

**CITY OF GRANITE SHOALS, TEXAS**

**Annual Financial Report**

**For the Year Ended September 30, 2010**

CITY OF GRANITE SHOALS, TEXAS

Annual Financial Report  
For the Year Ended September 30, 2010

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INTRODUCTORY SECTION

CITY OF GRANITE SHOALS, TEXAS

City Officials

Frank Riley.....Mayor

Dennis Maler.....Mayor Pro-Tem

David Dittmar ..... Council Member

Carl Brugger..... Council Member

Bessie Jackson ..... Council Member

Shirley King ..... Council Member

Slayton Marks ..... Council Member

## INDEPENDENT AUDITORS' REPORT

To the City Council  
City of Granite Shoals, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Granite Shoals, Texas (the City), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the Texas Municipal Retirement System schedule of funding progress on pages 4 through 11, 40 through 41, and 42, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The budgetary comparison schedule, the schedule of changes in capital assets, and the schedule of bonded indebtedness are presented for purposes of additional analysis and are not a required part of the financial statements. The budgetary comparison schedule, the schedule of changes in capital assets, and the schedule of bonded indebtedness have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

San Antonio, Texas  
September 30, 2011



## CITY OF GRANITE SHOALS, TEXAS

### Management's Discussion and Analysis For the Year Ended September 30, 2010

As management of the City of Granite Shoals, Texas (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the year ended September 30, 2010. Please read it in conjunction with the independent auditors' report on page 2, and the City's Basic Financial Statements which begin on page 12.

#### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5,678,420 (net assets). Of this amount, \$989,843 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net assets decreased by \$866,025 as a result of this year's operations. Prior period adjustments increased the City's prior year net assets by \$17,498.
- At September 30, 2010, the City's governmental funds reported combined ending fund balances of \$607,811, a decrease of \$1,027,757 in comparison with the prior year (including a decrease in fund balances of \$1,083,082 and prior period adjustments increasing prior year's fund balances by \$55,325).
- At September 30, 2010, the City's Utility Fund reported net assets of \$4,084,087, a decrease of \$861,654 in comparison with the prior year (including a decrease in net assets of \$823,827 and prior period adjustments decreasing prior year's net assets by \$37,827).

#### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 12 and 13). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (beginning on page 14) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 20) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (operating fund) is presented as required supplementary information on page 40.

## CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2010

### **Reporting the City as a Whole**

#### **The Statement of Net Assets and the Statement of Activities**

The analysis of the City's overall financial condition and operations begins on page 12. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider other factors as well, such as changes in the City's customers or its property tax base and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, the City has two kinds of activity:

- **Governmental activity** - Most of the City's basic services are reported here, including the public safety, public works, municipal court and administration. Property taxes, user charges, sales tax and franchise tax finance most of these activities.
- **Business-type activity** - The City's utility system is reported as a business-type activity since the fees charged to customers cover the cost of services provided.

### **Reporting the City's Most Significant Funds**

#### **Fund Financial Statements**

The fund financial statements provide detailed information about the 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.

## CITY OF GRANITE SHOALS, TEXAS

### Management's Discussion and Analysis For the Year Ended September 30, 2010

The City has two kinds of funds:

- **Governmental funds** - All of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash), and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in Note A to the financial statements.
- **Proprietary funds** - Services for which the City charges customers a fee are generally reported in proprietary funds. The City's enterprise fund (Utility) is a business-type activity and provides both long and short-term financial information.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the City's governmental and business-type activities.

Net assets of the City's governmental activities increased from \$1,581,206 to \$1,594,333. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, was \$314,899 at September 30, 2010. This increase in governmental net assets was the result of several factors. First, the City's expenditures exceeded the revenues by \$405,720. Second, the City issued long-term debt of \$750,000, paid principal on long-term debt in the amount of \$170,466 and acquired capital assets in the amount of \$1,954,042. The City recorded depreciation in the amount of \$226,422. The City also had prior period adjustments that increased beginning net assets by \$55,325.

Net assets of the City's business-type activities decreased from \$4,945,741 to \$4,084,087. Unrestricted net assets were \$674,944 at September 30, 2010. This decrease in business-type net assets was the result of a net loss of \$460,305, transfers out to the governmental activities of \$363,522, and prior period adjustments decreasing beginning net assets by \$37,827.

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2010

**Table I**  
**NET ASSETS**

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 983,384	\$ 1,891,762	\$ 700,556	\$ 622,850	\$ 1,683,940	\$ 2,514,612
Restricted assets	-	-	378,441	790,995	378,441	790,995
Bond issuance costs	75,788	64,619	158,956	173,070	234,744	237,689
Capital assets, net	6,771,317	5,049,235	9,574,747	10,245,870	16,346,064	15,295,105
Total assets	<u>7,830,489</u>	<u>7,005,616</u>	<u>10,812,700</u>	<u>11,832,785</u>	<u>18,643,189</u>	<u>18,838,401</u>
Current liabilities	422,383	190,171	184,568	149,284	606,951	339,455
Payable from restricted assets	-	-	249,045	237,090	249,045	237,090
Long-term liabilities	5,813,773	5,234,239	6,295,000	6,500,670	12,108,773	11,734,909
Total liabilities	<u>6,236,156</u>	<u>5,424,410</u>	<u>6,728,613</u>	<u>6,887,044</u>	<u>12,964,769</u>	<u>12,311,454</u>
Net assets:						
Invested in capital assets, net of related debt	1,105,835	1,050,970	3,279,747	3,868,490	4,385,582	4,919,460
Restricted for:						
Debt service	173,599	396,447	129,396	790,995	302,995	1,187,442
Sherwood Shores	-	103,542	-	-	-	103,542
Unrestricted	314,899	30,247	674,944	286,256	989,843	316,503
Total net assets	<u>\$ 1,594,333</u>	<u>\$ 1,581,206</u>	<u>\$ 4,084,087</u>	<u>\$ 4,945,741</u>	<u>\$ 5,678,420</u>	<u>\$ 6,526,947</u>

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2010

Table II

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
Charges for services	\$ 472,250	\$ 311,910	\$ 1,502,881	\$ 1,577,338	\$ 1,975,131	\$ 1,889,248
Operating grants & contributions	163	83,026	-	-	163	83,026
Capital grants & contributions	-	-	208,583	27,000	208,583	27,000
Property taxes	1,772,476	1,570,139	-	-	1,772,476	1,570,139
Sales taxes	71,815	63,953	-	-	71,815	63,953
Franchise & other taxes	116,932	74,978	-	-	116,932	74,978
Penalty & interest	-	21,378	-	-	-	21,378
Grants & contributions not restricted	-	34,331	-	-	-	34,331
Miscellaneous	38,859	144,298	7,819	87,410	46,678	231,708
Interest	2,229	13,382	1,510	8,265	3,739	21,647
<b>Total revenue</b>	<b>2,474,724</b>	<b>2,317,395</b>	<b>1,720,793</b>	<b>1,700,013</b>	<b>4,195,517</b>	<b>4,017,408</b>
<b>Expenses:</b>						
Municipal court	113,873	106,810	-	-	113,873	106,810
Financial administration	918,755	724,029	-	-	918,755	724,029
Police	751,993	711,252	-	-	751,993	711,252
Fire protection	265,801	243,754	-	-	265,801	243,754
Highways and streets	475,627	382,459	-	-	475,627	382,459
Animal control	45,577	87,883	-	-	45,577	87,883
Building inspection	-	17,287	-	-	-	17,287
Parks	57,765	99,967	-	-	57,765	99,967
Interest	240,759	227,389	-	-	240,759	227,389
Amortization of issuance costs	4,756	3,746	-	-	4,756	3,746
Loss on disposal of assets	5,538	-	614,691	-	620,229	-
Utility	-	-	1,566,407	1,272,210	1,566,407	1,272,210
<b>Total expenses</b>	<b>2,880,444</b>	<b>2,604,576</b>	<b>2,181,098</b>	<b>1,272,210</b>	<b>5,061,542</b>	<b>3,876,786</b>
<b>Increase (decrease) in net assets before transfers and capital contributions</b>						
	(405,720)	(287,181)	(460,305)	427,803	(866,025)	140,622
Transfers	363,522	528,645	(363,522)	(528,645)	-	-
Net assets - beginning	1,581,206	1,339,742	4,945,741	5,046,583	6,526,947	6,386,325
Prior period adjustments	55,325	-	(37,827)	-	17,498	-
<b>Net assets - ending</b>	<b>\$ 1,594,333</b>	<b>\$ 1,581,206</b>	<b>\$ 4,084,087</b>	<b>\$ 4,945,741</b>	<b>\$ 5,678,420</b>	<b>\$ 6,526,947</b>

