CITY OF NAVASOTA, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2013

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Introductory Section

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City of Navasota, Texas
Annual Financial Report
For The Year Ended September 30, 2013

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Independent Auditor's Report

To the City Council
City of Navasota, Texas
P.O. Box 910
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Report on the Financial Statements

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 ("the City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter

As described in Note A to the financial statements, in 2013, City of Navasota, Texas adopted new accounting guidance, Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred* Outflows of Resources, Deferred Inflows of Resources, and Net Position. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2013, City of Navasota, Texas adopted new accounting guidance, Government Accounting Standards Board Statement No. 65, *Items Previously Reported as* Assets *and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress for OPEB benefits 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Navasota, Texas' basic financial statements. The combining and individual nonmajor fund financial statements and budgetary comparison schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2014 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* in considering City of Navasota, Texas' internal control over financial reporting and compliance.

Respectfully submitted,

Davis, Heinemann & Co.

Davis, Heinemann & Company, P.C.

Huntsville, TX
February 21, 2014

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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, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

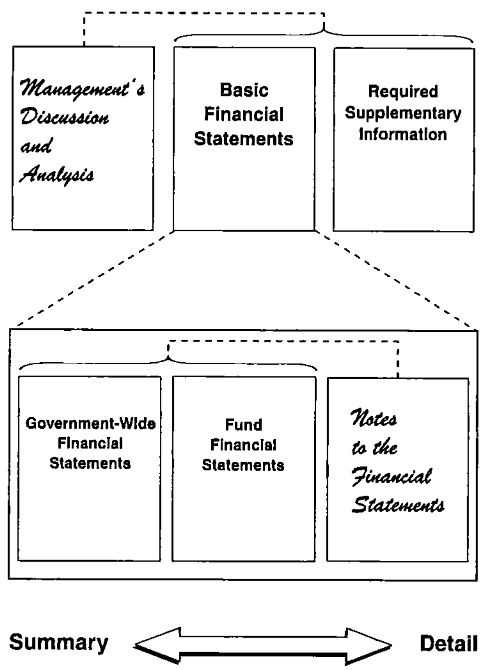
- The City's total combined net position was $31,759,620 at September 30, 2013.
- During the year, the City's expenses were $237,126 more than the $14,617,188 generated in taxes, charges for service and other revenues for governmental and business-type activities.
- The general fund reported a fund balance this year of $1,572,470.

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.

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



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.

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 position 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 position and how it has changed. Net position—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 position. The City's combined net position was $31,759,620 at September 30, 2013. (See Table A-1).

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current Assets:						
Cash and Cash Equivalents	$ 3,301.5	$ 1,705.4	$ 2,760.7	$ 3,013.3	$ 6,062.2	$ 4,718.7
Investments	380.1	2,258.6	991.6	969.9	1,371.7	3,228.5
Receivables	617.6	601.7	1,398.4	969.5	2,016.0	1,571.2
Due from Other Governments	79.1	-	-	-	79.1	-
Inventories	-	-	82.9	83.0	82.9	83.0
Total Current Assets:	4,378.3	4,565.7	5,233.6	5,035.7	9,611.9	9,601.4
Noncurrent Assets:						
Capital Assets	38,243.7	37,161.8	19,459.5	19,236.5	57,703.2	56,398.3
Accumulated Depreciation	(9,684.1)	(8,901.6)	(13,442.8)	(12,809.4)	(23,126.9)	(21,711.0)
Total Noncurrent Assets:	28,559.6	28,260.2	6,016.7	6,427.1	34,576.3	34,687.3
Total Assets	32,937.9	32,825.9	11,250.3	11,462.8	44,188.2	44,288.7
Current liabilities:						
Accounts Payable	332.2	173.2	455.8	100.1	788.0	273.3
Wages Payable	31.1	20.0	7.7	5.0	38.8	25.0
Accrued Interest Payable	161.8	165.6	1.7	1.9	163.5	167.5
Unearned Revenue	14.3	14.3	-	-	14.3	14.3
Customer Deposits	-	-	173.0	187.6	173.0	187.6
Current Long-Term Debt	347.0	336.0	40.0	40.0	387.0	376.0
Total Current Liabilities	886.4	709.1	678.2	334.6	1,564.6	1,043.7
Long-Term Liabilities:						
Premium on Bonds	31.6	33.2	-	-	31.6	33.2
Bonds	-	-	230.0	270.0	230.0	270.0
Certificates of Obligation	10,449.0	10,796.0	-	-	10,449.0	10,796.0
Compensated Absences	131.5	125.9	21.9	23.2	153.4	149.1
Total Long-Term Liabilities:	10,612.1	10,955.1	251.9	293.2	10,864.0	11,248.3
Total Liabilities	11,498.5	11,664.2	930.1	627.8	12,428.6	12,292.0
Net Position:						
Invested in Capital Assets	17,763.6	17,128.2	5,746.7	6,117.1	23,510.3	23,245.3
Restricted	2,040.4	2,250.3	-	-	2,040.4	2,250.3
Unrestricted	1,635.4	1,783.2	4,573.5	4,717.9	6,208.9	6,501.1
Total Net Position	$ 21,439.4	$ 21,161.7	$ 10,320.2	$ 10,835.0	$ 31,759.6	$ 31,996.7

Changes in net position. The City's total revenues were $14,617,188 and total expenses were $14,854,314 which resulted in a decrease of net assets of $237,126 (See Table A-2).

