

CITY OF GRANITE SHOALS, TEXAS

Annual Financial Report

For the Year Ended September 30, 2013

CITY OF GRANITE SHOALS, TEXAS

Annual Financial Report
For the Year Ended September 30, 2013

TABLE OF CONTENTS

Introductory Section

City Officials..... 1

Financial Section

Independent Auditor’s Report..... 2

Management’s Discussion and Analysis 4

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position 12

Statement of Activities..... 13

Fund Financial Statements

Balance Sheet – Governmental Funds 14

Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds 15

Statement of Net Position – Proprietary Funds..... 17

Statement of Revenues, Expenses, and Changes in
Net Position – Proprietary Funds 18

Statement of Cash Flows – Proprietary Funds..... 19

Notes to the Financial Statements..... 20

Required Supplemental Information

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

General Fund..... 40

Notes to the Budgetary Comparison Schedule – General Fund 41

CITY OF GRANITE SHOALS, TEXAS

Annual Financial Report
For the Year Ended September 30, 2013

TABLE OF CONTENTS (CONTINUED)

Required Supplemental Information (Continued)

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

Debt Service Fund.....	42
Notes to the Budgetary Comparison Schedule – Debt Service Fund	43
Texas Municipal Retirement System Schedule of Funding Progress (Unaudited).....	44

Supplemental Section

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in <i>Accordance with Government Auditing Standards</i>	45
--	----

INTRODUCTORY SECTION

CITY OF GRANITE SHOALS, TEXAS

City Officials

Dennis Maier..... Mayor
Tom Dillard Mayor Pro-Tem
Anita Hisey Council Member
Slayton Marks Council Member
Eric Tanner..... Council Member
Carl Brugger Council Member
Peggy Metzger Council Member
Kenneth R. Nickel..... City Manager
Wendy M. Gholson..... Director of Finance

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of 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, 2013, and related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, the budgetary comparison information on pages 40 through 43, and the Texas Municipal Retirement System Schedule of Funding Progress on page 44 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.

San Antonio, Texas
April 4, 2014



FINANCIAL SECTION

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2013

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, 2013. Please read it in conjunction with the independent auditors' report on pages 2 and 3, 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 \$2,395,773 (net position). Of this amount, net position classified as unrestricted may be used to meet the City's ongoing obligations to citizen's and creditors. At September 30, 2013, the City had an unrestricted net position in the amount of \$279,605.
- The City's net position increased by \$370,497 as a result of this year's operations.
- At September 30, 2013, the City's governmental funds reported combined ending fund balances of \$774,406, an increase of \$202,209 in comparison with the prior year.
- At September 30, 2013, the City's Utility Fund reported net position of \$3,570,421, a decrease of \$242,214 in comparison with the prior year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position 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 Schedules are presented as required supplementary information beginning on page 40.

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2013

USING THIS ANNUAL REPORT (CONTINUED)

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The statements of the City's overall financial condition and operations begin on page 12. Their primary purpose is to show whether the City is better or worse off as a result of the year's activities. The Statement of Net Position 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 statements 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 position and changes in them. The City's net position (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 position 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 Position and the Statement of Activities, the City has two kinds of activities presented:

- Governmental activities - Most of the City's basic services are reported here, including public safety, public works, municipal court and administration. Property taxes, user charges, sales taxes and franchise taxes finance most of these activities.
- Business-type activities - The City's water 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, 2013

USING THIS ANNUAL REPORT (CONTINUED)

Reporting the City's Most Significant Funds (Continued)

Fund Financial Statements (Continued)

The City has two kinds of funds:

- Governmental funds - All of the City's basic services are reported in governmental funds. These funds 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 Position 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 position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities.

Net position of the City's governmental activities increased from \$2,025,276 to \$2,395,773. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, was \$279,605 at September 30, 2013. The increase in overall governmental net position was the result of net transfers into the governmental activities were \$456,448, including transfers totaling \$775,554 from the City's Utility Fund to the General Fund to help subsidize the City's operations.

Net position of the City's business-type activities decreased from \$3,812,635 to \$3,507,421. Unrestricted net position were \$175,651 at September 30, 2013. The increase in business-type net position was the result of a net gain of \$214,234 before transfers, and net transfers out to the governmental activities of \$456,448, including transfers of \$775,554 to the City's General Fund to help subsidize operations.

