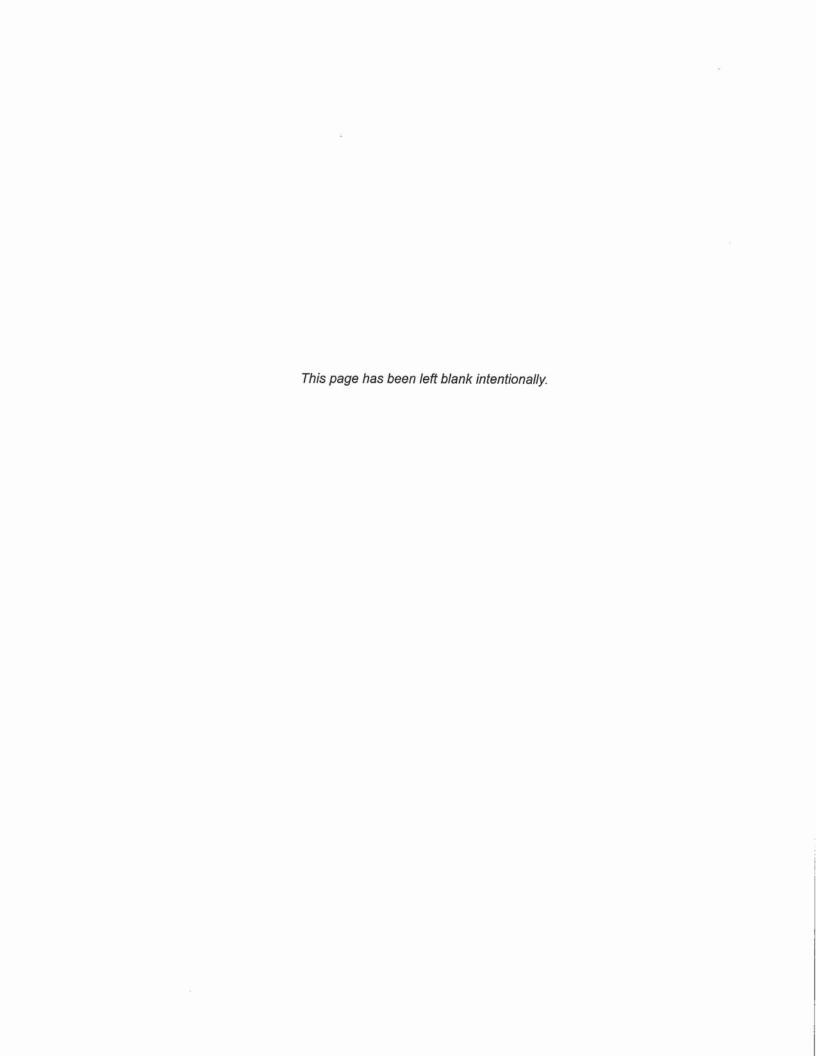
CITY OF NAVASOTA, TEXAS ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Davis, Heinemann & Company, P.C.

Certified Public Accountants
1300 11th Street Suite 500
Huntsville, Texas 77340
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Introductory Section



City of Navasota, Texas Annual Financial Report For The Year Ended September 30, 2012

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Financial Section



Davis, Heinemann & Company, P.C.

A Professional Corporation

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Independent Auditor's Report on Financial Statements

City Council City of Navasota, Texas P.O. Box 910 Navasota, Texas 77868

Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Navasota, Texas 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 City of Navasota, Texas' 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 the 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Navasota, 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 Government Auditing Standards, we have also issued our report dated February 8, 2013, on our consideration of City of Navasota, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information identified as Required Supplementary Information 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 Navasota, Texas' financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Governments, Audits of States, Local and Non-Profit Organizations. and the State of Texas Single Audit Circular, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal and state awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied 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 as a whole.

Respectfully submitted,

Davis, Heinemann + Co.

Davis, Heinemann & Company, P.C.

February 8, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Navasota, Texas' annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2012. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total combined net assets were \$32,360,257 at September 30, 2012.
- During the year, the City's expenses were \$2,660,102 less than the \$14,858,648 generated in taxes, charges for service and other revenues for governmental and business-type activities.
- The general fund reported a fund balance this year of \$1,759,348.

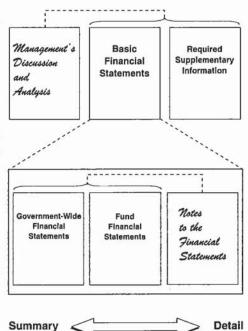
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses.
- Fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1, Required Components of the City's Annual Financial Report



Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general administration, public safety, streets and bridges, buildings and grounds, and financial and professional. Property, sales and franchise taxes finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it
 is properly using certain taxes and grants.

The City has the following kinds of funds:

- Governmental funds—Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- Proprietary funds—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net assets. The City's combined net assets were \$32,360,257 at September 30, 2012. (See Table A-1).

Table A-1 City's Net Assets (In thousands of dollars)

		Governm	nental	Busines	s-type			
		Activit	ies	Activi	ties	Total		
		2012	2011	2012	2011	2012	2011	
Current Assets:								
Cash and Cash Equivalents	\$	1,705.4 \$	3,621.9 \$	3,013.3 \$	2,007.3 \$	4,718.7 \$	5,629.2	
Investments		2,258.6	1,992.5	969.9	756.3	3,228.5	2,748.8	
Receivables		601.7	569.9	969.5	1,072.7	1,571.2	1,642.6	
Due from Other Governments		-	2.3	-	1-	-	2.3	
Inventories		-	-	83.0	83.0	83.0	83.0	
Total Current Assets:	-	4,565.7	6,186.6	5,035.7	3,919.3	9,601.4	10,105.9	
Noncurrent Assets:								
Bond Issuance Costs		363.5	363.4	-		363.5	363.4	
Capital Assets		37,161.8	33,201.4	19,236.5	19,158.4	56,398.3	52,359.8	
Accumulated Depreciation		(8,901.6)	(8,078.8)	(12,809.4)	(12, 126.1)	(21,711.0)	(20,204.9)	
Total Noncurrent Assets:	-	28,623.7	25,486.0	6,427.1	7,032.3	35,050.8	32,518.3	
Total Assets	-	33,189.4	31,672.6	11,462.8	10,951.6	44,652.2	42,624.2	
Current liabilities:								
Accounts Payable		173.2	422.5	100.1	118.4	273.3	540.9	
Wages Payable		20.0	20.3	5.0	4.8	25.0	25.1	
Accrued Interest Payable		165.6	169.3	1.9	2.2	167.5	171.5	
Deferred Revenue		14.3	14.3	-	-	14.3	14.3	
Customer Deposits		-	-	187.6	171.2	187.6	171.2	
Current Long-Term Debt		336.0	326.0	40.0	40.0	376.0	366.0	
Total Current Liabilities	_	709.1	952.4	334.6	336.6	1,043.7	1,289.0	
Long-Term Liabilities:						4		
Premium on Bonds		33.2	38.0	-	-	33.2	38.0	
Bonds		-	-	270.0	310.0	270.0	310.0	
Certificates of Obligation		10,796.0	11,132.0	# <u>*</u>	_	10,796.0	11,132.0	
Compensated Absences		125.9	133.5	23.2	21.5	149.1	155.0	
Total Long-Term Liabilities:	0=	10,955.1	11,303.5	293.2	331.5	11,248.3	11,635.0	
Total Liabilities	-	11,664.2	12,255.9	627.8	668.1	12,292.0	12,924.0	
Net Assets:								
Invested in Capital Assets		17,128.2	13,664.6	6,117.1	6,682.3	23,245.3	20,346.9	
Restricted		2,250.3	3,256.3	-	-	2,250.3	3,256.3	
Unrestricted		2,146.7	2,495.8	4,717.9	3,601.2	6,864.6	6,097.0	
Total Net Assets	\$ =	21,525.2 \$	19,416.7 \$	10,835.0 \$	10,283.5 \$	32,360.2 \$	29,700.2	

Changes in net assets. The City's total revenues were \$14,858,648 and total expenses were \$12,198,546 which resulted in an increase of net assets of \$2,660,102 (See Table A-2).