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program Revenues:						
Charges for Services	$ 1,786.6	$ 1,713.6	$ 6,728.3	$ 5,696.1	$ 8,514.9	$ 7,409.7
Operating Grants	190.7	166.9	-	-	190.7	166.9
Capital Grants	535.6	2,398.4	258.6	-	794.2	2,398.4
General Revenues:					-	-
Ad Valorem Taxes	1,395.1	1,309.1	-	-	1,395.1	1,309.1
Sales Tax	1,931.1	1,803.4	-	-	1,931.1	1,803.4
Franchise Taxes	345.7	331.9	-	-	345.7	331.9
Payment in Lieu of Taxes	1,280.3	1,251.6	-	-	1,280.3	1,251.6
Other Taxes	-	-	-	-	-	-
Interest Income	23.8	72.9	3.4	34.5	27.2	107.4
Grants and Contributions	15.7	46.0	-	-	15.7	46.0
Other Income	94.4	25.9	27.9	8.4	122.3	34.3
Total Revenues	7,599.0	9,119.7	7,018.2	5,739.0	14,617.2	14,858.7
Program Expenses:						
General Government	2,259.2	1,899.2	-	-	2,259.2	1,899.2
Public Safety	2,404.2	2,341.8	-	-	2,404.2	2,341.8
Public Works	1,452.4	1,233.5	-	-	1,452.4	1,233.5
Sanitation	921.5	871.0	-	-	921.5	871.0
Culture and Recreation	1,023.9	971.5	-	-	1,023.9	971.5
Judicial and Courts	91.8	87.2	-	-	91.8	87.2
Economic Development	84.4	120.1	-	-	84.4	120.1
Interest & Fiscal Charges	432.1	439.1	-	-	432.1	439.1
Enterprise Activities	-	-	6,184.8	4,235.2	6,184.8	4,235.2
Total Expenses	8,669.5	7,963.4	6,184.8	4,235.2	14,854.3	12,198.6
Transfers In (Out)	1,348.2	952.3	(1,348.2)	(952.3)	-	-
Change in Net Position	$ 277.7	$ 2,108.6	$ (514.8)	$ 551.5	$ (237.1)	$ 2,660.1

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 $1,888,267 less than final budget amounts. The most significant positive budget variance is in public works.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the City had invested $57,703.2 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)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	$ 681.1	$ 681.1	$ 103.7	$ 103.7	$ 784.8	$ 784.8
Construction in Progress	2,918.0	2,332.6	258.6	-	3,176.6	2,332.6
Buildings and Improvements	17,726.7	17,416.1	103.5	103.5	17,830.2	17,519.6
Machinery and Equipment	1,526.9	1,319.7	647.3	647.3	2,174.2	1,967.0
Vehicles	1,713.2	1,734.5	174.1	209.7	1,887.3	1,944.2
Infrastructure	13,677.8	13,677.8	-	-	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	9,374.9	9,374.9	9,374.9
Gas System	-	-	1,795.8	1,795.8	1,795.8	1,795.8
Totals at Historical Cost	38,243.7	37,161.8	19,459.5	19,236.5	57,703.2	56,398.3
Total Accumulated Depreciation	(9,684.1)	(8,901.6)	(13,442.8)	(12,809.4)	(23,126.9)	(21,711.0)
Net Capital Assets	$ 28,559.6	$ 28,260.2	$ 6,016.7	$ 6,427.1	$ 34,576.3	$ 34,687.3

Long-Term Debt

At year-end the City had $11,251.0 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)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Bonds	$ -	$ -	$ 270.0	$ 310.0	$ 270.0	$ 310.0
Certificates of Obligation	10,796.0	11,132.0	-	-	10,796.0	11,132.0
Adjustments for Deferred Amounts:						
Discounts and Premiums	31.6	33.2	-	-	31.6	33.2
Compensated Absences	131.5	125.9	21.9	23.2	153.4	149.1
Total Long Term Debt	$ 10,959.1	$ 11,291.1	$ 291.9	$ 333.2	$ 11,251.0	$ 11,624.3

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.

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Basic Financial Statements

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CITY OF NAVASOTA, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS:				
Cash and Cash Equivalents	$ 3,301,541	$ 2,760,692	$ 6,062,233	$ 211,894
Investments	380,091	991,623	1,371,714	--
Receivables (net of allowances for uncollectibles)	617,602	1,398,377	2,015,979	--
Internal Balances	--	--	--	--
Inventories	--	82,953	82,953	--
Due from Other Governments	79,100	--	79,100	--
Noncurrent Assets:				
Capital Assets:				
Land	681,109	103,741	784,850	--
Construction in Progress	2,917,975	--	2,917,975	--
Buildings and Improvements	17,726,692	103,513	17,830,205	--
Machinery and Equipment	1,526,957	647,241	2,174,198	--
Vehicles	1,713,236	174,104	1,887,340	--
Water System	--	7,001,645	7,001,645	--
Sewer System	--	9,374,889	9,374,889	--
Gas System	--	1,795,759	1,795,759	--
Infrastructure and Improvements	13,677,779	--	13,677,779	--
Construction in Progress	--	258,589	258,589	--
Less Accumulated Depreciation	(9,684,149)	(13,442,805)	(23,126,954)	--
Total Assets	32,937,933	11,250,321	44,188,254	211,894
LIABILITIES:				
Accounts Payable	332,168	455,786	787,954	--
Customer Deposits	--	172,968	172,968	--
Accrued Interest Payable	161,788	1,688	163,476	--
Wages Payable	31,095	7,774	38,869	--
Unearned Revenue	14,309	--	14,309	--
Noncurrent Liabilities-				
Due within one year	347,000	40,000	387,000	--
Due in more than one year	10,612,125	251,933	10,864,058	--
Total Liabilities	11,498,485	930,149	12,428,634	--
NET POSITION				
Net Investment in Capital Assets	17,763,599	5,746,676	23,510,275	--
Restricted For:				
Debt Service	436,337	--	436,337	--
Construction	619,773	--	619,773	--
Cemetery Operations				
Expendable	131,702	--	131,702	--
Nonexpendable	329,076	--	329,076	--
Hotel/Motel	523,585	--	523,585	--
Unrestricted	1,635,376	4,573,496	6,208,872	211,894
Total Net Position	$ 21,439,448	$ 10,320,172	$ 31,759,620	$ 211,894

The accompanying notes are an integral part of this statement.