CITY OF GRANITE SHOALS, TEXAS

Management’s Discussion and Analysis  
For the Year Ended September 30, 2010

The cost of all governmental activities this year was \$2,880,244. However, as shown in the Statement of Activities on page 13, the amount that our taxpayers ultimately financed for these activities through City property taxes was only \$1,772,476 because the other costs were paid by sales tax \$71,815), franchise and other taxes (\$116,932), investment earnings (\$2,229), grants and contributions (\$163), user charges (\$472,250) and other miscellaneous (\$38,859).

THE CITY’S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$607,811, which is less than last year’s total of \$1,635,568. Included in this year’s total change in fund balance is a increase of \$39,237 in the City’s General Fund.

The City adopted the General Fund Budget. Actual revenues were less than the budgeted amounts and actual expenditures were less than budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2010, the City had the following amounts invested in capital assets:

CAPITAL ASSETS

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land	\$ 1,725,805	\$ 1,725,805	\$ 17,802	\$ 17,802	\$ 1,743,607	\$ 1,743,607
Mineral rights	394,750	-	-	-	394,750	-
Buildings	4,028,529	2,738,725	2,189	25,880	4,030,718	2,764,605
Improvements	685,848	523,241	10,846,151	12,288,949	11,531,999	12,812,190
Machinery and equipment	1,577,031	1,745,988	95,151	292,552	1,672,182	2,038,540
Construction in progress	-	-	-	27,000	-	27,000
Total capital assets	8,411,963	6,733,759	10,961,293	12,652,183	19,373,256	19,385,942
Less:						
Accumulated depreciation	(1,640,646)	(1,684,524)	(1,386,543)	(2,406,310)	(3,027,189)	(4,090,834)
Net fixed assets	\$ 6,771,317	\$ 5,049,235	\$ 9,574,750	\$ 10,245,873	\$ 16,346,067	\$ 15,295,108

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2010

**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

This year's major additions included:

	Governmental Activities	Business-Type Activities
Mineral rights	\$ 394,750	\$ -
Buildings	1,385,760	-
Improvements	162,607	208,583
Machinery and equipment	10,925	13,945
Total additions	<u>\$ 1,954,042</u>	<u>\$ 222,528</u>

More detailed information about the City's capital assets is presented in Note H to the financial statements.

For business-type activities, the City paid principal of \$170,466 during the year.

More detailed information about the City's long-term liabilities is presented in Note I to the financial statements.

**OUTSTANDING DEBT**

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Tax anticipation notes	\$ -	\$ 64,330	\$ -	\$ 60,670	\$ -	\$ 125,000
Certificates of obligation	5,630,000	4,950,000	6,295,000	6,440,000	11,925,000	11,390,000
Capital leases	183,754	219,890	-	-	183,754	219,890
Total outstanding debt	<u>\$ 5,813,754</u>	<u>\$ 5,234,220</u>	<u>\$ 6,295,000</u>	<u>\$ 6,500,670</u>	<u>\$ 12,108,754</u>	<u>\$ 11,734,890</u>

**ECONOMIC FACTORS AND 2010-2011 FISCAL YEAR BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the fiscal year 2011 budget and tax rates. Those major indicators were economy, population growth, and assessed property valuation. Amounts available for appropriation in the General Fund budget are \$2,349,266 (including transfers from the utility fund of \$894,729) and expenditures are estimated to be \$2,322,360.

This is a very conservative budget. No City programs have been added, salaries will be maintained at the current rates with no increases, no new personnel will be added, and no new equipment is being requested.

A water rate increase of 9.5% is projected in the Water Fund budget which is a "pass-through" of water cost increases from the Lower Colorado River Authority (LCRA). The rate increase will increase the City minimum water bill by \$3.20 per month.

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2010

**ECONOMIC FACTORS AND 2010-2011 FISCAL YEAR BUDGETS AND RATES  
(CONTINUED)**

Included in this budget is a \$0.018 tax rate increase to cover the \$750,000 in Certificates of Obligation approved by the City Council on July 13, 2010. The City's approved tax rate for 2011 will be \$0.448 per \$100 of property valuation.

With the overall economy showing little to no recovery, the budget projects a slight increase in overall revenue from property valuation, population growth and sales tax.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show 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 business office, at City of Granite Shoals, Granite Shoals, Texas.

## BASIC FINANCIAL STATEMENTS

CITY OF GRANITE SHOALS, TEXAS

Statement of Net Assets  
September 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 807,805	\$ 484,736	\$ 1,292,541
Investments	74,919	-	74,919
Accounts Receivable (Net of Allowance for Uncollectibles)	100,660	215,820	316,480
Prepaid expenses	-	-	-
Total current assets	<u>983,384</u>	<u>700,556</u>	<u>1,683,940</u>
Noncurrent assets			
Restricted cash and cash equivalents	-	76,282	76,282
Restricted investments	-	302,159	302,159
Bond issue costs, net of amortization	75,788	158,956	234,744
Capital assets:			
Land	1,725,805	17,802	1,743,607
Mineral rights	394,750	-	394,750
Buildings, net	3,742,164	1,870	3,744,034
Improvements, net	605,332	9,532,146	10,137,478
Machinery and equipment, net	303,266	22,929	326,195
Total noncurrent assets	<u>6,847,105</u>	<u>10,112,144</u>	<u>16,959,249</u>
<b>Total assets</b>	<u>7,830,489</u>	<u>10,812,700</u>	<u>18,643,189</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	265,226	132,988	398,214
Accrued payroll liabilities	107,119	1,669	108,788
Accrued interest payable	50,038	49,911	99,949
Deferred revenues	-	-	-
Total current liabilities	<u>422,383</u>	<u>184,568</u>	<u>606,951</u>
Payable from restricted assets			
Customer deposits	-	249,045	249,045
Total payable from restricted assets	<u>-</u>	<u>249,045</u>	<u>249,045</u>
Long-term liabilities			
Due within one year	286,544	150,000	436,544
Due in more than one year	5,527,229	6,145,000	11,672,229
Total long-term liabilities	<u>5,813,773</u>	<u>6,295,000</u>	<u>12,108,773</u>
<b>Total liabilities</b>	<u>6,236,156</u>	<u>6,728,613</u>	<u>12,964,769</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,105,835	3,279,747	4,385,582
Restricted for:			
Debt service	173,599	129,396	302,995
Unrestricted net assets	314,899	674,944	989,843
<b>Total net assets</b>	<u>\$ 1,594,333</u>	<u>\$ 4,084,087</u>	<u>\$ 5,678,420</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

