

CITY OF NEDERLAND, TEXAS

Comprehensive Annual Financial Report

For the Year Ended September 30, 2012

Prepared by the
Finance Department

CITY OF NEDERLAND, TEXAS

Comprehensive Annual Financial Report

September 30, 2012

Table of Contents

	<u>EXHIBIT</u>	<u>PAGE</u>
INTRODUCTORY SECTION		
Letter of Transmittal		1
Certificate of Achievement		8
List of City Officials		9
Organizational Chart		10
FINANCIAL SECTION		
Independent Auditor's Report on Financial Statements		11-12
Management's Discussion and Analysis (Required Supplementary Information)		13-21
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Assets	A	22
Statement of Activities	B	23-24
Fund Financial Statements:		
Balance Sheet - Governmental Funds	C	25
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	C-1	26
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	D	27
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	D-1	28
Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual - General Fund	E	29
Statement of Net Assets - Proprietary Funds	F	30
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	G	31
Statement of Cash Flows - Proprietary Funds	H	32
Notes to the Financial Statements		33-55
<u>Required Supplementary Information</u>		
Funding Programs for Employee Retirement Systems	I	56
Funding Programs for Other Post Employment Benefits (OPEB)	J	57
<u>Combining and Individual Fund Statements and Schedules</u>		
Combining Balance Sheet - Nonmajor Governmental Funds	K	59
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	L	60
Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Debt Service Fund	M	61
Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Police Narcotics Fund	N	62
Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Library Fund	O	63
Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Court Technology Fund	P	64
Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Hotel/Motel Occupancy Tax Fund	Q	65
Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Fire Department Fund	R	66
Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Capital Improvement Fund	S	67

CITY OF NEDERLAND, TEXAS

Comprehensive Annual Financial Report

September 30, 2012

Table of Contents

	<u>EXHIBIT</u>	<u>PAGE</u>
Individual Fund Statements - Nederland Economic Development Corporation		
Balance Sheet	T	68
Statement of Revenues, Expenditures and Changes in Fund Balance		
General Operating Fund	U	69
Statement of Revenues, Expenditures and Changes in Fund Balance		
Budget and Actual	V	70
STATISTICAL SECTION		
Net Assets by Component	I	72-73
Changes in Net Assets	II	74-77
Governmental Activities Tax Revenues by Source	III	78
Fund Balances of Governmental Funds	IV	79
Changes in Fund Balances of Governmental Funds	V	80-81
Assessed Value and Estimated Actual Value of Taxable Property	VI	82
Property Tax Rates Direct and Overlapping Governments	VII	83
Principal Taxpayers	VIII	84
Property Tax Levies and Collections	IX	85
Ratios for Outstanding Debt by Type	X	86
Ratios of General Bonded Debt Outstanding	XI	87
Schedule of Direct and Overlapping Bonded Debt	XII	88
Direct and Overlapping Governmental Activities Debt	XIII	89
Legal Debt Margin Information	XIV	91-91
Pledged Revenue Coverage	XV	92
Demographic and Economic Statistics	XVI	93
Principal Employers	XVII	94
Full-Time City Government Employees by Department	XVIII	95
Operating Indicators by Function/Program	XIX	96-97
Capital Asset Statistics by Function	XX	98
Industrial Contracts	XXI	99
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Governmental Auditing Standards		100-101

INTRODUCTORY SECTION



City of Nederland

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

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 citizens, investors, grantor agencies, and other interested parties with reliable financial information about the City. Accordingly, we hereby respectfully submit the Comprehensive Annual Financial Report of the City of Nederland for the fiscal year ended September 30, 2012.

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

The City's financial statements have been audited by J. R. Edwards & Associates, LLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2012, were free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2012, 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

"Programmed for Progress"

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

The City provides a full range of services including police and fire protection, the construction and maintenance of streets and other infrastructure, general administration, 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. police). Department directors may request transfers of appropriations within a department, which are reviewed and approved by the City Manager. Transfer of appropriations between departments, however, requires the approval of the City Council. Budget-to-actual comparisons are provided in this report for the General Fund; this comparison is presented as part of the basic financial statements for the governmental funds.

History

Nederland's heritage is deeply rooted in the Dutch ancestry, which gives the town its name. Nederland was officially founded on December 24, 1897 when Dutch settlers with an adventuresome spirit and desire for a better life found this site. The community was developed by the Port Arthur

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

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

Factors Affecting Financial Conditions

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

Local Economy

The City of Nederland, Texas is located in a metropolitan area in Southeast Texas frequently referred to as the "Golden Triangle" and is a component of the Beaumont-Port Arthur MSA, located in the Mid-County area of Jefferson County. For the past several years, the City has displayed stable, steady growth as the overall local economy remains strong relative to the significant downturn experienced by the majority of the country. Nederland has consistently maintained an unemployment rate lower than Jefferson County and the State as a whole; traditionally, the unemployment rate in the City of Nederland has been in the three to four percent range as reported by the Texas Workforce Commission. In general, the entire "Golden Triangle" area continues to display a fairly stable economy due to such factors as the existing petroleum and chemical industry, expansion of existing petrochemical plants, new commercial/retail businesses, and the construction of correctional facilities. Additionally, ad valorem revenue has increased by approximately 6% per year over the past five (5) years.

During the past 5 years, sales tax collections have fluctuated greatly. Beginning in fiscal year 2005-2006, the City has experienced significant increases in sales tax revenues that staff believes is

attributable to expansion projects at various crude oil and petrochemical facilities. But the sales tax increase trend ended in the fiscal year 2009-2010; with the national economic downturn's effects impacting the regional economy, as well as the inflated sales tax revenue due to Hurricane Ike-related expenditures, sales tax revenue decreased by 11%. In fiscal year 2010-2011, sales tax revenue increased by 4% and by 22% the following fiscal year. This volatility has resulted in staff conservatively estimating any potential growth. Due to the level of economic growth, the City has previously initiated actions to ensure financial stability while continuing to identify potential improvements for increased operational efficiencies.

In 1994, voters adopted an additional one half of one percent sales and use tax to be used for the promotion and development of new or expanded business enterprises as authorized by Section 4B, Article 5190.6, V.T.C.S. With this additional sales tax revenue, an economic development corporation, also authorized by the Act, was created to promote, assist, and enhance economic and community development activities for the City. In 2007, voters adopted a quarter cent of the City sales tax to be allocated to a Street Improvement Fund by reducing the Section 4B tax to a quarter cent. Funds would be expended on street-related improvement projects. Beginning in April 2008, the quarter cent sales tax was collected, but funds were allowed to accrue until early 2009. With 78% votes of approval, the street sales tax was re-authorized during the May 2011 election.

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

FY 2011-2012 IN REVIEW

- ✓ Maintained the tax rate of \$0.578 per \$100.00 valuation and continued a \$15,000 Homestead Tax Exemptions for the elderly and the disabled.
- ✓ Amended the City's Retiree Insurance Policy in effort to minimize the City's GASB 45 liability and to more fairly meet the needs of current and future retirees.
- ✓ Completed \$660,000 of Street Improvements and repairs to include the hot mix overlay of Avenue H, the re-surfacing of Hillterrace Avenue and South 29th Street, the "level-up" of Canal Avenue, joint and crack sealing of North 17th Street and Boston Avenue, street re-striping, concrete rising, and chip seal road repairs.
- ✓ Completed the Sewer Rehabilitation Project in the amount of \$3.82M.
- ✓ Commenced the Nederland Water Treatment Plant improvements/repair project in the amount of \$2.1M.
- ✓ Commenced the 18th Street Waterline Improvement project in the amount of \$905,576.
- ✓ Continued to reduce the Crime Rate of the City.
- ✓ Purchased a police detective unit, a patrol vehicle, a police SUV, a dump truck for the Streets Department, a van for the federal prison labor crew, a mini-trackhoe for water and sewer distribution, and a replacement garbage truck.
- ✓ Received \$4,995,220 in grant funding: \$2,682,017 – Round 2.2 Hurricane Ike Disaster Funds, \$23,840 – 2011 SHSP (Fire), \$139,863 – 2007 PSG Supplemental (Fire, Police, Public Works), \$2,100,000 – 2012 PSG Emergency Operations Center (Fire), \$33,500 – Wilton and Effie Mae Hebert Foundation (Library), \$4,000 – Foundation for South East Texas (Library), \$5,000 – Heritage Festival (Parks), \$1,000 – Entergy (Parks), and \$6,000 – Nederland Breakfast Optimist (Parks).

- ✓ Conducted 2012 Community Survey, a mail-out survey for citizen input on City services.
- ✓ Purchased and installed a toddler playground and swing sets at Doornbos Park (\$49,900).
- ✓ Awarded for the 14th 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.
- ✓ Approved a new landfill agreement, freezing compacted waste costs and reducing the rates for non-compacted waste and sludge.
- ✓ Launched in a joint-initiative with the cities of Groves and Port Neches and the Nederland, Port Neches, and Groves Chambers of Commerce to enhance mid-county businesses' online presence via ShopsQA website tool.
- ✓ Commenced partnership with Adaptive Sports for Kids (A.S.K.) to provide baseball and soccer fields for special needs children from Nederland and the surrounding communities.
- ✓ Completed various technology upgrades, including the utilization of BlackBoard Connect to keep citizens informed during disasters and provide non-emergency messages and launching a mobile app for the Library.
- ✓ Continued to provide community events including "Trash Bash", Family Nights at the Pool, holiday decorating, Christmas on the Avenue, participation in "Trunk or Treat," Fire Department Open House, and the 4th of July Fireworks Extravaganza.

GOALS FOR FISCAL YEAR 2012-2013

- ❖ Maintain one of the lowest municipal tax rates in Jefferson County and continue to provide \$15,000 Homestead Tax Exemptions for the elderly and the disabled.
- ❖ Continuation of street improvements to improve the transportation network—\$965,000.
- ❖ Complete the Nederland Water Treatment Plant repair/improvement project—\$2.2M.
- ❖ Complete 18th Street Waterline Improvement project in the amount of \$905,000.
- ❖ Commence the interior re-painting of the Hardy Avenue elevated water tower.
- ❖ Commence a Waterline Replacement project in the amount of \$900,000.
- ❖ Commence Nederland City Hall project—\$1.265M.
- ❖ Commence Nederland Public Safety Complex project.
- ❖ Continuation of water and sewer line improvements in order to upgrade the City's utility infrastructure.
- ❖ Commence public infrastructure improvements with Hurricane Ike funds – sewer line replacement, generators for the sewer plant and lift stations, and traffic signal light upgrades.
- ❖ Continue to reduce the crime rate.
- ❖ Installation of new playground equipment at Cropo LeBlanc and 5th Street Parks—\$50,000.
- ❖ Adopt a five-year Capital Improvement Plan, Nederland Parks Master Plan, and Equipment Replacement Plan.
- ❖ Continue the strong relationship with the Nederland Economic Development Corporation and Chamber of Commerce in order to promote commerce and industrial growth.
- ❖ 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. Throughout the fiscal year, the affects of the national recession impacted the local and regional economy. A conservative approach to the budget, including greater efficiency and salary/benefit controls, was required to offset decreases in revenue. While growth will continue in the City and surrounding area, a number of factors, specifically hurricanes and the national economy, may adversely impact Nederland's long-term planning efforts. The City's elected officials and management have traditionally maintained a prudent approach to budgeting, the expenditure of funds, and the collection of revenues. This philosophy will remain in place, in addition to continuing to evaluate further opportunities to more efficiently and effectively manage public funds.

Cash Management Policies and Practices

Cash temporarily idle during the year was invested in certificates of deposit, approved investment pools, and interest bearing demand deposits. The maturities of the investments range from 1 to 365 days. The average yield on investments was .10% during fiscal year September 30, 2012.

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 106.7% of the present value of the projected benefits earned by employees. The remaining unfunded amount is being systematically funded over 25 years as part of the annual required contribution calculated by the actuary.

The City also provides post-retirement health and dental care benefits for certain retirees. Following a two-year study conducted with the help of a retiree insurance committee comprised of city employees, effective July 1, 2012, the City's retiree insurance plan was amended from the "sliding scale benefit" provided since 1996 to a one-time flat rate contribution of no more than \$7,675 to retirees who meet the policy requirements. The funds are deposited into a Health Reimbursement Account to be utilized for qualifying medical expenses. Following the policy adoption, the City allocated funds in the fiscal year 2012-2013 budget for future retiree expenses. The policy revision and annual expense allocation are necessary to manage the City's GASB 45 liability, to be financially prudent, and to properly assist to existing and future City retirees.

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

AWARDS AND ACKNOWLEDGMENTS

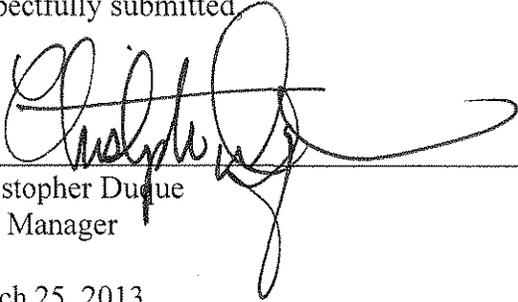
Awards

The City of Nederland participates in the Certificate of Achievement for Excellence in Financial Reporting Award program sponsored by the Government Finance Officers Association (GFOA). Receiving this prestigious award is the result of achieving the highest standards in governmental accounting and financial reporting. Fiscal year ended September 30, 2011 marked the fourteenth consecutive year the City received this annual award. A Certificate of Achievement is valid for a period of one year only. We believe that our fiscal year ended September 30, 2012 CAFR continues to meet the program requirements and this document will be submitted to GFOA for consideration.