CITY OF NAVASOTA, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental Activities:				
General Government	$ 2,259,163	$ 95,010	$ 168	$ 376,796
Public Safety	2,404,158	2,271	165,057	9,443
Public Works	1,452,395	330,693	--	136,627
Sanitation	921,553	1,107,013	--	--
Culture and Recreation	1,023,936	62,572	25,452	12,714
Judicial and Courts	91,766	129,059	--	--
Economic Development and Assistance	84,426	60,050	--	--
Interest on Long-term Debt	432,118	--	--	--
Total Governmental Activities	8,669,515	1,786,668	190,677	535,580
Business-type Activities:				
Water	1,926,102	1,956,366	--	--
Gas	2,865,889	3,437,595	--	--
Sewer	1,392,808	1,334,332	--	258,589
Total Business-type Activities	6,184,799	6,728,293	--	258,589
Total Primary Government	$ 14,854,314	$ 8,514,961	$ 190,677	$ 794,169
COMPONENT UNIT:				
Navasota Economic Development Corporation	$ 149,997	$ --	$ --	$ --

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 Position
Net Position - Beginning
Prior Period Adjustment (See Note M)
Net Position - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-type Activities	Total	Component Unit
$ (1,787,189)		$ (1,787,189)	
(2,227,387)		(2,227,387)	
(985,075)		(985,075)	
185,460		185,460	
(923,198)		(923,198)	
37,293		37,293	
(24,376)		(24,376)	
(432,118)		(432,118)	
(6,156,590)		(6,156,590)	
--	$ 30,264	30,264	
--	571,706	571,706	
--	200,113	200,113	
--	802,083	802,083	
(6,156,590)	802,083	(5,354,507)	
			$ (149,997)
1,395,079	--	1,395,079	--
1,931,144	--	1,931,144	148,006
345,735	--	345,735	--
1,280,283	--	1,280,283	--
23,811	3,334	27,145	427
15,688	--	15,688	--
94,413	27,894	122,307	5,000
1,348,158	(1,348,158)	--	--
6,434,311	(1,316,930)	5,117,381	153,433
277,721	(514,847)	(237,126)	3,436
21,525,236	10,835,019	32,360,255	208,458
(363,509)	--	(363,509)	--
$ 21,439,448	$ 10,320,172	$ 31,759,620	$ 211,894

CITY OF NAVASOTA, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS			
Assets:			
Cash and Cash Equivalents	$ 1,448,571	$ 1,852,970	$ 3,301,541
Investments	126,726	253,365	380,091
Receivables (net of allowances for uncollectibles):	419,857	138,018	557,875
Due from Other Funds	80,863	7,477	88,340
Due from Other Governments	--	79,100	79,100
Total Assets and Other Debits	$ 2,076,017	$ 2,330,930	$ 4,406,947
LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:			
Liabilities:			
Accounts Payable	$ 303,779	$ 28,389	$ 332,168
Wages Payable	28,763	2,332	31,095
Due to Other Funds	7,593	80,747	88,340
Unearned Revenue	14,309	--	14,309
Total Liabilities	354,444	111,468	465,912
Deferred Inflows of Resources:			
Deferred Property Taxes	149,103	115,272	264,375
Total Deferred Inflows of Resources	149,103	115,272	264,375
Fund Balances:			
Restricted Fund Balances:			
Restricted for Debt Service	--	321,065	321,065
Restricted for Capital Projects	--	619,773	619,773
Restricted for Hotel/Motel	--	523,585	523,585
Assigned:			
Special Revenue Funds	--	310,691	310,691
Permanent Funds	--	329,076	329,076
Unassigned	1,572,470	--	1,572,470
Total Fund Balance	1,572,470	2,104,190	3,676,660
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 2,076,017	$ 2,330,930	$ 4,406,947

The accompanying notes are an integral part of this statement.

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

Total fund balances - governmental funds balance sheet	$	3,676,660
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not reported in the funds.		28,559,599
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		264,375
Payables for bond principal which are not due in the current period are not reported in the funds.		(10,796,000)
Payables for bond interest which are not due in the current period are not reported in the funds.		(161,788)
Payables for compensated absences which are not due in the current period are not reported in the funds.		(131,463)
Court fines receivable unavailable to pay for current period expenditures are deferred in the funds.		59,728
Bond premiums are not reported in the funds.		(31,663)
Net position of governmental activities - Statement of Net Position	$	21,439,448

The accompanying notes are an integral part of this statement.

CITY OF NAVASOTA, TEXAS

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

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenue:			
Taxes:			
General Property Taxes	$ 999,842	$ 393,866	$ 1,393,708
General Sales and Use Taxes	1,783,810	147,334	1,931,144
Franchise Taxes	345,735	--	345,735
Payment in Lieu of Taxes	1,280,283	--	1,280,283
License and Permits	55,817	--	55,817
Charges for Services	1,133,540	--	1,133,540
Municipal Court Fines	129,059	--	129,059
Fees	35,517	299,809	335,326
Investment Earnings	(2,642)	26,453	23,811
Rents and Leases	69,118	--	69,118
Economic Development	60,050	--	60,050
Contributions and Grants	500,589	225,130	725,719
Miscellaneous Revenue	127,981	--	127,981
Total Revenues	6,518,699	1,092,592	7,611,291
Expenditures:			
Current:			
General Government	2,184,146	104,215	2,288,361
Public Safety	2,321,106	21,575	2,342,681
Public Works	455,737	1,272,546	1,728,283
Sanitation	1,108,500	--	1,108,500
Culture and Recreation	887,924	12,956	900,880
Judicial and Courts	91,671	--	91,671
Economic Development and Assistance	84,391	--	84,391
Debt Service:			
Principal	--	336,000	336,000
Interest and Fiscal Charges	--	437,506	437,506
Total Expenditures	7,133,475	2,184,798	9,318,273
Excess (Deficiency) of Revenues Over (Under) Expenditures	(614,776)	(1,092,206)	(1,706,982)
Other Financing Sources (Uses):			
Transfers In	1,000,000	990,259	1,990,259
Transfers Out	(572,101)	(70,000)	(642,101)
Total Other Financing Sources (Uses)	427,899	920,259	1,348,158
Net Change in Fund Balances	(186,877)	(171,947)	(358,824)
Fund Balances - Beginning	1,759,347	2,276,137	4,035,484
Fund Balances - Ending	$ 1,572,470	$ 2,104,190	$ 3,676,660

The accompanying notes are an integral part of this statement.