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2013

Table I
NET POSITION

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 459,378	\$ 313,903	\$ 247,670	\$ 377,087	\$ 707,048	\$ 690,990
Restricted assets	573,974	531,617	404,665	376,741	978,639	908,358
Bond issuance costs	63,200	67,395	138,222	145,134	201,422	212,529
Capital assets, net	6,499,675	6,601,334	9,078,470	9,325,422	15,578,145	15,926,756
Total assets	<u>7,596,227</u>	<u>7,514,249</u>	<u>9,869,027</u>	<u>10,224,384</u>	<u>17,465,254</u>	<u>17,738,633</u>
Current liabilities	156,284	202,222	210,241	168,608	366,525	370,830
Payable from restricted assets	-	-	268,365	258,141	268,365	258,141
Long-term liabilities	5,044,170	5,286,751	5,820,000	5,985,000	10,864,170	11,271,751
Total liabilities	<u>5,200,454</u>	<u>5,488,973</u>	<u>6,298,606</u>	<u>6,411,749</u>	<u>11,499,060</u>	<u>11,900,722</u>
Net position:						
Invested in capital assets, net of related debt	1,455,505	1,435,532	3,258,470	3,340,422	4,713,975	4,775,954
Restricted	660,663	627,731	136,300	118,600	796,963	746,331
Unrestricted	279,605	(37,987)	175,651	353,613	455,256	315,626
Total net position	<u>\$ 2,395,773</u>	<u>\$ 2,025,276</u>	<u>\$ 3,570,421</u>	<u>\$ 3,812,635</u>	<u>\$ 5,966,194</u>	<u>\$ 5,837,911</u>

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2013

Table II

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Charges for services	\$ 625,892	\$ 550,301	\$ 1,655,953	\$ 1,743,603	\$ 2,281,845	\$ 2,293,904
Operating grants & contributions	-	-	-	-	-	-
Capital grants & contributions	-	78,000	23,030	225,843	23,030	303,843
Property taxes	1,839,377	1,823,353	-	-	1,839,377	1,823,353
Sales taxes	98,065	85,814	-	-	98,065	85,814
Franchise & other taxes	133,179	136,701	-	-	133,179	136,701
Miscellaneous	166,570	112,978	22,468	1,934	189,038	114,912
Interest	4,108	1,363	615	487	4,723	1,850
Total revenue	2,867,191	2,788,510	1,702,066	1,971,867	4,569,257	4,760,377
Expenses:						
Municipal court	98,290	78,354	-	-	98,290	78,354
Finance and administration	930,711	905,782	-	-	930,711	905,782
Police	804,704	799,688	-	-	804,704	799,688
Fire protection	386,992	257,704	-	-	386,992	257,704
Streets and parks	431,684	475,215	-	-	431,684	475,215
Animal control	64,749	49,489	-	-	64,749	49,489
Interest	231,816	251,874	-	-	231,816	251,874
Amortization of issuance costs	4,195	4,195	-	-	4,195	4,195
Utility	-	-	1,487,832	1,479,861	1,487,832	1,479,861
Total expenses	2,953,141	2,822,301	1,487,832	1,479,861	4,440,973	4,302,162
Increase (decrease) in net position before transfers and special items	(85,950)	(33,791)	214,234	492,006	128,284	458,215
Special item - settlement	-	(103,756)	-	-	-	(103,756)
Transfers	456,448	239,619	(456,448)	(239,619)	-	-
	456,448	135,863	(456,448)	(239,619)	-	(103,756)
Change in net position	370,498	102,072	(242,214)	252,387	128,284	354,459
Net position - beginning	2,025,275	1,923,204	3,812,635	3,560,248	5,837,910	5,483,452
Net position - ending	\$ 2,395,773	\$ 2,025,276	\$ 3,570,421	\$ 3,812,635	\$ 5,966,194	\$ 5,837,911

CITY OF GRANITE SHOALS, TEXAS

Management’s Discussion and Analysis
For the Year Ended September 30, 2013

The cost of all governmental activities this year was \$2,953,141. However, as shown in the Statement of Activities on page 13, the amount that our taxpayers ultimately paid for these activities through City property taxes was only \$1,839,377. The other costs were paid by sales taxes (\$98,065), franchise and other taxes (\$133,179), interest income (\$4,108), user charges (\$625,892) and other miscellaneous income (\$166,570).

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 \$774,406, which is more than last year’s total of \$572,197. Included in this year’s total change in fund balance is an increase of \$202,209 in the City’s governmental funds.

