822,631	635,066	187,565
Libraries	480,900	468,900	458,036	10,864
Administrative and General	506,000	808,000	785,762	22,238
Total Expenditures	<u>11,348,150</u>	<u>11,969,356</u>	<u>11,258,413</u>	<u>710,943</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(610,000)</u>	<u>(114,054)</u>	<u>1,767,101</u>	<u>1,881,155</u>
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	-	332,448	332,448	-
Transfers In	530,000	680,000	680,000	-
Transfers Out (Use)	(220,000)	(1,402,448)	(1,402,448)	-
Total Other Financing Sources (Uses)	<u>310,000</u>	<u>(390,000)</u>	<u>(390,000)</u>	<u>-</u>
Change in Fund Balance	(300,000)	(504,054)	1,377,101	1,881,155
Fund Balance - October 1 (Beginning)	15,128,636	15,128,636	15,128,636	-
Prior Period Adjustment	-	-	(82,163)	(82,163)
Fund Balance - September 30 (Ending)	<u>\$ 14,828,636</u>	<u>\$ 14,624,582</u>	<u>\$ 16,423,574</u>	<u>\$ 1,798,992</u>

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

CITY OF NEDERLAND
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,525,085	\$ 2,681,366	\$ 5,206,451
Investments - Current	2,303,632	523,272	2,826,904
Accounts Receivable Net	494,997	701,781	1,196,778
Inventories	126,229	-	126,229
Total Current Assets	<u>5,449,943</u>	<u>3,906,419</u>	<u>9,356,362</u>
Noncurrent Assets:			
Restricted Assets-Noncurrent:			
Cash and Cash Equivalents	599,928	-	599,928
Investments	740,721	-	740,721
Capital Assets:			
Infrastructure and Improvements	31,681,771	-	31,681,771
Accumulated Depreciation - Infra. & Improvements	(17,801,725)	-	(17,801,725)
Buildings	21,450,340	-	21,450,340
Accumulated Depreciation - Buildings	(9,689,584)	-	(9,689,584)
Machinery and Equipment	1,986,268	2,209,301	4,195,569
Accumulated Depreciation - Machinery & Equipment	(1,352,904)	(1,523,989)	(2,876,893)
Construction in Progress	478,846	-	478,846
Net Pension Asset	794,518	271,059	1,065,577
Total Noncurrent Assets	<u>28,888,179</u>	<u>956,371</u>	<u>29,844,550</u>
Total Assets	<u>34,338,122</u>	<u>4,862,790</u>	<u>39,200,912</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to Pension Plan	355,148	116,241	471,389
Deferred Resource Outflow Related to OPEB	30,787	11,555	42,342
Total Deferred Outflows of Resources	<u>385,935</u>	<u>127,796</u>	<u>513,731</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
LIABILITIES			
Current Liabilities:			
Accounts Payable	83,240	196,927	280,167
Wages and Salaries Payable	62,478	17,459	79,937
Compensated Absences Payable	59,039	26,476	85,515
Refundable Customer Deposits	740,721	-	740,721
Due to Other Funds	5,130	-	5,130
Total Current Liabilities	950,608	240,862	1,191,470
Noncurrent Liabilities:			
Compensated Absences	74,474	31,064	105,538
Net OPEB Liability	347,203	130,308	477,511
Total Noncurrent Liabilities	421,677	161,372	583,049
Total Liabilities	1,372,285	402,234	1,774,519
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to Pension Plan	584,599	197,379	781,978
Total Deferred Inflows of Resources	584,599	197,379	781,978
NET POSITION			
Net Investment in Capital Assets	26,753,012	685,312	27,438,324
Restricted for Construction	266,344	-	266,344
Restricted for Pension Benefits	794,518	271,059	1,065,577
Restricted for Debt Service	144,790	-	144,790
Unrestricted	4,808,509	3,434,602	8,243,111
Total Net Position	\$ 32,767,173	\$ 4,390,973	\$ 37,158,146

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, 2018

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
OPERATING REVENUES:			
Grants and Private Contributions	\$ -	\$ 296,417	\$ 296,417
Charges for Water Services	2,278,048	-	2,278,048
Charges for Sewerage Services	2,451,974	-	2,451,974
Charges for Sanitation Services	-	1,691,752	1,691,752
Penalties and Interest	145,982	-	145,982
Other Revenue	18,254	3,075	21,329
Total Operating Revenues	<u>4,894,258</u>	<u>1,991,244</u>	<u>6,885,502</u>
OPERATING EXPENSES:			
Other Operating Costs			
Water Treatment	1,222,850	-	1,222,850
Water and Sewer Distribution	801,305	-	801,305
Wastewater Treatment	689,734	-	689,734
Billings & Collections	481,580	-	481,580
Solid Waste	-	1,411,973	1,411,973
Other Operating Expenses	233,288	-	233,288
Total Other Operating Costs	<u>3,428,757</u>	<u>1,411,973</u>	<u>4,840,730</u>
Depreciation	<u>1,413,273</u>	<u>187,647</u>	<u>1,600,920</u>
Total Operating Expenses	<u>4,842,030</u>	<u>1,599,620</u>	<u>6,441,650</u>
Operating Income	<u>52,228</u>	<u>391,624</u>	<u>443,852</u>
NONOPERATING REVENUES (EXPENSES):			
Investment Earnings	<u>29,614</u>	<u>9,599</u>	<u>39,213</u>
Total Nonoperating Revenue (Expenses)	<u>29,614</u>	<u>9,599</u>	<u>39,213</u>
Income Before Transfers	81,842	401,223	483,065
Nonoperating Transfers In	223,100	-	223,100
Transfers Out (Use)	<u>(675,130)</u>	<u>(100,000)</u>	<u>(775,130)</u>
Change in Net Position	(370,188)	301,223	(68,965)
Total Net Position - October 1 (Beginning)	33,316,946	4,159,105	37,476,051
Prior Period Adjustment	<u>(179,585)</u>	<u>(69,355)</u>	<u>(248,940)</u>
Total Net Position - September 30 (Ending)	<u>\$ 32,767,173</u>	<u>\$ 4,390,973</u>	<u>\$ 37,158,146</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, 2018

	Business-Type Activities		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$ 4,918,495	\$ 1,409,378	\$ 6,327,873
Operating Grant	-	296,417	296,417
Cash Payments to Employees for Services	(1,366,446)	(456,095)	(1,822,541)
Cash Payments for Goods and Services	(1,975,975)	(1,107,964)	(3,083,939)
Net Cash Provided by Operating Activities	<u>1,576,074</u>	<u>141,736</u>	<u>1,717,810</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Transfer from Other Funds	223,100	-	223,100
Transfers to Other Funds	(675,130)	(100,000)	(775,130)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(452,030)</u>	<u>(100,000)</u>	<u>(552,030)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition of Capital Assets	(326,782)	(299,246)	(626,028)
<u>Cash Flows from Investing Activities:</u>			
Purchase of Investment Securities	29,614	9,599	39,213
Investment Activity	(2,027,326)	(7,968)	(2,035,294)
Net Cash Provided by (Used for) Investing Activities	<u>(1,997,712)</u>	<u>1,631</u>	<u>(1,996,081)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,200,450)	(255,879)	(1,456,329)
Cash and Cash Equivalents at the Beginning of the Year	<u>4,325,463</u>	<u>2,937,245</u>	<u>7,262,708</u>
Cash and Cash Equivalents at the End of the Year	3,125,013	2,681,366	5,806,379
Cash and Cash Equivalents End of Year, Restricted	<u>(599,928)</u>	<u>-</u>	<u>(599,928)</u>
Cash on Balance Sheet	<u>\$ 2,525,085</u>	<u>\$ 2,681,366</u>	<u>\$ 5,206,451</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, 2018

	Business-Type Activities		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided By Operating Activities:</u>			
Operating Income	\$ 52,228	\$ 391,624	\$ 443,852
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities:			
Depreciation	1,413,273	187,647	1,600,920
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (Increase) in Receivables	(31,753)	(285,449)	(317,202)
Decrease (Increase) in Inventories	(8,732)	-	(8,732)
Increase (Decrease) in Accounts Payable	15,495	(158,490)	(142,995)
Increase (Decrease) in Payroll Deductions	18,705	(11,034)	7,671
Increase (Decrease) in Net Pension Asset	(606,759)	(207,032)	(813,791)
Increase (Decrease) in Customer Deposits	55,990	-	55,990
Increase (Decrease) in Noncurrent Liabilities	(102,930)	(39,371)	(142,301)
Increase (Decrease) in OPEB Liabilities	167,618	60,953	228,571
Increase (Decrease) in Pension Outflows & Inflows	628,596	214,443	843,039
Decrease (Increase) in OPEB Outflows	(30,787)	(11,555)	(42,342)
Increase (Decrease) in Due to Other Funds	5,130	-	5,130
Net Cash Provided by Operating Activities	<u>\$ 1,576,074</u>	<u>\$ 141,736</u>	<u>\$ 1,717,810</u>