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, 2013

Net change in fund balances - total governmental funds	$	(358,824)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:		
Capital outlays are not reported as expenses in the SOA.		1,180,857
The depreciation of capital assets used in governmental activities is not reported in the funds.		(867,884)
All proceeds from the sale of capital assets are reported in the funds but not in the SOA.		(13,584)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.		1,371
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.		336,000
(Increase) decrease in accrued interest from beginning of period to end of period.		3,805
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.		(5,603)
Bond premiums are reported in the funds but not in the SOA.		1,583
Change in net position of governmental activities - Statement of Activities	$	277,721

The accompanying notes are an integral part of this statement.

CITY OF NAVASOTA, TEXAS
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
SEPTEMBER 30, 2013

	Enterprise Fund Water Fund	Enterprise Fund Gas Fund	Enterprise Fund Sewer Fund	Total Enterprise Funds
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	$ 1,009,958	$ 1,445,893	$ 1,296,464	$ 3,752,315
Receivables (net of allowances for uncollectibles):	375,959	787,751	234,667	1,398,377
Due from other funds	691,642	--	--	691,642
Inventories	56,919	20,543	5,491	82,953
Total Current Assets	2,134,478	2,254,187	1,536,622	5,925,287
Noncurrent Assets:				
Capital Assets:				
Land	55,411	9,188	39,142	103,741
Buildings	82,081	12,936	8,496	103,513
Water System	7,001,645	--	--	7,001,645
Sewer System	--	--	9,374,889	9,374,889
Gas System	--	1,795,759	--	1,795,759
Vehicles	96,333	26,269	51,502	174,104
Machinery and Equipment	426,855	169,333	51,053	647,241
Construction in Progress	--	--	258,589	258,589
Less Accumulated Depreciation	(5,610,231)	(1,353,878)	(6,478,696)	(13,442,805)
Total Noncurrent Assets	2,052,094	659,607	3,304,975	6,016,676
Total Assets	$ 4,186,572	$ 2,913,794	$ 4,841,597	$ 11,941,963
LIABILITIES:				
Current Liabilities:				
Accounts Payable	$ 236,503	$ 204,469	$ 14,814	$ 455,786
Compensated Absences Payable	13,129	2,837	5,967	21,933
Wages Payable	3,110	1,943	2,721	7,774
Due To Other Funds	--	691,642	--	691,642
Accrued Interest Payable	--	1,688	--	1,688
Revenue Bonds Payable	--	40,000	--	40,000
Customer Deposits	112,043	60,925	--	172,968
Total Current Liabilities	364,785	1,003,504	23,502	1,391,791
Noncurrent Liabilities:				
Revenue Bonds Payable	--	230,000	--	230,000
Total Noncurrent Liabilities	--	230,000	--	230,000
Total Liabilities	364,785	1,233,504	23,502	1,621,791
NET POSITION:				
Investment in Capital Assets, Net of Related Debt	2,052,096	389,608	3,304,976	5,746,680
Unrestricted Net Position	1,769,691	1,290,682	1,513,119	4,573,492
Total Net Position	$ 3,821,787	$ 1,680,290	$ 4,818,095	$ 10,320,172

The accompanying notes are an integral part of this statement.

CITY OF NAVASOTA, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Enterprise Fund Water Fund	Enterprise Fund Gas Fund	Enterprise Fund Sewer Fund	Total Enterprise Funds
OPERATING REVENUES:				
Sales	$ 1,812,200	$ 3,364,556	$ 1,301,976	$ 6,478,732
Charges for Services	76,762	3,579	--	80,341
Penalties Assessed	35,040	14,673	23,376	73,089
New Services - Taps and Meters	32,441	8,538	5,475	46,454
Transportations Fees	--	37,274	--	37,274
Contribution and Grants	--	--	258,589	258,589
Line Extension Fees	--	8,975	3,505	12,480
Other Revenues	20,631	7,186	--	27,817
Total Operating Revenues	1,977,074	3,444,781	1,592,921	7,014,776
OPERATING EXPENSES:				
Water Services	1,926,102	--	--	1,926,102
Sewer Services	--	--	1,392,808	1,392,808
Gas Services	--	2,850,639	--	2,850,639
Total Operating Expenses	1,926,102	2,850,639	1,392,808	6,169,549
Operating Income	50,972	594,142	200,113	845,227
NON-OPERATING REVENUES (EXPENSES):				
Interest Revenue	506	729	2,099	3,334
Interest Expense	--	(15,250)	--	(15,250)
Total Non-operating Revenues (Expenses)	506	(14,521)	2,099	(11,916)
Income before Transfers	51,478	579,621	202,212	833,311
CONTRIBUTIONS AND TRANSFERS				
Interfund Transfers Out	(529,059)	(495,755)	(323,344)	(1,348,158)
Total Contributions and Transfers	(529,059)	(495,755)	(323,344)	(1,348,158)
Change in Net Position	(477,581)	83,866	(121,132)	(514,847)
Total Net Position - Beginning	4,299,368	1,596,424	4,939,227	10,835,019
Total Net Position - Ending	$ 3,821,787	$ 1,680,290	$ 4,818,095	$ 10,320,172

The accompanying notes are an integral part of this statement.