Table A-2
Changes in City's Net Assets
(In thousands of dollars)

		Gove	rnme	ental		Busin	ess-t	уре				
		Ac	tivitie	s		Activities				Total		
		2012		2011		2012		2011		2012	2011	
Program Revenues:	_											
Charges for Services	\$	1,713.6	\$	1,695.9	\$	5,696.1	\$	6,615.5	\$	7,409.7 \$	8,311.4	
Operating Grants		166.9		101.6		-		-		166.9	101.6	
Capital Grants		2,398.4		2,650.5		-		247.4		2,398.4	2,897.9	
General Revenues:										-		
Ad Valorem Taxes		1,309.1		1,315.2		-		-		1,309.1	1,315.2	
Sales Tax		1,803.4		1,538.8		-		-		1,803.4	1,538.8	
Franchise Taxes		331.9		332.3		-		-		331.9	332.3	
Payment in Lieu of Taxes		1,251.6		934.6						1,251.6	934.6	
Other Taxes		-		-		-		-		2	-	
Interest Income		72.9		158.8		34.5		31.0		107.4	189.8	
Grants and Contributions		46.0		17.6		-		_		46.0	17.6	
Other Income		25.9		50.4		8.4		5.5		34.3	55.9	
Transfers In (Out)		952.3		1,683.4		(952.3)		(1,683.4)		-		
Total Revenues	1.00	10,072.0	at their	10,479.1		4,786.7		5,216.0	-	14,858.7	15,695.1	
Program Expenses:					-				_			
General Government		1,899.2		1,387.4		-	36			1,899.2	1,387.4	
Public Safety		2,341.8		2,125.8		-		-		2,341.8	2,125.8	
Public Works		1,233.5		1,249.0		-		~		1,233.5	1,249.0	
Sanitation		871.0		900.1		-		2		871.0	900.1	
Culture and Recreation		971.5		923.0		-		2		971.5	923.0	
Judicial and Courts		87.2		92.6		_	4	-		87.2	92.6	
Economic Development		120.1		71.3		-		-		120.1	71.3	
Interest & Fiscal Charges		439.1		458.5		-		-		439.1	458.5	
Enterprise Activities						4,235.2		4,476.1		4,235.2	4,476.1	
Total Expenses		7,963.4		7,207.7	_	4,235.2		4,476.1		12,198.6	11,683.8	
Change in Net Assets	\$ _	2,108.6	\$	3,271.4	\$	551.5	\$	739.9	5 _	2,660.1 \$	4,011.3	

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget through budget amendments. Actual expenditures were \$362,836 less than final budget amounts. The most significant positive budget variance is in general government.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the City had invested \$56,398.3 thousand in a broad range of capital assets, including land, equipment, buildings, and vehicles (See Table A-3).

Table A-3 Capital Assets

(In thousands of dollars)

		Gove	ernme	ental		Busir	ness-	type			
	Activ			ties		Activities			Tota		
	_	2012		2011	n <u></u>	2012	_	2011	2012	2011	
Land	\$	681.1	\$	681.1 \$	6	103.7	\$	103.7 \$	784.8 \$	784.8	
Construction in Progress		2,332.6		2,905.7		-		269.3	2,332.6	3,175.0	
Buildings and Improvements		17,416.1		13,052.0		103.5		103.5	17,519.6	13,155.5	
Machinery and Equipment		1,319.7		1,295.4		647.3		647.2	1,967.0	1,942.6	
Vehicles		1,734.5		1,589.4		209.7		131.6	1,944.2	1,721.0	
Infrastructure		13,677.8		13,677.8		-		7.5	13,677.8	13,677.8	
Water System		-		-		7,001.6		7,001.6	7,001.6	7,001.6	
Sewer System		- - -		-		9,374.9		9,105.6	9,374.9	9,105.6	
Gas System	_	-		<u> </u>		1,795.8	_	1,795.8	1,795.8	1,795.8	
Totals at Historical Cost	•	37,161.8		33,201.4		19,236.5	**	19,158.3	56,398.3	52,359.7	
Total Accumulated Depreciation	_	(8,901.6)	_	(8,078.8)	_	(12,809.4)	_	(12,126.1)	(21,711.0)	(20,204.9)	
Net Capital Assets	\$ _	28,260.2	\$ =	25,122.6	_	6,427.1	\$ _	7,032.2 \$	34,687.3 \$	32,154.8	

Long-Term Debt

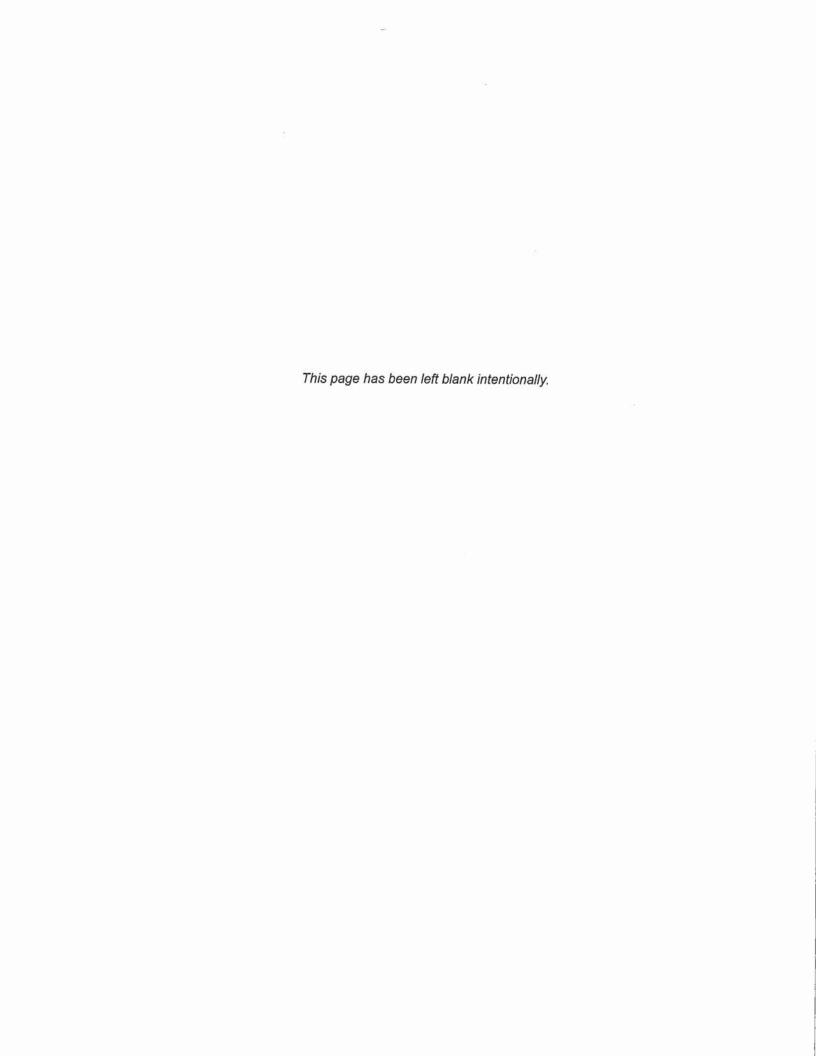
At year-end the City had \$11,624.3 thousand in long-term debt outstanding as shown in (Table A-4). More detailed information about the City's debt is presented in the notes to the financial statements.

Table A-4
City's Long-Term Debt
(In thousands of dollars)

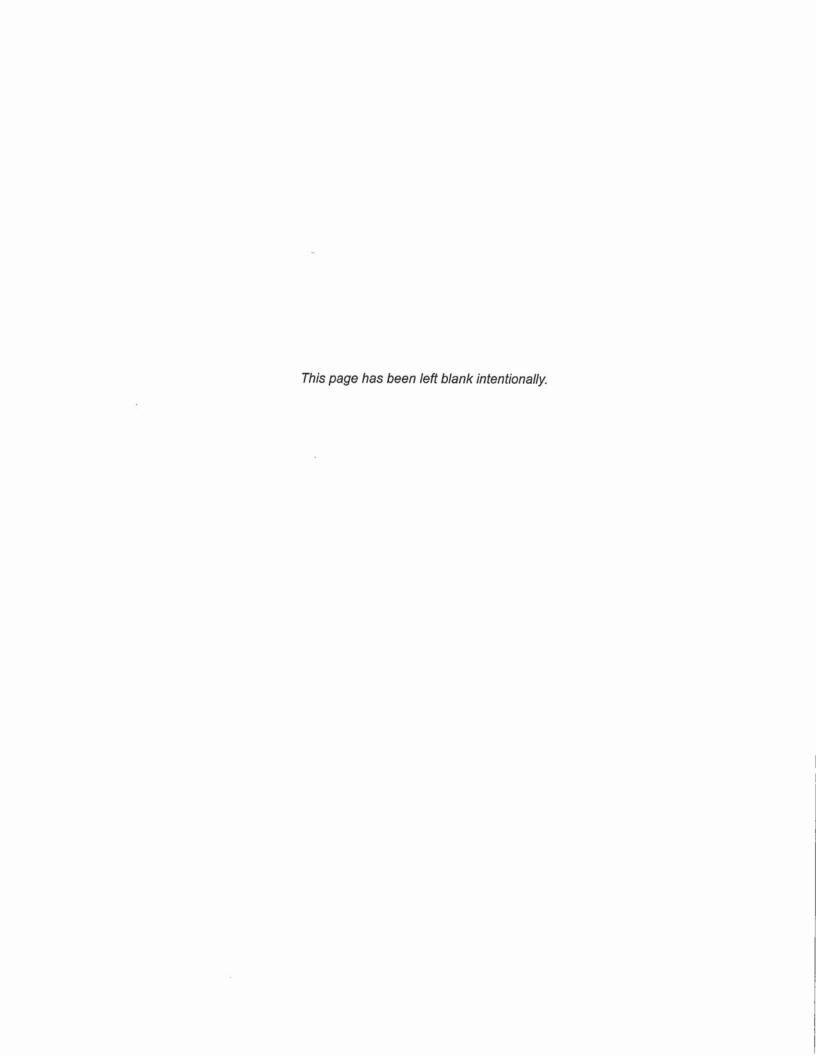
			1		- o. aonaro,				
	Governmental				Business-	-type	Tot	Change	
	Ac	Activities			Activitie	es			
	2012		2011		2012	2011	2012	2011	2012-2011
Bonds	\$ 10,880.0	\$	11,200.0	\$	310.0 \$	350.0 \$	11,190.0 \$	11,550.0 \$	(360.0)
Certificates of Obligation	252.0		258.0		-	-	252.0	258.0	(6.0)
Adjustments for Deferred Amounts:									
Discounts and Premiums	33.2		38.0		-	_	33.2	38.0	(4.8)
Compensated Absences	125.9		133.5		23.2	21.5	149.1	155.0	(5.9)
Total Long Term Debt	\$ 11,291.1	\$	11,629.5	\$	333.2 \$	371.5 \$	11,624.3 \$	12,001.0 \$	(376.7)

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's Finance Director.