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, 2018**

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, 2018 totaled \$910,018. 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, 2018

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, 2018 the City contributed \$523,431 to the joint venture. Fund balance of the joint venture at September 30, 2018 was \$346,152. 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, 2018

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, 2018**

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 31st, 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 30th, 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 30th, 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, 2018**

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, 2018**

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, 2018, the City did not participate in a tax abatement agreement relating to the property taxes levied for the 2017 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, 2018**

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, 2018**

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, 2018**

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, 2018**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- b. Pension and OPEB 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 and OPEB liability. 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 and OPEB 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, 2018, Restricted for Other Funds included these balances:

Public Safety:	
Police Narcotics	\$ 137,516
Court Technology	4,601
Fire Department	49,953
	192,070
Culture and Recreation:	
Library	40,159
Hotel/Motel	69,175
	109,334
Total Restricted for Other Funds	\$ 301,404

CITY OF NEDERLAND, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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, 2018**

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 25, 2019, the date that the financial statements were available to be issued.

AA. Other Post-Employment Benefits

In the current fiscal year, the City implemented the following new standard: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (“GASB 75”) establishes accounting and financial reporting standards for other post-employment benefits (OPEB) that are provided to the employees of state and local governmental employers through plans that are administered through trusts or similar arrangements that meet certain criteria. The Statement establishes standards for measuring and recognizing liabilities, deferred outflow of resources, deferred inflow of resources and expense/expenditures. Implementation is reflected in the financial statements, notes to the financial statements and required supplementary information.

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	\$ 30,923,655	\$ 27,438,324	\$ (8,105,000)	\$ 50,256,979
Restricted for:				
Debt Service	260,456	144,790	-	405,246
Other Funds	301,404	-	-	301,404
Public Works	2,691,514	-	-	2,691,514
Construction	624,206	266,344	-	890,550
TMRS Pension Asset	3,757,021	1,065,577	-	4,822,598
Unrestricted	7,120,631	8,243,111	8,105,000	23,468,742
Total Net Position	<u>\$ 45,678,887</u>	<u>\$ 37,158,146</u>	<u>\$ -</u>	<u>\$ 82,837,033</u>

CITY OF NEDERLAND, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 3: CASH AND INVESTMENTS

Cash Deposits

At year-end, the City’s carrying amount of deposits (including NEDC) was \$14,808,076 and the bank balance was \$16,232,155. 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, 2018, the City of Nederland (including NEDC) had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
TexPool	\$ 23,363,370	N/A
First Public - Lone Star	2,237,330	N/A
Certificates of Deposit	487,328	6 months - 1 year

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

Credit risk. It is the policy of the City to limit its investment in commercial paper and corporate bonds to those having received a top rating of “A” or its equivalent from a nationally recognized investment rating firm. Standard & Poor’s rated TexPool AAAm as of September 30, 2018.

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.

CITY OF NEDERLAND, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 4: RECEIVABLES

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

The balance of property taxes receivable and property tax assessments included in unavailable revenues as of September 30, 2018 are as follows:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total</u>
Property Taxes Receivable:			
Gross Receivables	\$ 272,554	\$ 159,383	\$ 431,937
Less: Allowance for Doubtful Accounts	<u>(46,334)</u>	<u>(27,095)</u>	<u>(73,429)</u>
Net Property Taxes Receivable	<u>\$ 226,220</u>	<u>\$ 132,288</u>	<u>\$ 358,508</u>
Unavailable Property Taxes	<u>\$ 211,849</u>	<u>\$ 124,298</u>	<u>\$ 336,147</u>

Other Receivables as of September 30, 2018 for the City are as follows:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Funds</u>	<u>Total</u>
Accounts	\$ 1,077,643	\$ -	\$ 26,270	\$ 1,103,913
Due From Others	30,918	-	-	30,918
Due From Other Governments	<u>34,248</u>	<u>20,359</u>	-	<u>54,607</u>
Gross Receivables	1,142,809	20,359	26,270	1,189,438
Less: Allowance for Uncollectibles	<u>(212,040)</u>	-	-	<u>(212,040)</u>
Net Total Receivables	<u>\$ 930,769</u>	<u>\$ 20,359</u>	<u>\$ 26,270</u>	<u>\$ 977,398</u>

CITY OF NEDERLAND, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 5: CAPITAL ASSETS

Capital asset activity for the governmental activities for the year ended September 30, 2018 is described in the table below.

Governmental Activities	Beginning	Current Year		Ending
	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land	\$ 3,790,440	\$ 245,119	\$ -	\$ 4,035,559
Construction in progress	184,284	2,157,088	-	2,341,372
Total capital assets not being depreciated	<u>3,974,724</u>	<u>2,402,207</u>	<u>-</u>	<u>6,376,931</u>
Capital assets being depreciated:				
Buildings	14,819,865	36,300	18,326	14,874,491
Machinery and equipment	5,214,036	129,783	(117,082)	5,226,737
Infrastructure	34,477,212	1,113,413	(18,326)	35,572,299
Total capital assets being depreciated	<u>54,511,113</u>	<u>1,279,496</u>	<u>(117,082)</u>	<u>55,673,527</u>
Less accumulated depreciation:				
Buildings	(6,142,151)	(364,073)	-	(6,506,224)
Machinery and equipment	(4,111,537)	(301,929)	117,082	(4,296,384)
Infrastructure	(15,128,771)	(745,255)	-	(15,874,026)
Total accumulated depreciation	<u>(25,382,459)</u>	<u>(1,411,257)</u>	<u>117,082</u>	<u>(26,676,634)</u>
Total capital assets being depreciated, net	<u>29,128,654</u>	<u>(131,761)</u>	<u>-</u>	<u>28,996,893</u>
Governmental activities capital assets, net	<u>\$ 33,103,378</u>	<u>\$ 2,270,446</u>	<u>\$ -</u>	<u>\$ 35,373,824</u>

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

General Government	\$ 114,143
Public Safety	317,815
Public Works	825,590
Culture & Recreation	153,709
Total Depreciation Expense - Governmental Activities	<u>\$ 1,411,257</u>

Construction in progress consisted of payments made towards resurfacing, drainage improvement and park lighting upgrade projects.

CITY OF NEDERLAND, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 5: CAPITAL ASSETS, (CONTINUED)

Business-type Activities	Beginning	Current Year		Ending
	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Construction in progress	\$ 255,747	\$ 223,099	\$ -	\$ 478,846
Total capital assets not being depreciated	<u>255,747</u>	<u>223,099</u>	<u>-</u>	<u>478,846</u>
Capital assets being depreciated				
Buildings	21,450,340	-	-	21,450,340
Improvements other than buildings	31,667,668	14,103	-	31,681,771
Machinery and equipment	3,819,006	388,824	(12,260)	4,195,570
Total capital assets being depreciated	<u>56,937,014</u>	<u>402,927</u>	<u>(12,260)</u>	<u>57,327,681</u>
Less accumulated depreciation:				
Buildings	(9,217,963)	(471,621)	-	(9,689,584)
Improvements other than buildings	(17,037,609)	(764,116)	-	(17,801,725)
Machinery and equipment	(2,523,972)	(365,182)	12,260	(2,876,894)
Total accumulated depreciation	<u>(28,779,544)</u>	<u>(1,600,919)</u>	<u>12,260</u>	<u>(30,368,203)</u>
 Total capital assets being depreciated, net	 <u>28,157,470</u>	 <u>(1,197,992)</u>	 <u>-</u>	 <u>26,959,478</u>
 Business-type activities capital assets, net	 <u>\$ 28,413,217</u>	 <u>\$ (974,893)</u>	 <u>\$ -</u>	 <u>\$ 27,438,324</u>

Depreciation expense of the business-type activities was charged to functions/programs as follows:

Water & Sewer	\$ 1,413,273
Solid Waste	187,646
Total Depreciation Expense - Business-type Activities	<u>\$ 1,600,919</u>

Construction in progress consisted of preliminary work for the \$10.25 million sanitary sewer line project.