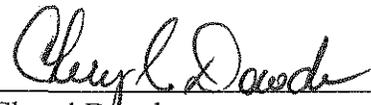
Acknowledgments

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, 2013

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, 2011

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



Christopher P. Moivell

President

Jeffrey R. Emer

Executive Director

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**CITY OF NEDERLAND
NEDERLAND, TEXAS**

FOR THE YEAR ENDED SEPTEMBER 30, 2012

CITY COUNCIL

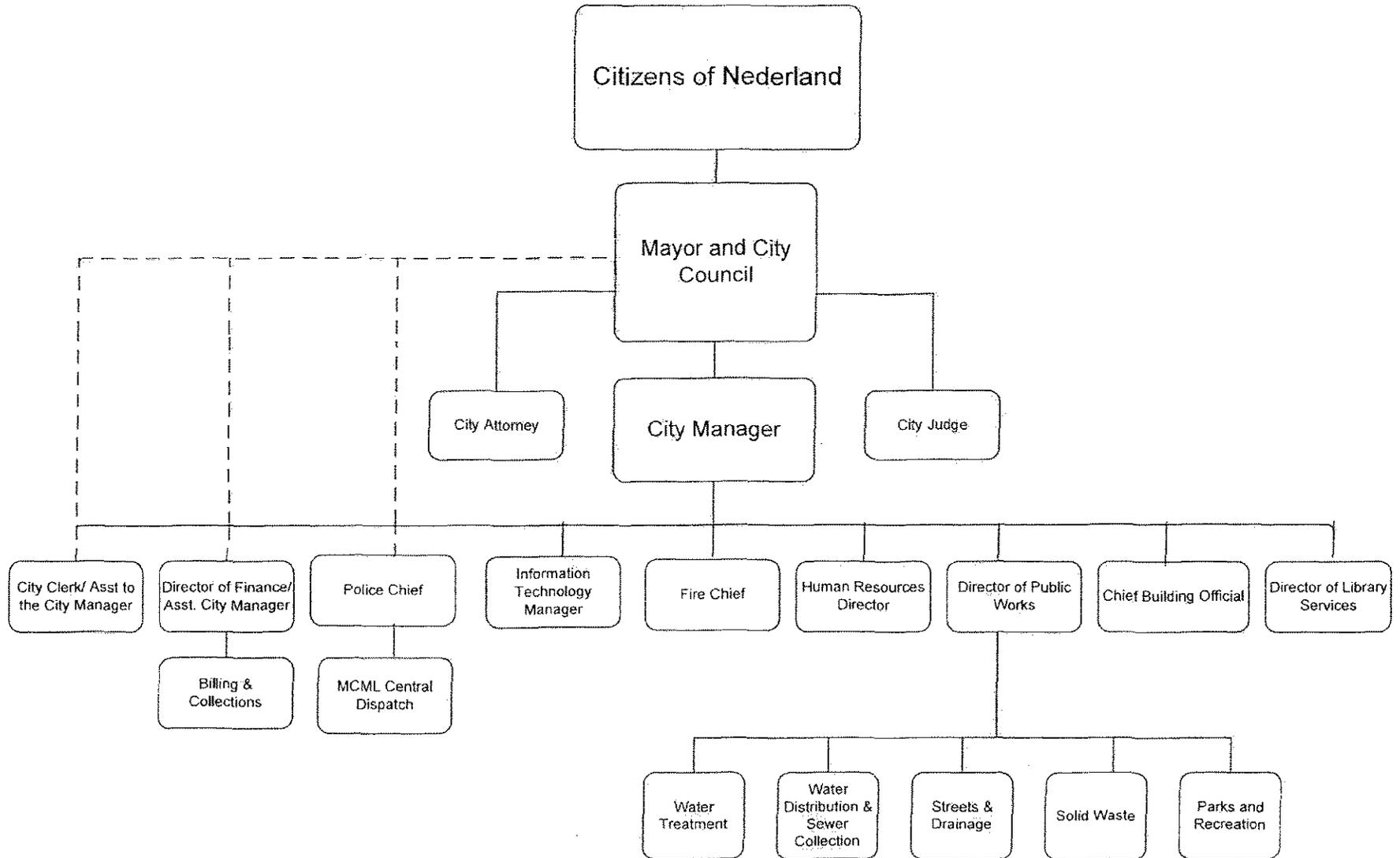
R. A. "Dick" Nugent	Mayor
Talmadge Austin	Councilmember, Ward 1
Billy Neal	Councilmember, Ward 2, Mayor Pro-Tem
Don Albanese	Councilmember, Ward 3
Bert Rogers	Councilmember, Ward 4

CITY MANAGER

Christopher Duque

Cheryl Dowden	Director of Finance/Assistant City Manager
Gay Ferguson	City Clerk
Jesse Branick	City Attorney

City of Nederland Organizational Chart



FINANCIAL SECTION

J. R. Edwards & Associates, LLC

Certified Public Accountants

March 25, 2013

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Nederland, Texas

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Nederland, Texas (the "City") as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, the aggregate remaining fund information, and the respective budgetary comparison for the general fund of the City of Nederland, Texas as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 25, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Honorable Mayor and City Council
City of Nederland, Texas
Page 2
March 25, 2013

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

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

J.R. Edwards & Associates, LLC

CITY OF NEDERLAND, TEXAS
Management's Discussion and Analysis

As management of the City of Nederland (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with our letter of transmittal at the front of this report and the City's financial statements, which follow this section.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of fiscal year 2012 by \$51,973,461. The unrestricted net assets of the City's governmental activities is (\$9,596,034) due to the fact that governmental activity funds account for debt issued in construction of business type activity assets. The unrestricted net assets of the City's business type activities is \$3,790,728 and may be used to meet the ongoing obligations of the City's water, sewer, and solid waste business-type activities.
- The City's total net assets increased by \$3,424,446 in 2012.
- As of September 30, 2012, the City's governmental funds reported a combined ending fund balance of \$11,728,177. Approximately \$9 million of the fund balance is considered unassigned at September 30, 2012 and is available for use within the City's designation and policies.
- The General Fund reported a fund balance of \$9,334,853 at the end of the current fiscal year. The unassigned fund balance for the General Fund is 9,331,978 or 103 percent of total General Fund expenditures (including transfers out.)

Overview of the Financial Statements

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

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

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

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

CITY OF NEDERLAND, TEXAS
Management's Discussion and Analysis

Government-wide financial statements, Continued

Thus, revenue and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities). The governmental activities of the City include general government, public works, public safety, cultural and recreation, and administration and general. The business-type activities of the City include two enterprise activities, a water and sewer system and a solid waste system.

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

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Debt Service Fund. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this Report.

CITY OF NEDERLAND, TEXAS
Management's Discussion and Analysis

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

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

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

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

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$51.9 million at the close of the most recent fiscal year.

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

CITY OF NEDERLAND, TEXAS
Management's Discussion and Analysis

Government-wide Financial Analysis, Continued

A portion of the City's net assets, \$4,730,562 (9.10 percent), represents resources that are subject to restrictions as to how they may be used. The unrestricted net assets of the City's business-type activities, approximately \$3.8 million, may not be used to fund governmental activities.

NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$12,991,225	\$10,387,413	\$8,112,571	\$10,154,253	\$21,103,796	\$20,541,666
Capital assets	23,127,039	23,209,685	29,921,166	28,155,931	53,048,205	51,365,616
Total assets	<u>36,118,264</u>	<u>33,597,098</u>	<u>38,033,737</u>	<u>38,310,184</u>	<u>74,152,001</u>	<u>71,907,282</u>
Long-term liabilities outstanding	17,930,761	18,652,246	97,175	6,119	18,027,936	18,658,365
Other liabilities	2,250,744	3,247,417	1,899,860	1,452,485	4,150,604	4,699,902
Total liabilities	<u>20,181,505</u>	<u>21,899,663</u>	<u>1,997,035</u>	<u>1,458,604</u>	<u>22,178,540</u>	<u>23,358,267</u>
Net Assets:						
Invested in capital assets, net of related debt	23,127,039	23,209,685	29,921,166	28,155,931	34,208,205	30,785,616
Restricted	2,405,754	2,135,402	2,324,808	5,259,401	4,730,562	7,394,803
Unrestricted	(9,596,034)	(13,647,652)	3,790,728	3,436,248	13,034,694	10,368,596
	<u>\$15,936,759</u>	<u>\$11,697,435</u>	<u>\$36,036,702</u>	<u>\$36,851,580</u>	<u>\$51,973,461</u>	<u>\$48,549,015</u>

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

The government's net assets increased by \$3,424,446 during the current fiscal year. Governmental activities increased the City's net assets by \$4.2 million, whereas business-type activities decreased the City's net assets by less than \$1 million. The changes in net assets were driven by greater than anticipated revenues.

CITY OF NEDERLAND, TEXAS
Management's Discussion and Analysis

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Charges for services	\$388,971	\$369,820	\$5,678,125	\$5,573,319	\$6,067,096	\$5,943,139
Operating grants and contributions	248,145	272,166	0	0	248,145	272,166
General Revenues						
Property taxes	5,634,574	5,547,369	-	-	5,634,574	5,547,369
Industrial payments	1,768,745	1,006,261	-	-	1,768,745	1,006,261
Sales taxes	3,713,845	3,036,033	-	-	3,713,845	3,036,033
Gross receipts tax	1,230,797	1,299,828	-	-	1,230,797	1,299,828
Interest	21,291	21,941	11,927	15,426	33,218	37,367
Miscellaneous	55,811	82,405	(120,378)	(35,423)	(64,567)	46,982
Total revenues	<u>13,062,179</u>	<u>11,635,823</u>	<u>5,569,674</u>	<u>5,553,322</u>	<u>18,631,853</u>	<u>17,189,145</u>
Expenses						
General government	912,280	894,890	-	-	912,280	894,890
Public safety	4,873,250	4,719,003	-	-	4,873,250	4,719,003
Public works	1,825,249	1,893,707	-	-	1,825,249	1,893,707
Culture and recreation	1,075,263	1,076,490	-	-	1,075,263	1,076,490
Administrative and general	395,998	396,221	-	-	395,998	396,221
Interest on long-term debt	700,763	645,953	-	-	700,763	645,953
Water & sewer	-	-	4,408,929	4,406,019	4,408,929	4,406,019
Solid waste	-	-	1,015,675	1,030,067	1,015,675	1,030,067
Total expenses	<u>9,782,803</u>	<u>9,626,264</u>	<u>5,424,604</u>	<u>5,436,086</u>	<u>15,207,407</u>	<u>15,062,350</u>
Increase (decrease) in net assets before transfers	3,279,376	2,009,559	145,070	117,236	3,424,446	2,126,795
Transfers	959,948	(3,617,690)	(959,948)	3,617,690	-	-
Increase (decrease) in net assets	4,239,324	(1,608,131)	(814,878)	3,734,926	3,424,446	2,126,795
Net assets, beginning						
As previously reported	11,697,435	13,322,543	36,851,580	33,116,654	48,549,015	46,439,197
Net assets September 30	<u>\$15,936,759</u>	<u>\$11,697,435</u>	<u>\$36,036,702</u>	<u>\$36,851,580</u>	<u>\$51,973,461</u>	<u>\$48,549,015</u>

Governmental activities: Governmental activities increased the City's net assets by \$4,239,324. The increase is due to several factors including greater than anticipated revenues from Sales Taxes and property tax increases due to new construction. Industrial payment increases are attributable to the reduction of abated value for new construction as agreed by contract. Gross receipts taxes fluctuate with market values and the resulting increase is attributable to fuel price increases throughout the fiscal year.

Business type activities. Business-type activities decreased the City's net assets by \$814,878. The decrease is due to increased costs of services due to market fluctuations.

CITY OF NEDERLAND, TEXAS
Management's Discussion and Analysis

Financial Analysis of the Government's Funds

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

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

As of September 30, 2012, the City's governmental funds reported combined ending fund balances of \$11.7 million, an increase of \$2,546,213 in comparison with the prior year. This increase is attributable to greater than anticipated revenues and less than anticipated expenditures in the fiscal year. Approximately \$9 million of this amount constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted and committed to indicate that it is not available for new spending because it has already been committed to inventories (\$2,022), prepaid items (\$853) of the prior period, restricted for payment of debt service (\$308,653), restricted for Public Safety and Culture and Recreation spending of \$289,310 and committed for construction in the amount of \$1,795,361.

The General Fund is the chief operating fund of the City. At September 30, 2012, the unassigned fund balance of the General Fund was \$9,331,978, while total fund balance was \$9,334,853. 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 103.04 percent of total general fund expenditures (including transfers out), while total fund balance represents 103.08 percent of that same amount.

The fund balance of the City's General Fund increased by \$2,288,292 during 2012. This increase was primarily due to favorable industrial contract amounts, gross receipts tax, sales tax and property tax revenue which exceeded budget estimates.

The Debt Service Fund has a total fund balance of \$308,653. The net increase in fund balance during the fiscal year 2012 in this fund was \$18,011. The Debt Service Fund is funded with property tax revenue at the level necessary to meet debt service requirements. The increase in fund balance is the result of unanticipated property tax collections in excess of the requirement.

CITY OF NEDERLAND, TEXAS
Management's Discussion and Analysis

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

Unrestricted net assets at the end of the year amounted to \$2,089,932 for the Water and Sewer Fund. Net assets in the Water and Sewer Fund decreased from the previous year by \$1,003,936 primarily due to ongoing capital projects funded in previous years. Unrestricted net assets at the end of the year amounted to \$1,700,796 for the Solid Waste Fund. The net asset increase of the Solid Waste Fund was \$189,058 and was attributable to greater than anticipated sales. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

During the year there were increases of \$765,912 in budgeted revenues and 752,582 in appropriations between the original and final amended budget. Following are the components of the increases:

	<u>Amount</u>	<u>Purpose</u>
General Fund Revenues	\$594,850	Increase in In lieu of tax contracts due to reduction of abated values and increased property valuations
	\$71,932	State Homeland Security Grant for Fire Department Rescue Team Training
	\$64,500	Greater than anticipated Parks Recreation Fees due to Swimming Pool Repairs
	\$34,630	Proceeds from sale of City owned property
General Fund Expenditures	\$315,000	Fund Balance surplus transfers to Capital Outlay, Parks Special and Street Improvement Fund
	\$437,582	Increase in various expenditure line items due to unexpected overtime costs and grant expenditures.

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

Actual revenues in the General Fund exceeded budget amounts by \$1,552,425. Property tax revenue accounted for \$351,546, in lieu of tax contracts accounted for \$223,895, sales tax accounted for \$826,845, and gross receipts tax accounted for \$143,801 and small revenue increases in several line items accounted for the remainder. Expenditures as a whole were under budgeted expenditures by \$635,176 mainly due to budgeted funds for contingencies that were unspent. In addition, several departments were under budget due to weather issues preventing scheduled work to commence.

CITY OF NEDERLAND, TEXAS
Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for governmental and business-type activities as of September 30, 2012, amount to \$51,365,616 (net of accumulated depreciation). This investment in capital assets includes land, and other capital assets such as buildings, improvements and equipment.

CAPITAL ASSETS
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land and work in process	\$4,288,379	\$4,323,941	6,560,460	3,669,107	\$10,848,839	\$7,993,048
Other capital assets	18,838,660	18,885,744	23,360,706	24,486,824	42,199,366	43,372,568
Total	\$23,127,039	\$23,209,685	\$29,921,166	\$28,155,931	\$53,048,205	\$51,365,616

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

Long-term debt. At September 30, 2012, the City, the primary government, had \$17,930,761 of long-term bonds and other liabilities outstanding. This amount comprises bonds backed by the full faith and credit of the City.

GENERAL OBLIGATION & REVENUE BONDS OUTSTANDING

	Governmental Activities		Business- Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Certificates of obligation	\$18,840,000	\$20,580,000	\$ -	\$ -	\$18,840,000	\$20,580,000
Revenue bonds	-	-	-	-	-	-
Total	\$18,840,000	\$20,580,000	\$ -	\$ -	\$18,840,000	\$20,580,000

Total long-term bonds and other liabilities outstanding at September 30, 2012 decreased by \$1,740,000 over September 30, 2011. This decrease was primarily due to the issuance of General Obligation Refunding Bonds and by the retirement of debt.

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

Additional information regarding the City's long-term debt can be found in Note 7 on pages 46-47 of this report.