Basic Financial Statements



CITY OF NAVASOTA, TEXAS STATEMENT OF NET ASSETS

SEPTEMBER 30, 2012

Governmental Activities			Primary Government	
Activities Activities Total Unit ASSETS: Cash and Cash Equivalents \$ 1,705,415 \$ 3,013,251 \$ 4,718,666 \$ 208,45 Investments \$ 2,258,582 \$ 969,939 \$ 3,228,521 \$ Receivables (net of allowances for uncollectibles) \$ 601,657 \$ 969,506 \$ 1,571,163 \$ Inventories \$ 82,953 \$ 82,953 \$ Noncurrent Assets: Bond Issuance Costs \$ 363,510 \$ 363,510 \$ Capital Assets: Land \$ 681,109 \$ 103,741 \$ 784,850 \$		Governmental		Component
Cash and Cash Equivalents \$ 1,705,415 \$ 3,013,251 \$ 4,718,666 \$ 208,45 Investments 2,258,582 969,939 3,228,521 Receivables (net of allowances for uncollectibles) 601,657 969,506 1,571,163 Inventories 82,953 82,953 Noncurrent Assets: 363,510 363,510 Capital Assets: 681,109 103,741 784,850		Activities	Activities Total	
Investments		22		
Receivables (net of allowances for uncollectibles) 601,657 969,506 1,571,163 Inventories 82,953 82,953 Noncurrent Assets: 363,510 363,510 Capital Assets: 681,109 103,741 784,850	그렇게 걸 가게 되어 있다.			\$ 208,458
Inventories 82,953 82,953 Noncurrent Assets: Bond Issuance Costs 363,510 363,510 Capital Assets: Land 681,109 103,741 784,850				
Noncurrent Assets: Bond Issuance Costs 363,510 363,510 Capital Assets: Land 681,109 103,741 784,850		601,657		
Bond Issuance Costs 363,510 363,510 Gapital Assets: Land 681,109 103,741 784,850			82,953 82,953	
Capital Assets: Land 681,109 103,741 784,850				
Land 681,109 103,741 784,850	Bond Issuance Costs	363,510	363,510	
	Capital Assets:			
0.000 500				
	Construction in Progress	2,332,580	2,332,580	
Buildings and Improvements 17,416,149 103,513 17,519,662		17,416,149	103,513 17,519,662	
Machinery and Equipment 1,319,681 647,241 1,966,922	Machinery and Equipment	1,319,681	647,241 1,966,922	
Vehicles 1,734,523 209,702 1,944,225	Vehicles	1,734,523	209,702 1,944,225	
Water System 7,001,645	Water System	(**)	7,001,645 7,001,645	
Sewer System 9,374,889 9,374,889	Sewer System	75	9,374,889 9,374,889	
Gas System 1,795,759	Gas System		1,795,759 1,795,759	
Infrastructure and Improvements 13,677,779 13,677,779	Infrastructure and Improvements	13,677,779	13,677,779	
Less Accumulated Depreciation (8,901,612) (12,809,385) (21,710,997)	Less Accumulated Depreciation	(8,901,612)	(12,809,385) (21,710,997)	
	Total Assets			208,458
LIABILITIES:	LIABILITIES:			
Accounts Payable 173,175 100,062 273,237		173.175	100.062 273.237	
Customer Deposits 187,536 187,536				
Accrued Interest Payable 165,592 1,938 167,530		165.592		
Wages Payable 19,954 4,988 24,942			93 *102 13 2 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3	12 <u>2</u>
Unearned Revenue 14,309 14,309	[B 2011] [프라마스 : 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1			-
Noncurrent Liabilities-		11,000	14,000	
Due within one year 336,000 40,000 376,000		336,000	40 000 376 000	
Due in more than one year 10,955,105 293,211 11,248,316				
Total Liabilities 11,664,135 627,735 12,291,870				
		11,004,103	027,733	
NET ASSETS				
Invested in Capital Assets, Net of Related Debt 17,128,209 6,117,105 23,245,314		17,128,209	6,117,105 23,245,314	
Restricted For:	Restricted For:			
Debt Service 444,016 444,016	Debt Service	444,016	444,016	
Construction 923,899 923,899	Construction	923,899	923,899	
Cemetery Operations	Cemetery Operations			
Expendable 121,853 121,853		121,853	121,853	
Nonexpendable 328,893 328,893				
Hotel/Motel 431,666 431,666	: : :			722
	Unrestricted			208,458
	Total Net Assets			

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2012

			_		Progr	ram Revenue	es	
					(Operating		Capital
5		_		Charges for	G	arants and		Grants and
Functions/Programs		Expenses	_	Services	Co	ontributions	_(Contributions
PRIMARY GOVERNMENT:								
Governmental Activities:								
General Government	\$	1,899,197	\$	65,874	\$	15,806	\$	2,312,855
Public Safety		2,341,803		562		151,138		74,206
Public Works		1,233,465		311,604				
Sanitation		871,008		1,019,470				
Culture and Recreation		971,459		108,856				11,309
Judicial and Courts		87,226		79,156				
Economic Development and Assistance		120,130		128,115				
Interest on Long-term Debt		439,061						
Total Governmental Activities	_	7,963,349	_	1,713,637		166,944	_	2,398,370
Business-type Activities:								
Water		1,228,639		1,938,910		***		
Gas		1,719,388		2,418,675				
Sewer		1,287,170		1,338,483				
Total Business-type Activities		4,235,197	_	5,696,068			_	
Total Primary Government	\$	12,198,546	\$_	7,409,705	\$	166,944	\$_	2,398,370
COMPONENT UNIT:								
Navasota Economic Development Corporation	\$	136,180	\$_		\$		\$_	

General Revenues:

Property Taxes

Sales Taxes

Franchise Taxes

Payment In Lieu of Taxes

Interest on Investments

Grants and Contributions Not Restricted to Specific Programs

Miscellaneous Revenue

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

	Net (Expense) Revenue	and	Changes in Net	Assets
	Governmental Activities	31		Total	Component Unit
\$	495,338 (2,115,897) (921,861) 148,462 (851,294) (8,070) 7,985 (439,061) (3,684,398)		\$	495,338 (2,115,897) (921,861) 148,462 (851,294) (8,070) 7,985 (439,061) (3,684,398)	
	 (3,684,398)	\$ 710,271 699,287 51,313 1,460,871 1,460,871	_	710,271 699,287 51,313 1,460,871 (2,223,527)	
					\$(136,180)
-	1,309,107 1,803,430 331,865 1,251,575 72,865 25,866 46,005 952,255 5,792,968 2,108,570	34,509 8,407 (952,255) (909,339) 551,532	-	1,309,107 1,803,430 331,865 1,251,575 107,374 25,866 54,412 4,883,629 2,660,102	 111,286 202 111,488 (24,692)
\$_	19,416,668 21,525,238	10,283,487 \$ 10,835,019	\$	29,700,155 32,360,257	233,150 \$ 208,458
=					

