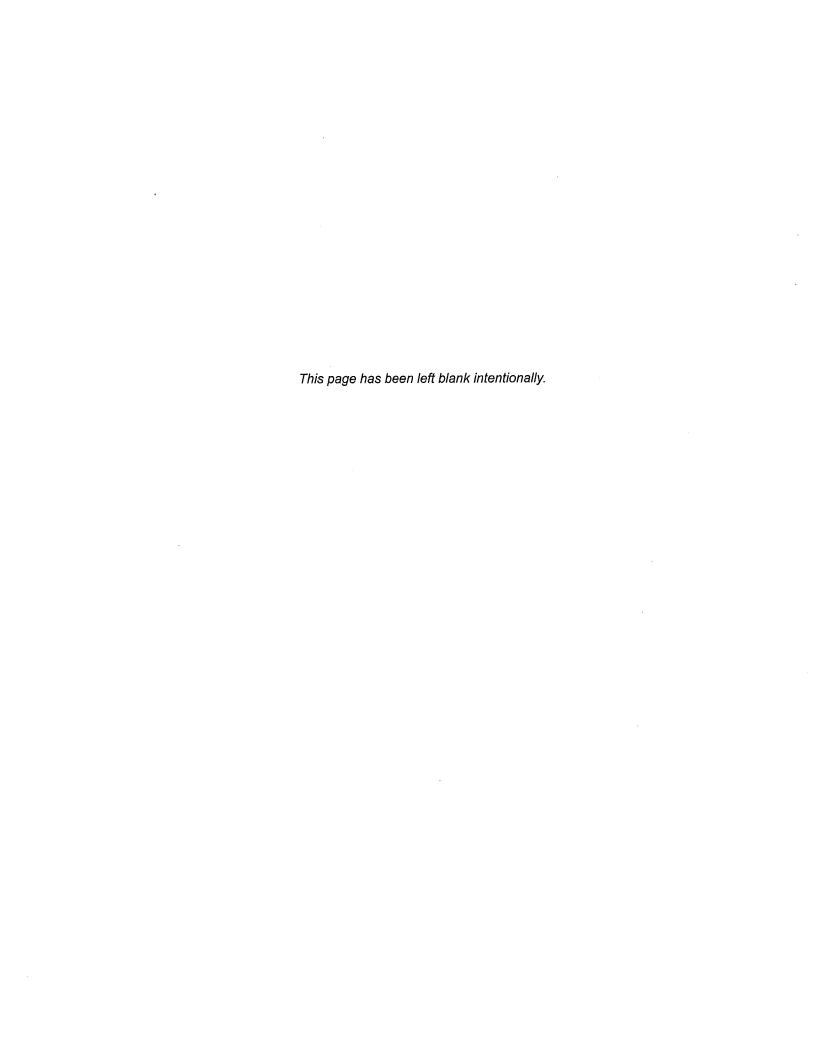
ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2014



Davis, Heinemann & Company, P.C.

Certified Public Accountants 1300 11th Street Suite 500 Huntsville, Texas 77340 (936) 291-3020 Introductory Section



City of Navasota, Texas Annual Financial Report For The Year Ended September 30, 2014

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Financial Statements





DAVIS, HEINEMANN & COMPANY, P.C.

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Independent Auditor's Report

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

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, 2014, 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, 2014, 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.

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 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 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 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 March 27, 2015 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 & Company, P.C.

Davis, Heinemann + Co.

Huntsville, Texas March 27, 2015

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, 2014. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Citv's total combined net position was \$31,878,837 at September 30, 2014.
- During the year, the City's expenses were \$119.215 less than the \$16.876.458 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 \$1,672,932.

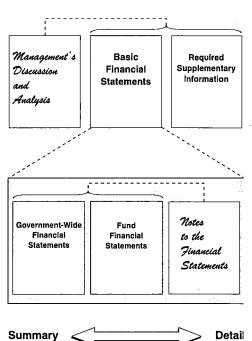
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net 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 \$31,878,837 at September 30, 2014. (See Table A-1).

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

,		Governm	Busin	ess	s-type			
		Activit	ies	Act	tivit	ies	Tota	I
	_	2014	2013	2014		2013	2014	2013
Current Assets:								
Cash and Cash Equivalents	\$	2,258.6 \$	3,301.5 \$	2,962.0	\$	2,760:7	5,220.6 \$	6,062.2
Investments		930.5	380.1	516.7		991.6	1,447.2	1,371.7
Receivables		879.8	617.6	1,383.4		1,398.4	2,263.2	2,016.0
Due from Other Governments		11.0	79.1	10.6		<u> -</u>	21.6	79.1
Inventories				83.0		82.9	83.0	82.9
Total Current Assets:		4,079.9	4,378.3	4,955.7		5,233.6	9,035.6	9,611.9
Noncurrent Assets:								
Capital Assets		39,709.2	38,243.7	19,569.0		19,459.5	59,278.2	57,703.2
Accumulated Depreciation		(10,520.6)	(9,684.1)	(14,101.1)		(13,442.8)	(24,621.7)	(23,126.9)
Total Noncurrent Assets:	-	29,188.6	28,559.6	5,467.9	•	6,016.7	34,656.5	34,576.3
Total Assets	_	33,268.5	32,937.9	10,423.6		11,250.3	43,692.1	44,188.2
Current liabilities:								
Accounts Payable		419.9	332.2	121.0		455.8	540.9	788.0
Wages Payable		31.1	31.1	7.8		7.7	38.9	38.8
Accrued Interest Payable		157.8	161.8	1.7		1.7	159.5	163.5
Unearned Revenue		14.3	14.3	-		_	14.3	14.3
Customer Deposits		-	-	175.6		173.0	175.6	173.0
Current Long-Term Debt		357.0	347.0	40.0		40.0	397.0	387.0
Total Current Liabilities		980.1	886.4	346.1	•	678.2	1,326.2	1,564.6
Long-Term Liabilities:								
Premium on Bonds		30.1	31.6	-		-	30.1	31.6
Bonds		-	-	190.0		230.0	190.0	230.0
Certificates of Obligation		10,092.0	10,449.0	_		-	10,092.0	10,449.0
Compensated Absences		161.0	131.5	14.0		21.9	175.0	153.4
Total Long-Term Liabilities:	_	10,283.1	10,612.1	204.0	•	251.9	10,487.1	10,864.0
Total Liabilities	-	11,263.2	11,498.5	550.1		930.1	11,813.3	12,428.6
Net Position:								
Invested in Capital Assets		18,739.5	17,763.6	5,237.9		5,746.7	23,977.4	23,510.3
Restricted		1,708.8	2,040.4	-		-	1,708.8	2,040.4
Unrestricted		1,557.0	1,635.4	4,635.6		4,573.5	6,192.6	6,208.9
Total Net Position	\$ =	22,005.3 \$	21,439.4 \$	9,873.5	\$ =	10,320.2	31,878.8 \$	31,759.6

The Governmental Activities total assets increased \$330.6 thousand from the prior year. This is primarily due to an increase in investments of \$550.4, receivables of \$262.2 thousand and capital assets of \$629.0 thousand, partially offset by a decrease in cash of \$1,042.9 thousand. The change in receivables is due to an increase in sales tax accrual at year end due to accruing two months of sales tax due from the state. The increase in capital assets (net of depreciation) is due to the addition of airport, street and sidewalk improvements, partially offset by normal depreciation recorded for the year. The cash decrease is primarily due to the addition of capital assets and the purchase of investments. Total liabilities decreased by \$235.3 thousand, primarily due to the repayment of debt, partially offset by increased accounts payable.

The Business-type Activities total assets decreased \$826.7 thousand from the prior year. The majority is due to the decrease in capital assets of \$548.8 thousand primarily due to depreciation recorded during the year. Total liabilities decreased by \$380.0 thousand, primarily due to a decrease in accounts payable of \$334.8 thousand.