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

Capital Assets and Debt Administration

Capital Assets

At September 30, 2013, the City had the following amounts invested in capital assets:

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,725,805	\$ 1,725,805	\$ 17,802	\$ 17,802	\$ 1,743,607	\$ 1,743,607
Mineral rights	394,750	394,750	-	-	394,750	394,750
Buildings	4,027,052	4,020,147	2,189	2,189	4,029,241	4,022,336
Improvements	860,168	798,932	11,205,179	11,151,908	12,065,347	11,950,840
Machinery and equipment	1,543,392	1,562,090	111,566	115,667	1,654,958	1,677,757
Total capital assets	8,551,167	8,501,724	11,336,736	11,287,566	19,887,903	19,789,290
Less:						
Accumulated depreciation	(2,051,492)	(1,900,390)	(2,258,265)	(1,962,144)	(4,309,757)	(3,862,534)
Net fixed assets	\$ <u>6,499,675</u>	\$ <u>6,601,334</u>	\$ <u>9,078,471</u>	\$ <u>9,325,422</u>	\$ <u>15,578,146</u>	\$ <u>15,926,756</u>

This year’s major additions included:

	Governmental Activities	Business-Type Activities
Buildings	\$ 6,905	\$ -
Improvements	61,236	49,166
Machinery and equipment	71,372	4
Total additions	\$ <u>139,513</u>	\$ <u>49,170</u>

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

CITY OF GRANITE SHOALS, TEXAS

Management’s Discussion and Analysis
For the Year Ended September 30, 2013

Capital Assets and Debt Administration (Continued)

Debt Administration

For business-type activities, the City paid principal of \$165,000 during the year on its debt obligations.

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

At September 30, 2013, the City had outstanding debt as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Certificates of obligation	\$ 4,930,000	\$ 5,175,000	\$ 5,820,000	\$ 5,985,000	\$ 10,750,000	\$ 11,160,000
Notes to Financial Institutions	51,629	-	-	-	51,629	-
Capital leases	62,542	111,751	-	-	62,542	111,751
Total outstanding debt	\$ 5,044,171	\$ 5,286,751	\$ 5,820,000	\$ 5,985,000	\$ 10,864,171	\$ 11,271,751

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The City’s elected and appointed officials considered many factors when setting the fiscal year 2013-2014 budget and tax rates. Those major indicators were economic conditions, population growth and assessed property valuation, along with the health and safety of the residents. Amounts available for appropriation in the General Fund budget are \$3,042,395 (including transfer from the utility fund of \$453,802) and expenditures are estimated to be \$2,997,396.

The budget includes several changes for the purposes of aligning city operations. These changes include combining the Code Compliance & Building Development budgets with outsourced building inspections and the consolidation of the Sherwood Shores Fund with the General Fund. Capital included in the General Fund is limited to a new computer server for the Police Department. Other governmental capital has been budgeted in the Debt Service Fund.

The Water Fund has been awarded a Texas Community Development Block Grant Program for a Community Development Fund grant request of \$275,000 for improvements to the municipal water system, including one new 100,000 gallon welded steel water tank, a SCADA system for the tank, a high-service pump, and connections to the water distribution system for city-wide benefit. The proposed project will be constructed at the current water yard located at King’s Circle Drive and Kingfish, in the Northeast sector of the City.

The FY 2014 plan includes two new debts acquired for the purpose of funding fire department digital radios and police SUVs. The city’s approved tax rate for 2013 is \$0.46 per \$100 of property valuation.

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2013

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to 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 Secretary's office at 830-598-2424, or 2221 N. Phillips Ranch Road, Granite Shoals, Texas, 78654.