CITY OF NEDERLAND, TEXAS
Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

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

The City of Nederland's budget for fiscal year 2013 includes a small increase in property tax revenue due to an increased property tax rate since assessed property values had decreased by .42%. The tax rate increased by .013853 from .578 to .591853 per \$100 valuation compared to the previous year. The City Council adjusted solid waste rates at the beginning of fiscal year 2012-13 in order to offset the rising cost of providing these services.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
ASSETS				
Cash and cash equivalents	\$ 6,639,585	\$ 4,956,873	\$ 11,596,458	\$ 2,866,596
Investments	4,420,523	995,506	5,416,029	499,686
Receivables - net of allowances for uncollectibles:				
Taxes	664,576	-	664,576	60,906
Accounts receivable	306,203	552,931	859,134	-
Federal agencies	299,272	-	299,272	-
Other	11,557	-	11,557	5,250
Internal balances	32,992	(32,992)	-	-
Due from primary government	-	-	-	-
Inventories	2,022	117,518	119,540	51,451
Prepays	853	-	853	-
Restricted assets:				
Cash and cash equivalents	217,683	882,693	1,100,376	-
Investments	89,103	519,141	608,244	-
Deferred charges	306,856	120,901	427,757	-
Capital assets:				
Land, and work in process	4,288,379	6,560,460	10,848,839	1,581,289
Buildings, property, and equipment, net	18,838,660	23,360,706	42,199,366	-
Total Assets	<u>36,118,264</u>	<u>38,033,737</u>	<u>74,152,001</u>	<u>5,065,178</u>
LIABILITIES				
Accounts payable	169,859	1,022,937	1,192,796	2
Accrued expenses and other liabilities	141,370	295,808	437,178	-
Due to component unit	51,451	-	51,451	-
Due to primary government	-	-	-	-
Other post employment benefits	-	-	-	-
Other Liabilities	-	1,373	1,373	39
Unearned Revenue	-	-	-	-
Liabilities payable from restricted assets	-	519,141	519,141	-
Non-current liabilities:				
Due within one year	1,888,064	60,601	1,948,665	-
Due in more than one year	17,930,761	97,175	18,027,936	-
Total Liabilities	<u>20,181,505</u>	<u>1,997,035</u>	<u>22,178,540</u>	<u>41</u>
NET ASSETS				
Invested in capital assets, net of related debt	23,127,039	29,921,166	34,208,205	1,581,289
Restricted for:				
Debt service	321,083	144,110	465,193	-
Public safety	206,861	-	206,861	-
Culture and recreation	82,449	-	82,449	-
Construction	1,795,361	2,180,698	3,976,059	-
Unrestricted	(9,596,034)	3,790,728	13,034,694	3,483,848
Total Net Assets	<u>\$ 15,936,759</u>	<u>\$ 36,036,702</u>	<u>\$ 51,973,461</u>	<u>\$ 5,065,137</u>

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

CITY OF NEDERLAND, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012.

Functions / Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government	\$ 912,280	\$ -	\$ -
Public safety	4,873,250	166,945	189,760
Public works	1,825,249	126,566	-
Culture and recreation	1,075,263	95,460	58,385
Administrative and general	395,998	-	-
Interest and fees on long-term debt	700,763	-	-
Total governmental activities	9,782,803	388,971	248,145
Business-type activities:			
Water and sewer	4,408,929	4,313,232	-
Solid Waste	1,015,675	1,364,893	-
Total business-type activities	5,424,604	5,678,125	-
Total Primary Government	15,207,407	6,067,096	248,145
Component Unit:			
Nederland Economic Development Corporation	\$ (323,520)	\$ -	\$ -

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

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

Net (Expense) Revenue and Changes in Net Assets			Component Unit
Governmental Activities	Business-type Activities	Total	Economic Development Corporation
\$ (912,280)	\$ -	\$ (912,280)	\$ -
(4,516,545)	-	(4,516,545)	-
(1,698,683)	-	(1,698,683)	-
(921,418)	-	(921,418)	-
(395,998)	-	(395,998)	-
(700,763)	-	(700,763)	-
<u>(9,145,687)</u>	<u>-</u>	<u>(9,145,687)</u>	<u>-</u>
-	(95,697)	(95,697)	-
-	349,218	349,218	-
-	253,521	253,521	-
<u>(9,145,687)</u>	<u>253,521</u>	<u>(8,892,166)</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (323,520)</u>
5,634,574	-	5,634,574	-
1,768,745	-	1,768,745	-
3,713,845	-	3,713,845	742,769
1,230,797	-	1,230,797	-
21,291	11,927	33,218	6,114
55,811	(120,378)	(64,567)	1,435
<u>12,425,063</u>	<u>(108,451)</u>	<u>12,316,612</u>	<u>750,318</u>
959,948	(959,948)	-	-
<u>13,385,011</u>	<u>(1,068,399)</u>	<u>12,316,612</u>	<u>750,318</u>
4,239,324	(814,878)	3,424,446	426,798
<u>11,697,435</u>	<u>36,851,580</u>	<u>48,549,015</u>	<u>4,638,339</u>
<u>\$ 15,936,759</u>	<u>\$ 36,036,702</u>	<u>\$ 51,973,461</u>	<u>\$ 5,065,137</u>

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

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 4,624,542	\$ 217,683	\$ 2,015,043	\$ 6,857,268
Investments	4,350,969	79,103	79,554	4,509,626
Receivables (net of allowances for doubtful accounts)				
Taxes receivable	523,420	141,156	-	664,576
Accounts receivable	174,885	2,725	19,853	197,463
Other	11,557	-	-	11,557
Due from other governmental agencies	299,272	-	-	299,272
Due from other funds	33,425	-	-	33,425
Inventories	2,022	-	-	2,022
Prepaid items	853	-	-	853
TOTAL ASSETS	\$ 10,020,945	\$ 440,667	\$ 2,114,450	\$ 12,576,062
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 140,080	\$ -	\$ 29,779	\$ 169,859
Accrued expenses and other liabilities	85,364	-	-	85,364
Deferred revenue	201,133	131,581	-	332,714
Due to component unit	51,451	-	-	51,451
Due to other funds	-	433	-	433
Other liabilities	208,064	-	-	208,064
TOTAL LIABILITIES	686,092	132,014	29,779	847,885
FUND BALANCES:				
Nonspendable				
Inventory	2,022	-	-	2,022
Prepaid items	853	-	-	853
Restricted Fund Balance				
Debt service	-	308,653	-	308,653
Public safety	-	-	206,861	206,861
Culture and recreation	-	-	82,449	82,449
Committed Fund Balance				
Capital projects	-	-	1,795,361	1,795,361
Unassigned Fund Balance	9,331,978	-	-	9,331,978
Total fund balances	9,334,853	308,653	2,084,671	11,728,177
TOTAL LIABILITIES AND FUND BALANCES	\$ 10,020,945	\$ 440,667	\$ 2,114,450	\$ 12,576,062

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

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

Governmental fund balance as reported on the balance sheet for governmental funds.	\$ 11,728,177
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	23,127,039
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
General obligation bonds payable	(18,840,000)
Premium on bonds	(493,120)
Compensated absences	(45,793)
Other post employment benefits	(231,848)
Accrued interest expense	(56,006)
Recognition of deferred revenue as revenue increases net assets.	332,714
Effect of amortizing bond premium and issuance costs on issuance of bonds.	306,856
Warrants and fines outstanding are not recorded as revenue in the governmental funds because they are not considered measurable and available. However, in the Statement of Net Assets, they are considered accounts receivable and recorded.	
Warrants and fines outstanding	<u>108,740</u>
Total net assets as reported on the Statement of Net Assets for Governmental Activities:	<u>\$ 15,936,759</u>

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes, penalties and interest	\$ 3,633,786	\$ 1,981,292	\$ -	\$ 5,615,078
In lieu of tax contracts	1,768,745	-	-	1,768,745
Sales tax	3,713,845	-	-	3,713,845
Other tax	1,147,801	-	82,996	1,230,797
Permits, licenses and fees	222,026	-	-	222,026
Fines, forfeits and penalties	164,472	-	23,364	187,836
Interest	11,611	7,130	2,550	21,291
Grants and Private contributions	196,185	-	51,960	248,145
Other miscellaneous	71,106	-	20,267	91,373
Total revenue	<u>10,929,577</u>	<u>1,988,422</u>	<u>181,137</u>	<u>13,099,136</u>
EXPENDITURES:				
Current:				
General government	910,170	-	-	910,170
Public safety	4,689,068	-	29,151	4,718,219
Public works	1,408,350	-	-	1,408,350
Culture and recreation	978,743	-	117,339	1,096,082
Community development	-	-	-	-
Administrative and general	353,183	-	-	353,183
Capital outlay	341,771	-	169,737	511,508
Debt service:				
Principal retirement	-	1,825,000	-	1,825,000
Interest and fiscal charges	-	713,822	-	713,822
Fees and issuance costs	-	61,537	-	61,537
Total expenditures	<u>8,681,285</u>	<u>2,600,359</u>	<u>316,227</u>	<u>11,597,871</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>2,248,292</u>	<u>(611,937)</u>	<u>(135,090)</u>	<u>1,501,265</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	2,750,000	-	2,750,000
Payment to refunded bond escrow agent	-	(2,665,000)	-	(2,665,000)
Transfers in	415,000	544,948	375,000	1,334,948
Transfers out	(375,000)	-	-	(375,000)
Total other financing sources and uses	<u>40,000</u>	<u>629,948</u>	<u>375,000</u>	<u>1,044,948</u>
NET CHANGE IN FUND BALANCES	<u>2,288,292</u>	<u>18,011</u>	<u>239,910</u>	<u>2,546,213</u>
FUND BALANCES - BEGINNING	<u>7,046,561</u>	<u>290,642</u>	<u>1,844,761</u>	<u>9,181,964</u>
FUND BALANCES - ENDING	<u>\$ 9,334,853</u>	<u>\$ 308,653</u>	<u>\$ 2,084,671</u>	<u>\$ 11,728,177</u>

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Net change in fund balances - total governmental funds (Exhibit D) \$ 2,546,213

Revenues in the statement of activities that do not provide current financial resources
are not reported as revenues in the funds. 19,497

Prior year warrants and fines, net of allowance	\$ (129,631)	
Current year warrants and fines, net of allowance	<u>108,740</u>	(20,891)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlay	\$ 961,249	
Depreciation	<u>(1,007,863)</u>	(46,614)

The net effect of various miscellaneous transactions involving capital assets is to decrease net assets. (36,032)

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

To paying agent for bond principal	\$ 1,825,000	
Refunded bonds issued	(2,750,000)	
Premium on refunded bonds	37,932	
Bonds refunded	2,665,000	
Change in accrued interest	<u>9,165</u>	1,787,097

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

Capitalization and amortization of bond costs	\$ <u>32,468</u>	32,468
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Expenses in the Statement of Activities that are not expected to be paid from current financial resources are not reported as expenditures in governmental funds.

Change in compensated absences balance	\$ 401	
Other post employment benefits	<u>(42,815)</u>	(42,414)

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

Change in net assets of governmental activities (Exhibit B)		<u>\$ 4,239,324</u>
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STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes, penalties and interest	\$ 3,282,240	\$ 3,282,240	\$ 3,633,786	\$ 351,546
In lieu of tax contracts	950,000	1,544,850	1,768,745	223,895
Sales tax	2,887,000	2,887,000	3,713,845	826,845
Other tax	1,004,000	1,004,000	1,147,801	143,801
Permits, licenses and fees	161,500	196,000	222,026	26,026
Fines	144,500	144,500	164,472	19,972
Interest	12,000	12,000	11,611	(389)
Grants and private contributions	79,000	150,932	196,185	45,253
Other miscellaneous	121,000	155,630	71,106	(84,524)
Total revenue	<u>8,641,240</u>	<u>9,377,152</u>	<u>10,929,577</u>	<u>1,552,425</u>
EXPENDITURES				
Current:				
General government	980,730	973,530	911,374	62,156
Public safety	4,557,295	4,792,867	4,689,068	103,799
Public works	1,396,965	1,496,305	1,408,350	87,955
Culture and recreation	932,250	1,023,290	978,743	44,547
Administrative and general	461,000	479,830	352,340	127,490
Capital Outlay	551,000	551,000	341,771	209,229
Total expenditures	<u>8,879,240</u>	<u>9,316,822</u>	<u>8,681,646</u>	<u>635,176</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(238,000)</u>	<u>60,330</u>	<u>2,247,931</u>	<u>2,187,601</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	430,000	460,000	415,000	(45,000)
Transfers out	<u>(190,000)</u>	<u>(505,000)</u>	<u>(375,000)</u>	<u>130,000</u>
Total other financing sources and uses	<u>240,000</u>	<u>(45,000)</u>	<u>40,000</u>	<u>85,000</u>
NET CHANGE IN FUND BALANCES				
	2,000	15,330	2,287,931	2,272,601
FUND BALANCES AT BEGINNING OF YEAR				
	<u>7,046,561</u>	<u>7,046,561</u>	<u>7,046,561</u>	<u>-</u>
FUND BALANCE AT END OF YEAR				
	<u>\$ 7,048,561</u>	<u>\$ 7,061,891</u>	<u>\$ 9,334,492</u>	<u>\$ 2,272,601</u>

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

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 SEPTEMBER 30, 2012

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Solid Waste	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 3,701,744	\$ 1,255,129	\$ 4,956,873
Investments	486,149	509,357	995,506
Receivables - net of allowances for uncollectibles:			
Accounts receivable	402,997	149,934	552,931
Inventories	117,518	-	117,518
Total Current Assets	<u>4,708,408</u>	<u>1,914,420</u>	<u>6,622,828</u>
Noncurrent Assets			
Restricted assets:			
Cash and cash equivalents	882,693	-	882,693
Investments	519,141	-	519,141
Deferred charges	120,901	-	120,901
Total capital assets, net of accumulated depreciation	<u>29,361,322</u>	<u>559,844</u>	<u>29,921,166</u>
Total Noncurrent Assets:	<u>30,884,057</u>	<u>559,844</u>	<u>31,443,901</u>
Total Assets	<u>\$ 35,592,465</u>	<u>\$ 2,474,264</u>	<u>\$ 38,066,729</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 1,008,300	\$ 14,637	\$ 1,022,937
Accrued expenses and other liabilities	130,298	165,510	295,808
Due to other funds	32,992	-	32,992
Compensated absences	51,961	8,640	60,601
Total Current Liabilities	<u>1,223,551</u>	<u>188,787</u>	<u>1,412,338</u>
Noncurrent Liabilities			
Payable from restricted assets:			
Refundable customer deposits	519,141	-	519,141
Unclaimed deposits	1,373	-	1,373
Accrued compensated absences	4,147	970	5,117
Other post employment benefits	68,191	23,867	92,058
Total Long-term Liabilities	<u>592,852</u>	<u>24,837</u>	<u>617,689</u>
Total Liabilities	<u>1,816,403</u>	<u>213,624</u>	<u>2,030,027</u>
NET ASSETS			
Net Assets Invested in Capital Assets	29,361,322	559,844	29,921,166
Restricted for Debt Service	144,110	-	144,110
Restricted for Construction	2,180,698	-	2,180,698
Net assets - unrestricted	<u>2,089,932</u>	<u>1,700,796</u>	<u>3,790,728</u>
Total Net Assets	<u>\$ 33,776,062</u>	<u>\$ 2,260,640</u>	<u>\$ 36,036,702</u>