Changes in net position. The City's total revenues were \$16,888,844 and total expenses were \$16,757,243 which resulted in an increase in net position of \$119,215 (See Table A-2).

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

		Govern	nmental	Business-type			ype				
		Acti	vities		Act	ivitie	s ~	Total			
		2014	2013		2014		2013	2014	2013		
Program Revenues:	_			•							
Charges for Services	\$	1,846.8	\$ 1,786.6	\$	8,418.0	\$	6,728.3 \$	10,264.8 \$	8,514.9		
Operating Grants		181.9	190.7		10.6		-	192.5	190.7		
Capital Grants		750.5	535.6		57.5		258.6	808.0	794.2		
General Revenues:								-	-		
Ad Valorem Taxes		1,482.1	1,395.1		-		· -	1,482.1	1,395.1		
Sales Tax		2,087.9	1,931.1		-		-	2,087.9	1,931.1		
Franchise Taxes		332.6	345.7		-		-	332.6	345.7		
Payment in Lieu of Taxes		1,284.4	1,280.3		-		_	1,284.4	1,280.3		
Other Taxes		203.8	-		-		-	203.8	-		
Interest Income		4.9	23.8		3.1		3.4	8.0	27.2		
Grants and Contributions		18.9	15.7		-		-	18.9	15.7		
Other Income		175.3	94.4		18.2		27.9	193.5	122,3		
Total Revenues	_	8,369.1	7,599.0	_	8,507.4		7,018.2	16,876.5	14,617.2		
Program Expenses:											
General Government		2,961.0	2,259.2		_		-	2,961.0	2,259.2		
Public Safety		2,555.0	2,404.2		-		-	2,555.0	2,404.2		
Public Works		1,676.4	1,452.4		-		-	1,676.4	1,452.4		
Sanitation		1,003.5	921.5		_		-	1,003.5	921.5		
Culture and Recreation		996.4	1,023.9		-		-	996.4	1,023.9		
Judicial and Courts		131.4	91.8		-		-	131.4	91.8		
Economic Development		185.2	84.4		_		-	185.2	84.4		
Interest & Fiscal Charges		421.7	432.1		-			421.7	432.1		
Enterprise Activities		-	-		6,826.6		6,184.8	6,826.6	6,184.8		
Total Expenses	_	9,930.6	8,669.5	-	6,826.6	_	6,184.8	16,757.2	14,854.3		
Transfers In (Out)	_	2,127.4	1,348.2	_	(2,127.4)		(1,348.2)				
Change in Net Position	. \$ _	565.9	\$277.7	\$	(446.6)	<u></u> \$_	(514.8)	119.3 \$	(237.1)		

The Governmental Activities net position increased \$565.9 thousand over the prior fiscal year primarily due to increased transfers from the enterprise funds. The Business-type Activities net position decreased \$446.6 thousand from the prior year. This was due primarily to increased transfers to governmental activities funds.

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 revenues were \$141,865 more than budgeted. The most significant positive variance was higher sales and use taxes. Actual expenditures were \$163,001 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 2014, the City had invested \$59,278.1 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)

		Govern	mental	Business	-type 、			
		Activ	ities	Activiti	es	Total		
	_	2014	2013	2014	2013	2014	2013	
Land	\$	681.1 \$	681.1 \$	103.7 \$	103.7 \$	784.8 \$	784.8	
Construction in Progress		4,186.6	2,918.0	316.1	258.6	4,502.7	3,176.6	
Buildings and Improvements		17,726.7	17,726.7	103.5	103.5	17,830.2	17,830.2	
Machinery and Equipment		1,598.7	1,526.9	699.3	647.3	2,298.0	2,174.2	
Vehicles		1,838.2	1,713.2	174.1	174.1	2,012.3	1,887.3	
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		39,709.1	38,243.7	19,569.0	19,459.5	59,278.1	57,703.2	
Total Accumulated Depreciation	_	(10,520.6)	(9,684.1)	(14,101.1)	(13,442.8)	(24,621.7)	(23,126.9)	
Net Capital Assets	\$ _	29,188.5	28,559.6 \$	5,467.9 \$	6,016.7	34,656.4 \$	34,576.3	

Long-Term Debt

At year-end the City had \$10,884.1 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-4City's Long-Term Debt (In thousands of dollars)

			nental ties	Business-type Activities				-	al .		
	2014	_	2013		2014	-	2013		2014		2013
Bonds	\$ -	\$	-	\$	230.0	\$	270.0	\$	230.0	\$	270.0
Certificates of Obligation	10,449.0		10,796.0		-				10,449.0		10,796.0
Adjustments for Deferred Amounts:											
Discounts and Premiums	30.1		31.6		-		-		30.1		31.6
Compensated Absences	161.0		131.5		14.0		21.9		175.0		153.4
Total Long Term Debt	\$ 10,640.1	\$	10,959.1	\$	244.0	\$	291.9	\$	10,884.1	\$	11,251.0

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

• The budget for the General Fund revenues for fiscal year 2014-2015 increases by three (3) percent from the prior year. Expenditures for the General Fund are budgeted to remain approximately the same compared to the prior year. If these estimates are realized, along with transfers in and out, the General Fund's fund balance is expected to remain unchanged by the close of the next fiscal year.

• The budgets for the Enterprise Funds' revenues are expected to decrease by twelve (12) percent for the 2014-2015 fiscal year, primarily due to lower forecasted metered gas revenues. The Enterprise Funds' expenditures are forecasted to decrease by four (4) percent. If these estimates are realized, along with projected transfers in and out, the Enterprise Funds' net positions are expected to remain relatively stable by the close of the next fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements



STATEMENT OF NET POSITION SEPTEMBER 30, 2014

Primary Government Governmental Business-type Component Ùnit Activities Activities Total ASSETS: \$ 5,376,682 214,520 Cash and Cash Equivalents 2,258,642 3,118,040 930,545 360,725 1,291,270 Investments 879,785 Receivables (net of allowances for uncollectibles) 1,383,411 2,263,196 82,953 82,953 Inventories Due from Other Governments 11,000 10,560 21,560 Noncurrent Assets: Capital Assets: 681,109 103,741 784,850 Land Construction in Progress 4,186,659 4,186,659 **Buildings and Improvements** 17,726,691 103,513 17,830,204 Machinery and Equipment 1,598,692 699,309 2,298,001 Vehicles 1,838,244 174,104 2,012,348 7,001,645 7,001,645 Water System 9,374,889 Sewer System 9,374,889 1,795,759 Gas System 1,795,759 Infrastructure and Improvements 13,677,779 13,677,779 Construction in Progress 316,121 316,121 Less Accumulated Depreciation (10,520,632)(14,101,136)(24,621,768)33,268,514 10,423,634 43,692,148 214,520 **Total Assets** LIABILITIES: Accounts Payable 419,855 120,984 540,839 **Customer Deposits** 175,624 175,624 Accrued Interest Payable 157,854 1,688 159,542 Wages Payable 31,095 7,774 38,869 14,309 14,309 **Unearned Revenue** Noncurrent Liabilities-Due within one year 357,000 40,000 397,000 --Due in more than one year 10,283,088 204,040 10,487,128 11,263,201 550,110 11,813,311 **Total Liabilities NET POSITION:** Net Investment in Capital Assets 18,739,542 5,237,945 23,977,487 Restricted For: **Debt Service** 406,126 406,126 305,957 305,957 Construction Tourism Expendable 493,677 493,677 Nonexpendable 330,141 330,141 172,824 Expendable 172,824 214,520 Unrestricted 1,557,046 4,635,579 6,192,625 **Total Net Position** 22,005,313 9,873,524 31,878,837 214,520