NOTE 6: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2018, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Debt Service	\$ 110,524
General	Water and Sewer	5,130
		<u>\$ 115,654</u>

CITY OF NEDERLAND, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 6: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS, (CONTINUED)

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

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

	Transfers in				Total
	General	Debt Service	Capital Projects	Water & Sewer	
<u>Transfers out</u>					
General Fund	\$ 195,000	\$ -	\$ 1,207,448	\$ -	\$ 1,402,448
Capital Projects Fund	-	-	-	217,970	217,970
Other Governmental Funds	10,000	-	105,650	-	115,650
Water & Sewer	375,000	295,000	-	5,130	675,130
Solid Waste	100,000	-	-	-	100,000
	<u>\$ 680,000</u>	<u>\$ 295,000</u>	<u>\$ 1,313,098</u>	<u>\$ 223,100</u>	<u>\$ 2,511,198</u>

Transfers are used to (1) move revenues from the fund with collection authorization to the Debt Service Fund as debt service principal and interest payments become due; (2) move unrestricted water and sewer revenues and solid waste revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs; (3) to move 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, 2018, 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%	\$ 1,110,000
2011	4,500,000	2031	\$150,000 to \$320,000	1.85%-3.85%	3,305,000
2012	2,750,000	2020	\$295,000 to \$600,000	1.00%-1.45%	920,000
2013	3,520,000	2023	\$25,000 to \$665,000	2.00%-3.50%	2,770,000
2013	2,600,000	2033	\$80,000 to \$185,000	3.75%-4.50%	2,130,000
2017	4,975,000	2027	\$100,000 to \$680,000	3.00%-4.00%	4,875,000
					<u>\$ 15,110,000</u>

CITY OF NEDERLAND, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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
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	1,605,000	301,045	1,906,045
2024-2028	4,575,000	835,370	5,410,370
2029-2033	1,775,000	186,316	1,961,316
Total	<u>\$ 15,110,000</u>	<u>\$ 3,066,399</u>	<u>\$ 18,176,399</u>

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds Payable:					
General obligations bonds	\$ 17,265,000	\$ -	\$ 2,155,000	\$ 15,110,000	\$ 2,075,000
Add: Premium on bonds	918,855	-	147,886	770,969	147,886
Compensated absences	542,060	255,228	148,828	648,460	316,274
OPEB liability	956,219	119,782	34,564	1,041,437	-
	<u>\$ 19,682,134</u>	<u>\$ 375,010</u>	<u>\$ 2,486,278</u>	<u>\$ 17,570,866</u>	<u>\$ 2,539,160</u>
Governmental activities Long-Term Liabilities					
Business-type activities:					
Compensated absences	\$ 146,360	\$ 99,059	\$ 54,366	\$ 191,053	\$ 85,515
OPEB liability	438,438	54,921	15,848	477,511	-
Business-type activity Long-Term Liabilities	<u>\$ 584,798</u>	<u>\$ 153,980</u>	<u>\$ 70,214</u>	<u>\$ 668,564</u>	<u>\$ 85,515</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, 2018.

CITY OF NEDERLAND, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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 2017-2018, 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 883 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.

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, 2018

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.

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 as annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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	Last adopted 2000 – Auto Readoption- 100%
Cost of living adjustment (COLA) for retirees	Last adopted 1984 – 30%
Military service credit	Yes, adopted 3-1982
Restricted prior service credit	Yes, adopted 1-2000
Buy back last adopted	12-1983
SDB for employees	Not elected
SDB for Retirees	Not elected

Employees covered by benefit terms –

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	97
Inactive employees entitled to but not yet receiving benefits	26
Active employees	<u>118</u>
	241

CITY OF NEDERLAND, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

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 6.63% and 6.44% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$534,340, and were equal to the required contributions.

Net Pension Asset

The City's Net Pension Asset (NPA) was measured as of December 31, 2017, 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, 2017 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 blue collar adjustments, 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 with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who became disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

CITY OF NEDERLAND, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 9: DEFINED BENEFIT PENSION PLAN, (CONTINUED)

Actuarial assumptions, Continued

Actuarial assumptions used in the December 31, 2017, 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. 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. 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%. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) (2) the geometric mean (conservative) with an adjustment for time (aggressive) 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%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
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, 2018**

NOTE 9: DEFINED BENEFIT PENSION PLAN, Continued

Changes in the Net Pension Asset

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at 12/31/2016	\$ 53,055,208	\$ 54,192,452	\$ (1,137,244)
Charges for year:			
Service cost	1,207,336	-	1,207,336
Interest	3,534,367	-	3,534,367
Difference between expected and actual experience	38,533	-	38,533
Changes in assumptions	-	-	-
Contributions - employer	-	528,708	(528,708)
Contributions - employee	-	558,213	(558,213)
Net investment income	-	7,507,467	(7,507,467)
Benefit payments, including refunds of employee contributions	(2,595,771)	(2,595,771)	-
Administrative expense	-	(38,925)	38,925
Other changes	-	(1,974)	1,974
Net change	<u>2,184,465</u>	<u>5,957,718</u>	<u>(3,773,253)</u>
Balance at 12/31/2017	<u>\$ 55,239,673</u>	<u>\$ 60,150,170</u>	<u>\$ (4,910,497)</u>

Presented in Exhibit A as follows:

Governmental Activities	\$ (3,757,021)
Business-Type Activities	(1,065,577)
Nonmajor Component Unit	(87,899)
	<u>\$ (4,910,497)</u>

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)	\$ 1,750,607	\$ (4,910,497)	\$ (10,489,462)

CITY OF NEDERLAND, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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.

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

For the year ended September 30, 2018, the City recognized pension expense of \$638,316.

At September 30, 2018, 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	\$ 31,123	\$ 553,412
Changes in actuarial assumptions	465,606	-
Differences between projected and actual investment earnings	1,608,469	3,081,318
Contributions subsequent to the measurement date	387,410	-
Total	\$ 2,492,608	\$ 3,634,730
 Presented in Exhibit A as follows:		
Governmental Activities	\$ 1,974,193	\$ 2,787,442
Business-Type Activities	471,389	781,978
Nonmajor Component Unit	47,026	65,310
	\$ 2,492,608	\$ 3,634,730

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$387,410 will be recognized as a reduction of the net pension asset for the year ending September 31, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>		
2018	\$	71,919
2019		18,145
2020		(826,697)
2021		(794,378)
2022		1,479
Thereafter		-
		\$ (1,529,532)

CITY OF NEDERLAND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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, 2018.

NOTE 11: POST-EMPLOYMENT HEALTH CARE BENEFITS

Plan Description

The City's defined benefit OPEB plan provides 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.

Benefits provided

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, 2018

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

Benefits provided (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.

Employees Covered by Benefit Term at December 31, 2017

Inactive employees or beneficiaries currently receiving benefit payments	60
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>117</u>
	<u>177</u>

Total OPEB Liability

The City's total OPEB liability of \$1,721,383 was measured as of December 31, 2017 for the measurement period January 1, 2017 through December 31, 2017, and was determined by an actuarial valuation as of December 31, 2016.

Rollforward Disclosure

The actuarial valuation was performed as of December 31, 2016. Update procedures were used to roll forward the total OPEB liability to December 31, 2017.

CITY OF NEDERLAND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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

Changes in OPEB Liability

The changes in the total OPEB liability for the plan are as follows:

Total OPEB liability	
Service cost	\$ 53,710
Interest on the total OPEB liability	59,825
Changes of benefit terms	-
Difference between expected and actual experience of the total OPEB liability	9,959
Changes of assumptions	91,702
Benefit payments	<u>(74,340)</u>
Net change in total OPEB liability	140,856
Total OPEB liability - beginning	<u>1,580,527</u>
Total OPEB liability - ending	<u><u>\$ 1,721,383</u></u>

Presented in Exhibit A as follows:

Governmental Activities	\$ 1,041,437
Business-Type Activities	477,511
Nonmajor Component Unit	<u>202,435</u>
	<u>\$ 1,721,383</u>

Sensitivity of the Total OPEB liability to changes in the Discount Rate

Regarding the sensitivity of the total OPEB liability to changes in the discount rate, the following presents the plan's total OPEB liability, calculated using the assumed trend rates as well as what the plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

	1% Decrease	Current Discount Rate Assumption	1% Increase
	<u>2.31%</u>	<u>3.31%</u>	<u>4.31%</u>
City's OPEB liability	\$ 1,931,725	\$ 1,721,383	\$ 1,545,449

Sensitivity of the Total OPEB liability to the Healthcare Cost Trend Rate Assumption

Regarding the sensitivity of the total OPEB liability to changes in the healthcare cost trend rates, the following presents the plan's total OPEB liability, calculated using the assumed trend rates as well as what the plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
	<u>1% Decrease</u>	<u>Rate Assumption</u>	<u>1% Increase</u>
City's OPEB liability	\$ 1,612,865	\$ 1,721,383	\$ 1,848,276