CITY OF NAVASOTA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Enterprise Funds			
	Water Fund	Gas Fund	Sewer Fund	Totals
Cash Flows from Operating Activities:				
Cash Received from Customers	$ 1,963,847	$ 3,000,905	$ 1,334,747	$ 6,299,499
Cash Payments to Employees for Services	(387,928)	(194,089)	(290,182)	(872,199)
Cash Payments to Other Suppliers for Goods and Services	(1,048,715)	(2,501,478)	(484,667)	(4,034,860)
Net Cash Provided (Used) by Operating Activities	527,204	305,338	559,898	1,392,440
Cash Flows from Non-capital Financing Activities:				
Transfers From (To) Other Funds	(529,059)	(495,755)	(323,344)	(1,348,158)
Net Cash Provided (Used) by Non-capital Financing Activities	(529,059)	(495,755)	(323,344)	(1,348,158)
Cash Flows from Capital and Related Financing Activities:				
Principal and Interest Paid	--	(55,500)	--	(55,500)
Proceeds from Disposal of Assets	--	17,799	17,799	35,598
Acquisition or Construction of Capital Assets	--	--	(258,589)	(258,589)
Net Cash Provided (Used) for Capital & Related Financing Activities	--	(37,701)	(240,790)	(278,491)
Cash Flows from Investing Activities:				
Interest and Dividends on Investments	506	729	2,099	3,334
Net Cash Provided (Used) for Investing Activities	506	729	2,099	3,334
Net Increase (Decrease) in Cash and Cash Equivalents	(1,349)	(227,389)	(2,137)	(230,875)
Cash and Cash Equivalents at Beginning of Year	1,011,307	1,673,282	1,298,601	3,983,190
Cash and Cash Equivalents at End of Year	$ 1,009,958	$ 1,445,893	$ 1,296,464	$ 3,752,315
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	$ 50,972	$ 594,142	$ 200,113	$ 845,227
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation	240,200	46,176	347,044	633,420
Change in Assets and Liabilities:				
Decrease (Increase) in Receivables	7,404	(436,690)	415	(428,871)
Increase (Decrease) in Accounts Payable	231,944	110,609	13,171	355,724
Increase (Decrease) in Compensated Absences Payable	87	455	(1,820)	(1,278)
Increase (Decrease) in Accrued Wages Payable	1,115	696	975	2,786
Increase (Decrease) in Customer Deposits	(4,518)	(10,050)	--	(14,568)
Total Adjustments	476,232	(288,804)	359,785	547,213
Net Cash Provided (Used) by Operating Activities	$ 527,204	$ 305,338	$ 559,898	$ 1,392,440

The accompanying notes are an integral part of this statement.

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.

1. 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 position 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.

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.

3. Financial Statement Amounts

a. 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.

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 position.

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 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.

j. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide and proprietary Statements of Net Position) and governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

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	Action Taken
None reported	Not applicable

2. 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	Deficit Amount	Remarks
None reported	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, 2013, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $5,811,771 and the bank balance was $6,064,529. The City's cash deposits at September 30, 2013 and during the year ended September 30, 2013, 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, 2013, the balances in the pools are as follows:

TexPool	$	124,525
TexStar		124,308
	$	248,833

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, 2013, are shown below.

Investment or Investment Type	Maturity		Fair Value
CMOs - Fixed Rate	Various	$	903,601
MBS - Fixed Rate FHLMC	Various		81,702
MBS - Fixed Rate GNMA I	Various		153,005
MBS - Variable Rate FNMA	Various		3,513
MBS - Variable Rate GNMA II	Various		19,803
Municipal Tax Exempt - Fixed Rate	Various		180,000
SBA Loan Pools - Variable Rate	Various		30,090
Total Investments		$	1,371,714

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.

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.

d. 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. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 681,109	$ --	$ --	$ 681,109
Construction in progress	2,332,580	585,395	--	2,917,975
Total capital assets not being depreciated	3,013,689	585,395	--	3,599,084
Capital assets being depreciated:				
Infrastructure	13,677,779	--	--	13,677,779
Buildings and improvements	17,416,150	310,542	--	17,726,692
Equipment	1,319,681	207,276	--	1,526,957
Vehicles	1,734,524	77,643	98,931	1,713,236
Total capital assets being depreciated	34,148,134	595,461	98,931	34,644,664
Less accumulated depreciation for:				
Infrastructure	(3,905,365)	(213,148)	--	(4,118,513)
Buildings and improvements	(2,663,844)	(466,578)	--	(3,130,422)
Equipment	(1,191,872)	(73,828)	--	(1,265,700)
Vehicles	(1,140,531)	(114,330)	(85,347)	(1,169,514)
Total accumulated depreciation	(8,901,612)	(867,884)	(85,347)	(9,684,149)
Total capital assets being depreciated, net	25,246,522	(272,423)	13,584	24,960,515
Governmental activities capital assets, net	$ 28,260,211	$ 312,972	$ 13,584	$ 28,559,599

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 103,741	$ --	$ --	$ 103,741
Construction in progress	--	258,589	--	258,589
Total capital assets not being depreciated	103,741	258,589	--	362,330
Capital assets being depreciated:				
Buildings and improvements	103,513	--	--	103,513
Equipment	647,241	--	--	647,241
Vehicles	209,702	--	35,598	174,104
Water System	7,001,645	--	--	7,001,645
Sewer System	9,374,889	--	--	9,374,889
Gas System	1,795,759	--	--	1,795,759
Total capital assets being depreciated	19,132,749	--	35,598	19,097,151
Less accumulated depreciation for:				
Buildings and improvements	(46,345)	(3,272)	--	(49,617)
Equipment	(472,091)	(28,495)	--	(500,586)
Vehicles	(137,172)	(11,158)	(35,598)	(112,732)
Water System	(5,018,366)	(211,598)	--	(5,229,964)
Sewer System	(6,035,570)	(361,373)	--	(6,396,943)
Gas System	(1,099,841)	(53,122)	--	(1,152,963)
Total accumulated depreciation	(12,809,385)	(669,018)	(35,598)	(13,442,805)
Total capital assets being depreciated, net	6,323,364	(669,018)	--	5,654,346
Business-type activities capital assets, net	$ 6,427,105	$ (410,429)	$ --	$ 6,016,676

Depreciation was charged to functions as follows:

General Government	$	211,556
Public Safety		135,058
Parks and Recreation		277,420
Public Works		18,852
Streets		224,998
Water, Sewer and Gas		669,018
	$	1,536,902