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2014

			Program Revenues						
Functions/Programs		Expenses		Charges for Services	G	Operating Grants and Contributions		Capital irants and intributions	
PRIMARY GOVERNMENT:			-				**		
Governmental Activities:		-							
General Government	- \$	2,960,959	\$	59,205	\$		\$	717,262	
Public Safety		2,555,029		19,836		181,915		8,706	
Public Works		1,676,377		403,741				13,374	
Sanitation		1,003,560		1,071,140				"	
Culture and Recreation		996,449		96,058				11,141	
Judicial and Courts		131,451		104,632					
Economic Development and Assistance		185,174		92,227		a e			
Interest on Long-term Debt		421,672				~~			
Total Governmental Activities	_	9,930,671	-	1,846,839		181,915		750,483	
Business-type Activities:									
Water		1,397,196		1,873,077		10,560			
Gas		4,215,457		5,166,364					
Sewer		1,213,919		1,378,515				57,532	
Total Business-type Activities	_	6,826,572	-	8,417,956	_	10,560		57,532	
Total Primary Government	\$_	16,757,243	\$_	10,264,795	\$	192,475	\$	808,015	
COMPONENT UNIT:									
Navasota Economic Development Corporation	\$_	145,427	\$_		\$		\$		

General Revenues:

Property Taxes

Sales Taxes

Franchise Taxes

Payment In Lieu of Taxes

Other 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

Net Position - Ending

Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and	Changes in	Net Position
---------------------------------------------------	--------------	---------------	------------	--------------

_	Governmental Activities	Bı	usiness-type Activities		Total	_	Component Unit
\$	(2,184,492) (2,344,572) (1,259,262) 67,580 (889,250) (26,819) (92,947) (421,672) (7,151,434)			\$	(2,184,492) (2,344,572) (1,259,262) 67,580 (889,250) (26,819) (92,947) (421,672) (7,151,434)		
- - -	 (7,151,434)	\$ 	486,441 950,907 222,128 1,659,476 1,659,476	_ _ _	486,441 950,907 222,128 1,659,476 (5,491,958)		
						\$	(145,427)
	1,482,125 2,087,862 332,589 1,284,457 203,802 4,870 18,899 175,280 2,127,413 7,717,297		 3,140 18,149 (2,127,413) (2,106,124)		1,482,125 2,087,862 332,589 1,284,457 203,802 8,010 18,899 193,429 5,611,173 119,215		145,929 348 1,776 148,053 2,626
φ_	565,863 21,439,450	φ	(446,648) 10,320,172	φ_	31,759,622	\$	211,894
\$_	22,005,313	\$	9,873,524	\$_	31,878,837	Φ	214,520

CITY OF NAVASOTA, TEXAS BALANCE SHEET - GOVERNMENTAL FUNDS SEPTEMBER 30, 2014

ASSETS AND OTHER DEBITS:		General Fund		Debt Service Fund	G	Other overnmental Funds	G 	Total overnmental Funds
Assets:	•	770 105	•	007.704	•	4 407 000	Φ.	0.050.040
Cash and Cash Equivalents	\$	773,495 719,372	\$	287,764	\$	1,197,383 211,173	\$	2,258,642 930,545
Investments Receivables (net of allowances for uncollectibles):		682,954		 111,846		25,258		820,058
Due from Other Funds		72,216		7,477		25,256		79,693
Due from Other Governments		72,210				11,000		11,000
Total Assets and Other Debits	\$_	2,248,037	\$	407,087	\$	1,444,814	\$	4,099,938
LIADILITIES DEFENDED INCLOWS OF DESCRIBORS	ANIE	O ELINIO DALAI	UCE C	•				-
LIABILITIES, DEFERRED INFLOWS OF RESOURCES Liabilities:	AM	TOND BALAI	\CE3	•				
Accounts Payable	\$	381,783	\$		\$	38,071	\$	419,854
Wages Payable	Ψ	28,763	Ψ	4=	Ψ	2,332	Ψ	31,095
Due to Other Funds		7,580		960		71,153		79,693
Unearned Revenue		14,309						14,309
Total Liabilities		432,435	_	960		111,556		544,951
Deferred Inflows of Resources:								
Deferred Property Taxes		142,670		109,545				252,215
Total Deferred Inflows of Resources		142,670		109,545				252,215
Fund Balances:								
Restricted Fund Balances:								
Restricted for Debt Service				296,582				296,582
Restricted for Capital Projects						305,957		305,957
Restricted for Tourism						493,677		493,677
Assigned:								
Special Revenue Funds						203,483		203,483
Permanent Funds		4 070 000				330,141		330,141
Unassigned	_	1,672,932	_	206 590		1 222 250		1,672,932
Total Fund Balance		1,672,932		296,582	_	1,333,258	_	3,302,772
Total Liabilities, Deferred Inflows of Resources								
and Fund Balance	\$_	2,248,037	, \$	407,087	\$	1,444,814	\$	4,099,938

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION SEPTEMBER 30, 2014

Total fund balances - governmental funds balance sheet	\$ 3,302,772
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. Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Payables for bond principal which are not due in the current period are not reported in the funds.	29,188,542 252,215 (10,449,000)
Payables for bond interest which are not due in the current period are not reported in the funds. Payables for compensated absences which are not due in the current period are not reported in the funds.	(157,854) (161,009)
Court fines receivable unavailable to pay for current period expenditures are deferred in the funds. Assessments receivable unavailable to pay for current period expenditures are deferred in the funds.	59,727 (30,080)

Net position of governmental activities - Statement of Net Position

22,005,313

CITY OF NAVASOTA, TEXASSTATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2014

Revenue:	_	General Fund	_	Debt Service Fund	_	Other Governmental Funds	-	Total aovernmental Funds
Taxes:								
General Property Taxes	\$	1,093,537	\$	400,748	\$		\$	1,494,285
General Sales and Use Taxes	Ψ	2,087,862	Ψ		Ψ		Ψ	2,087,862
Franchise Taxes		332,589						332,589
Hotel Motel Taxes						203,802		203,802
Payment in Lieu of Taxes		1,284,457				200,002		1,284,457
License and Permits		78,023						78,023
								1,110,160
Charges for Services		1,110,160						
Municipal Court Fines		99,632						99,632
Fees		75,996				343,996		419,992
Investment Earnings		2,597		 •		2,273		4,870
Rents and Leases		73,256				g. 		73,256
Economic Development		60,000		45				60,000
Contributions and Grants		232,327				724,020		956,347
Miscellaneous Revenue	_	176,006			_			176,006
Total Revenues	_	6,706,442	_	400,748	_	1,274,091		8,381,281
Expenditures:								
Current:								
General Government		1,951,056				961		1,952,017
Public Safety		2,572,746				1,250		2,573,996
Public Works		487,779						487,779
Sanitation		1,003,099						1,003,099
Transportation		217,285				1,694,106		1,911,391
Culture and Recreation		956,642						956,642
Judicial and Courts		129,926						129,926
Special Projects						547,951		547,951
Economic Development and Tourism		545,596						545,596
Debt Service:								
Principal				347,000				347,000
Interest and Fiscal Charges		1,000		426,188				427,188
Total Expenditures	_	7,865,129	_	773,188	_	2,244,268		10,882,585
Excess (Deficiency) of Revenues	_		_	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	_			
Over (Under) Expenditures	_	(1,158,687)		(372,440)	_	(970,177)	_	(2,501,304)
Other Financing Sources (Uses):								
Transfers In		1,780,985	-	347,957		520,308		2,649,250
Transfers Out		(521,836)						(521,836)
Total Other Financing Sources (Uses)	_	1,259,149	_	347,957		520,308	_	2,127,414
Net Change in Fund Balances		100,462		(24,483)		(449,869)		(373,890)
Fund Balances - Beginning	_	1,572,470	_	321,065	_	1,783,127	_	3,676,662
Fund Balances - Ending	\$_	1,672,932	\$	296,582	\$_	1,333,258	\$	3,302,772