CITY OF GRANITE SHOALS, TEXAS

Statement of Activities  
For the Year Ended September 30, 2010

Functions and Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total Primary Government
<b>Primary government</b>							
<b>Governmental activities:</b>							
Municipal court	\$ 113,873	\$ 75,609	\$ -	\$ -	\$ (38,264)	\$ -	\$ (38,264)
Financial administration	918,755	221,259	-	-	(697,496)	-	(697,496)
Police	751,993	-	-	-	(751,993)	-	(751,993)
Fire protection	265,801	28,228	-	-	(237,573)	-	(237,573)
Highways and streets	475,627	-	-	-	(475,627)	-	(475,627)
Building inspection	-	58,259	-	-	58,259	-	58,259
Animal control	45,577	495	-	-	(45,082)	-	(45,082)
Parks	57,765	88,400	163	-	30,798	-	30,798
Debt service:							
Interest	240,759	-	-	-	(240,759)	-	(240,759)
Amortization of bond issuance costs	4,756	-	-	-	(4,756)	-	(4,756)
<b>Total governmental activities</b>	<u>2,874,906</u>	<u>472,250</u>	<u>163</u>	<u>-</u>	<u>(2,402,493)</u>	<u>-</u>	<u>(2,402,493)</u>
<b>Business-type activities:</b>							
Water	1,566,407	1,502,881	-	208,583	145,057	145,057	145,057
<b>Total business-type activities</b>	<u>1,566,407</u>	<u>1,502,881</u>	<u>-</u>	<u>208,583</u>	<u>145,057</u>	<u>145,057</u>	<u>145,057</u>
<b>Total primary government</b>	<u>\$ 4,441,313</u>	<u>\$ 1,975,131</u>	<u>\$ 163</u>	<u>\$ 208,583</u>	<u>\$ 145,057</u>	<u>\$ 145,057</u>	<u>\$ (2,257,436)</u>
<b>General revenues:</b>							
Property taxes					1,772,476	-	1,772,476
Sales taxes					71,815	-	71,815
Franchise taxes					116,765	-	116,765
Other taxes					167	-	167
Loss on disposal of fixed assets					(5,538)	(614,691)	(620,229)
Interest					2,229	1,510	3,739
Miscellaneous					38,859	7,819	46,678
<b>Total general revenues</b>					<u>1,996,773</u>	<u>(605,362)</u>	<u>1,391,411</u>
Change in net assets before transfers					(405,720)	(460,305)	(866,025)
Transfers In (Out)					363,522	(363,522)	-
<b>Change in net assets</b>					<u>(42,198)</u>	<u>(823,827)</u>	<u>(866,025)</u>
Net assets at the beginning of the year					1,581,206	4,945,741	6,526,947
Prior period adjustments					55,325	(37,827)	17,498
Net assets at the beginning of the year (restated)					<u>1,636,531</u>	<u>4,907,914</u>	<u>6,544,445</u>
<b>Net assets at the end of the year</b>					<u>\$ 1,594,333</u>	<u>\$ 4,084,087</u>	<u>\$ 5,678,420</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

CITY OF GRANITE SHOALS, TEXAS

Balance Sheet – Governmental Funds  
September 30, 2010

	General Fund	Sherwood Shores Trust Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 471,421	\$ 47,334	\$ 275,050	\$ 14,000	\$ 807,805
Investments	65,984	8,935	-	-	74,919
Taxes receivable	41,308	-	58,847	-	100,155
Allowance for uncollectible taxes	(2,065)	-	(2,942)	-	(5,007)
Other Receivables (net of allowances)	5,512	-	-	-	5,512
Due from other funds	-	-	260,825	-	260,825
Prepaid Items	-	-	-	-	-
<b>Total assets</b>	<u>\$ 582,160</u>	<u>\$ 56,269</u>	<u>\$ 591,780</u>	<u>\$ 14,000</u>	<u>\$ 1,244,209</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 241,626	\$ 6,741	\$ -	\$ 16,859	\$ 265,226
Accrued payroll liabilities	106,888	231	-	-	107,119
Due to other funds	260,825	-	-	-	260,825
Deferred revenue	2,990	-	238	-	3,228
<b>Total liabilities</b>	<u>612,329</u>	<u>6,972</u>	<u>238</u>	<u>16,859</u>	<u>636,398</u>
<b>FUND BALANCES</b>					
Unreserved, reported in:					
General fund	(30,169)	-	-	-	(30,169)
Special revenue funds	-	49,297	-	-	49,297
Debt service fund	-	-	591,542	-	591,542
Capital project fund	-	-	-	(2,859)	(2,859)
<b>Total fund balances</b>	<u>(30,169)</u>	<u>49,297</u>	<u>591,542</u>	<u>(2,859)</u>	<u>607,811</u>
<b>Total liabilities and fund balances</b>	<u>\$ 582,160</u>	<u>\$ 56,269</u>	<u>\$ 591,780</u>	<u>\$ 14,000</u>	

Amounts reported for governmental activities in the Statement of Net Assets are difference because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund, net of accumulated depreciation of \$1,640,646.	6,771,317
Property taxes receivable are unavailable to pay current expenses and will be collected after year-end, therefore they are deferred in the funds.	3,228
Bond issue costs which will be amortized in future years are expended in the funds when incurred.	75,788
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Notes, bonds, and capital leases payable	(5,813,773)
Accrued compensated absences	
Accrued interest Payable	(50,038)
<b>Net Assets of Governmental Activities</b>	<u>\$ 1,594,333</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

CITY OF GRANITE SHOALS, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
For the Year Ended September 30, 2010

	General Fund	Sherwood Shores Trust Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
<b>REVENUES</b>					
Taxes:					
Property taxes	\$ 784,977	\$ -	\$ 1,062,398	\$ -	\$ 1,847,375
General sales and use tax	71,815	-	-	-	71,815
Franchise taxes	116,765	-	-	-	116,765
Other taxes	167	-	-	-	167
Licenses and permits	303,311	-	-	-	303,311
Intergovernmental revenue	28,228	-	-	-	28,228
Charges for services	75	64,741	-	-	64,816
Fines	100,149	-	-	-	100,149
Investment earnings	1,061	37	319	812	2,229
Rents and royalties	-	286	-	-	286
Contributions and donations from private sources	-	163	-	-	163
Other revenue	30,120	8,739	-	-	38,859
<b>Total revenues</b>	<u>1,436,668</u>	<u>73,966</u>	<u>1,062,717</u>	<u>812</u>	<u>2,574,163</u>
<b>EXPENDITURES</b>					
Current:					
General government:					
Municipal court	113,873	-	-	-	113,873
Financial administration	827,766	-	-	1,943,226	2,770,992
Public safety:					
Police	699,173	-	-	-	699,173
Fire protection	235,985	-	-	-	235,985
Public works:					
Highways and streets	450,882	-	-	-	450,882
Health and welfare:					
Animal control	45,360	-	-	-	45,360
Culture and recreation:					
Parks	-	40,746	-	-	40,746
Debt Service:					
Principal	36,136	-	134,330	-	170,466
Interest	3,876	-	223,489	-	227,365
Bond Issuance Costs	-	-	-	15,925	15,925
<b>Total expenditures</b>	<u>2,413,051</u>	<u>40,746</u>	<u>357,819</u>	<u>1,959,151</u>	<u>4,770,767</u>
Excess (deficiency) of revenues over (under) expenditures	(976,383)	33,220	704,898	(1,958,339)	(2,196,604)
<b>OTHER FINANCING SOURCES (USES)</b>					
Bond proceeds	-	-	-	750,000	750,000
Transfers in	873,325	-	-	-	873,325
Transfers out	-	-	(509,803)	-	(509,803)
<b>Total other financing sources (uses)</b>	<u>873,325</u>	<u>-</u>	<u>(509,803)</u>	<u>750,000</u>	<u>1,113,522</u>
<b>Change in fund balances</b>	(103,058)	33,220	195,095	(1,208,339)	(1,083,082)
Total fund balance-beginning of year	(69,406)	103,542	396,447	1,204,985	1,635,568
Prior period adjustments	142,295	(87,465)	-	495	55,325
Total fund balance-beginning of year (restated)	<u>72,889</u>	<u>16,077</u>	<u>396,447</u>	<u>1,205,480</u>	<u>1,690,893</u>
<b>Total fund balance-end of year</b>	<u>\$ (30,169)</u>	<u>\$ 49,297</u>	<u>\$ 591,542</u>	<u>\$ (2,859)</u>	<u>\$ 607,811</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