BASIC FINANCIAL STATEMENTS

CITY OF GRANITE SHOALS, TEXAS

Statement of Net Position
September 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 201,165	\$ 73,566	\$ 274,731
Investments	116,955	67	117,022
Accounts receivable, net of allowance for uncollectibles	141,258	174,037	315,295
Total current assets	459,378	247,670	707,048
Noncurrent assets			
Restricted cash and cash equivalents	573,974	220,369	794,343
Restricted investments	-	184,296	184,296
Bond issue costs, net of amortization	63,200	138,222	201,422
Capital assets:			
Land	1,725,805	17,802	1,743,607
Mineral rights	394,750	-	394,750
Buildings, net	3,441,292	1,542	3,442,834
Improvements, net	670,482	9,041,811	9,712,293
Machinery and equipment, net	267,346	17,315	284,661
Total noncurrent assets	7,136,849	9,621,357	16,758,206
Total assets	7,596,227	9,869,027	17,465,254
LIABILITIES			
Current liabilities			
Accounts payable	55,776	152,039	207,815
Accrued payroll liabilities	63,517	11,719	75,236
Accrued interest payable	36,991	46,483	83,474
Total current liabilities	156,284	210,241	366,525
Payable from restricted assets			
Customer deposits	-	268,365	268,365
Total payable from restricted assets	-	268,365	268,365
Long-term liabilities			
Due within one year	289,344	170,000	459,344
Due in more than one year	4,754,826	5,650,000	10,404,826
Total long-term liabilities	5,044,170	5,820,000	10,864,170
Total liabilities	5,200,454	6,298,606	11,499,060
NET POSITION			
Invested in capital assets, net of related debt	1,455,505	3,258,470	4,713,975
Restricted	660,663	136,300	796,963
Unrestricted	279,605	175,651	455,256
Total net position	\$ 2,395,773	\$ 3,570,421	\$ 5,966,194

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, 2013

Functions and Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total Primary Government
Primary government						
Governmental activities:						
Municipal court	\$ 98,290	\$ 84,284	\$ -	\$ (14,006)	\$ -	\$ (14,006)
Finance and administration	930,711	269,420	-	(661,291)	-	(661,291)
Police	804,704	-	-	(804,704)	-	(804,704)
Fire protection	386,992	250,164	-	(136,828)	-	(136,828)
Streets and parks	431,684	18,969	-	(412,715)	-	(412,715)
Animal control	64,749	3,055	-	(61,694)	-	(61,694)
Debt service:						
Interest	231,816	-	-	(231,816)	-	(231,816)
Amortization of bond issuance costs	4,195	-	-	(4,195)	-	(4,195)
Total governmental activities	2,953,141	625,892	-	(2,327,249)	-	(2,327,249)
Business-type activities:						
Water	1,487,832	1,655,953	23,030	-	191,151	191,151
Total business-type activities	1,487,832	1,655,953	23,030	-	191,151	191,151
Total primary government	\$ 4,440,973	\$ 2,281,845	\$ 23,030	(2,327,249)	191,151	(2,136,098)
General revenues:						
				1,839,377	-	1,839,377
				98,065	-	98,065
				133,179	-	133,179
				336	-	336
				34,230	-	34,230
				4,108	615	4,723
				132,004	22,468	154,472
				2,241,299	23,083	2,264,382
				(85,950)	214,234	128,284
				456,448	(456,448)	-
				370,498	(242,214)	128,284
				2,025,275	3,812,635	5,837,910
				\$ 2,395,773	\$ 3,570,421	\$ 5,966,194

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

CITY OF GRANITE SHOALS, TEXAS

Balance Sheet – Governmental Funds
September 30, 2013

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 42,995	\$ 573,974	\$ 158,170	\$ 775,139
Investments	66,206	-	50,749	116,955
Taxes receivable	67,050	80,413	-	147,463
Allowance for uncollectible taxes	(3,352)	(4,021)	-	(7,373)
Other receivables, net of allowances	1,168	-	-	1,168
Total assets	<u>\$ 174,067</u>	<u>\$ 650,366</u>	<u>\$ 208,919</u>	<u>\$ 1,033,352</u>
LIABILITIES				
Accounts payable	\$ 50,712	-	\$ 5,064	\$ 55,776
Accrued payroll liabilities	63,517	-	-	63,517
Deferred revenue	54,838	84,815	-	139,653
Total liabilities	<u>169,067</u>	<u>84,815</u>	<u>5,064</u>	<u>258,946</u>
FUND BALANCES				
Restricted	10,297	565,551	-	575,848
Committed	-	-	117,985	117,985
Unassigned	(5,297)	-	85,870	80,573
Total fund balances	<u>5,000</u>	<u>565,551</u>	<u>203,855</u>	<u>774,406</u>
Total liabilities and fund balances	<u>\$ 174,067</u>	<u>\$ 650,366</u>	<u>\$ 208,919</u>	

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund, net of accumulated depreciation of \$2,051,492. 6,499,675

Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds. 139,653

Bond issue costs which will be amortized in future years are expensed in the funds when incurred. 63,200

Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:

Notes, bonds, and capital leases payable	(5,044,556)
Accrued interest payable	(36,605)