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2013, 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
General Fund	Other Governmental Fund		78,836	Short-term loans
General Fund	Debt Service Fund		960	Short-term loans
General Fund	General Fund		116	Short-term loans
Debt Service Fund	General Fund		7,477	Ad valorem tax collections
	Total	$	779,982	

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

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2013, consisted of the following:

Transfers From	Transfers To		Amount	Reason
Enterprise Fund	General Fund	$	930,000	Reimburse expenditures
Enterprise Fund	Other Governmental Funds		40,000	Street project/debt payments
Other Governmental Funds	General Fund		70,000	Reimburse expenditures
General fund	Other Governmental Funds		572,101	Reimburse expenditures
Enterprise Funds	Debt Service Fund		378,158	Debt payments
	Total	$	1,990,259	

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, 2013, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General Obligation Bonds	$ --	$ --	$ --	$ --	$ --
Certificates of Obligation	11,132,000	--	336,000	10,796,000	347,000
Adjustments for Deferred Amounts:					
Discounts and Premiums	33,246	--	1,583	31,663	--
Compensated Absences	125,860	5,603	--	131,463	--
Total governmental activities	$ 11,291,106	$ 5,603	$ 337,583	$ 10,959,126	$ 347,000
Business-type activities:					
General Obligation Bonds	$ 310,000	$ --	$ 40,000	$ 270,000	$ 40,000
Compensated Absences	23,211	--	1,278	21,933	--
Total business-type activities	$ 333,211	$ --	$ 41,278	$ 291,933	$ 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

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2013, are as follows:

	Governmental Activities		
Year Ending September 30,	Principal	Interest	Total
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	393,000	377,406	770,406
2019-2023	2,188,000	1,657,007	3,845,007
2024-2028	2,679,000	1,176,360	3,855,360
2029-2033	3,301,000	550,396	3,851,396
2034-2037	787,000	17,640	804,640
Totals	$ 10,796,000	$ 5,399,678	$ 16,195,678

	Business-type Activities		
Year Ending September 30,	Principal	Interest	Total
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	40,000	5,500	45,500
2019-2021	70,000	5,000	75,000
Totals	$ 270,000	$ 52,500	$ 322,500

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, 2013	$ 10,550,000

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, 2013	$ 246,000

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, 2013	$ 270,000

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 2013, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for 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 addition 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 Eligibilitiy 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.

3. Trend Information for the Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation
September 30, 2011	$ 256,730	$ 256,730	100%	--
September 30, 2012	267,327	267,327	100%	--
September 30, 2013	267,367	267,367	100%	--

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

	12/31/2010	12/31/2011	12/31/2012
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	27.3 years; closed period	26.4 years; closed period	25.3 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-Yr Smoothed Market	10-Yr Smoothed Market	10-Yr Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return	7.0%	7.0%	7.0%
Projected salary increases	Varies by age/ yrs of service	Varies by age/ yrs of service	Varies by age/ yrs of service

Includes Inflation at	3.00%	3.00%	3.00%
Cost of Living adjustments	2.1%	2.1%	2.1%

For funded status as of December 31, 2012, please reference the Schedule of Funding Progress in the Required Supplementary Information section. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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

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 preceeding 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 2013, 2012 and 2011 were $6,210, $5,884, and $6,418, respectively, which equaled the required contribution rate for each year.

I. Health Care Coverage

During the year ended September 30, 2013, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of $400 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, 2013.

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 21, 2014, 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, 2013.

M. Prior Period Adjustment

The following discloses the restatement of government-wide net position as of the beginning of the year:

	Governmental Activities
Net Position, beginning of year, as previously stated:	$ 21,525,236
Decrease resulting from the adoption of GASB 65, which resulted in the write-off of bond issuance costs.	(363,509)
Net Position, beginning of year, as restated:	$ 21,161,727

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.

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CITY OF NAVASOTA, TEXAS

EXHIBIT B-1

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget Positive (Negative)
Revenue:				
Taxes:				
General Property Taxes	$ 1,370,499	$ 1,370,499	$ 999,842	$ (370,657)
General Sales and Use Taxes	1,360,000	1,360,000	1,783,810	423,810
Franchise Taxes	284,000	284,000	345,735	61,735
Payment in Lieu of Taxes	1,290,000	1,290,000	1,280,283	(9,717)
License and Permits	33,500	33,500	55,817	22,317
Charges for Services	1,030,000	1,030,000	1,133,540	103,540
Municipal Court Fines	92,000	92,000	129,059	37,059
Fees	937,000	937,000	35,517	(901,483)
Investment Earnings	50,000	50,000	(2,642)	(52,642)
Rents and Leases	71,000	71,000	69,118	(1,882)
Economic Development	60,000	60,000	60,050	50
Contributions and Grants	124,620	124,620	500,589	375,969
Miscellaneous Revenue	567,500	567,500	127,981	(439,519)
Total Revenues	7,270,119	7,270,119	6,518,699	(751,420)
Expenditures:				
Current:				
General Government	2,151,622	2,381,094	2,184,146	196,948
Public Safety	2,284,095	2,354,642	2,321,106	33,536
Public Works	2,075,289	2,076,836	455,737	1,621,099
Sanitation	1,017,013	1,138,913	1,108,500	30,413
Culture and Recreation	811,300	892,755	887,924	4,831
Judicial and Courts	99,316	99,946	91,671	8,275
Economic Development and Assistance	62,353	77,556	84,391	(6,835)
Total Expenditures	8,500,988	9,021,742	7,133,475	1,888,267
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,230,869)	(1,751,623)	(614,776)	1,136,847
Other Financing Sources (Uses):				
Transfers In	1,431,324	1,431,324	1,000,000	(431,324)
Transfers Out	(890,520)	(890,520)	(572,101)	(318,419)
Total Other Financing Sources (Uses)	540,804	540,804	427,899	(112,905)
Net Change in Fund Balances	(690,065)	(1,210,819)	(186,877)	1,023,942
Fund Balances - Beginning	1,759,347	1,759,347	1,759,347	--
Fund Balances - Ending	$ 1,069,282	$ 548,528	$ 1,572,470	$ 1,023,942