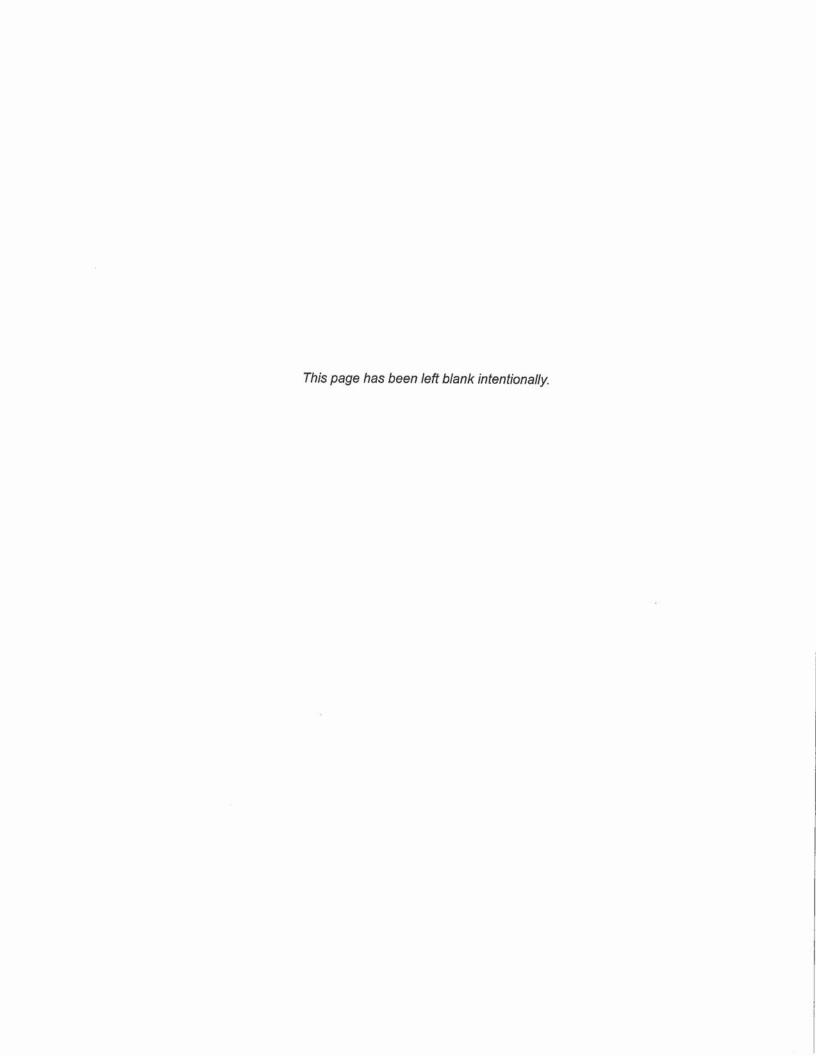
CITY OF NAVASOTA, TEXAS BALANCE SHEET - GOVERNMENTAL FUNDS SEPTEMBER 30, 2012

ASSETS AND OTHER DEBITS	83 <u></u>	General Fund	<u> </u>	Grant Fund
Acceta				
Assets: Cash and Cash Equivalents	\$	4,006	\$	
Investments	•	1,680,494	4	
Receivables (net of allowances for uncollectibles):		395,918		
Due from Other Funds		922		
Total Assets and Other Debits	\$	2,081,340	\$	
LIABILITIES AND FUND BALANCES: Liabilities:				
Accounts Payable	\$	140,244	\$	
Wages Payable		18,457	100.00	
Due to Other Funds		7,448		
Unearned Revenue	15	155,843		
Total Liabilities	-	321,992	_	
Fund Balances: Restricted Fund Balances:				
Restricted for Debt Service				
Restricted for Capital Projects				
Restricted for Hotel/Motel				
Assigned:				
Special Revenue Funds				
Permanent Funds				
Unassigned		1,759,348		
Total Fund Balance	1	1,759,348		
Total Liabilities and Fund Balance	\$	2,081,340	\$	<u> </u>

-	Capital Projects	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$	923,899	\$ 310,972 125,567 	\$ 466,537 578,088 20,445	\$ 1,705,414 2,258,582 541,930 8,399
\$	923,899	\$444,016	\$1,065,070	\$4,514,325
\$		\$ 121,470 121,470	\$ 32,930 1,497 951 35,378	\$ 173,174 19,954 8,399 277,313 478,840
	923,899	322,546 	 431,666	322,546 923,899 431,666
-	 923,899	 322,546	269,133 328,893 1,029,692	269,133 328,893 1,759,348 4,035,485
\$	923,899	\$444,016	\$1,065,070	\$4,514,325

CITY OF NAVASOTA, TEXASRECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS **SEPTEMBER 30, 2012**

Total fund balances - governmental funds balance sheet	\$	4,035,485
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not reported in the funds.		28,260,209
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		263,006
Payables for bond principal which are not due in the current period are not reported in the funds.		(11,132,000)
Payables for bond interest which are not due in the current period are not reported in the funds.		(165,592)
Payables for compensated absences which are not due in the current period are not reported in the funds.		(125,860)
Court fines receivable unavailable to pay for current period expenditures are deferred in the funds.		59,727
Capitalized bond issuance costs are not reported in the funds.		363,509
Bond premiums are not reported in the funds.	-	(33,246)
Net assets of governmental activities - Statement of Net Assets	\$	21,525,238



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

	General Fund	Grant Fund
Revenue:		
General Property Taxes	\$ 916,580	\$
General Sales and Use Taxes	1,667,985	
Franchise Taxes	331,865	
Payment in Lieu of Taxes	1,251,575	
License and Permits	35,317	
Charges for Services	1,044,510	
Municipal Court Fines	79,156	
Fees	40,604	
Investment Earnings	36,023	
Rents and Leases	52,328	<u>-</u> .
Economic Development	128,115	- 115 H
Contributions and Grants	173,011	2,418,169
Miscellaneous Revenue	83,365	
Total Revenues	5,840,434	2,418,169
		2,410,100
Expenditures: Current:		
General Government	1,585,854	2,293,684
Public Safety	2,185,273	101,941
Public Works	390,022	16,468
Sanitation	871,193	
Culture and Recreation	828,883	23,304
Judicial and Courts	87,552	20,004
Economic Development and Assistance	122,580	
Debt Service:	122,000	
Principal	00	223
Interest and Fiscal Charges		accent
Total Expenditures	6,071,357	2.425.207
Excess (Deficiency) of Revenues	6,071,337	2,435,397
Over (Under) Expenditures	(220,022)	(17,000)
Over (Onder) Experiditures	(230,923)	(17,228)
Other Financing Sources (Uses):		
Transfers In	572,263	17,228
Transfers Out	(387,987)	W.W.
Total Other Financing Sources (Uses)	184,276	17,228
Net Change in Fund Balances	(46,647)	75.
Fund Balances - Beginning	1,805,995	20
Fund Balances - Ending	\$1,759,348	\$

Capital Projects	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$	\$ 401,157	\$	\$ 1,317,737
		135,445	1,803,430
	22		331,865
	\ = :		1,251,575
	***		35,317
			1,044,510
		##X	79,156
		285,840	326,444
23,578	2,659	10,605	72,865
		<u></u>	52,328
	· An		128,115
		***	2,591,180
		10,407	93,772
23,578	403,816	442,297	9,128,294
		30,108	3,909,646
		1,650	2,288,864
1,467,786		617,170	2,491,446
			871,193
		46,066	898,253
22)			87,552
			122,580
			122,500
**	326,000		326,000
	447,504		447,504
1,467,786	773,504	694,994	11,443,038
(1,444,208)	(369,688)	(252,697)	(2,314,744)
	381,521	369,229	1,340,241
	17.00 C C C C C C C C C C C C C C C C C C		(387,987)
	381,521	369,229	952,254
(1,444,208)	11,833	116,532	(1,362,490)
2,368,107	310,713	913,160	5,397,975
\$ 923,899	\$ 322,546	\$ 1,029,692	\$ 4,035,485

2,108,570

CITY OF NAVASOTA, TEXAS

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 (1,362,490)Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because: Capital outlays are not reported as expenses in the SOA. 3,965,411 The depreciation of capital assets used in governmental activities is not reported in the funds. (827,782)Certain property tax revenues are deferred in the funds. This is the change in these amounts this year. (8,628)Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA. 326,000 (Increase) decrease in accrued interest from beginning of period to end of period. 3,693 Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds. 7,616 Bond premiums are reported in the funds but not in the SOA. 4,750 Change in net assets of governmental activities - Statement of Activities

CITY OF NAVASOTA, TEXAS STATEMENT OF NET ASSETS

STATEMENT OF NET ASSETS ENTERPRISE FUNDS SEPTEMBER 30, 2012

		Enterprise Fund	_	Enterprise Fund		Enterprise Fund		
100570	50 	Water Fund		Gas Fund	-	Sewer Fund	200	Total Enterprise Funds
ASSETS: Current Assets:								
Cash and Cash Equivalents Receivables (net of allowances for uncollectibles): Due from other funds Inventories Total Current Assets	\$	1,011,307 383,363 691,642 56,919 2,143,231	\$	1,673,282 351,061 20,543 2,044,886	\$	1,298,601 235,082 5,491 1,539,174	\$	3,983,190 969,506 691,642 82,953 5,727,291
	-		-	_,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	_	1,000,111	-	0,727,201
Noncurrent Assets:		-0.8						
Capital Assets:		ee						
Land Buildings		55,411 82,081		9,188		39,142		103,741
Water System		7,001,645		12,936		8,496		103,513 7,001,645
Sewer System		7,001,045		- 1		9,374,889		9,374,889
Gas System				1,795,759				1,795,759
Vehicles		96,333		44,068		69,301		209,702
Machinery and Equipment		426,855		169,333		51,053		647,241
Less Accumulated Depreciation	_	(5,370,031)		(1,307,702)		(6,131,652)		(12,809,385)
Total Noncurrent Assets		2,292,294		723,582		3,411,229		6,427,105
Total Assets	\$_	4,435,525	\$_	2,768,468	\$	4,950,403	\$_	12,154,396
LIABILITIES:								
Current Liabilities:								
Accounts Payable	\$	4,559	\$	93,860	\$	1,643	\$	100,062
Compensated Absences Payable	18	13,042	139	2,382	53	7,787	7	23,211
Wages Payable		1,995		1,247		1,746		4,988
Due To Other Funds				691,642		124		691,642
Accrued Interest Payable				1,938				1,938
Revenue Bonds Payable				40,000				40,000
Customer Deposits Total Current Liabilities	_	116,561 136,157	_	70,975	-	11 170	77	187,536
Total Current Liabilities	100	130,137		902,044	-	11,176	_	1,049,377
Noncurrent Liabilities:								
Revenue Bonds Payable				270,000				270,000
Total Noncurrent Liabilities	-		-	270,000			_	270,000
Total Liabilities		136,157	_	1,172,044	_	11,176	_	1,319,377
NET ACCETS.								
NET ASSETS: Investment in Capital Assets, Net of Related Debt		2 202 204		412 E00		2 411 000		6 117 105
Unrestricted Net Assets		2,292,294 2,007,074		413,582 1,182,842		3,411,229 1,527,998		6,117,105 4,717,914
Total Net Assets	\$	4,299,368	\$	1,596,424	\$	4,939,227	\$	10,835,019
	*=	1,200,000	Ψ_	1,000,124	Ψ	7,000,227	Ψ=	10,000,018