CITY OF GRANITE SHOALS, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
For the Year Ended September 30, 2010

**Change in fund balances - governmental funds** \$ (1,083,082)

Amounts reported in governmental activities and in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are capitalized. 1,950,242

Capital assets are not recorded in government funds and are not therefore depreciated. However, in the Statement of Activities these assets are depreciated over their estimated useful lives. (226,422)

Capital asset deletions are not recorded in the governmental funds. However, in the Statement of Activities the net book value remaining of capital asset deletions are expensed. 3,800

Revenues that are deferred in governmental activities because they do not provide current financial resources are not deferred in the Statement of Activities.

Property tax revenue (74,899)

Repayments of bond, note, and capital lease principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the Statement of Net Assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.

Bond, loan, and capital lease principal payments	\$ 170,466	
Amortization of bond issuance costs	11,169	
	<hr/>	181,635

Proceeds from bond issues and notes are recorded as other resources in the fund statements, but is liabilities in the government-wide statements. (750,000)

Some revenues and expenses reported in the Statement of Activities do not require the use of current financial resources are therefore are not reported as expenditures in the governmental funds.

Loss on disposal of fixed assets	\$ (5,538)	
Court fines receivable	(24,540)	
Change in accrued interest payable	(13,394)	
	<hr/>	(43,472)

**Change in net assets of governmental activities** \$ (42,198)

The Accompanying Notes are an Integral Part of These Financial Statements.

CITY OF GRANITE SHOALS, TEXAS

Statement of Net Assets – Proprietary Funds  
September 30, 2010

	<u>Business Type</u> <u>Activities</u> <u>Utility Fund</u>
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 484,736
Accounts receivable-net of allowance for uncollectibles	153,262
Grants Receivable	62,558
<b>Total current assets</b>	<u>700,556</u>
<b>Non-current assets:</b>	
Restricted cash and cash equivalents	76,282
Restricted Investments	302,159
Bond issue costs, net of amortization	158,956
<b>Capital assets:</b>	
Land	17,802
Buildings	2,189
Improvements	10,846,151
Machinery and equipment	95,148
Accumulated depreciation	(1,386,543)
<b>Net capital assets</b>	<u>9,574,747</u>
<b>Total assets</b>	<u>10,812,700</u>
<b>LIABILITIES</b>	
Accounts payable	132,988
Accrued payroll liabilities	1,669
Accrued interest	49,911
Bonds payable - current portion	150,000
<b>Total current liabilities</b>	<u>334,568</u>
<b>Non-current liabilities:</b>	
Bonds payable - long term portion	6,145,000
Payable from restricted assets:	
Customer deposits payable	249,045
<b>Total liabilities</b>	<u>6,728,613</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	3,279,747
Restricted net assets:	
Debt Service	129,396
Unrestricted net assets	674,944
<b>Total net assets</b>	<u>\$ 4,084,087</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

CITY OF GRANITE SHOALS, TEXAS

Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds  
For the Year Ended September 30, 2010

	<b>Business Type</b>
	<b>Activities</b>
	<b>Utility Fund</b>
<b>OPERATING REVENUES</b>	
Charges for water services	\$ 1,391,590
Charges for sanitation services	49,152
Franchise fees	35,751
Rents and royalties	26,388
Other revenue	7,819
<b>Total operating revenues</b>	<u>1,510,700</u>
<b>OPERATING EXPENSES</b>	
Water:	
Personnel services - salaries and wages	206,800
Personnel services - employee benefits	69,978
Purchased professional and technical services	15,437
Purchases property services	61,152
Other operating expenses	461,722
Supplies	153,980
Total Water	<u>969,069</u>
Depreciation	<u>278,961</u>
<b>Total expenses</b>	<u>1,248,030</u>
<b>Total operating income</b>	262,670
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Amortization of bond issuance costs	(14,114)
Investment earnings	1,510
Interest expense	(304,263)
Loss on disposal of equipment	(614,691)
<b>Total non-operating revenues (expenses)</b>	<u>(931,558)</u>
<b>Net income before capital grants and transfers</b>	(668,888)
Capital Grants	<u>208,583</u>
<b>TRANSFERS</b>	
Transfers in	509,803
Transfers out	(873,325)
<b>Total transfers</b>	<u>(363,522)</u>
<b>Change in net assets</b>	(823,827)
Total net assets-beginning of year	4,945,741
Prior period adjustments	(37,827)
Total net assets-beginning of year (restated)	<u>4,907,914</u>
<b>Total net assets-end of year</b>	<u>\$ 4,084,087</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

CITY OF GRANITE SHOALS, TEXAS

Statement of Cash Flows – Proprietary Funds  
For the Year Ended September 30, 2010

	<u>Business-Type Activities Utility Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,464,660
Receipts from franchise fees	35,751
Other cash receipts	34,207
Payments to suppliers for goods and services	(568,777)
Payments to employees for salaries and benefits	(281,573)
<b>Net cash provided by operating activities</b>	<u>684,268</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	(990,574)
Transfers from other funds	509,803
<b>Net cash used by non-capital financing activities</b>	<u>(480,771)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from capital grants	146,025
Purchase of capital assets	(222,528)
Principal paid on debt	(205,670)
Interest and fiscal charges paid	(304,133)
<b>Net cash used by capital and related financing activities</b>	<u>(586,306)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	1,510
<b>Net cash provided by investing activities</b>	<u>1,510</u>
<b>Net decrease in cash and cash equivalents</b>	(381,299)
<b>Cash and cash equivalents at beginning of period (as restated)</b>	<u>1,244,476</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 863,177</u>
<b>CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 262,670
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	278,961
Prior period adjustments	(37,827)
Change in assets and liabilities:	
Accounts receivable	11,963
Prepaid expenses	4,144
Accounts payable	42,159
Accrued expenses	(4,795)
Intergovernmental payable	(2,211)
Customer deposits payable	11,955
<b>Net cash provided by operating activities</b>	<u>\$ 567,019</u>
Cash and cash equivalents at end of period consist of:	
Cash and cash equivalents	\$ 484,736
Restricted cash and cash equivalents	76,282
Restricted investments	302,159
<b>Cash and cash equivalents at end of period</b>	<u>\$ 863,177</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

## CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

### Note A – Summary of Significant Accounting Policies

The financial statements of the City of Granite Shoals, Texas (the City), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

#### **Financial Reporting Entity**

The City is a home rule municipal government in Burnet County, Texas which operates under Council-Manager form of government and provides such services as public safety, highways, streets, sanitation and water, culture, recreation, public improvements, planning and zoning, general administrative, and other services as are authorized by its code of ordinances and its citizens.