CITY OF NAVASOTA, TEXAS

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2012	$ 8,797,758	$ 9,394,353	$ 596,595	93.6%	$ 3,171,268	18.8%
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%

Combining Statements and Budget Comparisons as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

CITY OF NAVASOTA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	Special Revenue Funds	Debt Service Fund
ASSETS AND OTHER DEBITS		
Assets:		
Cash and Cash Equivalents	$ 595,565	$ 312,247
Investments	248,723	--
Receivables (net of allowances for uncollectibles):	20,445	117,573
Due from Other Funds	--	7,477
Due from Other Governments	79,100	--
Total Assets and Other Debits	$ 943,833	$ 437,297
LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:		
Liabilities:		
Accounts Payable	$ 28,389	$ --
Wages Payable	2,332	--
Due to Other Funds	78,836	960
Total Liabilities	109,557	960
Deferred Inflows of Resources:		
Deferred Property Taxes	--	115,272
Total Deferred Inflows of Resources	--	115,272
Fund Balances:		
Restricted Fund Balances:		
Restricted for Debt Service	--	321,065
Restricted for Capital Projects	--	--
Restricted for Hotel/Motel	523,585	--
Assigned:		
Special Revenue Funds	310,691	--
Permanent Funds	--	--
Total Fund Balance	834,276	321,065
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 943,833	$ 437,297

Capital Projects Fund — Capital Projects	Permanent Fund — Cemetery Fund	Total Nonmajor Governmental Funds (See Exhibit A-3)
$ 619,773	$ 325,385	$ 1,852,970
--	4,642	253,365
--	--	138,018
--	--	7,477
--	--	79,100
$ 619,773	$ 330,027	$ 2,330,930
$ --	$ --	$ 28,389
--	--	2,332
--	951	80,747
--	951	111,468
--	--	115,272
--	--	115,272
--	--	321,065
619,773	--	619,773
--	--	523,585
--	--	310,691
--	329,076	329,076
619,773	329,076	2,104,190
$ 619,773	$ 330,027	$ 2,330,930

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

	Special Revenue Funds	Debt Service Fund
Revenue:		
Taxes:		
General Property Taxes	$ --	$ 393,866
General Sales and Use Taxes	147,334	--
Fees	299,809	--
Investment Earnings	24,477	--
Contributions and Grants	225,130	--
Total Revenues	696,750	393,866
Expenditures:		
Current:		
General Government	104,215	--
Public Safety	21,575	--
Public Works	966,626	--
Culture and Recreation	12,956	--
Debt Service:		
Principal	--	336,000
Interest and Fiscal Charges	--	437,506
Total Expenditures	1,105,372	773,506
Excess (Deficiency) of Revenues Over (Under) Expenditures	(408,622)	(379,640)
Other Financing Sources (Uses):		
Transfers In	612,101	378,158
Transfers Out	(70,000)	--
Total Other Financing Sources (Uses)	542,101	378,158
Net Change in Fund Balances	133,479	(1,482)
Fund Balances - Beginning	700,797	322,547
Fund Balances - Ending	$ 834,276	$ 321,065

Capital Projects Fund Capital Projects	Permanent Fund Cemetery Fund	Total Nonmajor Governmental Funds (See Exhibit A-5)
$ --	$ --	$ 393,866
--	--	147,334
--	--	299,809
1,793	183	26,453
--	--	225,130
1,793	183	1,092,592
--	--	104,215
--	--	21,575
305,920	--	1,272,546
--	--	12,956
--	--	336,000
--	--	437,506
305,920	--	2,184,798
(304,127)	183	(1,092,206)
--	--	990,259
--	--	(70,000)
--	--	920,259
(304,127)	183	(171,947)
923,900	328,893	2,276,137
$ 619,773	$ 329,076	$ 2,104,190

CITY OF NAVASOTA, TEXAS
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
SEPTEMBER 30, 2013

	Street Fund	Cemetery Operations Fund
ASSETS AND OTHER DEBITS		
Assets:		
Cash and Cash Equivalents	$ 2,136	$ 37,935
Investments	131,758	116,965
Receivables (net of allowances for uncollectibles):	20,445	--
Due from Other Governments	--	--
Total Assets and Other Debits	$ 154,339	$ 154,900
LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:		
Liabilities:		
Accounts Payable	$ 4,927	$ 23,198
Wages Payable	2,332	--
Due to Other Funds	--	--
Total Liabilities	7,259	23,198
Deferred Inflows of Resources:		
Fund Balances:		
Restricted Fund Balances:		
Restricted for Hotel/Motel	--	--
Assigned:		
Special Revenue Funds	147,080	131,702
Total Fund Balance	147,080	131,702
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 154,339	$ 154,900

Board of Fireman Service	Grant Fund	Hotel/Motel Occupancy Tax Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
$ 31,909	$ --	$ 523,585	$ 595,565
--	--	--	248,723
--	--	--	20,445
--	79,100	--	79,100
$ 31,909	$ 79,100	$ 523,585	$ 943,833
$ --	$ 264	$ --	$ 28,389
--	--	--	2,332
--	78,836	--	78,836
--	79,100	--	109,557
--	--	523,585	523,585
31,909	--	--	310,691
31,909	--	523,585	834,276
$ 31,909	$ 79,100	$ 523,585	$ 943,833

CITY OF NAVASOTA, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Street Fund	Cemetery Operations Fund
Revenue:		
Taxes:		
General Sales and Use Taxes	$ --	$ --
Fees	248,366	51,443
Investment Earnings	254	224
Contributions and Grants	--	--
Total Revenues	248,620	51,667
Expenditures:		
Current:		
General Government	--	21,817
Public Safety	--	--
Public Works	769,285	--
Culture and Recreation	--	--
Total Expenditures	769,285	21,817
Excess (Deficiency) of Revenues Over (Under) Expenditures	(520,665)	29,850
Other Financing Sources (Uses):		
Transfers In	530,000	--
Transfers Out	--	(20,000)
Total Other Financing Sources (Uses)	530,000	(20,000)
Net Change in Fund Balances	9,335	9,850
Fund Balances - Beginning	137,745	121,852
Fund Balances - Ending	$ 147,080	$ 131,702