CITY OF NAVASOTA, TEXAS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2012

		Enterprise Fund		Enterprise Fund		Enterprise Fund		
ODEDATING DEVENUES		Water Fund		Gas Fund	_	Sewer Fund	; : :::::::::::::::::::::::::::::::::::	Total Enterprise Funds
OPERATING REVENUES:		4 004 400		2222	_	W -E - 25-525-645	2	
Sales	\$	1,831,123	\$	2,363,132	\$	1,316,593	\$	5,510,848
Charges for Services		61,472		4,043				65,515
Penalties Assessed		32,876		12,935		21,890		67,701
New Services - Taps and Meters		13,500		350				13,850
Transportations Fees				27,765				27,765
Line Extension Fees				10,450		-		10,450
Other Revenues		7,653	_	678		15		8,346
Total Operating Revenues		1,946,624		2,419,353		1,338,498		5,704,475
OPERATING EXPENSES:								
Water Services		1,228,639						1,228,639
Sewer Services						1,287,170		1,287,170
Gas Services				1,702,138				1,702,138
Total Operating Expenses		1,228,639		1,702,138	-	1,287,170		4,217,947
Operating Income	9	717,985	_	717,215		51,328	_	1,486,528
NON-OPERATING REVENUES (EXPENSES):								
Interest Revenue		9,690		12,744		12,075		34,509
Interest Expense				(17,250)		,		(17,250)
Total Non-operating Revenues (Expenses)	-	9,690		(4,506)		12,075		17,259
Income before Transfers	₹ 	727,675		712,709		63,403	_	1,503,787
CONTRIBUTIONS AND TRANSFERS								
Interfund Transfers Out		(331,191)		(431,068)		(189,996)		(952,255)
Total Contributions and Transfers		(331,191)		(431,068)		(189,996)	h —	(952,255)
Change in Net Assets		396,484		281,641		(126,593)	12	551,532
Total Net Assets - Beginning	100	3,902,884		1,314,783		5,065,820		10,283,487
Total Net Assets - Ending	\$	4,299,368	\$	1,596,424	\$_	4,939,227	\$	10,835,019

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

		Ente	erprise Funds		
		Water	Gas	Sewer	
		Fund	Fund	Fund	Totals
Cash Flows from Operating Activities:					
Cash Received from Customers	\$	2,184,060 \$	3,138,945 \$	1,401,221 \$	6,724,226
Cash Payments to Employees for Services		(294,466)	(120,688)	(216,944)	(632,098)
Cash Payments to Other Suppliers for Goods and Services		(917,574)	(2,132,523)	(769, 152)	(3,819,249)
Net Cash Provided (Used) by Operating Activities	_	972,020	885,734	415,125	2,272,879
Cash Flows from Non-capital Financing Activities:					
Transfers From (To) Other Funds		(331,191)	(431,068)	(189,996)	(952, 255)
Net Cash Provided (Used) by Non-capital Financing Activities		(331,191)	(431,068)	(189,996)	(952,255)
Cash Flows from Capital and Related Financing Activities:					
Principal and Interest Paid			(57,500)		(57,500)
Acquisition or Construction of Capital Assets		(55,295)		(22,814)	(78,109)
Net Cash Provided (Used) for Capital & Related Financing Activ	itie	(55,295)	(57,500)	(22,814)	(135,609)
Cash Flows from Investing Activities:					
Interest and Dividends on Investments		9,690	12,744	12,075	34,509
Net Cash Provided (Used) for Investing Activities	_	9,690	12,744	12,075	34,509
Net Increase (Decrease) in Cash and Cash Equivalents		595,224	409,910	214,390	1,219,524
Cash and Cash Equivalents at Beginning of Year		416,083	1,263,372	1,084,211	2,763,666
Cash and Cash Equivalents at End of Year	\$	1,011,307 \$	1,673,282 \$	1,298,601 \$	3,983,190
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Operating Income (Loss)	\$	717,985 \$	717,215 \$	51,328 \$	1,486,528
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation		250,819	63,974	368,463	683,256
Change in Assets and Liabilities:		22 W.FS			
Decrease (Increase) in Receivables		(6,446)	114,155	(4,522)	103,187
Increase (Decrease) in Accounts Payable		(1,639)	(16,745)	78	(18,306)
Increase (Decrease) in Compensated Absences Payable		602	1,377	(247)	1,732
Increase (Decrease) in Accrued Wages Payable		(245)	358	25	138
Increase (Decrease) in Customer Deposits		10,944	5,400		16,344
Total Adjustments	.—	254,035	168,519	363,797	786,351
Net Cash Provided (Used) by Operating Activities	\$	972,020 \$	885,734 \$	415,125 \$	2,272,879



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Significant Accounting Policies

The combined financial statements of City of Navasota, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) The City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the City.

Based on these criteria, Navasota Economic Development Corp is a component unit of the City.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The City reports the following major enterprise funds:

Water, Gas and Sewer Enterprise Funds. These funds account for the charges and expenses for providing residents with these services.

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen not to apply future FASB standards.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

3. Financial Statement Amounts

Cash and Cash Equivalents

For 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.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

Inventories on the balance sheet are stated at weighted average cost. Inventory items are recorded as expenditures when they are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

f. Compensated Absences

On retirement or death of certain employees, the City pays any accrued vacation leave in a lump case payment to such employee or his/her estate. Individuals employed after October 1, 1985 are not eligible to receive the lump sum payments.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires the use of management's estimates.

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Violation
None reported

Action Taken
Not applicable

Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

Fund Name None reported Deficit
Amount Remarks
Not applicable
Not applicable

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At September 30, 2012, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,376,414 and the bank balance was \$5,768,403. The City's cash deposits at September 30, 2012 and during the year ended September 30, 2012, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") 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 no lower than AAA or AAA-m or an equivalent rating by at least one 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.

Since the investment pool funds are liquid investments, the City considers them as cash equivalent for reporting purposes. The city's investment pools consist of Texpool and TexStar. At September 30, 2011 the balances in the pools are as follows:

TexPool TexStar \$ 124,407 124,183 \$ 248,590

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and includes a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

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 general purpose 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.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investments at September 30, 2012 are shown below.

Investment or Investment Type	Maturity		Fair Value
Citizens State Bank Investment Account	ž	\$	1,664,999
Agency Notes/Bonds	Various		401,726
CMOs - Fixed Rate	Various		561,551
MBS - Fixed Rate FHLMC	Various		193,005
MBS - Fixed Rate FNMA	Various		4,884
MBS - Fixed Rate GNMA I	Various		148,070
MBS - Variable Rate FNMA	Various		32,625
MBS - Variable Rate GNMA II	Various		35,986
Municipal Tax Exempt - Fixed Rate	Various		115,761
SBA Loan Pools - Variable Rate	Various		69,905
Total Investments		\$_	3,228,512

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year end, the City was not exposed to custodial credit risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

D. <u>Capital Assets</u>

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

	Beginning			Ending
	Balances	Increases	Decreases	Balances
Governmental activities:				
Capital assets not being depreciated:				
Land \$	681,109 \$	\$	\$	681,109
Construction in progress	2,902,641	3,791,056	4,361,117	2,332,580
Total capital assets not being depreciated	3,583,750	3,791,056	4,361,117	3,013,689
Capital assets being depreciated:				
Infrastructure	13,677,779			13,677,779
Buildings and improvements	13,052,032	4,364,117		17,416,149
Equipment	1,295,376	29,254	4,949	1,319,681
Vehicles	1,589,422	145,101		1,734,523
Total capital assets being depreciated	29,614,609	4,538,472	4,949	34,148,132
Less accumulated depreciation for:				
Infrastructure	(3,692,217)	(213,148)		(3,905,365)
Buildings and improvements	(2,277,765)	(386,079)	**	(2,663,844)
Equipment	(1,104,998)	(91,823)	(4,949)	(1,191,872)
Vehicles	(1,003,799)	(136,732)		(1,140,531)
Total accumulated depreciation	(8,078,779)	(827,782)	(4,949)	(8,901,612)
Total capital assets being depreciated, net	21,535,830	3,710,690		25,246,520
Governmental activities capital assets, net \$	25,119,580 \$	7,501,746 \$	4,361,117 \$	28,260,209