CITY OF NEDERLAND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

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

OPEB Expense and Deferred Outflow of Resources and Deferred Inflow of Resources Related to OPEB

For the fiscal year ended September 30, 2018, the City recognized OPEB expense of \$128,361. At September 30, 2018, the City's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 8,507	\$ -
Changes in assumptions	78,328	-
Contributions subsequent to the measurement date	65,800	-
	\$ 152,635	\$ -

Presented in Exhibit A as follows:

Governmental Activities	\$ 92,344
Business-Type Activities	42,342
Nonmajor Component Unit	17,949
	\$ 152,635

The \$65,800 reported as deferred outflow of resources related to contributions subsequent to the December 31, 2017 measurement date will be recognized as a reduction of the total OPEB liability during the fiscal year ending September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	Deferred Outflows/ Inflows of Resources
Fiscal Year Ending September 30,	
2019	\$ 14,826
2020	14,826
2021	14,826
2022	14,826
2023	14,826
Thereafter	12,705
	\$ 86,835

CITY OF NEDERLAND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

NOTE 12: LEASE OBLIGATIONS

They City of Nederland is obligated under operating (noncapitalized) leases for equipment. For the year ended September 30, 2018, lease expenditures of \$8,575 were made from the General Fund. The following is a schedule of minimum lease payments under non-cancelable operating leases as of September 30, 2018.

Year Ending September 30,	General Fund
2019	\$ 7,051
2020	5,083
2021	3,883
2022	2,541
2023	1,745
	\$ 20,303

NOTE 13: PRIOR PERIOD ADJUSTMENT

During the year ended September 30, 2018 management determined that a prior period adjustment was necessary for correct presentation of the beginning net position for the governmental activities on the government-wide statements. The adjustment of \$139,604 decreased the beginning net position of the General Fund by \$82,163, the Police Narcotics Fund by \$24,132, and the Fire Department Fund by \$33,309.

The City adopted Government Accounting Standards Board (GASB) Statement No. 75 effective October 1, 2017. This statement revises the accounting and reporting requirements for entities with Postemployment Benefits Other than Pension plans. As a result of this adoption, these financial statements include a prior period adjustment in the amount of \$57,131 for prior period costs, \$541,380 for prior period GASB 45 liability, and a GASB 75 prior period liability of (\$1,580,527).

	Govern- mental Activities	Business- Type Activities	City's Total	Nonmajor Component Unit	Total Adjustment
Adjustment to Prior Period	\$ (139,604)	\$ -	\$ (139,604)	\$ -	\$ (139,604)
OPEB Prior Period Costs	34,564	15,848	50,412	6,719	57,131
OPEB Prior Period Costs					
GASB 45 Liability	367,730	173,650	541,380	-	541,380
OPEB Liability (GASB 75)	(956,219)	(438,438)	(1,394,657)	(185,870)	(1,580,527)
	\$ (693,529)	\$ (248,940)	\$ (942,469)	\$ (179,151)	\$ (1,121,620)

NOTE 14: SUBSEQUENT EVENTS

On September 21, 2018, the City Council approved Ordinance #2018-28, to issue a certificate of obligation in the amount of \$9,695,000 for the purpose of paying contractual obligations to be incurred for construction of public works and other purchases necessary for the improvements and expansion to existing sanitary sewer facilities.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
A. Total Pension Liability				
Service Cost	\$ 1,207,336	\$ 1,131,700	\$ 1,107,837	\$ 933,120
Interest (on the Total Pension Liability)	3,534,367	3,440,413	3,369,020	3,258,955
Changes of Benefit Terms	-0-	-0-	-0-	-0-
Difference between Expected and Actual Experience	3,853	(563,449)	(190,195)	(521,515)
Changes of Assumptions	-0-	-0-	1,086,415	-0-
Benefit Payments, including refunds of employee contributions	(2,595,771)	(2,713,373)	(2,376,190)	(1,994,954)
Net change in Total Pension Liability	\$ 2,184,465	\$ 1,295,291	\$ 2,996,887	\$ 1,675,606
Total Pension Liability - Beginning	53,055,208	51,759,917	48,763,030	47,087,424
Total Pension Liability - Ending	\$ 55,239,673	\$ 53,055,208	\$ 51,759,917	\$ 48,763,030
B. Total Fiduciary Net Position				
Contributions - Employer	\$ 528,708	\$ 405,945	\$ 462,351	\$ 516,968
Contributions - Employee	558,213	524,282	525,397	470,583
Net Investment Income	7,507,467	3,544,819	79,424	2,968,745
Benefit Payments, including refunds of employee contributions	(2,595,771)	(2,713,373)	(2,376,190)	(1,994,954)
Administrative Expense	(38,925)	(40,050)	(48,383)	(31,001)
Other	(1,973)	(2,158)	(2,390)	(2,549)
Net Change in Plan Fiduciary Net Position	\$ 5,957,718	\$ 1,719,465	\$ (1,359,791)	\$ 1,927,792
Plan Fiduciary Net Position - Beginning	54,192,452	52,472,987	53,832,778	51,904,986
Plan Fiduciary Net Position - Ending	\$ 60,150,170	\$ 54,192,452	\$ 52,472,987	\$ 53,832,778
C. Net Pension Liability	\$ (4,910,497)	\$ (1,137,244)	\$ (713,070)	\$ (5,069,748)
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	108.89%	102.14%	101.38%	110.40%
E. Covered Payroll	\$ 7,974,475	\$ 7,489,760	\$ 7,505,674	\$ 6,722,617
F. Net Pension Liability as a Percentage of Covered Payroll	61.58%	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 four 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, 2018**

SCHEDULE OF CONTRIBUTIONS**TEXAS MUNICIPAL RETIREMENT SYSTEM**

	2018	2017	2016	2015
Actuarially Determined Contributions	\$ 534,340	\$ 496,719	\$ 414,694	\$ 462,576
Contributions in Relation to the Actuarially Determined Contributions	534,340	496,719	414,694	462,576
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 8,231,820	\$ 7,879,026	\$ 7,409,498	\$ 7,102,664
Contributions as a Percentage of Covered Payroll	6.49%	6.30%	5.60%	6.51%

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.

Note: In accordance with GASB 68, Paragraph 138, only four 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
 SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

	FY 2018 Plan Year 2017
Total OPEB Liability	
Service Cost	\$ 53,710
Interest on the Total OPEB Liability	59,825
Changes of Benefit Terms	-0-
Difference between Expected and Actual Experience	9,959
Changes of Assumptions	91,702
Benefit Payments*	(74,340)
Net change in Total OPEB Liability	<u>140,856</u>
Total OPEB Liability - Beginning	<u>1,580,527</u>
Total OPEB Liability - Ending	<u><u>\$ 1,721,383</u></u>
Covered Payroll	\$ 7,608,396
Total OPEB Liability as a Percentage of Covered Payroll	22.62%

*The Supplemental Death Benefit Fund is considered to be an unfunded OPEB plan under GASB 75. Because of this benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Note: GASB Codification, Vol. 2, P52.139 states that the information on this schedule should be determined as of the measurement date of the plan.

As required by GASB 75, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

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, 2018

	Police Narcotics Fund	Library Fund	Court Technology Fund	Hotel/Motel Occupancy Tax Fund
ASSETS				
Cash and Cash Equivalents	\$ 88,970	\$ 18,316	\$ 4,601	\$ 69,084
Investments - Current	48,546	33,081	-	-
Accounts Receivable Net	-	-	-	26,270
Total Assets	<u>\$ 137,516</u>	<u>\$ 51,397</u>	<u>\$ 4,601</u>	<u>\$ 95,354</u>
LIABILITIES				
Accounts Payable	\$ -	\$ 58	\$ -	\$ 26,179
Unearned Revenues	-	11,180	-	-
Total Liabilities	<u>-</u>	<u>11,238</u>	<u>-</u>	<u>26,179</u>
FUND BALANCES				
Other Restricted Fund Balance	<u>137,516</u>	<u>40,159</u>	<u>4,601</u>	<u>69,175</u>
Total Fund Balances	<u>137,516</u>	<u>40,159</u>	<u>4,601</u>	<u>69,175</u>
Total Liabilities and Fund Balances	<u>\$ 137,516</u>	<u>\$ 51,397</u>	<u>\$ 4,601</u>	<u>\$ 95,354</u>