The City Council, which is elected at large, consists of a mayor and six aldermen constituting an ongoing entity and is the level of government which has governing responsibilities over all activities related to the City. The City is not included in any other governmental reporting entity. Council members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

As required by GAAP, the financial statements of the reporting entity include those of the City and its component units. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. 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 their own 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 government would result in misleading or incomplete financial statements

Based on these criteria, the City has one component unit, the Sherwood Shores Trust Fund. Additionally, the City is not a component unit of any other reporting entity as defined by GASB Statement No. 14.

## CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

### Note A – Summary of Significant Accounting Policies (Continued)

#### **Financial Reporting Entity (Continued)**

The council members of the City serve as the governing board of the Sherwood Shores Trust Fund. The Trust Fund is financially dependent on the City because the Trust Fund's operational and capital budgets are approved by the City Council. In addition, all operations are approved by the City Council. Consequently, the Sherwood Shores Trust Fund is included in the financial statements as a component unit, and is reported as blended into the City's primary government as a special revenue fund. Separate financial statements for the Sherwood Shores Trust Fund can be obtained at 2221 North Phillips Ranch Road, Granite Shoals, Texas 78654.

#### **Government-Wide Financial Statements**

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the City of Granite Shoals non-fiduciary activities with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, sales tax, franchise tax, municipal court fines, charges for services and other miscellaneous revenues. Business type activities include operations that rely to a significant extent on fees and charges for services.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City.

Interfund activities between governmental funds appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

## CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

### Note A – Summary of Significant Accounting Policies (Continued)

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e. revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 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; that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. 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.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

#### **Fund Accounting**

The City reports the following major governmental funds:

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

## CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

### Note A – Summary of Significant Accounting Policies (Continued)

#### **Fund Accounting (Continued)**

**Debt Service Fund:** This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**Capital Projects Fund:** This fund is used to account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

**Sherwood Shores Trust Fund:** This special revenue fund is used to account for revenues to be used for park maintenance of all the City's parks.

The City reports the following major proprietary fund:

**Utility Fund:** This fund is used to account for the City's water and wastewater operations.

#### **Long-Term Debt**

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

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

#### **Capital Assets**

Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

Note A – Summary of Significant Accounting Policies (Continued)

**Capital Assets (Continued)**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	20-40
Buildings	30
Improvements	30
Equipment	7
Vehicles	5

**Reservations of Fund Balance**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Restricted Net Assets**

The City may receive funding whose expenditures are restricted to certain allowable costs. In situations where both restricted and unrestricted resources are available to cover allowable costs, the City will first apply the restricted resources and then cover additional costs with unrestricted resources.

**Budget**

The original budget is adopted by the City Council prior to the beginning of the fiscal year through passage of an ordinance. The budget includes proposed expenditures and the means of financing them.

Budgeted amounts for expenditures from the various funds may not exceed the beginning balances of those funds plus the anticipated revenues for the fiscal year. The final amended budget has been presented in this report. Unencumbered appropriations lapse at the end of each year.

## CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

### Note A – Summary of Significant Accounting Policies (Continued)

#### **Use of Estimates**

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expense during the reporting period. Actual results could differ from those estimates.

### Note B – Deposits and Investments

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank 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.

At September 30, 2010, the carrying amount of the City's deposits was \$1,367,423 and the bank balance was \$1,407,642. The carrying amount of the deposit of Sherwood Shores Trust Fund was \$47,334 and the bank balance was \$47,334. The City's cash deposits held at American Bank during the year ended September 30, 2010 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. The City had cash on hand of \$1,400 at September 30, 2010.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (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, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

## CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

### Note B – Deposits and Investments (Continued)

The carrying value of investments at September 30, 2010 was \$377,078 (TexPool Investment Pool). Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

#### **Policies Governing Deposits and Investments**

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

##### *Custodial Credit Risk - Deposits*

This is the risk that in the event of bank failure, the City's deposit may not be returned to it. The City was not exposed to custodial credit risk since its deposits during the year ended September 30, 2010 were covered by depository insurance or by pledged collateral held by the City's agent bank in the City's name.

##### *Custodial Credit Risk - Investments*

This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

##### *Other Credit Risk*

There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, TexPool Investment Pool invests only in investments authorized under the Public Funds Investment Act. TexPool's portfolio has low market (credit) risk due to restrictions on weighted average maturity and maximum maturity of any one investment. The investment manager is required to maintain a stable \$1.00 net asset value and must take immediate action if the net asset value of the portfolio falls below \$.995 or rises above \$1,005.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

Note C – Accounts Receivable

Accounts receivable consisted of the following at September 30, 2010:

	<u>General Fund</u>	Debt Service <u>Fund</u>	Sherwood Shores Trust <u>Fund</u>	<u>Utility Fund</u>	<u>Totals</u>
Property Taxes	\$ 41,308	\$ 58,847	\$ -	\$ -	\$ 100,155
Customer Accounts	-	-	-	207,867	207,867
Grants	-	-	-	62,558	62,558
Other	<u>5,512</u>	<u>-</u>	<u>126,408</u>	<u>-</u>	<u>131,920</u>
Gross Receivables	46,820	58,847	126,408	270,425	502,500
Less: Allowance for Uncollectibles	<u>(2,065)</u>	<u>(2,942)</u>	<u>(126,408)</u>	<u>(54,605)</u>	<u>(186,020)</u>
Net Total Receivable	<u>\$ 44,755</u>	<u>\$ 55,905</u>	<u>\$ -</u>	<u>\$ 215,820</u>	<u>\$ 316,480</u>

Note D – 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 located in the City 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 31 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 (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the City fiscal year.

The Burnet County Appraisal District appraises and collects taxes for the City. For 2010, the City of Granite Shoals had property with an assessed valuation of \$431,291,106. The tax rate was \$.43 (\$.1766 for the General Fund and \$.2534 for the Debt Service Fund) per \$100 valuation.

Note E – Restricted Assets

Restricted assets in the Utility Fund represent cash that has been set aside for future payment of revenue bonds.

Note F – Interfund Balances

Individual interfund receivable and payable balances and operating transfers at September 30, 2010, were as follows:

<u>Fund</u>	<u>Due From Amount</u>	<u>Purpose</u>
General Fund		
Debt Service Fund	\$ <u>260,825</u>	Short-term loan
Net Interfund Balances	<u>260,825</u>	

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

Note G - Transfers

During the course of normal operations, the City had transactions between funds. The governmental and proprietary fund financial statements generally reflect such transactions as transfers in and out of the respective funds.