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Solid Waste	Total
Operating Revenues			
Water sales	\$ 1,979,367	\$ -	\$ 1,979,367
Sewer charges	1,921,352	-	1,921,352
Tap and line maintenance fees	226,922	-	226,922
Garbage pickup	-	1,358,086	1,358,086
Penalties and other	185,591	6,807	192,398
Total Operating Revenues	<u>4,313,232</u>	<u>1,364,893</u>	<u>5,678,125</u>
Operating Expenses			
Water treatment	1,230,692	-	1,230,692
Water and wastewater distribution	847,001	-	847,001
Wastewater treatment	696,674	-	696,674
Billing/collections	314,874	-	314,874
Solid waste	-	840,629	840,629
Depreciation and amortization	1,319,688	175,046	1,494,734
Total Operating Expenses	<u>4,408,929</u>	<u>1,015,675</u>	<u>5,424,604</u>
Operating Income (Loss)	<u>(95,697)</u>	<u>349,218</u>	<u>253,521</u>
Nonoperating Revenues (Expenses)			
Interest revenue	9,628	2,299	11,927
Grant revenue	41,024	-	41,024
Miscellaneous	(153,943)	(7,459)	(161,402)
Total Nonoperating Revenues (Expenses)	<u>(103,291)</u>	<u>(5,160)</u>	<u>(108,451)</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(198,988)</u>	<u>344,058</u>	<u>145,070</u>
Transfers from Other Fund	-	-	-
Transfers to Other Fund	<u>(804,948)</u>	<u>(155,000)</u>	<u>(959,948)</u>
	<u>(804,948)</u>	<u>(155,000)</u>	<u>(959,948)</u>
Change in Net Assets	<u>(1,003,936)</u>	<u>189,058</u>	<u>(814,878)</u>
Total Net Assets - Beginning	<u>34,779,998</u>	<u>2,071,582</u>	<u>36,851,580</u>
Total Net Assets at End of Year	<u>\$ 33,776,062</u>	<u>\$ 2,260,640</u>	<u>\$ 36,036,702</u>

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

CITY OF NEDERLAND, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

EXHIBIT H

	Business-type Activities - Enterprise Funds		
	Water and Sewer	Solid Waste	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 4,363,999	\$ 1,358,858	\$ 5,722,857
Payments for goods and services	(1,072,955)	(474,951)	(1,547,906)
Payments to Employees	(1,435,725)	(384,232)	(1,819,957)
Net cash provided (used) by operating activities	1,855,319	499,675	2,354,994
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	-	-	-
Transfers to other funds	(804,948)	(155,000)	(959,948)
Net Cash provided by noncapital financing activities	(804,948)	(155,000)	(959,948)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(3,068,959)	(171,500)	(3,240,459)
Net cash provided (used) by financing activities	(3,068,959)	(171,500)	(3,240,459)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	9,628	2,299	11,927
Investing activities	(1,143)	(579)	(1,722)
Other	(112,919)	(7,459)	(120,378)
Net cash provided (used) by investing activities	(104,434)	(5,739)	(110,173)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,123,022)	167,436	(1,955,586)
CASH AND CASH EQUIVALENTS OCTOBER 1	6,707,459	1,087,693	7,795,152
CASH AND CASH EQUIVALENTS SEPTEMBER 30	\$ 4,584,437	\$ 1,255,129	\$ 5,839,566
CASH AND CASH EQUIVALENTS, OCTOBER 1, CONSIST OF			
Unrestricted cash and Cash Equivalents	\$ 4,726,771	\$ 1,087,693	\$ 5,814,464
Restricted cash	1,980,688	-	1,980,688
	<u>\$ 6,707,459</u>	<u>\$ 1,087,693</u>	<u>\$ 7,795,152</u>
CASH AND CASH EQUIVALENTS, SEPTEMBER 30, CONSIST OF			
Unrestricted cash and Cash Equivalents	\$ 3,701,744	\$ 1,255,129	\$ 4,956,873
Restricted cash	882,693	-	882,693
	<u>\$ 4,584,437</u>	<u>\$ 1,255,129</u>	<u>\$ 5,839,566</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (95,697)	\$ 349,218	\$ 253,521
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	1,319,688	175,046	1,494,734
(Increase) decrease in accounts receivable	50,767	(6,035)	44,732
(Increase) decrease in inventories	(6,986)	-	(6,986)
Increase (decrease) in payables	556,401	(22,672)	533,729
Increase (decrease) in accrued liabilities	(57,017)	(5,916)	(62,933)
Increase (decrease) in interfund payables	30,562	-	30,562
Increase (decrease) in compensated absences and OPEB	14,425	10,034	24,459
Increase (decrease) in customer deposits	43,176	-	43,176
	<u>\$ 1,855,319</u>	<u>\$ 499,675</u>	<u>\$ 2,354,994</u>

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

A. Reporting Entity

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

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

B. Discretely Presented Component Unit

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

The NEDC is funded by one-quarter of one percent City sales and use tax. The City performs all accounting functions for the NEDC. The City tax provided to the Corporation during the year ended September 30, 2012 totaled \$742,769. 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 and the Civil Service Commission. Positions on these boards are appointed in certain instances in entirety, partially, or with City Council members.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Joint Venture

Mid-County Dispatch

The City of Nederland and two neighboring cities, Groves and Port Neches, have a contractual agreement to pool resources and share the costs, risks, and rewards of providing a central radio dispatching service for the participating cities in compliance with the "Interlocal Cooperation Act". Each of the participating cities has an ongoing financial interest in, and responsibility for the Mid-County Dispatch. Funds shall be provided by each City based on their population. Based on the agreement, there is no explicit, measurable equity interest for any of entities in the joint ventures resources. During the year ended September 30, 2012 the City contributed \$346,390 to the joint venture. Fund balance of the joint venture at September 30, 2012 was \$278,713. Separately issued financial statements are not available for this joint venture.

E. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given structure or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

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

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

current period or soon enough thereafter to be pay liabilities of the current period. For this purpose, the government considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when the payment is due.

Property taxes, franchise taxes, sales taxes, industrial payments, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

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

The City reports the following major proprietary funds:

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

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

Additionally, the City reports the following fund types:

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

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

Proprietary funds distinguish operating revenue and expense from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the water fund, of the solid waste fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

G. Budgetary Data

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

- a. 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, Capital Improvement fund, Debt Service fund, Water and Sewer fund, and Solid Waste fund.
- b. A Public hearing is conducted, after proper official journal notification, to obtain taxpayer comments.
- c. Prior to September 30, the budget is legally enacted through passage of an ordinance.
- d. The City Manager is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alters the total expenditures of any department must be approved by the City Council.
- e. Budget appropriations lapse at year-end and are re-established in the succeeding year.
- f. Budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

H. Encumbrance Accounting

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Cash and Investments

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

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

Investments

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

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

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

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

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Cash and Investments, Continued

Investments, Continued

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

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

J. Property Taxes Receivable

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

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

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

K. Receivables

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. Short-Term Interfund Receivables and Payables

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

M. Inventories and Prepaid Items

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

N. Restricted Assets

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

O. Capital Assets

Capital assets which include property, plant, equipment and infrastructure assets (e.g. streets and waterlines, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City reports major general infrastructure for assets acquired beginning in 1980.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

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

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Q. Fund Equity

Beginning with fiscal year 2012, 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 authorizes the City Manager as the City Official responsible for the assignment of fund balance to a specific purpose.

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

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

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

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

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

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

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

R. Compensated absences

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

S. Interfund Transactions

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

S. Interfund Transactions, Continued

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

T. Grants from Other Governmental Agencies

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

U. Date of Management’s Review

In preparing the financial statements, the City has evaluated events and transactions for potential recognition for disclosure through March 25, 2013, the date that the financial statements were available to be issued.

NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Reclassifications	Total
Invested in capital assets, net of related debt:	23,127,039	\$ 29,921,166	\$ (18,840,000)	\$ 34,208,205
Restricted for:				
Debt Service	321,083	144,110	-	465,193
Public Safety	206,861	-	-	206,861
Culture and Recreation	82,449	-	-	82,449
Capital Projects	1,795,361	2,180,698	-	3,976,059
Unrestricted	(9,596,034)	3,790,728	18,840,000	13,034,694
Total Net Assets	<u>\$ 15,936,759</u>	<u>\$ 36,036,702</u>	<u>\$ -</u>	<u>\$ 51,973,461</u>

NOTE 3: CASH AND INVESTMENTS

Cash Deposits

At year-end, the City’s carrying amount of deposits (including NEDC) was \$15,522,406 and the bank balance was \$16,676,142. Of the bank balance, 250,000 was covered by federal depository insurance. The remaining bank balance was collateralized by securities held by the City or by the City’s agent in name of the City.

NOTE 3: CASH AND INVESTMENTS, Continued

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, 2012, the City of Nederland (including NEDC) had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
TexPool	\$6,014,271	N/A
Certificates of Deposit	409,688	6 months - 1 Year

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

Credit risk. It is the policy of the City to limit its investment in commercial paper and corporate bonds to those having received a top rating of “A” or its equivalent from a nationally recognized investment rating firm. Standard & Poor’s rated TexPool AAA as of September 30, 2012.

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

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

Local government Investment Pools are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (PFIA), Chapter 2236 of the Texas Government Code. In addition to other provisions of the PFIA designed to promote liquidity and safety of principle, the (PFIA) requires Pools to (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least on nationally recognized rating service; and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares. In addition, the Texas State of Comptroller of Public Accounts exercises oversight responsibility over TexPool.

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

NOTE 4: RECEIVABLES

Receivables as of September 30, 2012 for the City are as follows:

	General Fund	Debt Service	Other Funds	Total
Taxes	\$ 568,059	\$ 170,067	\$ -	\$ 738,126
Accounts	174,885	2,725	19,853	197,463
Other	11,557	-	-	11,557
Due From Other Governments	299,272	-	-	299,272
Gross Receivables	1,053,773	172,792	19,853	1,246,418
Less: Allowance for Uncollectibles	(44,639)	(28,911)	-	(73,550)
Net Total Receivables	\$ 1,009,134	\$ 143,881	\$ 19,853	\$ 1,172,868

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

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

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

Delinquent Property Taxes Receivable (General Fund)	\$ 201,133
Delinquent Property Taxes Receivable (Debt Service Fund)	131,581
Total Deferred Revenue for Governmental Funds	\$ 332,714

NOTE 5: CAPITAL ASSETS

Capital asset activity for the governmental activities for the year ended September 30, 2012 was as follows:

Governmental Activities	Beginning Balance	Current Year		Ending Balance
		Increases	Decreases	
Capital Assets, Not Being Depreciated:				
Land	\$ 4,323,941	\$ -	\$ (35,562)	\$ 4,288,379
Total Capital Assets, Not Being Depreciated	4,323,941	-	(35,562)	4,288,379
Capital Assets, Being Depreciated:				
Buildings	6,544,332	22,495	-	6,566,827
Machinery & Equipment	4,369,354	283,222	(103,045)	4,549,531
Infrastructure	27,517,632	655,532	-	28,173,164
Total Capital Assets, Being Depreciated:	38,431,318	961,249	(103,045)	39,289,522
Less Accumulated Depreciation:				
Buildings	(5,321,810)	(71,469)	-	(5,393,279)
Machinery & Equipment	(3,089,013)	(274,571)	102,575	(3,261,009)
Infrastructure	(11,134,751)	(661,823)	-	(11,796,574)
Total Accumulated Depreciation	(19,545,574)	(1,007,863)	102,575	(20,450,862)
Total Capital Assets, Being Depreciated, Net	18,885,744	(46,614)	(470)	18,838,660
Governmental Activities Capital Assets, Net	\$ 23,209,685	\$ (46,614)	\$ (36,032)	\$ 23,127,039

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

General Government	\$ 20,630
Public Safety	154,561
Public Works	730,660
Culture & Recreation	102,012
Total Depreciation Expense - Governmental Activities	\$ 1,007,863

NOTE 5: CAPITAL ASSETS, Continued

Business-type Activities	Beginning	Current Year		Prior Year	Ending
	Balance	Increases	Decreases	Reclass	Balance
Capital Assets, Not Being Depreciated:					
Construction in Progress	\$ 3,669,106	\$2,891,354	\$ -	\$ -	\$ 6,560,460
Total Capital Assets, Not Being Depreciated:	3,669,106	2,891,354	-	-	6,560,460
Capital Assets, Being Depreciated:					
Buildings	21,450,340	-	-	-	21,450,340
Improvements other than Buildings	20,634,910	123,646	-	145,244	20,903,800
Machinery & Equipment	2,628,163	225,459	-	(145,244)	2,708,378
Total Capital Assets, Being Depreciated:	44,713,413	349,105	-	-	45,062,518
Less Accumulated Depreciation:					
Buildings	(6,372,366)	(479,555)	-	-	(6,851,921)
Improvements other than Buildings	(12,227,650)	(760,495)	-	-	(12,988,145)
Machinery & Equipment	(1,626,572)	(235,174)	-	-	(1,861,746)
Total Accumulated Depreciation	(20,226,588)	(1,475,224)	-	-	(21,701,812)
Total Capital Assets, Being Depreciated, Net	24,486,825	(1,126,119)	-	-	23,360,706
Business-type Activities Capital Assets, Net	\$28,155,931	\$1,765,235	\$ -	\$ -	\$29,921,166

Construction Commitments

The primary governmental has active construction projects as of September 30, 2012. At year end, the City's major commitments with contractors are as follows:

Project	Contract Amount	Spent thru 9/30/2011	Remaining Commitment
Water System Improvements	\$2,133,119	\$ 1,642,025	\$ 471,094
18th Street Waterline Relocation	\$905,578	\$ 372,490	\$ 533,088

NOTE 6: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2012, is as follows:

Receivable Fund	Payable Fund	Amount
General	Debt Service	\$ 433
General	Water and Sewer	32,992
		<u>\$ 33,425</u>

NOTE 6: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS, Continued

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

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

	Transfers in			
	General	Capital Improvement	Debt Service	Total
<u>Transfers out</u>				
General Fund	\$ -	\$ 375,000	\$ -	\$ 375,000
Water & Sewer	260,000	-	544,948	804,948
Solid Waste	155,000	-	-	155,000
Total	<u>\$ 415,000</u>	<u>\$ 375,000</u>	<u>\$ 544,948</u>	<u>\$ 1,334,948</u>

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

NOTE 7: LONG TERM DEBT

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

General obligation bonds payable at September 30, 2012, are summarized as follows:

Date of Issue	Original Issue	Final Maturity	Annual Installments	% Rate	Outstanding Balance
2008	4,500,000	2023	\$125,000 to \$675,000	4.25% - 4.5%	3,925,000
2010	9,855,000	2019	\$1,010,000 to \$1,200,000	2.0%-4.0%	7,815,000
2011	4,500,000	2031	\$150,000 to \$320,000	1.85%-3.85%	4,350,000
2012	2,750,000	2020	\$295,000 to \$600,000	1.00%-1.45%	2,750,000
					<u>\$ 18,840,000</u>

NOTE 7: LONG TERM DEBT, Continued

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

Year Ending September 30,	Principal	Interest	Total
2013	1,680,000	573,530	2,253,530
2014	1,710,000	537,343	2,247,343
2015	1,770,000	500,505	2,270,505
2016	1,805,000	456,480	2,261,480
2017	1,860,000	402,180	2,262,180
2018-2022	6,880,000	1,165,259	8,045,259
2022-2027	1,930,000	366,803	2,296,803
2028-2031	1,205,000	113,628	1,318,628
Total	\$ 18,840,000	\$ 4,115,728	\$ 22,955,728

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Additions	Retirements/ Payments	Ending Balance	Due Within One Year
Governmental activities:					
Bonds Payable:					
General obligations bonds	\$ 20,580,000	\$ 2,750,000	\$ 4,490,000	\$ 18,840,000	\$ 1,680,000
Add: Premium on bonds	531,052	-	37,932	493,120	-
Compensated absences	248,888	347,707	342,738	253,857	208,064
OPEB liability	189,033	42,815	-	231,848	-
Governmental activities Long-Term Liabilities	\$ 21,548,973	\$ 3,140,522	\$ 4,870,670	\$ 19,818,825	\$ 1,888,064
Business-type activities:					
Compensated absences	\$ 59,348	\$ 118,913	\$ 112,543	\$ 65,718	\$ 60,601
OPEB liability	73,969	18,089	-	92,058	-
Business-type activity Long-Term Liabilities	\$ 133,317	\$ 137,002	\$ 112,543	\$ 157,776	\$ 60,601

Compensated absences represent amounts related to employee services already rendered and will be paid out of expendable available resources by December 31, 2012. 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.