CITY OF NAVASOTA, TEXASRECONCILIATION 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, 2014

Net change in fund balances - total governmental funds	\$	(373,890)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:		
Capital outlays are not reported as expenses in the SOA. The depreciation of capital assets used in governmental activities is not reported in the funds. Certain property tax revenues are deferred in the funds. This is the change in these amounts this year. Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA. (Increase) decrease in accrued interest from beginning of period to end of period. Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds bond premiums are reported in the funds but not in the SOA.	ls	1,465,427 (836,483) (12,161) 347,000 3,933 (29,546) 1,583
Change in net position of governmental activities - Statement of Activities	\$	565,863

CITY OF NAVASOTA, TEXAS STATEMENT OF NET POSITION ENTERPRISE FUNDS **SEPTEMBER 30, 2014**

	_	Enterprise Fund		Enterprise Fund	_	Enterprise Fund		7
		Water Fund		Gas Fund		Sewer Fund		Total Enterprise Funds
ASSETS:	_					<u>-</u>	_	
Current Assets:					_			
Cash and Cash Equivalents	\$	790,419	\$	1,231,378	\$	1,096,243	\$	3,118,040
Investments		88,814		146,644		125,267		360,725
Receivables (net of allowances for uncollectibles):		354,509		761,125		267,777		1,383,411
Intergovernmental Receivables		10,560						10,560
Due from other funds		691,642				5 404		691,642
Inventories		56,919	_	20,543	_	5,491	_	82,953
Total Current Assets		1,992,863	_	2,159,690	_	1,494,778	_	5,647,331
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		207,195		65,259		699,309
Construction in Progress						316,121		316,121
Less Accumulated Depreciation	_	(5,850,430)	_	(1,406,454)		(6,844,252)	_	(14,101,136)
Total Noncurrent Assets		1,811,895	<u>:</u> —	644,893		3,011,157		5,467,945
Total Assets	\$_	3,804,758	\$	2,804,583	\$	4,505,935	\$_	11,115,276
LIABILITIES:								
Current Liabilities:								
Accounts Payable	\$	15,574	\$	90,518	\$	14,892	\$	120,984
Compensated Absences Payable		10,190		1,226		2,624		14,040
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		112,644		62,980				175,624
Total Current Liabilities		141,518		889,997		20,237	_	1,051,752
Noncurrent Liabilities:								
Revenue Bonds Payable				190,000				190,000
Total Noncurrent Liabilities	_		_	190,000	_		-	190,000
Total Liabilities	_	141,518	_	1,079,997	_	20,237	_	1,241,752
NET POCITION.		_						
NET POSITION:		1 011 005		414,893		3,011,157		5,237,945
Investment in Capital Assets, Net of Related Debt Unrestricted Net Position		1,811,895		1,309,693		1,474,541		5,237,945 4,635,579
Total Net Position	φ_	1,851,345 3,663,240		1,724,586	φ	4,485,698	φ_	9,873,524
rotal Net Fusition	\$_	3,003,240	Ψ	1,724,000	Ψ_	4,400,000	φ_	9,073,024

CITY OF NAVASOTA, TEXAS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - ENTERPRISE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2014

		Enterprise Fund		Enterprise Fund		Enterprise Fund		
	_	Water Fund		Gas Fund	_	Sewer Fund	_	Total Enterprise Funds
OPERATING REVENUES:		. ===						
Sales	\$	1,750,303	\$	5,134,165	\$	1,353,694	\$	8,238,162
Charges for Services		77,865		4,207				82,072
Penalties Assessed		35,183		21,983		24,821		81,987
New Services - Taps and Meters		9,523		1,100				10,623
Contribution and Grants		10,560				57,532		68,092
Line Extension Fees				4,909				4,909
Other Revenues	_	8,257		10,095	_			18,352
Total Operating Revenues	_	1,891,691	_	5,176,459	_	1,436,047	_	8,504,197
OPERATING EXPENSES:								
Water Services		1,397,196						1,397,196
Sewer Services						1,213,919		1,213,919
Gas Services				4,201,957				4,201,957
Total Operating Expenses		1,397,196		4,201,957		1,213,919		6,813,072
Operating Income	_	494,495		974,502	_	222,128	_	1,691,125
NON-OPERATING REVENUES (EXPENSES):								
Interest Revenue		775		1,274		1,091		3,140
Interest Expense				(13,500)				(13,500)
Total Non-operating Revenues (Expenses)	_	775		(12,226)	_	1,091		(10,360)
Income before Transfers		495,270		962,276	_	223,219		1,680,765
CONTRIBUTIONS AND TRANSFERS								
Interfund Transfers Out		(653,817)		(917,980)		(555,616)		(2,127,413)
Total Contributions and Transfers	_	(653,817)		(917,980)	_	(555,616)	_	(2,127,413)
Change in Net Position		(158,547)		44,296		(332,397)		(446,648)
Total Net Position - Beginning Total Net Position - Ending	\$_	3,821,787 3,663,240	\$_	1,680,290 1,724,586	\$_	4,818,095 4,485,698	\$_	10,320,172 9,873,524

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Enterprise Funds				
		Water	Gas	Sewer	
		Fund	Fund	Fund	Totals
Cash Flows from Operating Activities:	_				
Cash Received from Customers	\$	1,913,141 \$	5,203,085 \$	1,402,937 \$	8,519,163
Cash Payments to Employees for Services		(258,337)	(85,365)	(141,866)	(485,568)
Cash Payments to Other Suppliers for Goods and Services		(1,132,485)	(4,177,524)	(709,763)	(6,019,772)
Net Cash Provided (Used) by Operating Activities		522,319	940,196	551,308	2,013,823
Cash Flows from Non-capital Financing Activities:					
Transfers From (To) Other Funds		(653,817)	(917,980)	(555,616)	(2,127,413)
Net Cash Provided (Used) by Non-capital Financing Activities	_	(653,817)	(917,980)	(555,616)	(2,127,413)
·	_	(000,017)	(017,000)	(000,010)	(=,,=,,,,,)
Cash Flows from Capital and Related Financing Activities:					
Principal and Interest Paid			(53,500)		(53,500)
Acquisition or Construction of Capital Assets			(37,862)	(71,738)	(109,600)
Net Cash Provided (Used) for Capital & Related Financing Activities			(91,362)	(71,738)	(163,100)
On the Electron forces have action A actually					
Cash Flows from Investing Activities:		(775)	(4.074)	. (4.004)	(0.4.40)
Purchase of Investments		(775)	(1,274)	(1,091)	(3,140)
Proceeds from Sale of Investments		155,995	258,133	219,914	634,042
Interest and Dividends on Investments	_	775	1,274	1,091	3,140
Net Cash Provided (Used) for Investing Activities	_	155,995	258,133	219,914	634,042
Net Increase (Decrease) in Cash and Cash Equivalents		24,497	188,987	143,868	357,352
Cash and Cash Equivalents at Beginning of Year		765,922	1,042,391	952,375	2,760,688
Cash and Cash Equivalents at End of Year	\$_	790,419 \$	1,231,378 \$	1,096,243 \$	3,118,040
Because Western of One western because to Man One b	_				
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			·		
Operating Income (Loss)	\$	494,495 \$	974,502 \$	222,128 \$	1,691,125
Adjustments to Reconcile Operating Income to Net Cash	Ψ	тот,тоо ф	374,302 ψ	222,120 φ	1,031,123
Provided by Operating Activities					
Depreciation		240,200	52,575	365,555	658,330
		240,200	52,575	365,555	656,550
Change in Assets and Liabilities:		01.450	00.000	(00.110)	14.000
Decrease (Increase) in Receivables		21,450	26,626	(33,110)	14,966
Decrease (Increase) in Intergovernmental Receivables		(10,560)	(440.054)		(10,560)
Increase (Decrease) in Accounts Payable		(220,929)	(113,951)	78	(334,802)
Increase (Decrease) in Compensated Absences Payable		(2,938)	(1,611)	(3,343)	(7,892)
Increase (Decrease) in Customer Deposits	_	601	2,055		2,656
Total Adjustments		27,824	(34,306)	329,180	322,698
Net Cash Provided (Used) by Operating Activities	\$_	522,319 \$	940,196 \$	551,308 \$	2,013,823

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

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

The City reports the following major governmental funds:

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

The City reports the following major enterprise funds:

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

b. Measurement Focus, Basis of Accounting

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

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 Buildings Building Improvements Vehicles Office Equipment	30 50 20 2-15 3-15
Computer Equipment	3-15

e. Receivable and Payable Balances

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

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.