Fire Department Fund	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
\$ 49,953	\$ 230,924	\$ 230,924
-	81,627	81,627
-	26,270	26,270
<u>\$ 49,953</u>	<u>\$ 338,821</u>	<u>\$ 338,821</u>
\$ -	\$ 26,237	\$ 26,237
-	11,180	11,180
<u>-</u>	<u>37,417</u>	<u>37,417</u>
49,953	301,404	301,404
<u>49,953</u>	<u>301,404</u>	<u>301,404</u>
<u>\$ 49,953</u>	<u>\$ 338,821</u>	<u>\$ 338,821</u>

CITY OF NEDERLAND
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NON MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Police Narcotics Fund	Library Fund	Court Technology Fund	Hotel/Motel Occupancy Tax Fund
REVENUES:				
Taxes:				
Other Taxes	\$ -	\$ -	\$ -	\$ 162,508
Grants and Private Contributions	2,134	45,068	-	-
Fines and Court Costs	-	-	7,457	-
Forfeitures	16,110	-	-	-
Investment Earnings	784	521	2	34
Other Revenue	10,510	65	-	2,385
Total Revenues	<u>29,538</u>	<u>45,654</u>	<u>7,459</u>	<u>164,927</u>
EXPENDITURES:				
Public Safety	14,514	-	6,004	-
Culture and Recreation	-	46,638	-	140,648
Total Expenditures	<u>14,514</u>	<u>46,638</u>	<u>6,004</u>	<u>140,648</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>15,024</u>	<u>(984)</u>	<u>1,455</u>	<u>24,279</u>
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	<u>(15,650)</u>	-	-	-
Total Other Financing Sources (Uses)	<u>(15,650)</u>	-	-	-
Net Change in Fund Balance	(626)	(984)	1,455	24,279
Fund Balance - October 1 (Beginning)	162,274	41,143	3,146	44,896
Prior Period Adjustment	<u>(24,132)</u>	-	-	-
Fund Balance - September 30 (Ending)	<u>\$ 137,516</u>	<u>\$ 40,159</u>	<u>\$ 4,601</u>	<u>\$ 69,175</u>

Fire Department Fund	Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ 162,508	\$ 162,508
19,045	66,247	66,247
-	7,457	7,457
-	16,110	16,110
71	1,412	1,412
-	12,960	12,960
19,116	266,694	266,694
11,545	32,063	32,063
-	187,286	187,286
11,545	219,349	219,349
7,571	47,345	47,345
(100,000)	(115,650)	(115,650)
(100,000)	(115,650)	(115,650)
(92,429)	(68,305)	(68,305)
175,691	427,150	427,150
(33,309)	(57,441)	(57,441)
\$ 49,953	\$ 301,404	\$ 301,404

CITY OF NEDERLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final	GAAP BASIS (See Note)	
REVENUES:				
Taxes:				
Property Taxes	\$ 2,455,568	\$ 2,455,568	\$ 2,384,738	\$ (70,830)
Penalty and Interest on Taxes	-	-	48,886	48,886
Investment Earnings	500	500	1,314	814
Total Revenues	2,456,068	2,456,068	2,434,938	(21,130)
EXPENDITURES:				
Debt Service:				
Bond Principal	2,155,000	2,155,000	2,154,999	1
Bond Interest	593,068	593,068	593,068	-
Fiscal Agent Fees	3,000	3,000	2,625	375
Total Expenditures	2,751,068	2,751,068	2,750,692	376
Excess (Deficiency) of Revenues Over (Under) Expenditures	(295,000)	(295,000)	(315,754)	(20,754)
OTHER FINANCING SOURCES (USES):				
Transfers In	295,000	295,000	295,000	-
Total Other Financing Sources (Uses)	295,000	295,000	295,000	-
Change in Fund Balance	-	-	(20,754)	(20,754)
Fund Balance - October 1 (Beginning)	156,912	156,912	156,912	-
Fund Balance - September 30 (Ending)	\$ 156,912	\$ 156,912	\$ 136,158	\$ (20,754)

CITY OF NEDERLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - POLICE NARCOTIC FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final	GAAP BASIS (See Note)	
REVENUES:				
Grants and Private Contributions	\$ -	\$ -	\$ 2,134	\$ 2,134
Forfeitures	35,000	35,000	16,110	(18,890)
Investment Earnings	300	300	784	484
Other Revenue	-	-	10,510	10,510
Total Revenues	35,300	35,300	29,538	(5,762)
EXPENDITURES:				
Public Safety	25,300	25,300	14,514	10,786
Total Expenditures	25,300	25,300	14,514	10,786
Excess of Revenues Over Expenditures	10,000	10,000	15,024	5,024
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	(10,000)	(15,650)	(15,650)	-
Total Other Financing Sources (Uses)	(10,000)	(15,650)	(15,650)	-
Change in Fund Balance	-	(5,650)	(626)	5,024
Fund Balance - October 1 (Beginning)	162,274	162,274	162,274	-
Prior Period Adjustment	-	-	(24,132)	(24,132)
Fund Balance - September 30 (Ending)	\$ 162,274	\$ 156,624	\$ 137,516	\$ (19,108)

CITY OF NEDERLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - LIBRARY SPECIAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final	GAAP BASIS (See Note)	
REVENUES:				
Grants and Private Contributions	\$ 64,535	\$ 64,535	\$ 45,068	\$ (19,467)
Investment Earnings	150	150	521	371
Other Revenue	11,350	11,350	65	(11,285)
Total Revenues	76,035	76,035	45,654	(30,381)
EXPENDITURES:				
Culture and Recreation	76,035	76,035	46,638	29,397
Total Expenditures	76,035	76,035	46,638	29,397
Change in Fund Balance	-	-	(984)	(984)
Fund Balance - October 1 (Beginning)	41,143	41,143	41,143	-
Fund Balance - September 30 (Ending)	\$ 41,143	\$ 41,143	\$ 40,159	\$ (984)

CITY OF NEDERLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - COURT TECHNOLOGY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts		Actual	Variance With
	Original	Final	GAAP BASIS (See Note)	Final Budget Positive or (Negative)
REVENUES:				
Fines and Court Costs	\$ 5,500	\$ 5,500	\$ 7,457	\$ 1,957
Investment Earnings	-	-	2	2
Total Revenues	<u>5,500</u>	<u>5,500</u>	<u>7,459</u>	<u>1,959</u>
EXPENDITURES:				
Public Safety	5,500	5,500	6,004	(504)
Total Expenditures	<u>5,500</u>	<u>5,500</u>	<u>6,004</u>	<u>(504)</u>
Change in Fund Balance	-	-	1,455	1,455
Fund Balance - October 1 (Beginning)	<u>3,146</u>	<u>3,146</u>	<u>3,146</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 3,146</u>	<u>\$ 3,146</u>	<u>\$ 4,601</u>	<u>\$ 1,455</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, 2018

	Budgeted Amounts		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final	GAAP BASIS (See Note)	
REVENUES:				
Other Taxes	\$ 70,000	\$ 130,000	\$ 162,508	\$ 32,508
Investment Earnings	-	-	34	34
Other Revenue	5,000	5,000	2,385	(2,615)
Total Revenues	75,000	135,000	164,927	29,927
EXPENDITURES:				
Culture and Recreation	75,000	135,000	140,648	(5,648)
Total Expenditures	75,000	135,000	140,648	(5,648)
Change in Fund Balance	-	-	24,279	24,279
Fund Balance - October 1 (Beginning)	44,896	44,896	44,896	-
Fund Balance - September 30 (Ending)	\$ 44,896	\$ 44,896	\$ 69,175	\$ 24,279

CITY OF NEDERLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - FIRE DEPARTMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts		Actual	Variance With Final Budget Positive or (Negative)
	Original	Final	GAAP BASIS (See Note)	
REVENUES:				
Grants and Private Contributions	\$ 25,000	\$ 25,000	\$ 19,045	\$ (5,955)
Investment Earnings	-	-	71	71
Total Revenues	25,000	25,000	19,116	(5,884)
EXPENDITURES:				
Public Safety	25,000	25,000	11,545	13,455
Total Expenditures	25,000	25,000	11,545	13,455
Excess of Revenues Over Expenditures	-	-	7,571	7,571
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	-	(100,000)	(100,000)	-
Total Other Financing Sources (Uses)	-	(100,000)	(100,000)	-
Change in Fund Balance	-	(100,000)	(92,429)	7,571
Fund Balance - October 1 (Beginning)	175,691	175,691	175,691	-
Prior Period Adjustment	-	-	(33,309)	(33,309)
Fund Balance - September 30 (Ending)	\$ 175,691	\$ 75,691	\$ 49,953	\$ (25,738)