Advance and Current Refundings

The City issued \$2.75 million of general obligation refunding for the purpose of refunding a portion of the City's outstanding debt in order to lower the overall annual debt service requirements of the City and to pay the costs of issuance of the bonds. The reacquisition price exceeded the net carrying amount by an immaterial amount, and therefore is recognized in full in the current period. The transaction resulted in a net present value savings of \$419,309 and a reduction of \$476,943 in future debt service payments.

NOTE 7: LONG TERM DEBT, Continued

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, 2012.

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 2011-2012, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance.

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

B. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any to be immaterial.

C. Texas Municipal Retirement System (TMRS)

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

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

NOTE 8: OTHER INFORMATION, CONTINUED

C. Texas Municipal Retirement System (TMRS), Continued

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

	Plan Year 2011	Plan Year 2012
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	10	10
Service retirement eligibility (expressed as age/years of service)	60/10, 0/20	60/10, 0/20
Updated Service Credit	100% Repeating	100% Repeating
Annuity Increase (to retirees)	0% of CPI	0% of CPI

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

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

Annual Required Contribution (ARC)	\$ 657,184
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost (APC)	657,184
Contributions Made	657,184
Increase in net pension obligation	-
Net Pension Obligation, beginning of year	-
Net Pension Obligation, end of year	-

Fiscal Year Ended	Annual Pension Cost (ARC)	Actual Contribution Made	Percentage Contributed	Net OPEB Obligation
September 30, 2010	\$ 987,669	\$ 987,669	100%	\$ -
September 30, 2011	\$ 1,003,264	\$ 1,003,264	100%	\$ -
September 30, 2012	\$ 657,184	\$ 657,184	100%	\$ -

NOTE 8: OTHER INFORMATION, CONTINUED

C. Texas Municipal Retirement System (TMRS), Continued

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	12/31/09	12/31/10	12/31/11
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	22.9 years; closed period	25 years; closed period	25.0 years; closed period
Amortizaion Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.5%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	0.0%	0.0%	0.0%

In June, 2012, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2011. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2012 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2010). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, see the December 31, 2011 TMRS Comprehensive Annual Financial Report (CAFR).

NOTE 8: OTHER INFORMATION, CONTINUED

C. Texas Municipal Retirement System (TMRS), Continued

The funded status as of December 31, 2011, under the most recent actuarial valuation is presented along with the previous two years valuations:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/09	23,845,576	27,816,244	85.7%	3,970,668	5,631,043	70.5%
12/31/10	41,984,798	40,130,199	104.6%	(1,854,599)	5,812,366	-31.9%
12/31/11	44,408,596	41,629,733	106.7%	(2,778,863)	6,006,517	-46.3%

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

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

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

NOTE 9: DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City's plan was amended effective December 14, 1998 to provide that all assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

The City has delegated administrative and investment responsibilities to a third party administrator, ICMA Retirement Corporation, and as such, the plan assets do not meet the requirements for inclusion in the City's financial statements at September 30, 2012.

NOTE 10: POST-EMPLOYEMENT HEALTH CARE BENEFITS

The City provided health care benefits for employees who retire from the City and who are eligible to receive benefits from a City sponsored retirement program (Texas Municipal Retirement System). Benefit provisions are approved by Council. As of September 30, 2012 the City had twelve retirees participating in this plan. The City recognizes the cost of providing health care benefits to retired employees in the amount of \$67,842 for fiscal year 2012.

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

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

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

NOTE 10: POST-EMPLOYMENT HEALTH CARE BENEFITS, Continued

Annual OPEB Cost

The City's annual other post employment (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City's annual OPEB cost for the fiscal year ending September 30, 2012 is as follows:

	<u>09/30/11</u>	<u>09/30/12</u>
Annual required contribution	\$ 184,188	\$ 189,714
Interest on OPEB obligation	10,032	13,191
Adjustment to ARC	<u>(9,294)</u>	<u>(12,222)</u>
Annual OPEB cost (expense)	\$ 184,926	\$ 190,683
Net estimated employer contributions	<u>(114,720)</u>	<u>(119,001)</u>
Increase in net OPEB obligation	\$ 70,206	\$ 71,682
Net OPEB obligation - beginning of year	<u>222,932</u>	<u>293,138</u>
Net OPEB obligation - end of year	\$ 293,138	\$ 364,820
Less portion related to Mid-County Dispatch	<u>\$ (30,016)</u>	<u>\$ (40,914)</u>
Net OPEB obligation - City portion End of Year	<u><u>\$ 263,122</u></u>	<u><u>\$ 323,906</u></u>

The City's annual OPEB cost (including Mid-County Dispatch), the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2012 and the preceding fiscal year were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Amount Contributed	Percentage Contributed	Net OPEB Obligation
September 30, 2010	\$ 226,372	\$ 113,262	50.0%	\$ 222,932
September 30, 2011	\$ 184,926	\$ 114,720	62.0%	\$ 293,138
September 30, 2012	\$ 190,683	\$ 119,001	62.4%	\$ 364,820

NOTE 10: POST-EMPLOYMENT HEALTH CARE BENEFITS, Continued

Funding status and funding progress

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

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

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

Actuarial methods and assumptions

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

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

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

REQUIRED SUPPLEMENTARY
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
 FUNDING PROGRAMS FOR EMPLOYEE RETIREMENT SYSTEMS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Unit Credit	Percentage Funded	Unfunded AAL (UAAL)	Annual Covered Payroll	Unfunded as a Percentage of Covered Payroll
12/31/06	22,018,184	27,515,127	80.0%	5,496,943	4,942,603	111.2%
12/31/07	21,294,267	25,448,859	83.7%	4,154,592	5,119,674	81.1%
12/31/08	23,440,520	27,619,476	84.9%	4,178,956	5,790,932	72.2%
12/31/09	23,845,576	27,816,244	85.7%	3,970,668	5,631,043	70.5%
12/31/10	41,984,798	40,130,199	104.6%	(1,854,599)	5,812,366	-31.9%
12/31/11	44,408,596	41,629,733	106.7%	(2,778,863)	6,006,517	-46.3%

REQUIRED SUPPLEMENTARY INFORMATION
 FUNDING PROGRAMS FOR OTHER POST EMPLOYMENT BENEFITS (OPEB)
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

RETIREE HEALTH INSURANCE PROGRAM
 ANALYSIS OF FUNDING PROGRESS

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percentage Funded	Unfunded AAL (UAAL)
12/31/07	-	\$ 2,637,927	0.0%	\$ 2,637,927
12/31/08		NOT CALCULATED		
12/31/09		NOT CALCULATED		
12/31/10	-	\$ 2,534,131	0.0%	\$ 2,534,131
12/31/11		NOT CALCULATED		

COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

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

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

CITY OF NEDERLAND, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2012

EXHIBIT K

	Special Revenue				Capital Projects	Total Other Governmental Funds	
	Police Narcotics Fund	Library Fund	Court Technology Fund	Hotel/ Motel Occupancy Tax Fund	Fire Department Fund		
ASSETS							
Cash and cash equivalents	\$ 134,288	\$ 32,804	\$ 1,955	\$ 15,302	\$ 35,333	\$ 1,795,361	\$ 2,015,043
Investments	47,255	32,299	-	-	-	-	79,554
Accounts receivable	-	-	-	19,853	-	-	19,853
Due from other governmental agencies	-	-	-	-	-	-	-
Total Assets	\$ 181,543	\$ 65,103	\$ 1,955	\$ 35,155	\$ 35,333	\$ 1,795,361	\$ 2,114,450
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 11,970	\$ 18	\$ -	\$ 17,791	\$ -	\$ -	\$ 29,779
Due to other funds	-	-	-	-	-	-	-
Total Liabilities	11,970	18	-	17,791	-	-	29,779
Restricted Fund Balances:							
Public safety	169,573	-	1,955	-	35,333	-	206,861
Culture and recreation	-	65,085	-	17,364	-	-	82,449
Committed Fund Balance							
Capital projects	-	-	-	-	-	1,795,361	1,795,361
Unassigned							
Total fund balances	169,573	65,085	1,955	17,364	35,333	1,795,361	2,084,671
Total Liabilities and Fund Balances	\$ 181,543	\$ 65,103	\$ 1,955	\$ 35,155	\$ 35,333	\$ 1,795,361	\$ 2,114,450

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Special Revenue				Capital Projects		Total Other Governmental Funds
	Police Narcotics Fund	Library Fund	Court Technology Fund	Hotel/ Motel Occupancy Tax Fund	Fire Department Fund	Capital Projects Fund	
REVENUES							
Other taxes	\$ -	\$ -	\$ -	\$ 82,996	\$ -	\$ -	\$ 82,996
Grants and private contributions	-	36,060	-	-	15,900	-	51,960
Interest	214	97	2	27	47	2,163	2,550
Forfeitures	23,364	-	-	-	-	-	23,364
Miscellaneous Income	9,919	1,000	4,112	236	5,000	-	20,267
Total revenue	<u>33,497</u>	<u>37,157</u>	<u>4,114</u>	<u>83,259</u>	<u>20,947</u>	<u>2,163</u>	<u>181,137</u>
EXPENDITURES							
Current:							
Public safety	21,470	-	4,548	-	7,681	-	33,699
Culture and recreation	-	32,089	-	80,702	-	-	112,791
Community development	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	169,737	169,737
Total expenditures	<u>21,470</u>	<u>32,089</u>	<u>4,548</u>	<u>80,702</u>	<u>7,681</u>	<u>169,737</u>	<u>316,227</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>12,027</u>	<u>5,068</u>	<u>(434)</u>	<u>2,557</u>	<u>13,266</u>	<u>(167,574)</u>	<u>(135,090)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	-	-	375,000	375,000
Transfers out	-	-	-	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>375,000</u>	<u>375,000</u>
NET CHANGE IN FUND BALANCES	<u>12,027</u>	<u>5,068</u>	<u>(434)</u>	<u>2,557</u>	<u>13,266</u>	<u>207,426</u>	<u>239,910</u>
FUND BALANCES AT BEGINNING OF YEAR	<u>157,546</u>	<u>60,017</u>	<u>2,389</u>	<u>14,807</u>	<u>22,067</u>	<u>1,587,935</u>	<u>1,844,761</u>
FUND BALANCES AT END OF YEAR	<u>\$ 169,573</u>	<u>\$ 65,085</u>	<u>\$ 1,955</u>	<u>\$ 17,364</u>	<u>\$ 35,333</u>	<u>\$ 1,795,361</u>	<u>\$ 2,084,671</u>

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Property taxes, penalties and interest	\$ 2,006,075	\$ 2,006,075	\$ 1,981,292	\$ (24,783)
Interest	500	500	7,130	6,630
Total revenue	<u>2,006,575</u>	<u>2,006,575</u>	<u>1,988,422</u>	<u>(18,153)</u>
EXPENDITURES				
Debt service:				
Principal retirement	1,825,000	1,825,000	1,825,000	-
Interest and fiscal charges	723,523	723,523	713,822	9,701
Fees	3,000	3,000	61,537	(58,537)
Total expenditures	<u>2,551,523</u>	<u>2,551,523</u>	<u>2,600,359</u>	<u>(48,836)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(544,948)</u>	<u>(544,948)</u>	<u>(611,937)</u>	<u>(66,989)</u>
OTHER FINANCING SOURCES (USES)				
Bond Proceeds	-	-	2,750,000	2,750,000
Payment to refunded bond escrow agent	-	-	(2,665,000)	(2,665,000)
Transfers in	544,948	544,948	544,948	-
Total other financing sources and uses	<u>544,948</u>	<u>544,948</u>	<u>629,948</u>	<u>85,000</u>
NET CHANGE IN FUND BALANCES				
	-	-	18,011	18,011
FUND BALANCES AT BEGINNING OF YEAR				
	<u>290,652</u>	<u>290,652</u>	<u>290,652</u>	<u>-</u>
FUND BALANCE AT END OF YEAR				
	<u>\$ 290,652</u>	<u>\$ 290,652</u>	<u>\$ 308,663</u>	<u>\$ 18,011</u>

POLICE NARCOTICS FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Grants and private contributions	\$ -	\$ -	\$ -	\$ -
Interest	500	500	214	(286)
Forfeitures	5,000	5,000	23,364	18,364
Miscellaneous	1,000	1,000	9,919	8,919
Total revenue	<u>6,500</u>	<u>6,500</u>	<u>33,497</u>	<u>26,997</u>
EXPENDITURES				
Public safety	<u>9,080</u>	<u>9,080</u>	<u>21,470</u>	<u>(12,390)</u>
Total expenditures	<u>9,080</u>	<u>9,080</u>	<u>21,470</u>	<u>(12,390)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,580)</u>	<u>(2,580)</u>	<u>12,027</u>	<u>14,607</u>
NET CHANGE IN FUND BALANCES	(2,580)	(2,580)	12,027	14,607
FUND BALANCES AT BEGINNING OF YEAR	<u>157,546</u>	<u>157,546</u>	<u>157,546</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 154,966</u>	<u>\$ 154,966</u>	<u>\$ 169,573</u>	<u>\$ 14,607</u>