4. Budgetary Data

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

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. During the year, the budget was amended as necessary. All budget appropriations lapse at year end.

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:

ViolationAction TakenNone reportedNot 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 NameAmountRemarksNone reportedNot applicableNot applicable

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

C. <u>Deposits and Investments</u>

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, 2014, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,141,794 and the bank balance was \$3,458,487. The City's cash deposits at September 30, 2014 and during the year ended September 30, 2014, 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, 2014, the balances in the pools are as follows:

BBVA - Money Market	\$ 1,985,969
TexPool	124,567
TexStar	124,352
•	\$ 2,234,888

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

The City's investments at September 30, 2014, are shown below.

Investment or Investment Type	<u>Maturity</u>	<u>Fair Value</u>
CMOs - Fixed Rate	Various	\$ 584,371
Municipal Tax Exempt - Fixed Rate	Various	147,745
MBS - Fixed Rate FHLMC	Various	191,449
MBS - Fixed Rate FNMA	Various	11,858
MBS - Fixed Rate GNMA I	Various	75,639
MBS - Fixed Rate FHLMC	Various	50,773
MBS - Variable Rate FNMA	Various	92,998
MBS - Variable Rate GNMA II	Various	25,546
SBA Loan Pools - Variable Rate	Various	110,891
Total Investments		\$ 1,291,270

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.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

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, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities: Capital assets not being depreciated:				
Land \$	681,109 \$	\$		\$ 681,109
Construction in progress	2,917,975	1,268,684		4,186,659
Total capital assets not being depreciated	3,599,084	1,268,684		4,867,768
Capital assets being depreciated:		•		
Infrastructure	13,677,779			13,677,779
Buildings and improvements	17,726,691			17,726,691
Equipment	1,526,957	71,735		1,598,692
Vehicles	1,713,236	125,008		1,838,244
Total capital assets being depreciated	34,644,663	196,743		34,841,406
Less accumulated depreciation for:				
Infrastructure	(4,118,513)	(213,148)		(4,331,661)
Buildings and improvements	(3,130,421)	(474,341)		(3,604,762)
Equipment	(1,265,700)	(48,180)		(1,313,880)
Vehicles	(1,169,515)	(100,814)		(1,270,329)
Total accumulated depreciation	(9,684,149)	(836,483)		(10,520,632)
Total capital assets being depreciated, net	24,960,515	(639,740)		24,320,775
Governmental activities capital assets, net	28,559,598 \$	628,944		\$ 29,188,542

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land \$	103,741 \$	\$		\$ 103,741
Construction in progress	258,589	57,532		316,121
Total capital assets not being depreciated	362,330	57,532		419,862
Capital assets being depreciated:				
Buildings and improvements	103,513		. =-	103,513
Equipment	647,241	52,067		699,308
Vehicles	174,104			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	19,097,151	52,067		19,149,218
Less accumulated depreciation for:		-		
Buildings and improvements	(49,614)	(3,272)		(52,886)
Equipment	(500,590)	(22,277)		(522,867)
Vehicles	(112,733)	(11,158)		(123,891)
Water System	(5,229,970)	(211,598)		(5,441,568)
Sewer System	(6,396,944)	(361,373)		(6,758,317)
Gas System	(1,152,967)	(48,652)		(1,201,619)
Total accumulated depreciation	(13,442,818)	(658,330)		(14,101,148)
Total capital assets being depreciated, net	5,654,333	(606,263)		5,048,070
Business-type activities capital assets, net \$	6,016,663 \$	(548,731) \$_		\$ 5,467,932

Depreciation was charged to functions as follows:

General Government	\$	195,994
Public Safety .		109,107
Parks and Recreation		281,882
Public Works		15,152
Streets		234,348
Water, Sewer and Gas	_	658,330
	\$_	1,494,813

E. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2014, consisted of the following:

Due To Fund	Due From Fund	 Amount	Purpose
Water Fund	Gas Fund	\$ 691,642	Short-term loans
General Fund	Permanent Fund	951	For transfer of federal receipts
General Fund	Other Governmental Fund	70,202	Short-term loans
General Fund	Debt Service Fund	960	Short-term loans
General Fund	General Fund	129	Short-term loans
Debt Service Fund	General Fund	7,477	Ad valorem tax collections
	Total	\$ 771,361	

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2014, consisted of the following:

Transfers From	Transfers To	 Amount	Reason
Enterprise Fund General fund Enterprise Funds	General Fund Other Governmental Funds Debt Service Fund Total	\$ 1,780,985 521,837 346,428 2,649,250	Reimburse expenditures Reimburse expenditures Debt payments

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, 2014, are as follows:

		Beginning Balance		Increases		Decreases	 Ending Balance		Amounts Due Within One Year
Governmental activities:									
General Obligation Bonds	\$		\$		\$		\$ \$	\$	
Certificates of Obligation		10,796,000				347,000	10,449,000		357,000
Adjustments for Deferred Ame	ount	s:							
Discounts and Premiums		31,663				1,583	30,080		
Compensated Absences		131,463		29,546			161,009		
Total governmental activities	\$_	10,959,126	\$_	29,546	\$_	348,583	\$ 10,640,089	\$_	357,000
Business-type activities:	-								
General Obligation Bonds	\$	270,000	\$		\$	40,000	\$ 230,000 \$	\$	40,000
Compensated Absences		21,933				7,893	14,040		
Total business-type activities	\$_	291,933	\$_		\$_	47,893	\$ 244,040	\$ <u></u>	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, 2014, are as follows:

		Governmental Activities						
Year Ending September 30,		Principal	Interest	Total				
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		403,000	364,554	767,554				
2020-2024		2,280,000	1,569,508	3,849,508				
2025-2029		2,786,000	1,065,724	3,851,724				
2030-2034		3,454,000	400,628	3,854,628				
2035-2038		32,000	990	32,990				
Totals	\$_	10,449,000 \$	4,978,420 \$	15,427,420				

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

Business-type A	Activities
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Year Ending September 30,	_	Principal	Interest	Total
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		70,000	5,000	75,000
Totals	\$_	230,000 \$	39,000	269,000

Bonds and Certificates of Obiligation:

Governmental Activities:

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

Balance at September 30, 2014 \$ 10,210,000

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, 2014 \$ 239,000

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, 2014 \$ 230,000

3. Continuing Disclosure

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

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 2014, 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

H. Pension Plan

Plan Description

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

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

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

	Plan Year 2013	<u>Plan Year 2014</u>
Employee deposit rate	5%	5%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	, 5
Service retirement eligibility - expressed		
as age/years of service	60/5, 0/25	60/5, 0/25
Updated service credit	100% repeating	100% repeating
Annuity increase to retirees	70% of CPI	70% of CPI

2. Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). 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 for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. 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. (i.e., the December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015).