CITY OF NEDERLAND

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

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	General	Total Funds
ASSETS:		
Cash and cash equivalents	\$ 396,476	\$ 396,476
Investments	6,439,734	6,439,734
Receivables (net of allowances for doubtful accounts)		
Taxes receivable	66,860	66,860
Other	4,322	4,322
Due from primary government	121,969	121,969
Total Assets	\$ 7,029,361	\$ 7,029,361
LIABILITIES AND FUND BALANCES:		
LIABILITIES:		
Accrued expenses and other liabilities	\$ 173	\$ 173
Total Liabilities	173	173
FUND BALANCES:		
Committed for Airport Development	2,200,000	2,200,000
Committed for Emergency Fund	750,000	750,000
Unassigned Fund Balance	4,079,188	4,079,188
Total Fund Balances	7,029,188	7,029,188
Total Liabilities and Fund Balances	\$ 7,029,361	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in these funds.		163,963
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 \$87,899, a Deferred Resource Outflow related to TMRS in the amount of \$47,026, and a Deferred Resource Inflow related to TMRS in the amount of \$65,310. This amounted to an increase in Net Position in the amount of \$69,615.		69,615
Included in restricted assets is the recognition of the City's proportionate share of the net OPEB liability required by GASB 75 in the amount of \$202,435 and a Deferred Resource Outflow related to TMRS in the amount of \$17,949. This amounted to a decrease in Net Position in the amount of \$184,486.		(184,486)
		\$ 7,078,280

CITY OF NEDERLAND

**COMPONENT UNIT
NEDERLAND ECONOMIC DEVELOPMENT CORPORATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<u>General</u>	<u>Total Funds</u>
REVENUES:		
Sales tax	\$ 910,018	\$ 910,018
Interest	102,530	102,530
Other miscellaneous	13,335	13,335
Total Revenues	<u>1,025,883</u>	<u>1,025,883</u>
EXPENDITURES:		
Current:		
Economic development	<u>371,715</u>	<u>371,715</u>
Total Expenditures	<u>371,715</u>	<u>371,715</u>
Net Change in Fund Balances	654,168	654,168
Fund Balance - October 1 (Beginning)	<u>6,375,020</u>	
Fund Balance - September 30 (Ending)	<u>\$ 7,029,188</u>	
The change in capital assets are reflected in the current financial resources of governmental funds, however has no effect on net position		(7,449)
The implementation of GASB 68 eliminates pension expenditures reflected in the current financial resources and decreases net position.		(2,317)
The implementation of GASB 75 eliminates pension expenditures reflected in the current financial resources and decreases net position.		<u>(5,335)</u>
CHANGE IN NET POSITION		639,067
NET POSITION - BEGINNING		6,618,364
PRIOR PERIOD ADJUSTMENT		(179,151)
NET POSITION - ENDING		<u>\$ 7,078,280</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, 2018**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Sales tax	\$ 750,962	\$ 750,962	\$ 910,018	\$ 159,056
Interest	5,000	5,000	102,530	97,530
Other miscellaneous	1,800	1,800	13,335	11,535
Total Revenues	<u>757,762</u>	<u>757,762</u>	<u>1,025,883</u>	<u>268,121</u>
EXPENDITURES:				
Current:				
Economic development	<u>757,762</u>	<u>757,762</u>	<u>371,715</u>	<u>386,047</u>
Total Expenditures	<u>757,762</u>	<u>757,762</u>	<u>371,715</u>	<u>386,047</u>
Net Change in Fund Balances	-	-	654,168	654,168
Fund Balance - October 1 (Beginning)	<u>6,375,020</u>	<u>6,375,020</u>	<u>6,375,020</u>	<u>-</u>
Fund Balance - September 30 (Ending)	<u>\$ 6,375,020</u>	<u>\$ 6,375,020</u>	<u>\$ 7,029,188</u>	<u>\$ 654,168</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.

<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.	73-78
Revenue Capacity These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	79-82
Debt Capacity 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.	83-88
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	89-90
Operating Information 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.	91-95

NET POSITION BY COMPONENT

LAST TEN FISCAL YEARS

(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental Activities										
Invested in capital assets, net of related debt	\$ 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	\$ 30,923,655
Restricted	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	7,634,601
Unrestricted	(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	7,115,501
Total governmental activities net position	\$ 9,993,152	\$ 13,322,543	\$ 11,697,435	\$ 15,936,759	\$ 21,400,170	\$ 27,196,648	\$ 35,588,700	\$ 38,488,551	\$ 41,578,869	\$ 45,673,757
Business-type Activities										
Invested in capital assets, net of related debt	\$ 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	\$ 27,438,324
Restricted	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	1,476,711
Unrestricted	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	8,248,241
Total business-type activities net position	\$ 34,119,083	\$ 33,116,654	\$ 36,851,580	\$ 36,036,702	\$ 35,325,074	\$ 36,257,574	\$ 38,326,673	\$ 37,866,047	\$ 37,476,051	\$ 37,163,276
Primary Government										
Invested in capital assets, net of related debt	\$ 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	\$ 50,256,979
Restricted	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	9,111,312
Unrestricted	(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	23,468,742
Total primary government net position	\$ 44,112,235	\$ 46,439,197	\$ 48,549,015	\$ 51,973,461	\$ 56,725,244	\$ 63,454,222	\$ 73,915,373	\$ 76,354,598	\$ 79,054,920	\$ 82,837,033

CHANGES IN NET POSITION

LAST TEN FISCAL YEARS (1)

(ACCRUAL BASIS OF ACCOUNTING)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities										
General government	\$ 959,939	\$ 938,214	\$ 894,890	\$ 912,280	\$ 873,884	\$ 1,022,795	\$ 1,133,595	\$ 1,877,002	\$ 1,879,601	\$ 1,453,810
Public safety	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	6,090,633
Public works	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	1,984,912
Culture and recreation	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	1,352,159
Administrative and general	503,838	498,380	396,221	395,998	418,261	349,660	313,638	317,459	323,600	540,643
Interest on long-term debt	939,966	1,057,191	645,953	700,763	679,559	616,072	513,579	330,460	411,785	470,165
Capital Outlay	-	-	-	-	-	-	-	-	634,102	-
Total governmental activities	9,281,098	9,711,936	9,626,264	9,782,803	9,929,838	10,557,095	10,843,858	11,440,544	12,233,719	11,892,322
Business-type activities										
Water and sewer	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	4,842,030
Solid Waste	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	1,599,620
Total business-type activities	6,303,971	5,451,015	5,436,086	5,424,604	5,584,329	5,480,797	5,270,255	5,805,910	6,177,641	6,441,650
Total Primary Government Expenses	\$ 15,585,069	\$ 15,162,951	\$ 15,062,350	\$ 15,207,407	\$ 15,514,167	\$ 16,037,892	\$ 16,114,113	\$ 17,246,454	\$ 18,411,360	\$ 18,333,972
Program Revenues										
Governmental activities:										
Charges for services:										
Public safety	\$ 143,095	\$ 200,573	\$ 183,564	\$ 166,945	\$ 350,177	\$ 193,761	\$ 317,684	\$ 153,263	\$ 231,213	\$ 265,663
Public works	104,147	106,104	105,158	126,566	147,864	147,716	146,329	154,082	101,530	156,561
Culture and recreation	41,959	53,487	81,098	95,460	85,630	92,762	110,178	124,360	105,674	104,374
Operating grants and contributions	147,617	295,370	272,166	248,145	431,584	3,458,451	1,333,094	218,717	303,049	287,857
Total governmental activities program revenues	436,818	655,534	641,986	637,116	1,015,255	3,892,690	1,907,285	650,422	741,466	814,455
Business activities:										
Charges for services:										
Water & sewer	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	4,730,022
Solid waste	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	1,691,752
Capital grants and contributions	867,484	-	-	-	-	-	-	-	355,233	296,417
Total business-type activities program revenues	6,011,314	5,316,453	5,573,319	5,678,125	5,604,706	5,823,889	6,156,272	5,991,648	6,482,928	6,718,191
Total primary government program revenues	\$ 6,448,132	\$ 5,971,987	\$ 6,215,305	\$ 6,315,241	\$ 6,619,961	\$ 9,716,579	\$ 8,063,557	\$ 6,642,070	\$ 7,224,394	\$ 7,532,646
Net (expense) revenue										
Governmental activities	\$ (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)	\$ (11,077,867)
Business-type activities	(292,657)	(134,562)	137,233	253,521	20,377	343,092	886,017	185,738	305,287	276,541
Total primary government net expense	\$ (9,136,937)	\$ (9,190,964)	\$ (8,847,045)	\$ (8,892,166)	\$ (8,894,206)	\$ (6,321,313)	\$ (8,050,556)	\$ (10,604,384)	\$ (11,186,966)	\$ (10,801,326)