LIBRARY FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Grants and private contributions	\$ 53,600	\$ 53,600	\$ 36,060	\$ (17,540)
Interest	150	150	97	(53)
Miscellaneous	1,000	1,000	1,000	-
Total revenue	<u>54,750</u>	<u>54,750</u>	<u>37,157</u>	<u>(17,593)</u>
EXPENDITURES				
Culture and recreation	<u>87,600</u>	<u>87,600</u>	<u>32,089</u>	<u>55,511</u>
Total expenditures	<u>87,600</u>	<u>87,600</u>	<u>32,089</u>	<u>55,511</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(32,850)</u>	<u>(32,850)</u>	<u>5,068</u>	<u>37,918</u>
NET CHANGE IN FUND BALANCES	<u>(32,850)</u>	<u>(32,850)</u>	<u>5,068</u>	<u>37,918</u>
FUND BALANCES AT BEGINNING OF YEAR	<u>60,017</u>	<u>60,017</u>	<u>60,017</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 27,167</u>	<u>\$ 27,167</u>	<u>\$ 65,085</u>	<u>\$ 37,918</u>

COURT TECHNOLOGY FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Orginal Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Interest	\$ -	\$ -	\$ 2	\$ 2
Court technology revenue	5,000	5,000	4,112	(888)
Total revenue	<u>5,000</u>	<u>5,000</u>	<u>4,114</u>	<u>(886)</u>
EXPENDITURES				
Public safety	5,000	5,000	4,548	452
Total expenditures	<u>5,000</u>	<u>5,000</u>	<u>4,548</u>	<u>452</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>(434)</u>	<u>(434)</u>
NET CHANGE IN FUND BALANCES	-	-	(434)	(434)
FUND BALANCES AT BEGINNING OF YEAR	<u>2,389</u>	<u>2,389</u>	<u>2,389</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 2,389</u>	<u>\$ 2,389</u>	<u>\$ 1,955</u>	<u>\$ (434)</u>

HOTEL/MOTEL OCCUPANCY TAX FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Orginal Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Other taxes	\$ 60,000	\$ 60,000	\$ 82,996	\$ 22,996
Interest	-	-	27	27
Miscellaneous	-	-	236	236
Total revenue	<u>60,000</u>	<u>60,000</u>	<u>83,259</u>	<u>23,259</u>
EXPENDITURES				
Culture and recreation	<u>66,500</u>	<u>66,500</u>	<u>80,702</u>	<u>(14,202)</u>
Total expenditures	<u>66,500</u>	<u>66,500</u>	<u>80,702</u>	<u>(14,202)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(6,500)</u>	<u>(6,500)</u>	<u>2,557</u>	<u>9,057</u>
NET CHANGE IN FUND BALANCES	(6,500)	(6,500)	2,557	9,057
FUND BALANCES AT BEGINNING OF YEAR	<u>14,807</u>	<u>14,807</u>	<u>14,807</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 8,307</u>	<u>\$ 8,307</u>	<u>\$ 17,364</u>	<u>\$ 9,057</u>

FIRE DEPARTMENT FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Grants and private contributions	\$ 14,000	\$ 14,000	\$ 15,900	\$ 1,900
Interest	-	-	47	
Miscellaneous revenue	10,000	10,000	5,000	(5,000)
Total revenue	<u>24,000</u>	<u>24,000</u>	<u>20,947</u>	<u>(3,053)</u>
EXPENDITURES				
Public safety	36,400	36,400	7,681	28,719
Total expenditures	<u>36,400</u>	<u>36,400</u>	<u>7,681</u>	<u>28,719</u>
NET CHANGE IN FUND BALANCES	(12,400)	(12,400)	13,266	25,666
FUND BALANCES AT BEGINNING OF YEAR	<u>22,067</u>	<u>22,067</u>	<u>22,067</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 9,667</u>	<u>\$ 9,667</u>	<u>\$ 35,333</u>	<u>\$ 25,666</u>

CAPITAL IMPROVEMENT FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Interest	\$ -	\$ -	\$ 2,163	\$ 2,163
Total revenue	-	-	2,163	2,163
EXPENDITURES				
Capital outlay	171,000	171,000	169,737	1,263
Total expenditures	171,000	171,000	169,737	1,263
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(171,000)	(171,000)	(167,574)	3,426
OTHER FINANCING SOURCES (USES)				
Transfers in	175,000	175,000	375,000	200,000
Total other financing sources and uses	175,000	175,000	375,000	200,000
NET CHANGE IN FUND BALANCES	4,000	4,000	207,426	203,426
FUND BALANCES AT BEGINNING OF YEAR	1,587,935	1,587,935	1,587,935	-
FUND BALANCE AT END OF YEAR	\$ 1,591,935	\$ 1,591,935	\$ 1,795,361	\$ 203,426

COMPONENT UNIT

COMPONENT UNIT

NEDERLAND ECONOMIC DEVELOPMENT CORPORATION

BALANCE SHEET

SEPTEMBER 30, 2012

	<u>General</u>	<u>Total Funds</u>
ASSETS:		
Cash and cash equivalents	\$ 2,866,596	\$ 2,866,596
Investments	499,686	499,686
Receivables (net of allowances for doubtful accounts)		
Taxes receivable	60,906	60,906
Other	-	-
Due from other governmental agencies	5,250	5,250
Due from primary government	51,451	51,451
TOTAL ASSETS	<u>\$ 3,483,889</u>	<u>\$ 3,483,889</u>
LIABILITIES AND FUND BALANCES:		
LIABILITIES:		
Accounts payable	\$ 2	\$ 2
Due to primary government	-	-
Accrued expenses and other liabilities	39	39
TOTAL LIABILITIES	<u>41</u>	<u>41</u>
FUND BALANCES:		
Reserved for:		
Debt service	-	-
Unreserved:		
General fund	3,483,848	3,483,848
Total fund balances	<u>3,483,848</u>	<u>3,483,848</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,483,889</u>	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in these funds.		<u>1,581,289</u>
		<u>\$ 5,065,137</u>

COMPONENT UNIT

NEDERLAND ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>General</u>	<u>Total Funds</u>
REVENUES		
Sales tax	742,769	742,769
Interest	6,114	6,114
Other miscellaneous	1,435	1,435
Total revenue	<u>750,318</u>	<u>750,318</u>
EXPENDITURES:		
Current:		
Economic development	<u>323,520</u>	<u>323,520</u>
Total expenditures	<u>323,520</u>	<u>323,520</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>426,798</u>	<u>426,798</u>
NET CHANGE IN FUND BALANCES	426,798	426,798
FUND BALANCES - BEGINNING	<u>3,057,050</u>	
FUND BALANCES - ENDING	<u>\$ 3,483,848</u>	
The change in capital assets are reflected in the current financial resources of governmental funds, however has no effect on net assets.		-
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.		-
CHANGE IN NET ASSETS		<u>\$ 426,798</u>

COMPONENT UNIT

NEDERLAND ECONOMIC DEVELOPMENT CORPORATION

GENERAL OPERATING FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Original Budget	Final Budget	Actual Amounts	Variance Positive (Negative)
REVENUES				
Sales tax	\$ 600,000	\$ 600,000	\$ 742,769	\$ 142,769
Interest	8,000	8,000	6,114	(1,886)
Miscellaneous	1,500	1,500	1,435	(65)
Total revenue	<u>609,500</u>	<u>609,500</u>	<u>750,318</u>	<u>140,818</u>
EXPENDITURES				
Current:				
Economic development	609,500	609,500	323,520	285,980
Total expenditures	<u>609,500</u>	<u>609,500</u>	<u>323,520</u>	<u>285,980</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>426,798</u>	<u>426,798</u>
NET CHANGE IN FUND BALANCES	-	-	426,798	426,798
FUND BALANCES AT BEGINNING OF YEAR	<u>4,638,339</u>	<u>4,638,339</u>	<u>4,638,339</u>	-
FUND BALANCE AT END OF YEAR	<u>\$ 4,638,339</u>	<u>\$ 4,638,339</u>	<u>\$ 5,065,137</u>	<u>\$ 426,798</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.

Contents	Page
Financial Trends	72-81
These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.	
Revenue Capacity	82-85
These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.	
Debt Capacity	86-92
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	
Demographic and Economic Information	93-94
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	
Operating Information	95-66
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	

CITY OF NEDERLAND, TEXAS

NET ASSETS BY COMPONENT
 LAST TEN FISCAL YEARS
 (ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	2003	2004	2005	2006
Governmental Activities				
Invested in capital assets, net of related debt	\$ (11,171,152)	\$ (9,774,113)	\$ 9,826,617	\$ 20,722,686
Restricted	1,033,750	262,834	149,744	357,097
Unrestricted	4,728,304	4,558,749	(15,738,862)	(12,714,121)
Total governmental activities net assets	<u>\$ (5,409,098)</u>	<u>\$ (4,952,530)</u>	<u>\$ (5,762,501)</u>	<u>\$ 8,365,662</u>
Business-type Activities				
Invested in capital assets, net of related debt	\$ 25,695,533	\$ 27,624,365	\$ 29,178,615	\$ 28,661,994
Restricted	2,308,820	1,203,980	728,992	416,907
Unrestricted	3,153,693	2,224,260	2,116,636	2,780,434
Total business-type activities net assets	<u>\$ 31,158,046</u>	<u>\$ 31,052,605</u>	<u>\$ 32,024,243</u>	<u>\$ 31,859,335</u>
Primary Government				
Invested in capital assets, net of related debt	\$ 14,524,381	\$ 17,850,252	\$ 39,005,232	\$ 49,384,680
Restricted	3,342,570	1,466,814	878,736	774,004
Unrestricted	7,881,997	6,783,009	(13,622,226)	(9,933,687)
Total primary government net assets	<u>\$ 25,748,948</u>	<u>\$ 26,100,075</u>	<u>\$ 26,261,742</u>	<u>\$ 40,224,997</u>

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$20,335,426	\$19,922,807	\$20,580,788	\$23,117,338	\$23,209,685	\$ 23,127,039
476,598	3,376,182	2,839,102	1,555,269	1,878,576	2,405,754
(10,818,321)	(16,035,419)	(13,426,738)	(11,350,064)	(13,390,826)	(9,596,034)
<u>\$ 9,993,703</u>	<u>\$ 7,263,570</u>	<u>\$ 9,993,152</u>	<u>\$13,322,543</u>	<u>\$11,697,435</u>	<u>\$ 15,936,759</u>
\$28,306,854	\$27,548,912	\$27,042,159	\$27,275,625	\$28,155,931	\$ 29,921,166
150,955	4,677,882	4,098,350	2,949,052	5,259,401	2,324,808
2,516,589	2,518,191	2,978,574	2,891,977	3,436,248	3,790,728
<u>\$30,974,398</u>	<u>\$34,744,985</u>	<u>\$34,119,083</u>	<u>\$33,116,654</u>	<u>\$36,851,580</u>	<u>\$ 36,036,702</u>
\$48,642,280	\$47,471,719	\$47,622,947	\$32,672,963	\$30,785,616	\$ 34,208,205
627,553	8,054,064	6,937,452	4,504,321	7,394,803	4,730,562
(8,301,732)	(13,517,228)	(10,448,164)	9,261,913	10,368,596	13,034,694
<u>\$40,968,101</u>	<u>\$42,008,555</u>	<u>\$44,112,235</u>	<u>\$46,439,197</u>	<u>\$48,549,015</u>	<u>\$ 51,973,461</u>

CITY OF NEDERLAND, TEXAS

CHANGES IN NET ASSETS
 LAST TEN FISCAL YEARS (1)
 (ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
General government	\$ 960,936	\$ 1,665,118	\$ 1,000,138	\$ 1,017,303
Public safety	3,409,078	3,914,039	4,052,612	4,209,461
Public works	1,216,183	957,755	1,465,853	1,748,796
Culture and recreation	775,755	752,682	765,294	952,248
Administrative and general	154,710	268,493	127,749	199,434
Interest on long-term debt	912,413	842,767	847,017	838,482
Total governmental activities	<u>7,429,075</u>	<u>8,400,854</u>	<u>8,258,663</u>	<u>8,965,724</u>
Business-type activities				
Water and sewer	3,286,017	3,223,537	3,760,887	3,917,220
Solid Waste	917,981	911,319	986,948	1,180,200
Total business-type activities	<u>4,203,998</u>	<u>4,134,856</u>	<u>4,747,835</u>	<u>5,097,420</u>
Total Primary Government Expenses	<u>\$ 11,633,073</u>	<u>\$ 12,535,710</u>	<u>\$ 13,006,498</u>	<u>\$ 14,063,144</u>
Program Revenues				
Governmental activities:				
Charges for services:				
Public safety	\$ 120,658	\$ 145,348	\$ 176,561	\$ 384,731
Public works	74,048	81,242	130,430	125,468
Culture and recreation	78,073	69,438	50,711	19,122
Operating grants and contributions	135,991	480,752	196,739	73,597
Capital grants and contributions	-	-	58,245	24,450
Total governmental activities program revenues	<u>408,770</u>	<u>776,780</u>	<u>612,686</u>	<u>627,368</u>
Business activities:				
Charges for services:				
Water & sewer	3,602,854	3,407,583	3,439,172	3,592,610
Solid waste	999,295	1,176,041	1,219,741	1,349,841
Capital grants and contributions	-	-	-	-
Total business-type activities program revenues	<u>4,602,149</u>	<u>4,583,624</u>	<u>4,658,913</u>	<u>4,942,451</u>
Total primary government program revenues	<u>\$ 5,010,919</u>	<u>\$ 5,360,404</u>	<u>\$ 5,271,599</u>	<u>\$ 5,569,819</u>
Net (expense) revenue				
Governmental activities	\$ (7,020,305)	\$ (7,624,074)	\$ (7,645,977)	\$ (8,338,356)
Business-type activities	398,151	448,768	(88,922)	(154,969)
Total primary government net expense	<u>\$ (6,622,154)</u>	<u>\$ (7,175,306)</u>	<u>\$ (7,734,899)</u>	<u>\$ (8,493,325)</u>