3. Trend Information for the Plan

Fiscal	Annual		Actual	Percentage	Net
Year	Pension	C	Contribution	of APC	Pension
Ending	Cost (APC	C)	Made	Contributed	Obligation
September 30, 2012	\$ 261,	483 \$	261,483	100%	
September 30, 2013	284,	252	284,252	100%	
September 30, 2014	295,0	623	295,623	100%	

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date Actuarial Cost Method Amortization Method	12/31/2011 Projected Unit Credit Level Percent of Payroll	12/31/2012 Projected Unit Credit Level Percent of Payroll	12/31/2013 Entry Age Normal Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.4 years; closed period	25.3 years; closed period	16.0 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:	7 00/	7 00/	7 00/
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%

4. Funded Status and Funding Progress

In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2013, the most recent actuarial valuation date, is presented as follows:

		Actuarial				UAAL as a
Actuarial	Actuarial	Accrued				Percentage
Valuation	Value of	Liability		Unfunded AAL	Covered	of Covered
Date	Assets	(AAL)	Funded Ratio	(UAAL)	Payroll	Payroll
	(a)	(b)	(a/b)	(b-a)	(c)	(b-a)/c)
12/31/13	\$ 9.672.049	\$ 10,766,706	89.8%	\$ 1.094.657	\$ 3,364,231	32.5%

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

5. 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," or OPEB.

The City of Navasota offers supplemental death benefits to:

Active employees (yes or no)

Plan Year 2013

Yes

Yes

Yes

Yes

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 2014, 2013 and 2012 were \$1,420, \$1,324 and \$1,242, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates (Retiree-only portion of the rates)

		Annual	
Plan/	Annual Required	Contribution	Percentage
Calendar	Contribution	Made	of ARC
Year	(Rate)	(Rate)	Contributed
2012	0.04%	0.04%	100%
2013	0.04%	0.04%	100%
2014	0.04%	0.04%	100%

I. Health Care Coverage

During the year ended September 30, 2014, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$426 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

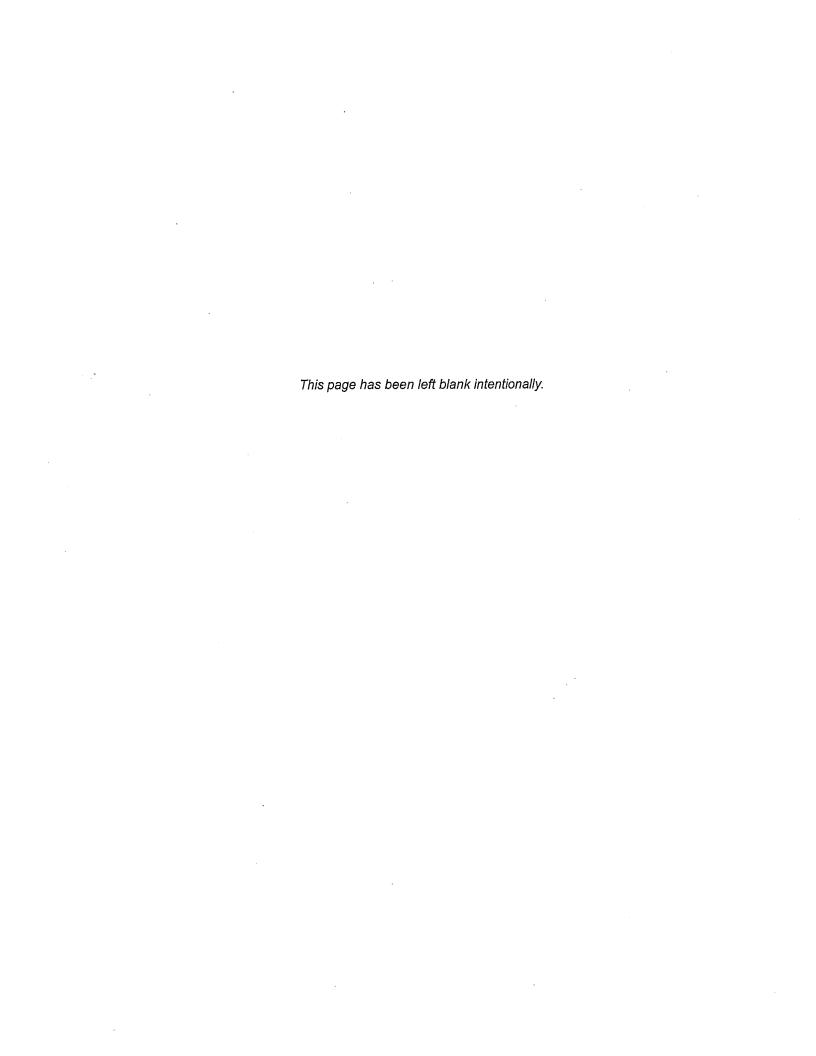
the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the City at September 30, 2014.

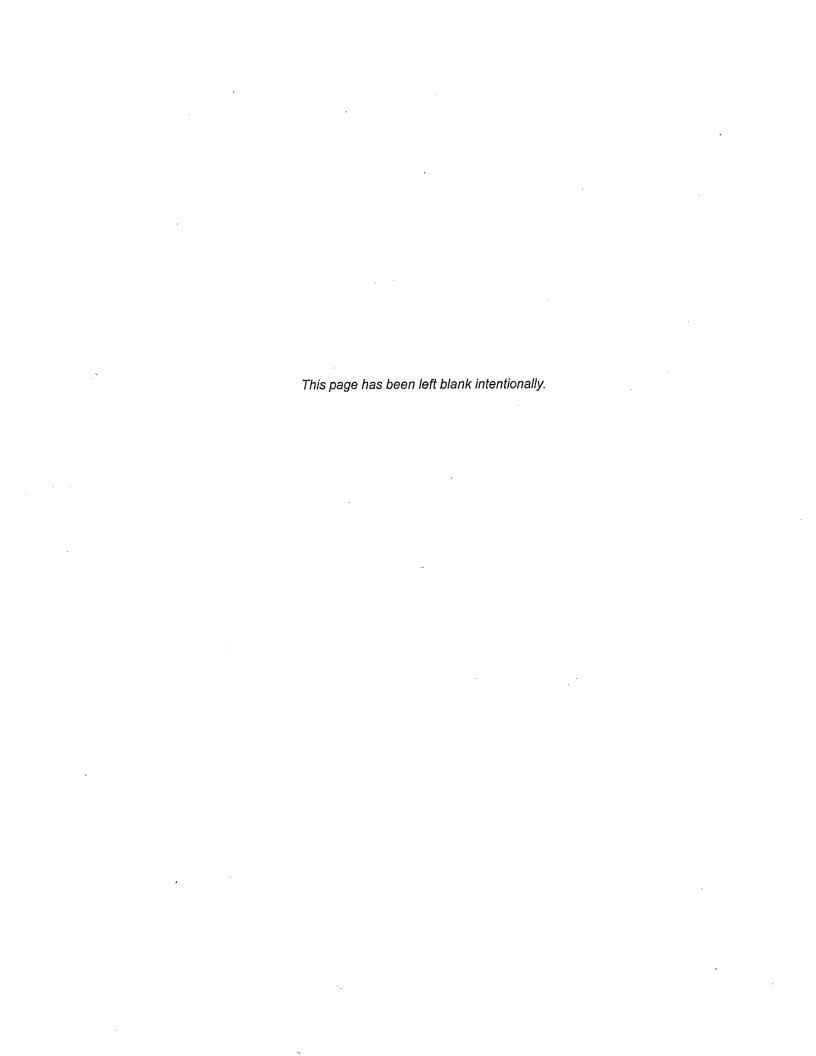
K. <u>Subsequent Events</u>

The City did not have any subsequent events through March 27, 2015, 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, 2014.