Board of Fireman Service	Grant Fund	Hotel/Motel Occupancy Tax Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
$ --	$ --	$ 147,334	$ 147,334
--	--	--	299,809
23,999	--	--	24,477
--	225,130	--	225,130
23,999	225,130	147,334	696,750
--	82,398	--	104,215
1,624	19,951	--	21,575
--	197,341	--	966,626
--	7,541	5,415	12,956
1,624	307,231	5,415	1,105,372
22,375	(82,101)	141,919	(408,622)
--	82,101	--	612,101
--	--	(50,000)	(70,000)
--	82,101	(50,000)	542,101
22,375	--	91,919	133,479
9,534	--	431,666	700,797
$ 31,909	$ --	$ 523,585	$ 834,276

CITY OF NAVASOTA, TEXAS **EXHIBIT C-5**

STREET FUND
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Taxes:			
Fees	$ 244,000	$ 248,366	$ 4,366
Investment Earnings	2,500	254	(2,246)
Total Revenues	246,500	248,620	2,120
Expenditures:			
Current:			
Public Works	987,349	769,285	218,064
Total Expenditures	987,349	769,285	218,064
Excess (Deficiency) of Revenues Over (Under) Expenditures	(740,849)	(520,665)	220,184
Other Financing Sources (Uses):			
Transfers In	736,282	530,000	(206,282)
Total Other Financing Sources (Uses)	736,282	530,000	(206,282)
Net Change in Fund Balances	(4,567)	9,335	13,902
Fund Balances - Beginning	137,745	137,745	--
Fund Balances - Ending	$ 133,178	$ 147,080	$ 13,902

CITY OF NAVASOTA, TEXAS

EXHIBIT C-6

GRANT FUND
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Taxes:			
Contributions and Grants	$ 1,318,638	$ 225,130	$ (1,093,508)
Total Revenues	1,318,638	225,130	(1,093,508)
Expenditures:			
Current:			
General Government	18,348	82,398	(64,050)
Public Safety	100,603	19,951	80,652
Public Works	193,700	197,341	(3,641)
Culture and Recreation	7,000	7,541	(541)
Economic Development and Assistance	238	--	238
Total Expenditures	319,889	307,231	12,658
Excess (Deficiency) of Revenues Over (Under) Expenditures	998,749	(82,101)	(1,080,850)
Other Financing Sources (Uses):			
Transfers In	--	82,101	82,101
Total Other Financing Sources (Uses)	--	82,101	82,101
Net Change in Fund Balances	998,749	--	(998,749)
Fund Balances - Beginning	--	--	--
Fund Balances - Ending	$ 998,749	$ --	$ (998,749)

CITY OF NAVASOTA, TEXAS

EXHIBIT C-7

HOTEL/MOTEL OCCUPANCY TAX FUND
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Taxes:			
General Sales and Use Taxes	$ 122,000	$ 147,334	$ 25,334
Total Revenues	122,000	147,334	25,334
Expenditures:			
Culture and Recreation	122,000	5,415	116,585
Total Expenditures	122,000	5,415	116,585
Excess (Deficiency) of Revenues Over (Under) Expenditures	--	141,919	141,919
Other Financing Sources (Uses):			
Transfers Out	--	(50,000)	50,000
Total Other Financing Sources (Uses)	--	(50,000)	(50,000)
Net Change in Fund Balances	--	91,919	91,919
Fund Balances - Beginning	431,666	431,666	--
Fund Balances - Ending	$ 431,666	$ 523,585	$ 91,919

CITY OF NAVASOTA, TEXAS

EXHIBIT C-8

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Taxes:			
General Property Taxes	$ --	$ 393,866	$ 393,866
Total Revenues	--	393,866	393,866
Expenditures:			
Debt Service:			
Principal	326,503	336,000	(9,497)
Interest and Fiscal Charges	447,004	437,506	9,498
Total Expenditures	773,507	773,506	1
Excess (Deficiency) of Revenues Over (Under) Expenditures	(773,507)	(379,640)	393,867
Other Financing Sources (Uses):			
Transfers In	773,506	378,158	(395,348)
Total Other Financing Sources (Uses)	773,506	378,158	(395,348)
Net Change in Fund Balances	(1)	(1,482)	(1,481)
Fund Balances - Beginning	322,547	322,547	--
Fund Balances - Ending	$ 322,546	$ 321,065	$ (1,481)

CITY OF NAVASOTA, TEXAS
CAPITAL PROJECTS
CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT C-9

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Taxes:			
Investment Earnings	$ --	$ 1,793	$ 1,793
Total Revenues	--	1,793	1,793
Expenditures:			
Current:			
Public Works	1,366,995	305,920	1,061,075
Total Expenditures	1,366,995	305,920	1,061,075
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,366,995)	(304,127)	1,062,868
Other Financing Sources (Uses):			
Total Other Financing Sources (Uses)	--	--	--
Net Change in Fund Balances	(1,366,995)	(304,127)	1,062,868
Fund Balances - Beginning	923,900	923,900	--
Fund Balances - Ending	$ (443,095)	$ 619,773	$ 1,062,868

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

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Independent Auditor's Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

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

Members of the City Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the 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, 2013, and the related notes to the financial statements, which collectively comprise City of Navasota, Texas' basic financial statements, and have issued our report thereon dated February 21, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

City of Navasota, Texas' Response to Findings

City of Navasota, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Navasota, Texas' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Respectfully submitted,

Davis, Heinemann & Co.

Davis, Heinemann & Company, P.C.

Huntsville, TX
February 21, 2014

CITY OF NAVASOTA, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
One or more material weaknesses identified?	____ Yes	X No
One or more significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	X None Reported
Noncompliance material to financial statements noted?	____ Yes	X No

B. Financial Statement Findings

NONE

CITY OF NAVASOTA, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
None reported.		