SCHEDULE II

						Fiscal Year					
2007		2008		2009		2010		2011		2012	
\$ 1,127,311	\$ 974,048	\$ 959,939	\$ 938,214	\$ 894,890	\$ 912,280						
4,413,585	4,706,590	4,510,332	3,960,690	4,719,003	4,873,250						
1,814,987	1,854,510	1,439,306	1,620,899	1,893,707	1,825,249						
1,032,854	916,500	927,717	1,636,562	1,076,490	1,075,263						
149,048	836,226	503,838	498,380	396,221	395,998						
790,941	755,903	939,966	1,057,191	645,953	700,763						
<u>9,328,726</u>	<u>10,043,777</u>	<u>9,281,098</u>	<u>9,711,936</u>	<u>9,626,264</u>	<u>9,782,803</u>						
4,258,833	4,455,575	4,419,694	4,332,049	4,406,019	4,408,929						
1,049,490	1,499,256	1,884,277	1,118,966	1,030,067	1,015,675						
5,308,323	5,954,831	6,303,971	5,451,015	5,436,086	5,424,604						
<u>\$ 14,637,049</u>	<u>\$ 15,998,608</u>	<u>\$ 15,585,069</u>	<u>\$ 15,162,951</u>	<u>\$ 15,062,350</u>	<u>\$ 15,207,407</u>						
\$ 285,255	\$ 122,117	\$ 143,095	\$ 200,573	\$ 183,564	\$ 166,945						
116,174	123,557	104,147	106,104	105,158	126,566						
44,448	64,620	41,959	53,487	81,098	95,460						
287,084	210,090	147,617	295,370	272,166	248,145						
86,135	-	-	-	-	-						
<u>819,096</u>	<u>520,384</u>	<u>436,818</u>	<u>655,534</u>	<u>641,986</u>	<u>637,116</u>						
3,678,167	3,762,599	3,850,024	4,005,958	4,246,104	4,313,232						
1,277,770	1,281,762	1,293,806	1,310,495	1,327,215	1,364,893						
194,821	842,783	867,484	-	-	-						
<u>5,150,758</u>	<u>5,887,144</u>	<u>6,011,314</u>	<u>5,316,453</u>	<u>5,573,319</u>	<u>5,678,125</u>						
<u>\$ 5,969,854</u>	<u>\$ 6,407,528</u>	<u>\$ 6,448,132</u>	<u>\$ 5,971,987</u>	<u>\$ 6,215,305</u>	<u>\$ 6,315,241</u>						
\$ (8,509,630)	\$ (9,523,393)	\$ (8,844,280)	\$ (9,056,402)	\$ (8,984,278)	\$ (9,145,687)						
(157,565)	(67,687)	(292,657)	(134,562)	137,233	253,521						
<u>\$ (8,667,195)</u>	<u>\$ (9,591,080)</u>	<u>\$ (9,136,937)</u>	<u>\$ (9,190,964)</u>	<u>\$ (8,847,045)</u>	<u>\$ (8,892,166)</u>						

CITY OF NEDERLAND, TEXAS

CHANGES IN NET ASSETS (continued)

	Fiscal Year			
	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets:				
Governmental Activities				
Property taxes, penalties and interest	\$ 3,695,581	\$ 3,945,663	\$ 4,075,342	\$ 4,401,412
In lieu of tax contracts	557,046	715,899	703,139	762,244
Sales tax	1,669,895	1,597,100	1,746,581	2,373,145
Gross receipts tax	917,681	899,871	914,567	912,714
Interest	90,149	68,461	174,563	304,561
Other governmental agencies	-	-	-	1,096,853
Other miscellaneous	169,052	536,307	201,812	954,638
Transfers	(891,573)	604,871	(979,998)	779,509
Total government activities	<u>6,207,831</u>	<u>8,368,172</u>	<u>6,836,006</u>	<u>11,585,076</u>
Business-type activities				
Interest	\$ 55,901	\$ 50,662	\$ 80,559	\$ 118,951
Other miscellaneous	-	-	-	536,645
Transfers	1,018,820	(604,871)	979,998	(779,509)
Total business-type activities	<u>1,074,721</u>	<u>(554,209)</u>	<u>1,060,557</u>	<u>(123,913)</u>
Total primary government	<u>\$ 7,282,552</u>	<u>\$ 7,813,963</u>	<u>\$ 7,896,563</u>	<u>\$ 11,461,163</u>
Change in Net Assets				
Governmental activities	\$ (812,474)	\$ 744,098	\$ (809,971)	\$ 3,246,720
Business-type activities	1,472,872	(105,441)	971,635	(278,882)
Total primary government	<u>\$ 660,398</u>	<u>\$ 638,657</u>	<u>\$ 161,664</u>	<u>\$ 2,967,838</u>

SCHEDULE II

		Fiscal Year				
2007	2008	2009	2010	2011	2012	
\$ 4,369,718	\$ 4,551,330	\$ 5,012,060	\$ 5,370,920	\$ 5,547,369	\$ 5,634,574	
851,566	783,582	839,560	940,850	1,006,261	1,768,745	
2,480,048	2,781,508	3,283,262	2,922,006	3,036,033	3,713,845	
955,884	1,056,941	913,653	1,298,937	1,299,828	1,230,797	
403,250	233,143	64,742	28,537	21,941	21,291	
-	834,827	52,991	-	-	-	
209,989	137,331	621,448	1,018,745	82,405	55,811	
867,216	(3,585,402)	760,600	805,798	(3,617,690)	959,948	
<u>10,137,671</u>	<u>6,793,260</u>	<u>11,548,316</u>	<u>12,385,793</u>	<u>7,376,147</u>	<u>13,385,011</u>	
\$ 139,844	\$ 86,343	\$ 85,369	\$ 40,989	\$ 15,426	\$ 11,927	
-	166,529	361,509	(103,058)	(35,423)	(120,378)	
(867,216)	3,585,402	(760,600)	(805,798)	3,617,690	(959,948)	
<u>(727,372)</u>	<u>3,838,274</u>	<u>(313,722)</u>	<u>(867,867)</u>	<u>3,597,693</u>	<u>(1,068,399)</u>	
<u>\$ 9,410,299</u>	<u>\$ 10,631,534</u>	<u>\$ 11,234,594</u>	<u>\$ 11,517,926</u>	<u>\$ 10,973,840</u>	<u>\$ 12,316,612</u>	
\$ 1,628,041	\$ (2,730,133)	\$ 2,704,036	\$ 3,329,391	\$ (1,608,131)	\$ 4,239,324	
(884,937)	3,770,587	(606,379)	(1,002,429)	3,734,926	(814,878)	
<u>\$ 743,104</u>	<u>\$ 1,040,454</u>	<u>\$ 2,097,657</u>	<u>\$ 2,326,962</u>	<u>\$ 2,126,795</u>	<u>\$ 3,424,446</u>	

GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE

LAST NINE FISCAL YEARS (1)

(ACCRUAL BASIS OF ACCOUNTING)

(AMOUNTS EXPRESSED IN THOUSANDS)

Fiscal Year	Property Tax	In Lieu of Tax	Sales Tax	Gross Receipts Tax	Total
2003	\$ 3,696	\$ 557	\$ 1,670	\$ 978	\$ 6,901
2004	3,946	716	1,597	900	7,159
2005	4,075	703	1,747	915	7,440
2006	4,401	762	2,373	913	8,449
2007	4,370	852	2,480	956	8,658
2008	4,551	784	2,782	1,057	9,174
2009	5,045	840	3,283	914	10,082
2010	5,328	941	2,922	1,299	10,490
2011	5,547	1,006	3,036	1,300	10,889
2012	5,635	1,769	3,714	1,231	12,349

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Reserved	\$ 9	\$ 13	\$ 13	\$ 3	\$ 6	\$ 5	\$ 5	\$ 4	\$ -	\$ -
Unreserved	4,371	4,439	4,747	5,792	6,418	4,390	5,591	6,255	-	-
Nonspendable	-	-	-	-	-	-	-	-	4	3
Unassigned	-	-	-	-	-	-	-	-	7,043	9,332
Total general fund	<u>\$ 4,380</u>	<u>\$ 4,452</u>	<u>\$ 4,760</u>	<u>\$ 5,795</u>	<u>\$ 6,424</u>	<u>\$ 4,395</u>	<u>\$ 5,596</u>	<u>\$ 6,259</u>	<u>\$ 7,047</u>	<u>\$ 9,335</u>
All other governmental funds:										
Reserved	124	165	150	189	215	254	225	239	-	-
Unreserved, reported in:										
Special revenue funds	121	154	168	219	246	249	238	282	-	-
Capital projects funds	940	98	(548)	62	262	3,123	2,627	1,316	-	-
Restricted										
Debt Service	-	-	-	-	-	-	-	-	290	309
Grants and Awards	-	-	-	-	-	-	-	-	257	289
Committed										
Capital projects	-	-	-	-	-	-	-	-	1,588	1,795
Total all other governmental funds	<u>\$ 1,185</u>	<u>\$ 417</u>	<u>\$ (230)</u>	<u>\$ 470</u>	<u>\$ 723</u>	<u>\$ 3,626</u>	<u>\$ 3,090</u>	<u>\$ 1,837</u>	<u>\$ 2,135</u>	<u>\$ 2,393</u>
Total governmental funds	<u>\$ 5,565</u>	<u>\$ 4,869</u>	<u>\$ 4,530</u>	<u>\$ 6,265</u>	<u>\$ 7,147</u>	<u>\$ 8,021</u>	<u>\$ 8,686</u>	<u>\$ 8,096</u>	<u>\$ 9,182</u>	<u>\$ 11,728</u>

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

CITY OF NEDERLAND, TEXAS

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS (1)

(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

Revenues	Fiscal Year			
	2003	2004	2005	2006
Property taxes, penalties and interest	\$ 3,715,628	\$ 3,921,007	\$ 4,044,904	4,399,262
In lieu of tax contracts	557,046	715,899	703,139	762,244
Sales Tax	1,669,895	1,597,100	1,746,581	2,373,145
Other tax	974,266	961,005	976,471	924,753
Permits, licences and fees	138,008	135,857	181,141	144,590
Fines, forfeits and penalties	136,567	121,124	130,629	224,269
Insurance	-	-	-	819,256
Interest	90,149	68,461	174,562	304,561
Other governmental agencies	-	-	-	1,096,853
Grants and Private contributions	431,831	465,745	326,261	146,229
Other miscellaneous	112,468	78,029	141,193	122,476
Total revenues	<u>7,825,858</u>	<u>8,064,227</u>	<u>8,424,881</u>	<u>11,317,638</u>
Expenditures				
Current:				
General government	812,826	841,296	855,039	912,778
Public safety	3,178,672	3,643,181	3,900,773	4,138,623
Public works	1,084,723	1,048,086	1,192,976	1,163,977
Culture and recreation	730,873	736,072	746,340	850,940
Administration and general	110,510	268,493	127,749	199,434
Capital Outlay	656,637	1,125,180	797,109	1,051,212
Debt Service:				
Principal retirement	715,000	855,000	915,000	1,195,000
Interest and fiscal charges	841,850	848,339	849,929	841,671
Issuance Costs	47,623	-	38,628	-
Total expenditures	<u>8,178,714</u>	<u>9,365,647</u>	<u>9,423,543</u>	<u>10,353,635</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(352,856)</u>	<u>(1,301,420)</u>	<u>(998,662)</u>	<u>964,003</u>
Other Financing Sources (Uses)				
Bonds issued	1,545,000		1,640,000	-
Transfers in	516,820	646,172	627,550	1,670,844
Transfers out	(1,706,027)	(41,300)	(1,607,548)	(891,335)
Total Other Financing Sources and Uses	<u>355,793</u>	<u>604,872</u>	<u>660,002</u>	<u>779,509</u>
Net Change in Fund Balance	<u>\$ 2,937</u>	<u>\$ (696,548)</u>	<u>\$ (338,660)</u>	<u>\$ 1,743,512</u>
Debt service as a percentage of non-capital expenditures	27.1%	26.1%	26.4%	28.0%

SCHEDULE V

Fiscal Year					
2007	2008	2009	2010	2011	2012
4,347,001	4,550,883	5,044,628	5,328,245	5,533,376	5,615,078
851,567	783,582	839,560	940,850	1,006,261	1,768,745
2,480,048	2,781,508	3,283,262	2,922,006	3,036,033	3,713,845
1,054,163	1,056,941	913,653	1,298,937	1,299,828	1,230,797
160,622	171,126	127,703	159,591	186,255	222,026
150,079	178,162	160,306	196,265	193,588	187,836
-	-	-	-	-	-
403,250	233,143	64,742	28,537	21,941	21,291
121,616	834,827	52,991	-	-	-
314,213	210,090	147,617	295,370	272,166	248,145
115,445	137,329	621,448	819,761	82,405	91,373
<u>9,998,004</u>	<u>10,937,591</u>	<u>11,255,910</u>	<u>11,989,562</u>	<u>11,631,853</u>	<u>13,099,136</u>
870,539	929,419	913,358	890,651	908,602	910,170
4,300,647	4,619,928	4,517,773	4,592,380	4,681,227	4,718,219
1,198,699	1,280,070	1,475,481	1,273,637	1,357,089	1,408,350
904,903	969,199	810,886	1,483,363	1,011,563	1,096,082
149,048	1,017,305	503,838	333,410	372,158	353,183
528,262	62,891	774,521	2,450,174	719,846	511,508
1,245,000	1,295,000	1,475,000	1,545,000	1,640,000	1,825,000
794,449	743,261	905,654	857,622	658,116	713,822
-	61,856	2,900	157,111	63,292	61,537
<u>9,991,547</u>	<u>10,978,929</u>	<u>11,379,411</u>	<u>13,583,348</u>	<u>11,411,893</u>	<u>11,597,871</u>
<u>6,457</u>	<u>(41,338)</u>	<u>(123,501)</u>	<u>(1,593,786)</u>	<u>219,960</u>	<u>1,501,265</u>
-	4,500,000	-	198,984	4,500,000	85,000
1,117,216	3,803,545	1,000,333	1,443,738	1,244,018	1,334,948
(250,000)	(7,388,947)	(239,733)	(637,940)	(4,861,708)	(375,000)
<u>867,216</u>	<u>914,598</u>	<u>760,600</u>	<u>1,004,782</u>	<u>882,310</u>	<u>1,044,948</u>
<u>\$ 873,673</u>	<u>\$ 873,260</u>	<u>\$ 637,099</u>	<u>\$ (589,004)</u>	<u>\$ 1,102,270</u>	<u>\$ 2,546,213</u>
27.5%	23.8%	29.0%	29.9%	28.3%	24.4%

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

FISCAL YEAR	TAX ROLL YEAR	ESTIMATED MARKET VALUE			LESS: TAX-EXEMPT PROPERTY	TOTAL TAXABLE ASSESSED VALUE	TOTAL DIRECT TAX RATE
		RESIDENTIAL PROPERTY	COMMERCIAL PROPERTY	INDUSTRIAL PROPERTY			
2003	2002	431,431,440	179,320,120	8,203,510	31,254,880	587,700,190	0.660000
2004	2003	473,247,730	173,991,890	8,156,770	33,423,100	621,973,290	0.660000
2005	2004	483,161,160	187,106,760	7,585,390	35,871,340	641,981,970	0.658903
2006	2005	524,571,900	203,853,760	7,594,810	37,248,200	698,772,270	0.652456
2007	2006	487,717,280	194,455,150	8,510,950	33,622,240	657,061,140	0.685000
2008	2007	607,348,770	196,472,939	9,814,960	55,757,900	757,878,769	0.594830
2009	2008	706,764,372	200,627,370	21,320,050	71,374,455	857,337,337	0.578000
2010	2009	734,045,590	207,697,690	26,618,370	50,625,730	917,735,920	0.057800
2011	2010	762,111,830	215,348,700	7,993,330	40,563,276	944,890,584	0.057800
2012	2011	759,356,680	223,565,400	9,378,740	31,566,020	960,734,800	0.057800