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land \$	103,741 \$	\$	\$	103,741
Construction in progress	269,273		269,273	
Total capital assets not being depreciated	373,014		269,273	103,741
Capital assets being depreciated:				
Buildings and improvements	103,513		**	103,513
Equipment	647,241			647,241
Vehicles	131,593	78,109		209,702
Water System	7,001,645			7,001,645
Sewer System	9,105,616	269,273		9,374,889
Gas System	1,795,759			1,795,759
Total capital assets being depreciated	18,785,367	347,382		19,132,749
Less accumulated depreciation for:	2,0			
Buildings and improvements	(43,073)	(3,272)		(46,345)
Equipment	(429,027)	(43,064)	(***)	(472,091)
Vehicles	(131,593)	(5,579)		(137,172)
Water System	(4,806,768)	(211,598)		(5,018,366)
Sewer System	(5,668,949)	(366,621)		(6,035,570)
Gas System	(1,046,719)	(53,122)		(1,099,841)
Total accumulated depreciation	(12,126,129)	(683,256)		(12,809,385)
Total capital assets being depreciated, net	6,659,238	(335,874)		6,323,364
Business-type activities capital assets, net \$_	7,032,252 \$	(335,874) \$	269,273 \$	6,427,105

Depreciation was charged to functions as follows:

General Government	\$ 213,957
Public Safety	158,342
Parks and Recreation	201,806
Public Works	15,153
Streets	238,524
Water, Sewer and Gas	683,256
	\$ 1,511,038

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2012, consisted of the following:

Due To Fund	Due From Fund	 Amount	Purpose
Water Funds	Gas Fund	\$ 691,642	Short-term loans
General Fund	Permanent Fund	951	For transfer of federal receipts
Debt Service Fund	General Fund	7,477	Ad valorem tax collections
	Total	\$ 700,070	

All amounts due are scheduled to be repaid within one year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2012, consisted of the following:

Transfers From	Transfers To	 Amount	Reason
General fund	Debt Service Fund	\$ 1,529	Supplement othe funds sources
Enterprise Fund	General Fund	572,263	Reimburse expenditures
General fund	Other Governmental Funds	386,457	Reimburse expenditures
Enterprise Funds	Debt Service Fund	379,992	Debt payments
	Total	\$ 1,340,241	

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2012, are as follows:

		Beginning Balance		Increases		Decreases		Ending Balance		Amounts Due Within One Year
Governmental activities: General Obligation Bonds	\$		\$		\$		\$	22	\$	
Certificates of Obligation	*	11,458,000	•			326,000	*	11,132,000		336,000
Adjustments for Deferred Amo	unt	s:				3 - C. 2000 AN # 18 (1907 2 E-197		i da manente en alte el entre de la companion		8-00 \$\$0.0 € 112 823 60501.
Discounts and Premiums		37,996				4,750		33,246		
Compensated Absences		133,476				7,616	Lucati	125,860		
Total governmental activities	\$_	11,629,472	\$_		\$_	338,366	\$_	11,291,106	\$_	336,000
Business-type activities:	2015		·7150							- -
General Obligation Bonds	\$	350,000	\$		\$	40,000	\$	310,000	\$	40,000
Compensated Absences		21,479	_	1,732	3 12			23,211	5 65	
Total business-type activities	\$_	371,479	\$_	1,732	\$_	40,000	\$_	333,211	\$_	40,000

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General
Compensated absences	Business-type	Enterprise

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2012, are as follows:

		G	ove	rnmental Activitie	S
Year Ending September 30,		Principal		Interest	Total
2013	\$	336,000	\$	431,433 \$	767,433
2014		347,000		421,259	768,259
2015		357,000		410,764	767,764
2016		367,000		399,970	766,970
2017		377,000		388,876	765,876
2018-2022		2,107,000		1,738,173	3,845,173
2023-2027		2,571,000		1,281,427	3,852,427
2028-2032		3,164,000		691,149	3,855,149
2033-2036		1,506,000		68,061	1,574,061
Totals	\$_	11,132,000	\$_	5,831,112 \$	16,963,112

		Bus	ties	
Year Ending September 30,		Principal	Interest	Total
2013	\$	40,000 \$	15,500	\$ 55,500
2014		40,000	13,500	53,500
2015		40,000	11,500	51,500
2016		40,000	9,500	49,500
2017		40,000	7,500	47,500
2018-2020		110,000	10,500	120,500
Totals	\$_	310,000 \$	68,000	\$ 378,000

Bonds and Certificates of Obiligation:

Governmental Activities:

The City issued \$11,200,000 Combination Tax & Limited Revenue Certificates of Obligation in September 2009 for the construction of a new City Hall building. Payment on the certificates is due in annual installments of \$320,000 to \$740,000 through November 15, 2033 with interest payable at 4.1% to 4.5%. Certificates are to be retired with property taxes and surplus service revenue.

Balance at September 30, 2012 \$___10,880,000

The City issued \$285,000 Tax Revenue Certificates of Obligation in 2005. Payment on the certificates is due in annual installments of \$5,000 to \$16,000 through November 15, 2035 with interest payable at 4.25% to 4.125%. Certificates are to be retired with property taxes.

Balance at September 30, 2012 \$ 252,000

Business-type Activities:

The City issued \$1,000,000 Gas Revenue Bonds in 1980. Payment on the bonds is due in annual installments of \$40,000 through August 1, 2020 with interest payable at 5.00%. Bonds are to be retired with gas sales revenue.

Balance at September 30, 2012 \$_____ 310,000

G. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

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 other 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.

H. Pension Plan

1. Plan Description

The City's pension plan ("Plan") is a non-traditional, joint contributory, hybrid defined benefit plan which provides retirement and death benefits to eligible employees and beneficiaries through its affiliation with Texas Municipal Retirement System ("TMRS"), an agent multiple-employer public employee retirement system. TMRS operates under the authority of Texas Government Code, Title 8, Subtitle G. The Texas legislature has the authority to establish or amend benefit provisions and the governing body of the City adopts the plan provisions within the options and constraints established by the legislature. TMRS issues a publicly available comprehensive financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the benefits, contributions and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or calling (800) 924-8677; in additional the report is available at the TMRS website www.TMRS.com.

Plan provisions are adopted by the governing body of the City within options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

Employee Deposit Rate 5.0%
Matching Ratio (City to Employee) 2 to 1
A member is vested after 5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibility for the city (expressed as years of service/age) are: 5 yrs/age 60; 25 yrs/any age. The Updated Service Credit is 100% repeating and the Annuity Increase (to retirees) is 70% of CPI repeating.

2. Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually 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 percent 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 (overfunded) actuarial liability (asset) 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 contributes 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

3. Trend Information for the Plan

Fiscal	Annual	Actual	Percentage	Net
Year	Pension	Contribution	of APC	Pension
Ending	Cost (APC)	Made	Contributed	Obligation
September 30, 2010	\$ 256,730 \$	256,730	100%	
September 30, 2011	267,327	267,327	100%	
September 30, 2012	267,367	267,367	100%	77.7

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:

	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	Projected	Projected	Projected
	Unit Credit	Unit Credit	Unit Credit
Amortization Method	Level Percent	Level Percent	Level Percent
	of Payroll	of Payroll	of Payroll
GASB 25 Equivalent Single	28.2 years;	27.3 years;	26.4 years;
Amortization Period	closed period	closed period	closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-Yr Smoothed	10-Yr Smoothed	10-Yr Smoothed
	Market	Market	Market
Actuarial Assumptions:			
Investment Rate of Return	7.5%	7.0%	7.0%
Projected salary increases	Varies by age/	Varies by age/	Varies by age/
	yrs of service	yrs of service	yrs of service
	yrs or service	310 01 001 VIOC	J.0 0. 00. 1.00
Includes Inflation at	3.00%	3.00%	3.00%

For funded status as of December 31, 2011, please reference the Schedule of Funding Progress in the Required Supplementary Information section.

4. Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12 month period proceeding the month of death): retired employees are insured for \$7,500; this coverage is an "other postemployment benefit."

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. The City's contribution to the TMRS SDBF for the years 2012, 2011 and 2010 were 5,884, \$6,418 and \$5,578, respectively, which equaled the required contribution rate for each year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

Health Care Coverage

During the year ended September 30, 2012, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$294 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable October 1, and terms of coverage and premium costs are included in the contractual provisions.

J. Commitments and Contingencies

1. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the City at September 30, 2012.

K. Other Post Employment Benefits

Employees who retire from the City with at least thirty-five (35) years of service will be provided with employee only medical coverage. The medical coverage will be the same or similiar as an active employee. The premiums will be paid by the City at a non subsidized rate offered by the carrier. The coverage will remain effective until either 1) the retiree reaches the age of sixty-five (65) and becomes eligible for medicare or 2) medical coverage is no longer affordable for the City to continue the service. At the age of sixty-five (65), the retiree will have the opportunity to purchase at their own expense any insurance supplements offered by the City's current medical insurance provider.