	Transfers In	Transfers Out	Net Transfers In/Out	Purpose
<b><u>Governmental Activities</u></b>				
General Fund	\$ 873,325	\$ -	\$ 873,325	Operational costs
Debt Service Fund	-	(509,803)	(509,803)	Debt Service
Total Governmental Activities	<u>873,325</u>	<u>(509,803)</u>	<u>363,522</u>	
<b><u>Business-Type Activities</u></b>				
Utility Fund	<u>509,803</u>	<u>(873,325)</u>	<u>(363,522)</u>	Operational costs, debt service
Total Business-Type Activities	<u>509,803</u>	<u>(873,325)</u>	<u>(363,522)</u>	
Total Transfers	<u>\$ 1,383,128</u>	<u>\$ (1,383,128)</u>	<u>\$ -</u>	

Note H – Capital Assets

Capital assets activity for the year ended September 30, 2010 was as follows:

	Balance 10/01/2009	Additions	Deletions	Transfers	Balance 09/30/2010
<b><u>Governmental Activities</u></b>					
Capital assets not being depreciated					
Land	\$ 1,725,805	\$ -	\$ -	\$ -	\$ 1,725,805
Mineral rights	-	394,750	-	-	394,750
Total capital assets not being depreciated	<u>1,725,805</u>	<u>394,750</u>	<u>-</u>	<u>-</u>	<u>2,120,555</u>
Capital assets being depreciated					
Buildings	2,738,725	1,385,760	(95,956)	-	4,028,529
Improvements	523,241	162,607	-	-	685,848
Machinery and equipment	1,745,988	10,925	(179,882)	-	1,577,031
Total capital assets being depreciated	<u>5,007,954</u>	<u>1,559,292</u>	<u>(275,838)</u>	<u>-</u>	<u>6,291,408</u>
Accumulated depreciation					
Buildings	(302,035)	(80,286)	95,956	-	(286,365)
Improvements	(54,115)	(26,401)	-	-	(80,516)
Machinery and equipment	(1,328,374)	(119,735)	174,344	-	(1,273,765)
Total accumulated depreciation	<u>(1,684,524)</u>	<u>(226,422)</u>	<u>270,300</u>	<u>-</u>	<u>(1,640,646)</u>
Net capital assets being depreciated	<u>3,323,430</u>	<u>1,332,870</u>	<u>(5,538)</u>	<u>-</u>	<u>4,650,762</u>
Net capital assets	<u>\$ 5,049,235</u>	<u>\$ 1,727,620</u>	<u>\$ (5,538)</u>	<u>\$ -</u>	<u>\$ 6,771,317</u>

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

Note H – Capital Assets (Continued)

Capital asset activity for the City for the year ended September 30, 2010, was as follows:

<b>Business-Type Activities</b>	Balance 10/01/2009	Additions	Deletions	Transfers	Balance 09/30/2010
Capital assets not being depreciated					
Land	\$ 17,802	\$ -	\$ -	\$ -	\$ 17,802
Construction in progress	27,000	-	-	(27,000)	-
Total capital assets not being depreciated	44,802	-	-	(27,000)	17,802
Capital assets being depreciated					
Buildings	25,880	-	(23,691)	-	2,189
Improvements	12,288,949	208,583	(1,678,381)	27,000	10,846,151
Machinery and equipment	292,552	13,945	(211,346)	-	95,151
Total capital assets being depreciated	12,607,381	222,528	(1,913,418)	27,000	10,943,491
Accumulated depreciation					
Buildings	(15,553)	(109)	15,343	-	(319)
Improvements	(2,160,935)	(270,719)	1,117,649	-	(1,314,005)
Machinery and equipment	(229,821)	(8,132)	165,734	-	(72,219)
Total accumulated depreciation	(2,406,309)	(278,960)	1,298,726	-	(1,386,543)
Net capital assets being depreciated	10,201,072	(56,432)	(614,692)	27,000	9,556,948
Net capital assets	\$ 10,245,874	\$ (56,432)	\$ (614,692)	\$ -	\$ 9,574,750

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental Activities:</b>	
Financial Administration	\$ 98,005
Police	52,819
Fire Protection	29,817
Highways and Streets	24,745
Animal Control	217
Parks	20,819
Total Governmental Activities Depreciation Expense	\$ 226,422

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

Note I – Long-Term Debt

Changes in long-term debt for the year ended September 30, 2010 are as follows:

	Balance 10/01/2009	Additions	Reductions	Balance 09/30/2010	Due Within One Year
<b><u>Governmental Activities</u></b>					
Tax Anticipation Notes					
Series 2003	\$ 64,330	\$ -	\$ (64,330)	\$ -	\$ -
Certificate of Obligation					
Series 2008	4,950,000	-	(70,000)	4,880,000	200,000
Series 2010	-	750,000	-	750,000	25,000
Capital leases					
Ford Motor Credit	110,366	-	-	110,366	24,931
Catepillar	32,379	-	(9,056)	23,323	10,418
First American Bank	77,145	-	(27,080)	50,065	26,195
Total Governmental Activities	5,234,220	750,000	(170,466)	5,813,754	286,544
<b><u>Business-Type Activities</u></b>					
Tax Anticipation Notes					
Series 2003	60,670	-	(60,670)	-	-
Certificate of Obligation					
Series 2004	6,440,000	-	(145,000)	6,295,000	150,000
Total Business-Type Activities	6,500,670	-	(205,670)	6,295,000	150,000
Total Long-Term Debt	\$ 11,734,890	\$ 750,000	\$ (376,136)	\$ 12,108,754	\$ 436,544

**Description of Debt**

Tax Anticipation Notes – Series 2003

The City issued \$250,000 tax anticipation notes - Series 2003 for (1) improvements to the utility system and (2) purchase of vehicles and equipment for the police, public works, fire, animal control and utility departments. The notes were issued at an interest rate of 3.5% for the \$125,000 maturing in 2009 and 3.875% for the \$125,000 maturing in 2010. The notes are payable from a tax levied on all taxable property within the City. Of the original amount of \$250,000 tax notes issued, the amount allocated to governmental activities was \$128,661 and the business-type activities portion was \$121,339. As of September 30, 2010, the full outstanding principal balance of this note has been paid in full.

Combination Tax and Limited Revenue Certificates of Obligation – Series 2004

The City issued \$6,815,000 Combination Tax and Limited Revenue Certificates of Obligation - Series 2004 for improvements to the waterworks system including a new water treatment plant. The certificates were issued at an interest rate from 3.0%. The certificates are payable from a tax levied on all taxable property within the City and limited surplus revenues of the waterworks system.

## CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

### Note I – Long-Term Debt (Continued)

#### **Description of Debt (Continued)**

##### Combination Tax and Limited Revenue Certificates of Obligation – Series 2008

The City issued \$5,000,000 Combination Tax and Limited Revenue Certificates of Obligation - Series 2008, for the purchase of land (including buildings) and improvements and equipment. The certificates were issued at an interest rate of 4.49%. The certificates are payable from a tax levied on all taxable property within the City and limited surplus revenues of the waterworks system.

##### Combination Tax and Limited Revenue Certificates of Obligation – Series 2010

The City issued \$750,000 Combination Tax and Limited Revenue Certificates of Obligation - Series 2010, for (1) the acquisition of remaining interests and property rights of land around City Hall, including all mineral rights, (2) improvements the City's waterworks system, and (3) acquisition and construction of street and drainage improvements. The certificates were issued at an interest rate of 4.5%. The certificates are payable from a tax levied on all taxable property within the City and limited surplus revenues of the waterworks system.

##### Capital Lease – Caterpillar Financing

In November 2007, the City entered into a lease-purchase agreement with Caterpillar Financial Services Corporation to purchase a Caterpillar Soil Compactor. The term of the lease is 60 months, with monthly payments of \$953 including interest beginning November 2007. The lease is due in November 2013. The capitalized cost of the soil compactor was \$49,913. Accumulated depreciation as of September 30, 2010 was \$17,232.

##### Capital Lease – Ford Motor Credit

In August 2007, the City entered into a lease-purchase agreement with Ford Motor Credit for the purchase of four vehicles. The term of the lease is 60 months, with annual payments of \$32,436 including interest beginning October 2009. The lease is due October 2013. The capitalized cost of the vehicles is \$141,202. Accumulated depreciation as of September 30, 2010 was \$30,594.