Required Supplementary Information

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



CITY OF NAVASOTA, TEXAS GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED SEPTEMBER 30, 2014

	_	Budgete Original	d Ar	mounts Final		Actual		Variance with Final Budget Positive (Negative)
Revenue:	_		_				_	<u> </u>
Taxes:								
General Property Taxes	\$	1,409,957	\$	1,409,957	\$	1,093,537	\$	(316,420)
General Sales and Use Taxes	•	1,510,000	•	1,510,000	•	2,087,862		`577,862 [´]
Franchise Taxes		304,000		304,000		332,589		28,589
Payment in Lieu of Taxes		1,300,000		1,300,000		1,284,457		(15,543)
License and Permits		62,000		62,000		78,023		16,023
Charges for Services		1,045,000		1,045,000		1,110,160		65,160
Municipal Court Fines		96,000		96,000		99,632		3,632
Fees		236,000		236,000		75,996		(160,004)
Investment Earnings		5,000		5,000		2,597		(2,403)
Rents and Leases		47,000		47,000		73,256		26,256
Economic Development		60,000		60,000		60,000		
Contributions and Grants		235,120		235,120		232,327		(2,793)
Miscellaneous Revenue		254,500		254,500		176,006		(78,494)
Total Revenues	_	6,564,577	_	6,564,577	_	6,706,442	_	141,865
			_			· ·		
Expenditures:								
Current:		2,552,121		2,651,476		2,572,746		78,730
Public Safety		2,552,121 544,021		492,257		487,779		4,478
Public Works		•		941,327		1,003,099		(61,772)
Sanitation		873,759 261,600		218,310		217,285		1,025
Transportation						956,642		49,411
Culture and Recreation		1,063,854		1,006,053		129,926		3,933
Judicial and Courts		133,757		133,859 587,970		545,596		42,374
Economic Development and Tourism		422,817		567,970		545,596		42,374
Debt Service: Interest and Fiscal Charges				1,000		1,000		
Total Expenditures	_	7,741,038	-	8,028,130	_	7,865,129	_	163,001
DOES NOT FOOT BY THIS AMOUNT>	_	(1,889,109)	-	(1,995,878)		(1,951,056)	-	(44,822)
Excess (Deficiency) of Revenues		(1,009,109)		(1,335,676)		(1,551,050)		(++,022)
Over (Under) Expenditures		(1,176,461)		(1,463,553)		(1,158,687)		304,866
Over (Onder) Experialities	_	(1,170,401)	-	(1,400,000)		(1,100,007)	-	
Other Financing Sources (Uses):								
Transfers In		1,778,343		1,778,343		1,780,985		2,642
Transfers Out		(601,881)		(602,881)		(521,836)		81,045
Total Other Financing Sources (Uses)	_	1,176,462	-	1,175,462	_	1,259,149	_	83,687
	_		-	<u> </u>	_		_	· · · · · · · · · · · · · · · · · · ·
Net Change in Fund Balances		1		(288,091)		100,462		388,553
Fund Balances - Beginning		1,572,470		1,572,470		1,572,470		
Fund Balances - Ending	\$	1,572,471	\$	1,284,379	\$_	1,672,932	\$_	388,553
- ,	=		=		_		=	

CITY OF NAVASOTA, TEXAS REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS TEXAS MUNICIPAL RETIREMENT SYSTEM YEAR ENDED SEPTEMBER 30, 2014

Actuarial Valuation Date	_	Actuarial Value of Assets (a)	A 	ctuarial 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)
12/31/2013	\$	9,672,049	\$	10,766,706	\$	1,094,657	89.8%	\$	3,364,231	32.5%
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%

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, 2014

		Special Revenue		Capital Projects Fund Capital	_	Permanent Fund Cemetery	_	Total Nonmajor Governmental Funds (See
ASSETS AND OTHER DEBITS:	_	Funds		Projects	_	Fund		Exhibit A-3)
AGGETG AND OTHER DEBITO.								
Assets:								
Cash and Cash Equivalents	\$	681,123	\$	305,957	\$	210,303	\$	1,197,383
Investments		90,384				120,789		211,173
Receivables (net of allowances for uncollectibles): Due from Other Governments		25,258						25,258 11,000
Total Assets and Other Debits	_ _	11,000 807,765	\$	305,957	s -	331,092	<u>\$</u>	1,444,814
Total Assets and Other Debits	Ψ_	007,703	Ψ	000,007	Ψ=	- JU1,032	Ψ_=	1,777,017
LIABILITIES, DEFERRED INFLOWS OF RESOURCES Liabilities:	ANI	D FUND BALAI	NCES					
Accounts Payable	\$	38,071	\$		\$		\$	38,071
Wages Payable		2,332						2,332
Due to Other Funds		70,202			_	951	_	71,153
Total Liabilities	_	110,605			_	951	_	111,556
Deferred Inflows of Resources:								
Fund Balances:								
Restricted Fund Balances:				005.057				005.057
Restricted for Capital Projects		400.077		305,957				305,957
Restricted for Tourism		493,677						493,677
Assigned: Special Revenue Funds		203,483						203,483
Permanent Funds		200,400				330,141		330,141
Total Fund Balance	_	697,160		305,957	_	330,141	_	1,333,258
Total Total Building	_			000,007	-	330,. !!	_	.,,
Total Liabilities, Deferred Inflows of Resources								
and Fund Balance	\$_	807,765	\$	305,957	\$_	331,092	\$_	1,444,814

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2014		Capital Projects Fund	Permanent Fund	Total Nonmajor
	Special Revenue Funds	Capital Projects	Cemetery Fund	Governmental Funds (See Exhibit A-5)
Revenue:				
Taxes:	Φ 000 000	Φ.	Φ	Ф 000,000
Hotel Motel Taxes	\$ 203,802 343,996	\$	\$	\$ 203,802 343,996
Fees Investment Earnings	343,996 784	425	 1,064	2,273
Contributions and Grants	724,020		1,007	724,020
Total Revenues	1,272,602	425	1,064	1,274,091
Total Hevenues	1,272,002			1,27 1,001
Expenditures:				
Current:	•			
General Government	961			961
Public Safety	1,250			1,250
Transportation	1,694,106			1,694,106
Special Projects	233,710	314,241		547,951
Total Expenditures	1,930,027	314,241		2,244,268
Excess (Deficiency) of Revenues			-	
Over (Under) Expenditures	(657,425	(313,816)	1,064	(970,177)
Other Financing Sources (Uses):				
Transfers In	520,308			520,308
Total Other Financing Sources (Uses)	520,308			520,308
Net Change in Fund Balances	(137,117	(313,816)	1,064	(449,869)
Fund Balances - Beginning	834,277	619,773	329,077	1,783,127
Fund Balances - Ending	\$ 697,160	\$ 305,957	\$ 330,141	\$ 1,333,258

CITY OF NAVASOTA, TEXAS COMBINING BALANCE SHEET NONMAJOR SPECIAL REVENUE FUNDS SEPTEMBER 30, 2014

ASSETS AND OTHER DEBITS:	Street Fund	Cemetery Operations Fund
Assets: Cash and Cash Equivalents Investments Receivables (net of allowances for uncollectibles): Due from Other Governments Total Assets and Other Debits	\$ 47,919 25,258 \$ 73,177	\$ 156,787 42,465 \$ 199,252
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AN Liabilities: Accounts Payable Wages Payable Due to Other Funds Total Liabilities Deferred Inflows of Resources:	\$ 643 2,332 70,202 73,177	\$ 26,428 26,428
Fund Balances: Restricted Fund Balances: Restricted for Tourism Assigned: Special Revenue Funds Total Fund Balance	<u></u>	172,824 172,824
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ <u>73,177</u>	\$199,252