A retiree health care plan is similar to a defined benefit pension plan, in that promises are made to employees to provide them with a benefit payable at some future date. For defined benefit pension plan sponsors a common funding objective is to contribute annual amounts to a fund which will 1) remain level as a percentage of active member payroll, and 2) when combined with present assets and future investment return will be sufficient to meet the financial obligations of the plan to current and future retirees.

The ultimate determination as to the level of pre-funding will be the result of decisions made in an attempt to reconcile the often conflicting needs of benefit security of members and fiscal responsibility for the City.

L. Subsequent Events

The City did not have any subsequent events through February 8, 2013, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended September 30, 2012.



Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.



CITY OF NAVASOTA, TEXAS GENERAL FUND

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED SEPTEMBER 30, 2012

							- 10	ariance with inal Budget
623	Budgeted Amounts						Positive	
	_	Original		Final	_	Actual		(Negative)
Revenue:			1	0.022.20		* 3:1.7	4.	
General Property Taxes	\$	1,277,954	\$	1,277,954	\$	916,580	\$	(361,374)
General Sales and Use Taxes		1,307,500		1,307,500		1,667,985		360,485
Franchise Taxes		234,000		234,000		331,865		97,865
Payment in Lieu of Taxes		1,249,800		1,249,800		1,251,575		1,775
License and Permits		31,500		31,500		35,317		3,817
Charges for Services		979,700		979,700		1,044,510		64,810
Municipal Court Fines		92,000		92,000		79,156		(12,844)
Fees		52,200		52,200		40,604		(11,596)
Investment Earnings		50,000		50,000		36,023		(13,977)
Rents and Leases		43,000		43,000		52,328		9,328
Economic Development		155,471		155,471		128,115		(27,356)
Contributions and Grants		124,620		124,620		173,011		48,391
Miscellaneous Revenue		183,500		183,500		83,365		(100, 135)
Total Revenues	_	5,781,245	_	5,781,245	_	5,840,434	_	59,189
Expenditures:								
Current:								
General Government		1,683,850		1,729,119		1,585,854		143,265
Public Safety		2,206,427		2,221,127		2,185,273		35,854
Public Works		412,648		414,654		390,022		24,632
Sanitation		876,091		885,491		871,193		14,298
Culture and Recreation		914,823		928,198		828,883		99,315
Judicial and Courts		100,133		100,133		87,552		12,581
Economic Development and Assistance		155,471		155,471		122,580		32,891
Total Expenditures	_	6,349,443	-	6,434,193	-	6,071,357	-	362,836
Excess (Deficiency) of Revenues	_	-11		-,,	-	0,07.1,001	-	002,000
Over (Under) Expenditures		(568,198)	_	(652,948)		(230,923)	-	422,025
Other Financing Sources (Uses):								
Transfers In		572,263		572,263		572,263		
Transfers Out		(842,017)		(842,017)		(387,987)		(454,030)
Total Other Financing Sources (Uses)	_	(269,754)	-	(269,754)	-	184,276	1,5	454,030
	-		-		9 <u>1</u>		=	
Net Change in Fund Balances		(837,952)		(922,702)		(46,647)		876,055
Fund Balances - Beginning		1,805,995		1,805,995		1,805,995		
Fund Balances - Ending	\$	968,043	\$_	883,293	\$	1,759,348	\$	876,055

CITY OF NAVASOTA, TEXAS GRANT FUND **BUDGETARY COMPARISON SCHEDULE** FOR THE YEAR ENDED SEPTEMBER 30, 2012

	:	Budgete Original	d Am	ounts Final	: : : : : : : : : : : : : : : : : : : :	Actual		/ariance with Final Budget Positive (Negative)
Revenue:					1,5			
Contributions and Grants	\$_	723,158	\$	723,158	\$_	2,418,169	\$_	1,695,011
Total Revenues	18	723,158	_	723,158	-	2,418,169	_	1,695,011
Expenditures:							•	
Current:								
General Government		2,000		2,000		2,293,684		(2,291,684)
Public Safety		354,658		354,658		101,941		252,717
Public Works		166,500		166,500		16,468		150,032
Culture and Recreation		100,000		100,000		23,304		76,696
Economic Development and Assistance		100,000		100,000		- GA L		100,000
Total Expenditures	S	723,158	325	723,158		2,435,397	1	(1,712,239)
Excess (Deficiency) of Revenues Over (Under) Expenditures	_		=			(17,228)	-	(17,228)
Other Financing Sources (Uses):								
Transfers In						17,228		17,228
Total Other Financing Sources (Uses)	2 5		5000		-	17,228	-	17,228
	-						-	1.11=10
Net Change in Fund Balances								
Fund Balances - Beginning	V/4							
Fund Balances - Ending	\$		\$		\$_		\$_	H 3

CITY OF NAVASOTA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS TEXAS MUNICIPAL RETIREMENT SYSTEM YEAR ENDED SEPTEMBER 30, 2012

Actuarial Valuation Date	10	Actuarial Value of Assets (a)	 tuarial Accrued Liability (AAL) - Entry Age (b)	e e	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	_	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2011	\$	8,080,627	\$ 8,885,956	\$	805,329	90.9%	\$	3,044,669	26.5%
12/31/2010		7,362,390	8,188,603		826,213	89.9%		2,862,554	28.9%
12/31/2009		5,128,744	6,299,665		1,170,921	81.4%		2,830,850	41.4%
12/31/2008		4,555,547	5,636,562		1,081,015	80.8%		2,563,746	42.2%
12/31/2007		4,137,724	5,114,951		977,227	80.9%		2,260,003	43.2%

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

		•		Permanent Fund		Total Nonmajor
	98	Special Revenue Funds	Cemetery			overnmental Funds (See Exhibit A-3)
ASSETS AND OTHER DEBITS	-		_		-	
Assets:						
Cash and Cash Equivalents	\$	714,781	\$	-	\$	714,781
Investments				329,844		329,844
Receivables (net of allowances for uncollectibles):		20,445				20,445
Total Assets and Other Debits	\$	735,226	\$_	329,844	\$	1,065,070
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts Payable	\$	32,930	\$		\$	32,930
Wages Payable		1,497				1,497
Due to Other Funds				951		951
Total Liabilities		34,427		951	=	35,378
Fund Balances:						
Restricted Fund Balances:						
Restricted for Hotel/Motel		431,666				431,666
Assigned:						
Special Revenue Funds		269,133				269,133
Permanent Funds				328,893		328,893
Total Fund Balance	_	700,799		328,893	_	1,029,692
Total Liabilities and Fund Balance	\$	735,226	\$	329,844	\$	1,065,070

CITY OF NAVASOTA, TEXAS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2012

				Permanent Fund		Total Nonmajor
		Special Revenue Funds		Cemetery Fund		Governmental Funds (See Exhibit A-5)
Revenue:	1400					**************************************
General Sales and Use Taxes	\$	135,445	\$		\$	135,445
Fees		285,840				285,840
Investment Earnings		9,146		1,459		10,605
Miscellaneous Revenue	-	10,407			-	10,407
Total Revenues	-	440,838	_	1,459	_	442,297
Expenditures:						
Current:						
General Government		30,108				30,108
Public Safety		1,650				1,650
Public Works		617,170				617,170
Culture and Recreation		46,066				46,066
Total Expenditures	***	694,994			-	694,994
Excess (Deficiency) of Revenues			_			
Over (Under) Expenditures		(254,156)	-	1,459	_	(252,697)
Other Financing Sources (Uses):						
Transfers In		369,229				369,229
Total Other Financing Sources (Uses)		369,229	_			369,229
Net Change in Fund Balances		115,073		1,459		116,532
Fund Balances - Beginning		585,726		327,434		913,160
Fund Balances - Ending	\$	700,799	\$_	328,893	\$_	1,029,692

CITY OF NAVASOTA, TEXAS COMBINING BALANCE SHEET NONMAJOR SPECIAL REVENUE FUNDS **SEPTEMBER 30, 2012**

ASSETS AND OTHER DEBITS		Street Fund	÷	_	Cemetery Operations Fund
Assets:					
Cash and Cash Equivalents	\$	131,504		\$	141,951
Receivables (net of allowances for uncollectibles):		20,445			
Total Assets and Other Debits	\$	151,949		\$	141,951
LIABILITIES AND FUND BALANCES: Liabilities:					
Accounts Payable	\$	12,707		\$	20,098
Wages Payable		1,497			
Total Liabilities		14,204			20,098
Fund Balances:					
Restricted Fund Balances:					
Restricted for Hotel/Motel					
Assigned:					
Special Revenue Funds		137,745			121,853
Total Fund Balance	_	137,745		=	121,853
Total Liabilities and Fund Balance	\$	151,949		\$	141,951

_	Board of Fireman Service	d.		otel/Motel cupancy Tax Fund		Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$	9,660		\$	431,666	\$	714,781 20,445
\$_	9,660		\$	431,666	\$	735,226
\$ _	125 125		\$		\$	32,930 1,497 34,427
				431,666		431,666
_	9,535				_	269,133
-	9,535		-	431,666	-	700,799
\$	9,660		\$	431,666	\$	735,226