##### Capital Lease – First American Bank

In September 2007, the City entered into a lease-purchase agreement with First American Bank for the purchase of financial software. The term of the lease is 60 months, with annual payments of \$2,381 including interest beginning November, 2007. The lease is due November 2013. The capitalized cost of the software is \$137,874. Accumulated depreciation as of September 30, 2010 was \$82,725.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

Note I – Long-Term Debt (Continued)

**Debt Service Requirements**

Debt service requirements for the revenue bonds and certificates of obligation outstanding as of September 30, 2010 are as follows:

Year Ended September 30,	Principal	Interest	Annual Requirements
2011	\$ 375,000	\$ 556,330	\$ 931,330
2012	385,000	550,975	935,975
2013	410,000	534,446	944,446
2014	425,000	516,842	941,842
2015	440,000	498,590	938,590
2016-2020	2,525,000	2,179,385	4,704,385
2021-2025	3,180,000	1,527,908	4,707,908
2026-2030	2,575,000	744,954	3,319,954
2031-2034	1,615,000	211,917	1,826,917
Totals	<u>\$ 11,930,000</u>	<u>\$ 7,321,347</u>	<u>\$ 19,251,347</u>

**Capital Leases**

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2010 and are as follows:

Year Ended September 30,	Governmental Activities
2011	\$ 72,448
2012	68,906
2013	34,343
2014	32,436
Subtotal	<u>208,133</u>
Less amounts representing interest	<u>(24,379)</u>
Principal amounts due	183,754
Current portion	<u>(61,544)</u>
Long-term portion	<u>\$ 122,210</u>

## CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

### Note J – Risk Management

The City of Granite Shoals is exposed to various risks of loss relating to general liability, accidental loss of real and personal property, damage to assets, errors and omissions, acts of God and personnel risks which relate to workers compensation.

The City contracts with the Texas Municipal League (TML) to provide insurance coverage for identified risks. TML is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are sent annually to TML. Liability by the City is generally limited to the contributed amounts. Contributions for the year ended September 30, 2010 were \$85,544.

### Note K – 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 contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://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:

	<u>Plan Year 2009</u>	<u>Plan Year 2010</u>
Employee deposit rate	5%	5%
Matching ratio (city to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

Note K – Pension Plan (Continued)

**Contributions**

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

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

Annual Required Contribution (ARC)	\$	26,964
Interest on Net Pension Obligation		-
Adjustment to the ARC		-
Annual Pension Cost (APC)		<u>26,964</u>
Contributions Made		<u>(26,964)</u>
Increase (decrease) in net pension		-
Net Pension Obligation/(Asset), beginning of year		<u>-</u>
Net Pension Obligation/(Asset), end of year	\$	<u><u>-</u></u>

Three-year trend information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC contributed	Net Pension Obligation (Asset)
2008	\$ 26,234	\$ 26,234	100%	\$ -
2009	\$ 26,790	\$ 26,790	100%	\$ -
2010	\$ 26,964	\$ 26,964	100%	\$ -

There was no Net Pension Obligation (NPO) at the beginning or end of the year for any of the three years presented; therefore, no liability has been recorded in the financial statements.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

Note K – Pension Plan (Continued)

**Contributions (Continued)**

The required contributions rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Valuation Date	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2009</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	25 years; closed period	24 years; closed period	22 years; closed period
Amortization Period for new Gains/Losses	25 Years	25 Years	25 Years
Asset Valuation Method	Amortized Cost	Amortized Cost	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of return*	7.00%	7.50%	7.50%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0%	0%	0%

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

	(1)	(2)	(3)=(1) / (2)	(4)=(2)-(1)	(5)	(6)=(4) / (5)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2009	\$ 411,024	\$ 450,410	91.30%	\$ 39,386	\$ 1,121,438	3.50%

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.

**Supplemental Death Benefits**

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 preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

Note K – Pension Plan (Continued)

**Supplemental Death Benefits (Continued)**

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 contributions to the TMRS SDBF for the years ending September 30, 2010, 2009, and 2008 were \$3,268, \$4,640 and \$1,756, respectively, which equaled the required contributions each year.

Note L – Sherwood Shores Trust Fund

The Trust Fund's primary revenue is an annual assessment of \$10 per lot. After stipulated periods, a lien may be recorded against the property for the unpaid assessment. In addition, rebilling fees or penalties may be assessed for the unpaid amounts. Property assessments are considered measurable and available upon billing. Rebilling fees, penalties and other income items are recognized as collected.

Because the Trust Fund has little legal recourse to enforce or accelerate collection of past due assessments, liens and other penalties, an allowance for uncollectible amounts has been provided that is equal to the total of the balances receivable.

During the year ended September 30, 2009, the District Court of Burnet County (33<sup>rd</sup> Judicial District) in Cause No. 34866 entered a final judgment modifying the Sherwood Shores Trust Fund. The Court ordered the following:

1. The \$25 cap on the annual assessment imposed by this Court's final judgments in Cause Nos. 4736, 5601-A, and 5601-B is hereby lifted. The Trustee shall collect an annual assessment of \$10 per lot from each property owner in the Sherwood Shores I, II and IV subdivisions, effective as of the date of this Judgment.
2. At such date that is two years after the date that the City of Granite Shoals, Texas may complete annexation of the remainder of Sherwood Shores I, II and IV into the city limits, the Sherwood Shores Trust Fund shall terminate without the necessity of further court proceedings; provided, however, that any moneys that would otherwise remain in the Trust Fund upon the date of termination shall be spent by the Trustees prior to termination for any permissible trust purpose.
3. In the event that the City receives any trust proceeds subsequent to termination, such proceeds shall be assigned to the City and shall be used by the City for any permissible trust purpose pursuant to the *cy pres* doctrine.

## CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

### Note L – Sherwood Shores Trust Fund (Continued)

4. Prior to the termination of the Trust Fund as provided above, the Trustee shall reimburse each property owner who paid an assessment in excess of the \$25 per three lots per year to the Trust Fund between July 21, 2004 and the date of this Judgment in an amount that is equal to the amount that the property owner paid that exceeded \$25 per three lots per year between July 21, 2004 and the date of this Judgment. Such reimbursement may take the form of a check made out to the property owner from the Trust Fund or a credit against future assessments, the choice of which shall be in the Trustee's discretion.
5. The provisions of this Final Judgment shall be cumulative of the Agreed Judgments in Cause Nos. 4736, 5601-A, and 5601-B in the 33<sup>rd</sup> District Court, dated July 30, 1973; provided, however, that any provision in such prior judgments that is inconsistent or in conflict with any of the provisions of this Final Judgment are hereby expressly overruled.

### Note M – Commitments and Contingencies

#### **Commitments**

The City (Enterprise Fund) has contracted with Allied Waste Services, Inc. to provide for the collection of refuse and recyclable materials. The contract was dated September 1, 1993, for a period of five years, renewable unless terminated by either party. The contract was extended on September 1, 1998 and September 1, 2005 for additional five year terms. Collection rates are adjusted by the agreement of both parties. Under the terms of the contract, the City collects and remits to Allied Waste Services, Inc. its portion of the sanitation fees, less eight percent which is retained as a franchise fee.

#### **Contingencies**

The City is a defendant in an ongoing lawsuit filed by a group of property owners seeking injunctive and declaratory relief and requesting the Court to order the City to refund their property taxes for the tax years 2005 through the present (approximately \$225,000). The City denies the plaintiffs' claims and is vigorously defending the case. As of September 30, 2010, the City did not anticipate a negative outcome to the litigation. Subsequent to fiscal year-end, the City agreed to settle on the lawsuit, agreeing to pay the plaintiffs \$275,000. See Note P for further details.