	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Revenues and Other Changes in Net Position										
Governmental Activities										
Property taxes, penalties and interest	\$ 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	\$ 6,748,020
In lieu of tax contracts	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	1,995,382
Sales tax	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	4,550,091
Other taxes	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	1,364,631
Interest	64,742	28,537	21,941	21,291	27,164	19,828	17,529	26,515	51,219	216,153
Gain on sale of capital assets	-	-	-	-	1,125,155	678,376	155,000	317,411	-	-
Grants and Contributions Not Restricted	52,991	-	-	-	-	-	-	-	279,208	-
Other miscellaneous	621,448	1,018,745	82,405	55,811	81,126	103,041	124,263	97,460	219,290	445,105
Transfers	760,600	805,798	(3,617,690)	959,948	752,000	(620,963)	(198,629)	685,784	733,175	546,900
Total government activities	<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>	<u>15,866,282</u>
Business-type activities										
Interest	\$ 85,369	\$ 40,989	\$ 15,426	\$ 11,927	\$ 8,119	\$ 7,703	\$ 7,302	\$ 10,320	\$ 14,866	\$ 39,213
Other miscellaneous	361,509	(103,058)	(35,423)	(120,378)	11,876	(39,258)	(62,007)	77,187	23,026	167,311
Transfers	(760,600)	(805,798)	3,617,690	(959,948)	(752,000)	620,963	198,629	(685,784)	(733,175)	(546,900)
Total business-type activities	<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>	<u>(340,376)</u>
Total primary government	<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>	<u>\$ 15,525,906</u>
Change in Net Position										
Governmental activities	\$ 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	\$ 4,788,415
Business-type activities	(381,409)	(1,002,429)	3,734,926	(814,878)	(711,628)	932,500	1,029,941	(412,539)	(389,996)	(63,835)
Prior Period Adjustment	-	-	-	-	-	-	-	(372,116)	269,101	(942,469)
Total primary government	<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>	<u>\$ 3,782,111</u>

GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE

LAST TEN 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>
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
2018	6,613	1,995	4,550	1,365	14,523

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Fund										
Reserved	\$ 5	\$ 4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	5,591	6,255	-	-	-	-	-	-	-	-
Nonspendable	-	-	4	3	2	2	3	1	2	12
Restricted	-	-	-	-	1,135	-	197	-	-	3,176
Assigned	-	-	-	-	1,350	-	2,800	2,692	2,953	223
Unassigned	-	-	7,043	9,332	8,809	12,660	10,817	11,850	12,174	13,012
Total general fund	<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>	<u>\$ 16,423</u>
All other governmental funds										
Reserved	225	239	-	-	-	-	-	-	-	-
Unreserved, reported in:										
Special revenue funds	238	282	-	-	-	-	-	-	-	-
Capital projects funds	2,627	1,316	-	-	-	-	-	-	-	-
Restricted										
Debt Service	-	-	290	309	261	229	224	174	157	136
Grants and Awards	-	-	257	289	320	310	414	417	427	301
Construction	-	-	-	-	-	-	280	4	5,330	3,179
Committed										
Capital projects	-	-	1,588	1,795	4,939	3,029	2,495	2,384	2,642	3,937
Total all other governmental funds	<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>	<u>\$ 7,553</u>
Total governmental funds	<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>	<u>\$ 23,976</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									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Property taxes, penalties and interest	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	6,781,817
In lieu of tax contracts	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	1,995,382
Sales Tax	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	4,550,091
Other taxes	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	1,364,631
Charges for services	127,703	159,591	186,255	222,026	233,494	240,478	256,507	278,442	207,204	260,935
Fines, forfeits and penalties	160,306	196,265	193,588	187,836	276,470	226,571	267,359	227,737	231,213	265,662
Interest	64,742	28,537	21,941	21,291	27,164	19,826	17,528	26,515	51,219	216,153
Other governmental agencies	52,991	-	-	-	-	-	-	-	-	-
Grants and Private contributions	147,617	295,370	272,166	248,145	431,584	3,458,451	1,333,096	218,717	582,257	287,857
Other miscellaneous	621,448	819,761	82,405	91,373	81,126	103,041	124,261	97,460	100,674	87,554
Total revenues	11,255,910	11,989,562	11,631,853	13,099,136	13,414,258	16,682,591	15,136,822	14,006,702	14,193,814	15,810,082
Expenditures										
Current:										
General government	913,358	890,651	908,602	910,170	965,139	1,008,005	2,561,602	1,217,555	1,328,398	1,265,040
Public safety	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	7,926,820
Public works	1,475,481	1,273,637	1,357,089	1,408,350	1,644,195	3,151,978	1,619,023	2,983,236	1,908,454	2,254,408
Culture and recreation	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	1,280,388
Administration and general	503,838	333,410	372,158	353,183	369,587	323,473	296,162	317,459	323,600	785,762
Capital Outlay	774,521	2,450,174	719,846	511,508	2,120,742	4,030,394	555,478	812,262	769,887	-
Debt Service:										
Principal retirement	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	2,154,999
Interest and fiscal charges	905,654	857,622	658,116	713,822	853,412	617,638	559,780	511,780	517,041	593,068
Issuance Costs	2,900	157,111	63,292	61,537	198,462	2,325	2,724	2,225	3,250	2,625
Total expenditures	11,379,411	13,583,348	11,411,893	11,597,871	13,798,285	17,325,081	14,094,042	14,671,228	14,511,361	16,263,110
Excess (Deficiency) of Revenues Over (Under) Expenditures	(123,501)	(1,593,786)	219,960	1,501,265	(384,027)	(642,490)	1,042,780	(664,526)	(317,547)	(453,028)
Other Financing Sources (Uses)										
Bonds issued	-	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	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	2,288,098
Transfers out	(239,733)	(637,940)	(4,861,708)	(375,000)	(2,408,650)	(2,420,041)	(1,368,927)	(1,557,272)	(1,441,925)	(1,741,198)
Sale of general capital assets	-	-	-	-	1,636,470	678,376	155,000	317,412	147,802	332,448
Total Other Financing Sources and Uses	760,600	1,004,782	882,310	1,044,948	5,471,455	57,413	(43,629)	1,003,195	6,480,182	879,348
Net Change in Fund Balance	\$ 637,099	\$ (589,004)	\$ 1,102,270	\$ 2,546,213	\$ 5,087,428	\$ (585,077)	\$ 999,151	\$ 338,669	\$ 6,162,635	\$ 426,320
Debt service as a percentage of non-capital expenditures	24.06%	24.31%	22.51%	24.01%	23.77%	21.57%	20.71%	20.97%	20.67%	21.84%

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			
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
2018	2017	872,766,523	231,908,670	98,115,491	115,842,819	1,086,947,865	0.0609578

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
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
2018	0.390828	0.218750	\$0.609578	0.364977	1.150000	0.199875	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 2009		Fiscal Year 2018	
	Assessed Valuation	Percent of Estimated Actual Value	Assessed Valuation	Percent of Estimated Actual Value
Philpott Ford, Inc.	6,978,340	0.81%	13,487,160	1.24%
Entergy Texas, Inc.	7,232,380	0.84%	11,948,680	1.10%
Nederland Avenue Apartments	10,701,760	1.25%	10,196,740	0.94%
Megas Constantine	7,063,330	0.82%	8,539,470	0.79%
Fivepoint Federal Credit Union	4,425,860	0.52%	8,906,660	0.82%
Chateau Residential LP	-	-	6,450,810	0.59%
JK Chevrolet Isuzu	-	-	6,976,320	0.64%
JAG Nederland Properties LTD	4,751,180	0.55%	5,994,620	0.55%
Medical Center of SE Texas	4,323,400	0.50%	5,130,070	0.47%
Albanese Nederland Spe LLC	4,920,560	0.57%	3,930,470	0.36%
Southwestern Bell	5,382,170	0.63%	-	-
Noble Entergy, Inc.	9,122,210	1.06%	-	-
Total	<u>\$64,901,190</u>	7.57%	<u>\$81,561,000</u>	7.50%

Source: Jefferson County Appraisal District

Notes:

Total taxable value including real and personal property for tax year 2008 (fiscal year 2009) is \$857,337,337

Total taxable value including real and personal property for tax year 2017 (fiscal year 2018) is \$1,086,947,865