CITY OF NAVASOTA, TEXAS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Street Fund	Cemetery Operations Fund
Revenue:		•
General Sales and Use Taxes	\$	\$
Fees	244,424	41,416
Investment Earnings	1,718	2,477
Miscellaneous Revenue		
Total Revenues	246,142	43,893
Expenditures:		
Current:		
General Government		30,108
Public Safety	<u>. 22</u>	
Public Works	617,170	1
Culture and Recreation		
Total Expenditures	617,170	30,108
Excess (Deficiency) of Revenues		
Over (Under) Expenditures	(371,028)	13,785
Other Financing Sources (Uses):		
Transfers In	369,229	
Total Other Financing Sources (Uses)	369,229	
Net Change in Fund Balances	(1,799)	13,785
Fund Balances - Beginning	139,544	108,068
Fund Balances - Ending	\$ 137,745	\$121,853

1	Board of Fireman Service	Hotel/Motel Occupancy Tax Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$		\$ 135,445	\$ 135,445
			285,840
	121	4,830	9,146
-	10,407		10,407
	10,528	140,275	440,838
-	1,650 1,650 8,878	46,066 46,066 94,209	30,108 1,650 617,170 46,066 694,994
-			369,229
-			369,229
	8,878	94,209	115,073
	657	337,457	585,726
\$	9,535	\$ 431,666	\$ 700,799

STREET FUND SPECIAL REVENUE FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED SEPTEMBER 30, 2012

Revenue:	Budget	Actual	Variance Positive (Negative)
Fees	\$ 229,000	\$ 244,424	\$ 15,424
Investment Earnings	Ψ 223,000	1,718	\$ 15,424 1,718
Total Revenues	229,000	246,142	17,142
Expenditures:			
Current:	*		
Public Works	878,978	617,170	261,808
Total Expenditures	878,978	617,170	261,808
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(649,978)	(371,028)	278,950
Other Financing Sources (Uses):		N	
Transfers In	508,978	369,229	(139,749)
Total Other Financing Sources (Uses)	511,478	369,229	(142,249)
Net Change in Fund Balances	(138,500)	(1,799)	136,701
Fund Balances - Beginning	139,544	139,544	
Fund Balances - Ending	\$1,044	\$ 137,745	\$ 136,701

CITY OF NAVASOTA, TEXAS HOTEL/MOTEL OCCUPANCY TAX FUND SPECIAL REVENUE FUND **BUDGETARY COMPARISON SCHEDULE** FOR THE YEAR ENDED SEPTEMBER 30, 2012

Danasa	Budge	et	Actual			Variance Positive (Negative)	
Revenue: General Sales and Use Taxes	\$ 122	2,000 \$	4 6 7	105 115	ф	10.445	
Investment Earnings	φ 122	2,000 \$		135,445 4,830	\$	13,445 4,830	
Total Revenues	122	2,000		140,275	-	18,275	
rotal riovolidos		2,000		140,275		10,275	
Expenditures:				13			
Culture and Recreation	121	1,500		46,066		75,434	
Total Expenditures	121	1,500		46,066		75,434	
Excess (Deficiency) of Revenues				- 114			
Over (Under) Expenditures		500		94,209		93,709	
Other Financing Sources (Uses): Total Other Financing Sources (Uses)							
# 100 C C C C C C C C C C C C C C C C C C				5			
Net Change in Fund Balances		500		94,209		93,709	
Fund Balances - Beginning	The second secon	7,457	1 1 1	337,457			
Fund Balances - Ending	\$337	7,957 \$		431,666	\$	93,709	

CITY OF NAVASOTA, TEXAS DEBT SERVICE FUND **BUDGETARY COMPARISON SCHEDULE** FOR THE YEAR ENDED SEPTEMBER 30, 2012

Revenue:	Budget	Actual	Variance Positive (Negative)
General Property Taxes	¢	A 101.157	A (01.153
Investment Earnings	\$	\$ 401,157	\$ 401,157
Total Revenues		2,659	2,659
rotarrievendes		403,816	403,816
Expenditures:			
Debt Service:			
Principal .	326,500	336 000	E00
Interest and Fiscal Charges	447,004	326,000	500
Total Expenditures		447,504	(500)
Excess (Deficiency) of Revenues	773,504	773,504	
Over (Under) Expenditures	(770 504)	(000.000)	
Over (Onder) Experiditures	(773,504)	(369,688)	403,816
Other Financing Sources (Uses):			
Transfers In	773,004	381,521	(391,483)
Total Other Financing Sources (Uses)	773,004	381,521	(391,483)
		- 551,521	(001,400)
Net Change in Fund Balances	(500)	11,833	12,333
Fund Balances - Beginning	310,713	310,713	7200
Fund Balances - Ending	\$ 310,213	\$ 322,546	¢ 10.000
	Ψ010,210	Ψ322,346	\$12,333

CAPITAL PROJECTS
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Revenue:	Budget	Actual	Variance Positive (Negative)
Investment Earnings	\$	\$ 23,578	\$ 23,578
Rents and Leases	10,984,913		(10,984,913)
Total Revenues	10,984,913	23,578	(10,961,335)
Expenditures: Current:			
Public Works	10,984,913	1,467,786	9,517,127
Total Expenditures	10,984,913	1,467,786	9,517,127
Excess (Deficiency) of Revenues Over (Under) Expenditures		(1,444,208)	(1,444,208)
Other Financing Sources (Uses): Total Other Financing Sources (Uses)			
Net Change in Fund Balances		(1,444,208)	(1,444,208)
Fund Balances - Beginning Fund Balances - Ending	2,368,107 \$2,368,107	2,368,107 \$ 923,899	\$(1,444,208)



Davis, Heinemann & Company, P.C.

A Professional Corporation
Certified Public Accountants
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FAX (936) 291-9607

Independent Auditor's Report

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

City Council City of Navasota, Texas P.O. Box 910 Navasota, Texas 77868

Members of the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Navasota, Texas as of and for the year ended September 30, 2012, which collectively comprise the City of Navasota, Texas' basic financial statements and have issued our report thereon dated February 8, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of City of Navasota, Texas is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Navasota, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Navasota, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Navasota, Texas' 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in 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.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the entity, the City Council, and 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.

Respectfully submitted,

Davis, Heinemann + Co.

Davis, Heinemann & Company, P.C.

February 8, 2013

Davis, Heinemann & Company, P.C.

A Professional Corporation

Certified Public Accountants

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Independent Auditor's Report

Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133

City Council City of Navasota, Texas P.O. Box 910 Navasota, Texas 77868

Members of the City Council:

Compliance

We have audited City of Navasota, Texas' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *State of Texas Single Audit Circular* that could have a direct and material effect on each of City of Navasota, Texas' major federal programs for the year ended September 30, 2012. City of Navasota, Texas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Navasota, Texas' management. Our responsibility is to express an opinion on City of Navasota, Texas' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of. States, Local Governments, and Non-Profit Organizations and the State of Texas Single Audit Circular. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Navasota, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Navasota, Texas' compliance with those requirements.

In our opinion, City of Navasota, Texas complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control Over Compliance

Management of City of Navasota, Texas is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Navasota, Texas' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of

Navasota, Texas' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, others within the entity, the City Council, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Davis, Heinemann + Co.

Davis, Heinemann & Company, P.C.

February 8, 2013

CITY OF NAVASOTA, TEXAS SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2012

A. Summary of Auditor's Results

B.

C.

NONE

	Unqualified		
identified?	Yes	X	No
	Yes	_X	None Reported
	Yes	_X_	No
identified?	Yes	_X	No
	Yes	_x	None Reported
liance for	Unqualified		
	Yes	_ <u>X</u>	No
veen	\$300,000		
	Yes	X	No
+7			
sts			
		es identified? Yes es identified that weaknesses? Yes Yes Yes es identified? Yes es identified that weaknesses? Yes bliance for	sidentified? Yes X es identified that weaknesses? Yes X Yes X Yes X Yes X identified? Yes X sidentified that weaknesses? Yes X Unqualified quired ion 510(a) Yes X Name of Federal Program or Cluster Airport Development Grant Ween \$300,000 Yes X

CITY OF NAVASOTA, TEXAS SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED SEPTEMBER 30, 2012

		Management's Explanation	
Finding/Recommendation	Current Status	If Not Implemented	

None reported.

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF HOMELAND SECURITY Passed Through Texas Division of Emergency Management: State Homeland Security Program Assistance to Firefighters Grants Total U. S. Department of Homeland Security	97.073 97.044	2010-SS-T0-0008 EMW-2010-FO-03189	\$ 2,384 62,700 65,084
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$65,084
* Indicates clustered program under OMB Circular A-133 Compliance	Supplement		
STATE AWARDS: TEXAS DEPARTMENT OF TRANSPORTATION Direct Program:			
Airport Development Grant Airport Development Grant	N/A	1017NAVAS	\$ 17,108
Airport Development Grant	N/A N/A	1117NAVAS 1117NSOTA	2,274,520
Total Texas Department of Transportation	IN/A	TIT/NSOTA	2,056
TOTAL EXPENDITURES OF STATE AWARDS			\$2,293,684

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED SEPTEMBER 30, 2012

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Navasota, Texas and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.