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

Note N – Fund Balance Deficits

The General Fund had a fund balance deficit of \$30,169 at September 30, 2010. The deficit will be funded in fiscal year 2011 with increased revenues or additional transfers from the Utility Fund.

The Capital Projects Fund had a fund balance deficit of \$2,859 at September 30, 2010. The deficit will be funded in fiscal year 2011 by any excess revenues from the General Fund or by transfers from the General Fund or the Utility Fund.

Note O – Prior Period Adjustments

The following prior period adjustments to correct errors in net assets/fund balances were recorded for the fiscal year ending September 30, 2010:

**Governmental Activities**

Cash in the governmental activities was overstated in the prior year. The City restated the beginning fund balances of its governmental funds by \$44,888 to correct the misstatement. The net effect of the adjustments was to decrease the fund balances of the governmental fund and to decrease the net assets of the governmental activities by \$44,888.

Accounts payable were overstated in the prior year. The City restated the beginning fund balances of its governmental funds by \$29,261. The net effect of this restatement was to increase the fund balances of the governmental fund and to increase the net assets of the governmental activities by \$29,261.

The City restated is beginning fund balances in the governmental fund by \$62,922 to reflect corrections of prior year interfund balances. The net effect of this restatement is to increase the fund balances of the governmental funds and the net assets of the governmental activities by \$62,922.

In prior years, restricted court revenues earned were recorded in error as deferred revenues. The City is restating the fund balances of its governmental fund by \$8,030 to correct this error. The net effect of this restatement is to increase the fund balances of the governmental funds and the net assets of the governmental activities by \$8,030.

**Business-Type Activities**

Cash in the business-type activities was overstated in the prior year. The City restated the beginning net assets of its business-type activities by \$102,301 to correct the misstatement. The net effect of the restatement was to decrease the net assets of the business-type activities by \$102,301.

Accounts payable were overstated in the prior year. The City restated the beginning net assets of its business-type activities by \$79,422. The net effect of this restatement was to increase the net assets of the business-type activities by \$79,422.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements  
For the Year Ended September 30, 2010

Note O – Prior Period Adjustments (Continued)

**Business-Type Activities (Continued)**

The City restated its beginning net assets in the business-type activities by \$14,948 to reflect corrections of prior year interfund balances. The net effect of this restatement is to decrease the net assets of the business-type activities by \$14,948.

Note P – Subsequent Event

On February 24, 2011, the City agreed to a settlement in connection with an ongoing lawsuit regarding annexation of certain properties. The City agreed to refund property taxes collected on annexed properties and also agreed to de-annex the properties. On March 3, 2011, the City paid \$275,000 to the plaintiffs to refund property taxes.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF GRANITE SHOALS, TEXAS

Required Supplemental Information  
 Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual  
 General Fund  
 For the Year Ended September 30, 2010

	Budget Amounts		2010 Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 650,212	\$ 650,212	\$ 784,977	\$ 134,765
Sales taxes	50,000	50,000	71,815	21,815
Franchise taxes	80,000	80,000	116,765	36,765
Other taxes	200	200	167	(33)
Licenses and permits	178,500	178,500	303,311	124,811
Intergovernmental revenues	30,724	30,724	28,228	(2,496)
Charges for services	-	-	75	75
Fines	82,962	82,962	100,149	17,187
Investments earnings	125,933	125,933	1,061	(124,872)
Other revenue	9,350	9,350	30,120	20,770
<b>Total revenues</b>	<u>1,207,881</u>	<u>1,207,881</u>	<u>1,436,668</u>	<u>228,787</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Municipal court	105,558	105,558	113,873	(8,315)
Financial administration	776,670	776,670	827,766	(51,097)
Public safety:				
Police	635,693	635,693	699,173	(63,480)
Fire protection	205,671	205,671	235,985	(30,314)
Public works:				
Highways and streets	444,127	444,127	450,882	(6,755)
Health and welfare:				
Animal control	47,608	47,608	45,360	2,248
Debt Service:				
Principal	-	-	36,136	(36,136)
Interest	-	-	3,876	(3,876)
<b>Total expenditures</b>	<u>2,215,327</u>	<u>2,215,327</u>	<u>2,413,051</u>	<u>(197,725)</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(1,007,446)</u>	<u>(1,007,446)</u>	<u>(976,383)</u>	<u>31,063</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	873,325	873,325
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>873,325</u>	<u>873,325</u>
<b>Net change in fund balance</b>	<u>(1,007,446)</u>	<u>(1,007,446)</u>	<u>(103,058)</u>	<u>904,388</u>
Total fund balance-beginning of year	(69,406)	(69,406)	(69,406)	-
Prior period adjustments	142,295	142,295	142,295	-
Total fund balance-beginning of year (restated)	<u>72,889</u>	<u>72,889</u>	<u>72,889</u>	<u>-</u>
<b>Total fund balance-end of year</b>	<u>\$ (934,557)</u>	<u>\$ (934,557)</u>	<u>\$ (30,169)</u>	<u>\$ 904,388</u>

CITY OF GRANITE SHOALS, TEXAS

Required Supplemental Information  
Notes to the Budgetary Comparison Schedule  
For the Year Ended September 30, 2010

The following procedures are followed in establishing the budgetary data:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget.
- c. Prior to the start of the next 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 ended September 30, 2010, the budget was not amended. All budget appropriations lapse at year-end.

Actual expenditures exceeded appropriations by \$197,725 for the year ended September 30, 2010.



**SUPPLEMENTAL SECTION**

**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***

To the Members of the City Council  
City of Granite Shoals, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Granite Shoals, Texas (the City) as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. [2010-1, 2010-2].

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* (CONTINUED)

**Compliance and Other Matters**

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

We noted certain other matters that we reported to management of the City in a separate letter dated September 30, 2011.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

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

San Antonio, Texas  
September 30, 2011



CITY OF GRANITE SHOALS, TEXAS

Schedule of Findings and Responses  
For the Year Ended September 30, 2010

Internal Control Over Financial Reporting

**2010-1 – Bank Reconciliations**

The City did not prepare accurate bank reconciliations for its pooled cash account in a timely manner during the fiscal year. As a result, total pooled cash was misstated by a material amount and we proposed adjustments to correct the misstatement.

We recommend that bank reconciliations be prepared monthly and timely. The City should reconcile bank balances to general ledger balances and adjust the general ledger as appropriate. Any discrepancies should be resolved promptly. Timely preparation of complete and accurate bank reconciliations is a key to maintaining adequate control over both cash receipts and disbursements.

Management's Response and Planned Corrective Action

Management concurs with the finding and recommendation. Bank reconciliations will be prepared monthly and timely. Necessary adjustments to the general ledger to bring the general ledger balance in agreement with reconciled book balances will be processed and recorded in the corresponding month.

Implementation: The City will implement this recommendation immediately.

**2010-2 – Fixed Asset Disposals**

In prior years the City did not adequately perform a physical inventory to verify the existence of fixed assets reported on its subsidiary ledgers. As a result, the City recorded a material loss due to disposal of fixed assets for the fiscal year ended September 30, 2010 in its Utility Fund.

We recommend that the existence of fixed assets on the subsidiary ledgers be verified at least annually and any identified obsolete or non-existent assets be removed, and necessary adjustments to the general ledger be made.

Management's Response and Planned Corrective Action

Management concurs with the finding and recommendation. Management will periodically review the fixed assets subsidiary ledger to identify obsolete or non-existent fixed assets and will take steps to ensure the subsidiary ledger and general ledger accurately reflect fixed assets.

Implementation: The City will implement this recommendation immediately.