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
2009	4,960,557	4,838,230	97.53%	109,526	4,947,756	99.74%
2010	5,303,956	5,140,742	96.92%	151,100	5,291,842	99.77%
2011	5,461,182	5,315,110	97.33%	128,850	5,443,960	99.68%
2012	5,556,497	5,422,024	97.58%	116,363	5,538,387	99.67%
2013	5,639,374	5,502,387	97.57%	115,180	5,617,567	99.61%
2014	5,692,494	5,555,702	97.60%	110,877	5,666,579	99.54%
2015	5,858,402	5,726,009	97.74%	97,119	5,823,128	99.40%
2016	6,030,725	5,908,543	97.97%	76,220	5,984,763	99.24%
2017	6,267,377	6,139,152	97.95%	58,341	6,197,493	98.88%
2018	6,621,337	6,500,741	98.18%		6,500,741	98.18%

Source: Jefferson County Appraisal District and Jefferson County Tax Office

RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities			Business-type Activities	Total Primary Government	Percentage of Personal Income	Per Capita
	Certificates of Obligation	Tax Notes	General Obligation Bonds	Water & Sewer Revenue Bonds			
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
2018	10,915,799	-	4,965,170	-	15,880,969	3.60%	\$ 905

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		
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
2018	10,915,799	-	4,965,170	136,158	\$15,744,811	1.45%	897

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, 2018

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	\$26,415,000	36.96%	\$9,762,984
Jefferson County, Texas	27,740,000	3.67%	1,018,058
Jefferson County Drainage District #7	16,960,000	7.29%	1,236,384
Subtotal overlapping debt			12,017,426
City direct debt			15,880,969
TOTAL			\$ 27,898,395

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, 2018

<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	\$ 11,805,000	100.00%	\$ 11,805,000

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

Debt Margin Calculation for Fiscal Year 2018

Assessed value	<u>\$1,086,947,865</u>
Debt Limit (25% of assessed value)	<u>271,736,966</u>
Debt applicable to limit:	
General Obligation Bonds	11,805
Less: amount set aside for repayment of general obligation debt	<u>(136)</u>
Total net debt applicable to limit	<u>11,669</u>
Debt Margin	<u>\$ 271,725,297</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>	<u>2018</u>
Debt limit	\$ 214,334	\$ 211,953	\$ 215,934	\$ 221,641	\$ 219,528	\$ 223,384	\$ 231,883	\$ 241,284	\$ 264,081	\$ 271,723
Total net debt applicable to limit	<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>	<u>11,669</u>
Legal debt margin	<u>\$ 194,924</u>	<u>\$ 194,472</u>	<u>\$ 195,645</u>	<u>\$ 203,098</u>	<u>\$ 199,884</u>	<u>\$ 205,523</u>	<u>\$ 215,907</u>	<u>\$ 227,183</u>	<u>\$ 250,409</u>	<u>\$ 260,054</u>
Legal debt margin as a percentage of the debt limit	90.94%	91.75%	90.60%	91.63%	91.05%	92.00%	93.11%	94.16%	94.82%	95.71%

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
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	-	-	-
2018	4,876,004	3,428,757	1,447,247	-	-	-

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
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%
2018	17,547	546,449	31,142	39.1	5,388	** 5.6%

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	2018	
	Employees	Percentage of Total City Employment
Nederland Independent School District	684	8.46%
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	119	1.47%
Dupont	75	0.93%
JK Chevrolet	70	0.87%
Unocal	65	0.80%
Hargrove Engineers	65	0.80%

Source: Nederland Economic Development Corporation

Note: Historical Information not available.

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<u>Function/Program</u>										
General government										
City manager	3	3	3	3	3	3	3	3	3	3
Finance	1	1	1	1	1	1	1	1	1	1
Personnel	2	2	2	2	2	2	2	2	2	2
Public safety										
Police	26	26	26	26	27	27	28	28	29	29
Fire	15	15	15	15	15	15	15	15	15	15
Dispatch	10	10	10	10	10	10	11	11	11	11
Information Technology	-	1	1	1	2	2	3	3	3	3
Public works										
Inspections	2	2	2	2	2	2	2	2	2	2
Code Enforcement	-	-	-	-	-	1	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	3	2	2	**	**
Animal Control	-	-	-	-	-	-	1	1	1	1
Culture and recreation										
Parks and recreation	3	3	3	3	3	3	4	4	4	4
Library	4	4	4	4	4	4	4	4	4	4
Water and sewer										
Water treatment	6	6	6	6	6	6	6	6	7	6
Water utility billing/collections	4	4	4	4	4	5	5	5	5	5
Wastewater treatment	*	*	*	*	*	*	*	*	4	4
Water and sewer distribution	10	10	10	10	10	9	9	9	9	9
Solid Waste	7	7	7	7	7	7	7	7	9	9
Total	105	106	106	106	108	110	114	114	120	119

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General government										
Building permits issued	1,101	1,005	1,026	1,026	1,028	981	1,035	1,127	815	990
Public safety										
Police										
Physical arrests	408	345	377	360	245	364	459	413	438	427
Traffic violations	1,877	2,158	1,744	2,058	3,503	2,589	2,508	1,704	1,735	1,824
Dispatch calls for service	10,257	10,109	12,258	12,463	14,455	14,667	17,377	17,199	19,246	17,453
Offense reports filled	2,000	1,805	2,050	2,049	2,195	2,015	2,161	1,973	2,151	1,797
Fire										
Fire runs	75	99	103	91	66	72	52	77	602	81
EMS & other non-fire runs	1,480	1,566	1,556	1,608	1,632	1,731	1,830	1,700	1,402	1,894
Library										
Total volumes borrowed	103,171	115,311	106,380	103,602	106,526	96,449	94,428	89,490	86,499	85,784
Water and sewer										
Number of connections	8,259	7825*	7,848	7,865	7,926	8,308	8,569	8,680	8,680	9,021
Water main breaks	115	288	446	176	248	114	129	103	133	99
Average daily consumption (thousands of gallons)	2.21	2.25	2.32	2	2.13	2.01	1.97	1.97	2.00	2.11
Peak daily consumption (thousands of gallons)	3.49	3.49	3.59	3.47	3.43	3.63	3.16	2.77	2.76	3.65
Solid waste										
Refuse collected average yards per day (compacted)	91.000	90.000	104.000	128.000	117.000	120.000	85.000	117.000	85.000	84.000
Refuse collected average yards per day (non-compacted)	97.000	112.000	96.000	104.000	192.000	117.000	110.000	144.000	138.000	114.000

Source: City Departments

* Change in method of connection count per TCEQ

CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS

	<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>	<u>2018</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles	14	14	20	20	19	19	19	19	19	21
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
Vehicles	3	3	3	3	3	3	3	3	3	3
Rescue	1	1	1	1	1	1	1	1	1	2
Public works										
Streets (lane miles)	175	175	175	175	175	175	175	175	175	175
Traffic signals	6	6	6	6	7	7	7	7	7	7
Parks and recreation										
Parks	7	7	5	6	5	5	6	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	104.22
Sewer mains (miles)	93.67	93.67	93.67	93.67	94	94	94	94	94	97.77
Fire hydrants	407	407	407	407	407	407	407	407	407	481

Source: City Departments

Industrial Contracts

2008-2009 Fiscal Year

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

2009-2010 Fiscal Year

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

2010-2011 Fiscal Year

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

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
Total	\$ 482,585,290	\$ 306,011,284	\$ 1,768,745

2012-2013 Fiscal Year

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

Industrial Contracts

2013-2014 Fiscal Year

	2013 Assessed Valuation	Taxable 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
Total	\$ 497,658,150	\$ 301,532,277	\$ 1,784,628

2014-2015 Fiscal Year

	2014 Assessed Valuation	Taxable 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
Total	\$ 464,651,510	\$ 293,526,688	\$ 1,737,246

2015-2016 Fiscal Year

	2015 Assessed Valuation	Taxable 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
Total	\$ 571,381,450	\$ 291,155,686	\$ 1,723,214

2016-2017 Fiscal Year

	2016 Assessed Valuation	Taxable 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
Total	\$ 658,389,460	\$ 281,540,109	\$ 1,672,348

2017-2018 Fiscal Year

	2017 Assessed Valuation	Taxable Value	Payments
Air Liquide America Corporation	\$ 21,797,760	\$ 16,213,438	\$ 96,245
Union Oil of California	19,236,810	3,877,431	5,138
Phillips 66	55,326,810	41,193,103	397,041
Sun Pipeline Company	562,028,080	220,256,137	1,496,958
Total	\$ 658,389,460	\$ 281,540,109	\$ 1,995,382