	Board of Fireman Service		Grant Fund		otel/Motel upancy Tax Fund	Fi Fi	Total Ionmajor Special Revenue unds (See khibit C-1)
\$ \$	30,659 30,659	\$ 	 11,000 11,000	\$ \$	493,677 493,677	\$ \$	681,123 90,384 25,258 11,000 807,765
\$ 	 	\$ 	11,000 11,000	\$ 		\$	38,071 2,332 70,202 110,605
	30,659 30,659	_			493,677 493,677		493,677 203,483 697,160
\$	30, <u>659</u>	\$	11,000	\$	493,677	\$	807,765

CITY OF NAVASOTA, TEXASCOMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Street Fund	Cemetery Operations Fund
Revenue:		
Taxes:		
Hotel Motel Taxes	*\$	\$
Fees	302,281	41,715
Investment Earnings	417	. 367
Contributions and Grants		
Total Revenues	302,698	42,082
Expenditures:		
Current:		
General Government	4-	961
Public Safety		=-
Transportation	941,123	
Special Projects	<u></u>	
Total Expenditures	941,123	961
Excess (Deficiency) of Revenues		
Over (Under) Expenditures	(638,425)	41,121
Other Financing Sources (Uses):		
Transfers In	491,345	
Total Other Financing Sources (Uses)	491,345	
Net Change in Fund Balances	(147,080)	41,121
Fund Balances - Beginning	147,080	131,703
Fund Balances - Ending	\$	\$ <u>172,824</u>

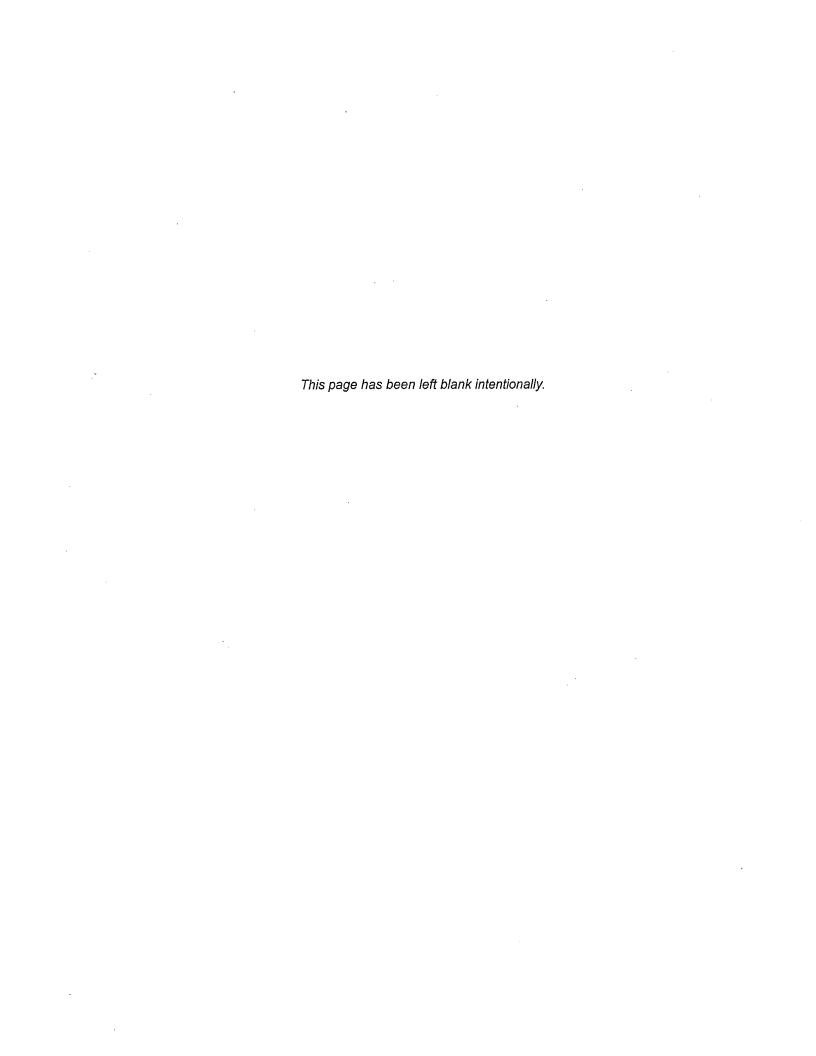
_	Board of Fireman Service	 Grant Fund	otel/Motel upancy Tax Fund		Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ 	 	\$ 724,020 724,020	\$ 203,802	\$	203,802 343,996 784 724,020 1,272,602
_	1,250 1,250 (1,250)	 752,983 752,983 (28,963)	 233,710 233,710 (29,908)	_	961 1,250 1,694,106 233,710 1,930,027 (657,425)
_	(1,250)	28,963 28,963	 (29,908)	- -	520,308 520,308 (137,117)
\$	31,909 30,659	\$ 	\$ 523,585 493,677	\$	834,277 697,160

CITY OF NAVASOTA, TEXAS STREET FUND SPECIAL REVENUE FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budget	Actual	Variance Positive (Negative)
Revenue:			
Taxes:			
Fees	\$ 263,560	\$ 302,281	\$ 38,721
Investment Earnings	1,000	417	(583)
Total Revenues	264,560	302,698	38,138
Expenditures:			
Current:	1 100 064	041 122	179 0/1
Transportation	1,120,064	941,123	<u>178,941</u> 178,941
Total Expenditures	1,120,064	941,123	170,941
Excess (Deficiency) of Revenues	(855,504)	(638,425)	217,079
Over (Under) Expenditures	(635,304)	(030,423)	217,073
Other Financing Sources (Uses):			
Transfers In	726,604	491,345	(235,259)
Total Other Financing Sources (Uses)	726,604	491,345	(235,259)
Polar Cirior Financing Cources (Cases)			
Net Change in Fund Balances	(128,900)	(147,080)	(18,180)
1101 0 11 and 2 an	, , ,		,
Fund Balances - Beginning	147,080	147,080	
Fund Balances - Ending	\$ 18,180	\$	\$ (18,180)
			<u></u>

CITY OF NAVASOTA, TEXAS DEBT SERVICE FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED SEPTEMBER 30, 2014

Revenue:	Budget	Actual	Variance Positive (Negative)
Taxes:			
General Property Taxes	\$	\$ <u>400,748</u>	\$400,748
Total Revenues		400,748	400,748
		•	
Expenditures:			
Debt Service:			
Principal	446,504	347,000	99,504
Interest and Fiscal Charges	327,000	426,188	(99,188)
Total Expenditures	773,504	773,188	316
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(773,504)	(372,440)	401,064
Other Financing Sources (Uses):			
Transfers In	773,506	<u>347,957</u>	(425,549)
Total Other Financing Sources (Uses)	773,506	347,957	(425,549)
	 		
Net Change in Fund Balances	2	(24,483)	(24,485)
Fund Balances - Beginning	321,065_	321,065	
Fund Balances - Ending	\$ <u>321,067</u>	\$ <u>296,582</u>	\$ (24,485)



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.





DAVIS, HEINEMANN & COMPANY, P.C.

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FAX (936) 291-9607

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, 2014, 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 March 27, 2015.

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*.

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, Leineman + Co.

Davis, Heinemann & Company, P.C.

Huntsville, Texas March 27, 2015

CITY OF NAVASOTA, TEXASSCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Α.	Summary	of Auditor's	Results
--	----	---------	--------------	---------

1.	Financial Statements			
	Type of auditor's report issued:	<u>Unmodified</u>		
	Internal control over financial reporting:			
	One or more material weaknesses identified?	Yes	<u>X</u>	No
	One or more significant deficiencies identified that are not considered to be material weaknesses?	Yes	<u>X</u>	None Reported
	Noncompliance material to financial statements noted?	Yes	X	No
<u>Fina</u>	ancial Statement Findings			

B.

NONE

CITY OF NAVASOTA, TEXASSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED SEPTEMBER 30, 2014

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