Source: Jefferson County Appraisal District

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

PROPERTY TAX RATES- DIRECT AND OVERLAPPING GOVERNMENTS

Last Ten Fiscal Years

Fiscal Year	City Direct Rates			Overlapping Rates			
	Maintenance & Operations Rate	Debt Service Rate	Total Direct Rate	Jefferson County	Nederland ISD	Drainage District #7	Navigation District
2003	0.391802	0.268198	\$0.660000	0.365000	1.560000	0.188100	0.033023
2004	0.385277	0.274723	\$0.660000	0.365000	1.550000	0.188100	0.031868
2005	0.398307	0.260596	\$0.658903	0.425000	1.550000	0.188100	0.031021
2006	0.400995	0.251461	\$0.652456	0.425000	1.550000	0.179063	0.029699
2007	0.416421	0.268579	\$0.685000	0.400000	1.380000	0.160000	0.026322
2008	0.374462	0.220368	\$0.594830	0.390000	1.120000	0.145809	0.024257
2009	0.351731	0.226269	\$0.578000	0.365000	1.120000	0.139650	0.022418
2010	0.360319	0.217681	\$0.578000	0.365000	1.215000	0.138977	0.025431
2011	0.371852	0.206148	\$0.578000	0.365000	1.113000	0.138977	0.027398
2012	0.370566	0.207434	\$0.578000	0.365000	1.109500	0.140949	0.027311

Source: Jefferson County Tax Office

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

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

Schedule VIII

TAXPAYER	Fiscal Year 2003		Fiscal Year 2012	
	Assessed Valuation	Percent of Estimated Actual Value	Assessed Valuation	Percent of Estimated Actual Value
Philpott Ford, Inc.	10,280,780	1.75%	13,748,970	1.43%
Beaumont Hospital Holdings	6,063,570	1.03%	5,333,220	-
Wal-Mart Stores, Inc.	9,137,580	1.55%	-	-
Southwestern Bell	7,975,120	1.36%	3,842,220	0.48%
Entergy Texas, Inc.	7,437,430	1.27%	8,286,250	0.86%
Emhugh, Ltd	3,222,910	0.55%	3,927,750	0.41%
Megas Constantine	3,611,490	0.61%	6,659,120	0.69%
Hertz Equipment Rental Corp	3,330,250	0.57%	-	-
Spherion Atlantic Enterprises	3,931,260	0.67%	-	-
Texas Cable Partners	3,200,600	0.54%	-	-
Chateau Residential LP	-	-	3,906,250	0.41%
JAG Nederland Properties LTD	-	-	5,035,820	0.52%
Fivepoint Federal Credit Union	-	-	8,707,330	0.91%
Nederland Avenue Apartments	-	-	7,681,440	0.80%
Total	\$58,190,990	9.90%	\$67,128,370	6.99%

Source: Jefferson County Appraisal District

Notes:

Total taxable value including real and personal property for tax year 2002 (fiscal year 2003) is \$587,700,190

Total taxable value including real and personal property for tax year 2011 (fiscal year 2012) is \$960,734,800

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
2003	3,685,319	3,595,617	97.57%	79,807	3,675,424	99.73%
2004	3,883,109	3,787,129	97.53%	83,103	3,870,232	99.67%
2005	4,031,859	3,923,234	97.31%	96,404	4,019,638	99.70%
2006	4,343,817	4,259,544	98.06%	71,297	4,330,841	99.70%
2007	4,296,092	4,201,893	97.81%	80,194	4,282,087	99.67%
2008	4,492,340	4,387,683	97.67%	87,476	4,475,159	99.62%
2009	4,960,815	4,838,230	97.53%	95,641	4,933,871	99.46%
2010	5,304,515	5,140,742	96.91%	119,844	5,260,586	99.17%
2011	5,461,469	5,315,110	97.32%	70,819	5,385,929	98.62%
2012	5,553,049	5,422,024	97.64%	-	5,422,024	97.64%

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			
2003	20,475,000	-	-	475,000	20,950,000	N/A	\$ 1,203
2004	19,620,000	-	-	365,000	19,985,000	N/A	\$ 1,147
2005	18,705,000	1,640,000	-	250,000	20,595,000	N/A	\$ 1,182
2006	17,725,000	1,425,000	-	130,000	19,280,000	5.42%	\$ 1,107
2007	16,700,000	1,205,000	-	-	17,905,000	4.23%	\$ 1,028
2008	15,630,000	980,000	4,500,000	-	21,110,000	5.16%	\$ 1,212
2009	14,515,000	745,000	4,375,000	-	19,635,000	4.17%	\$ 1,127
2010	12,990,000	505,000	4,225,000	-	17,720,000	3.88%	\$ 1,017
2011	16,250,000	255,000	4,075,000	-	20,580,000	4.48%	\$ 1,173
2012	4,350,000	-	14,490,000	-	18,840,000	4.10%	\$ 1,074

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		
2003	20,475,000	-	-	123,936	\$20,351,064	3.46%	1,168
2004	19,620,000	-	-	164,872	\$19,455,128	3.13%	1,117
2005	18,705,000	1,640,000	-	149,744	\$20,195,256	3.15%	1,159
2006	17,725,000	1,425,000	-	196,735	\$18,953,265	2.71%	1,088
2007	16,700,000	1,205,000	-	214,725	\$17,690,275	2.69%	1,015
2008	15,630,000	980,000	4,500,000	253,570	\$20,856,430	2.75%	1,197
2009	14,515,000	745,000	4,375,000	225,173	\$19,409,827	2.26%	1,114
2010	12,990,000	505,000	4,225,000	239,088	\$17,480,912	1.90%	1,003
2011	16,250,000	255,000	4,075,000	290,642	\$20,289,358	2.15%	1,156
2012	4,350,000	-	14,490,000	308,653	\$18,531,347	1.93%	1,056

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, 2012

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	\$7,750,000	55.96%	\$4,336,900
Jefferson County, Texas	57,301,268	3.98%	2,280,590
Jefferson County Drainage District #7	-	10.73%	-
Subtotal overlapping debt			6,617,490
City direct debt			19,333,120
TOTAL			\$ 25,950,610

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, 2012

<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	\$ 18,840,000	100%	\$ 18,840,000

CITY OF NEDERLAND, TEXAS

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

(AMOUNTS EXPRESSED IN THOUSANDS)

Debt Margin Calculation for Fiscal Year 2012

Assessed value	\$ 960,735
Debt Limit (25% of assessed value)	<u>240,184</u>
Debt applicable to limit:	
General Obligation Bonds	18,840
Less: amount set aside for repayment of general obligation debt	<u>(297)</u>
Total net debt applicable to limit	<u>18,543</u>
Debt Margin	<u><u>\$ 221,641</u></u>

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Debt limit	\$ 146,886	\$ 163,849	\$ 160,495	\$ 174,693
Total net debt applicable to limit	<u>20,351</u>	<u>19,455</u>	<u>20,195</u>	<u>18,961</u>
Legal debt margin	<u><u>\$ 126,535</u></u>	<u><u>\$ 144,394</u></u>	<u><u>\$ 140,300</u></u>	<u><u>\$ 155,732</u></u>
Legal debt margin as a percentage of the debt limit	86.15%	88.13%	87.42%	89.15%

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.

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 164,265	\$ 189,469	\$ 214,334	\$ 211,953	\$ 215,934	\$ 221,641
<u>17,690</u>	<u>20,856</u>	<u>19,410</u>	<u>17,481</u>	<u>20,289</u>	<u>18,543</u>
<u>\$ 146,575</u>	<u>\$ 168,613</u>	<u>\$ 194,924</u>	<u>\$ 194,472</u>	<u>\$ 195,645</u>	<u>\$ 203,098</u>
89.23%	88.99%	90.94%	91.75%	90.60%	91.63%

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
2003	3,539,516	2,521,190	1,018,326	100,000	34,500	7.57
2004	3,390,242	2,572,955	817,287	110,000	28,500	5.90
2005	3,417,875	2,848,817	569,058	115,000	21,900	4.16
2006	3,522,692	2,873,188	649,504	120,000	15,000	4.81
2007	3,626,384	3,003,530	622,854	130,000	7,800	4.52
2008	3,762,599	3,184,860	577,739	-	-	-
2009	3,850,024	3,123,797	726,227	-	-	-
2010	3,851,928	3,034,597	817,331	-	-	-
2011	4,083,915	3,108,372	975,543	-	-	-
2012	4,127,641	3,089,241	1,038,400	-	-	-

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
2003	17,422	N/A	N/A	*	N/A	N/A
2004	17,422	N/A	N/A	*	N/A	N/A
2005	17,422	355,548	20,408	*	5,122	3.70%
2006	17,422	422,815	24,269	*	4,986	3.00%
2007	17,422	409,487	23,504	*	5,188	3.70%
2008	17,422	410,741	23,576	*	5,073	4.50%
2009	17,422	471,230	27,048	*	5,024	5.00%
2010	17,422	456,753	26,217	*	4,898	5.00%
2011	17,547	459,679	26,197	*	4,999	** 11.4%
2012	17,547	441,863	26,285	37.3	5,022	** 9.89%

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

Notes: *Medium age only available in census years

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

N/A-Data not available

PRINCIPAL EMPLOYERS

CURRENT YEAR

Employer	2012	
	Employees	Percentage of Total City Employment
Nederland Independent School District	622	7.70%
Philpott Motors	225	2.78%
Mid Jefferson Extended Care Hospital	138	1.71%
Time Warner	132	1.63%
Sun Oil Co.	115	1.42%
City of Nederland	106	1.31%
Dupont	75	0.93%
JK Chevrolet	70	0.87%
Unocal	65	0.80%
Air Liquide	40	0.49%

Source: Nederland Economic Development Corporation

Note: Historical Information not available.

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<u>Function/Program</u>										
General government:										
City manager	3	3	3	3	3	3	3	3	3	3
Finance	2	1	1	1	1	1	1	1	1	1
Personnel	2	2	2	2	2	2	2	2	2	2
Public safety										
Police	24	24	24	24	24	26	26	26	26	26
Fire	15	15	15	15	15	15	15	15	15	15
Dispatch	8	8	8	8	9	10	10	11	11	11
Public works										
Inspections	2	2	2	2	2	2	2	2	2	2
Public works administration	2	2	2	2	2	2	2	2	2	2
Streets	10	8	8	8	8	8	8	8	8	8
City shop	3	2	2	2	2	2	2	2	2	2
Culture and recreation:										
Parks and recreation	3	3	3	3	3	3	3	3	3	3
Library	4	3	3	3	3	3	4	4	4	4
Water and sewer										
Water treatment	6	6	6	6	6	6	6	6	6	6
Water utility billing/collections	6	6	4	4	4	4	4	4	4	4
Wastewater treatment ^a	5	-	-	-	-	-	-	-	-	-
Water and sewer distribution	12	9	9	10	10	10	10	10	10	10
Solid Waste	7	6	7	7	7	7	7	7	7	7
Total	114	100	99	100	101	104	105	106	106	106

Source: Finance Department

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

^aThe wastewater treatment operation was contracted in 2004.

CITY OF NEDERLAND, TEXAS

OPERATING INDICATORS BY FUNCTION/PROGRAM

LAST TEN CALENDAR YEARS

Function/Program	2003	2004	2005
General government			
Building permits issued	1,460	1,147	1,090
Public safety			
Police			
Physical arrests	465	354	401
Traffic violations	1,684	1,315	1,110
Dispatch calls for service	14,260	12,893	10,429
Offense reports filled	2,243	2,171	2,041
Fire			
Fire runs	91	86	84
EMS & other non-fire runs	793	751	874
Library			
Total volumes borrowed	115,379	107,993	97,711
Water and sewer			
Number of connections	7,916	7,929	7,950
Water main breaks	128	162	202
Average daily consumption (thousands of gallons)	2,423	2,275	2,051
Peak daily consumption (thousands of gallons)	3,487	3,558	3,172
Solid waste			
Refuse collected average yards per day (compacted)	106.230	91.800	98.270
Refuse collected average yards per day (non-compacted)	106.400	112.670	71.950

Source: City Departments

Note: N/A - Data not available

* Change in method of connection count per TCEQ

Schedule XIX

2006	2007	2008	2009	2010	2011	2012
1,838	2,047	1,045	1,101	1,005	1,026	1,026
225	212	264	408	345	377	360
1,394	1,431	1,568	1,877	2,158	1,744	2,058
11,388	11,227	10,436	10,257	10,109	12,258	12,463
1,873	1,976	2,005	2,000	1,805	2,050	2,049
159	125	104	75	99	103	91
976	1,031	1,241	1,480	1,566	1,556	1,608
81,374	100,694	96,887	103,171	115,311	106,380	103,602
7,969	7,955	8,246	8,259	7825*	7,848	7,865
210	257	157	115	288	446	176
1,950	1,970	2,32	2,21	2,25	2,32	2
3,134	3,150	3,75	3,49	3,49	3,59	3,47
111,650	99,000	93,000	91,000	90,000	104,000	128,000
67,630	96,000	73,000	97,000	112,000	96,000	104,000

CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles	13	13	14	14	14	14	14	14	20	20
Fire stations	1	1	1	1	1	1	1	1	1	1
Aerials	1	1	1	1	1	1	1	1	1	1
Engines	3	3	3	3	3	3	3	3	3	3
Rescue	1	1	1	1	1	1	1	1	1	1
Public works										
Streets (lane miles)	175	175	175	175	175	175	175	175	175	175
Traffic signals	7	7	6	6	6	6	6	6	6	6
Parks and recreation										
Parks	7	7	7	7	7	7	7	7	5	6
Swimming pools	1	1	1	1	1	1	1	1	1	1
Water and sewer										
Water mains (miles)	103.96	103.96	103.96	103.96	103.96	103.96	103.96	103.96	103.96	103.96
Sewer mains (miles)	93.67	93.67	93.67	93.67	93.67	93.67	93.67	93.67	93.67	93.67
Fire hydrants	N/A	N/A	N/A	407	407	407	407	407	407	407

Source: City Departments

Note: N/A - Data not available

Industrial Contracts

2006-2007 Fiscal Year

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

2007-2008 Fiscal Year

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

2008-2009 Fiscal Year

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

2009-2010 Fiscal Year

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

2010-2011 Fiscal Year

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

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	301,584,310	220,964,553	1,277,175
Total	<u>\$ 482,480,490</u>	<u>\$ 306,011,284</u>	<u>\$ 1,768,745</u>

OVERALL COMPLIANCE AND
INTERNAL CONTROLS

J. R. Edwards & Associates, LLC

Certified Public Accountants

March 25, 2013

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

The Honorable Mayor and City Council
City of Nederland, Texas

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Nederland, Texas (the "City") as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

The Honorable Mayor and City Council
City of Nederland, Texas
March 25, 2013

Compliance and Other Matters

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

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

J.R. Edwards & Associates, LLC