Net Position of Governmental Activities \$ 2,395,773

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, 2013

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property taxes	\$ 1,033,524	\$ 780,934	\$ -	\$ 1,814,458
General sales and use tax	95,754	-	2,311	98,065
Franchise taxes	133,179	-	-	133,179
Other taxes	336	-	-	336
Licenses and permits	35,858	-	-	35,858
Intergovernmental revenue	236,714	-	15,450	252,164
Charges for services	235,880	-	16,969	252,849
Fines	84,284	-	-	84,284
Investment earnings	3,061	532	515	4,108
Rents and royalties	-	-	720	720
Contributions and donations	-	-	17	17
Hotel occupancy tax	-	-	34,230	34,230
Other revenue	70,696	-	61,308	132,004
Total revenues	<u>1,929,286</u>	<u>781,466</u>	<u>131,520</u>	<u>2,842,272</u>
EXPENDITURES				
Current:				
General government:				
Municipal court	95,218	-	-	95,218
Finance and administration	755,228	350	80,020	835,598
Public safety:				
Police	749,670	-	-	749,670
Fire protection	356,431	-	-	356,431
Public works:				
Streets and parks	345,352	-	29,157	374,509
Health and welfare:				
Animal control	64,532	-	-	64,532
Debt service:				
Principal	49,210	246,421	-	295,631
Interest	5,934	232,524	-	238,458
Capital outlay:				
Capital outlay	67,901	53,049	18,563	139,513
Total expenditures	<u>2,489,476</u>	<u>532,344</u>	<u>127,740</u>	<u>3,149,560</u>
Excess (deficiency) of revenues over (under) expenditures	(560,190)	249,122	3,780	(307,288)
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	53,050	-	53,050
Transfers in	780,687	-	178,099	958,786
Transfers out	(46,700)	(450,495)	(5,143)	(502,338)
Total other financing sources (uses)	<u>733,987</u>	<u>(397,445)</u>	<u>172,956</u>	<u>509,498</u>
Change in fund balances	173,797	(148,323)	176,736	202,210
Total fund balance-beginning of year	<u>(168,797)</u>	<u>713,874</u>	<u>27,119</u>	<u>572,196</u>
Total fund balance-end of year	<u>\$ 5,000</u>	<u>\$ 565,551</u>	<u>\$ 203,855</u>	<u>\$ 774,406</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, 2013

Change in fund balances - governmental funds	\$	202,210
<p>Amounts reported as governmental funds in the Statement of Revenues, Expenditures, and Changes in Fund Balance and in the Statement of Activities are different because:</p>		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are capitalized.		139,513
Capital assets are not recorded in government funds and are therefore not depreciated. However, in the Statement of Activities these assets are depreciated over their estimated useful lives.		(241,172)
Revenues that are deferred in governmental funds because they do not provide current financial resources are not deferred in the Statement of Activities.		
Property tax revenue		24,919
Lease and bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. 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 Position. 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.		
Loan Proceeds		(53,050)
Bond, loan, and capital lease principal payments	\$	295,631
Amortization of bond issuance costs		<u>(4,195)</u>
		291,436
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.		
Change in accrued interest payable		<u>6,642</u>
Change in net position of governmental activities	\$	<u><u>370,498</u></u>

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

CITY OF GRANITE SHOALS, TEXAS

Statement of Net Position – Proprietary Funds
September 30, 2013

	Business Type Activities
	<u>Water Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 73,566
Investments	67
Accounts receivable, net of allowance for uncollectibles	174,037
Total current assets	<u>247,670</u>
Non-current assets:	
Restricted cash and cash equivalents	220,369
Restricted investments	184,296
Bond issue costs, net of amortization	138,222
Capital assets:	
Land	17,802
Buildings	2,189
Improvements	11,205,179
Machinery and equipment	111,566
Accumulated depreciation	(2,258,266)
Net capital assets	<u>9,078,470</u>
Total assets	<u>9,869,027</u>
LIABILITIES	
Accounts payable	152,039
Accrued payroll liabilities	11,719
Accrued interest	46,483
Bonds payable - current portion	170,000
Total current liabilities	<u>380,241</u>
Non-current liabilities:	
Bonds payable - long term portion	5,650,000
Payable from restricted assets:	
Customer deposits payable	268,365
Total liabilities	<u>6,298,606</u>
NET POSITION	
Net position, invested in capital assets, net of related debt	3,258,470
Restricted net position:	
Debt service	136,300
Unrestricted net assets	175,651
Total net position	<u>\$ 3,570,421</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 Position – Proprietary Funds
September 30, 2013

	Business Type Activities
	<u>Water Fund</u>
OPERATING REVENUES	
Charges for water services	\$ 1,549,537
Charges for sanitation services	106,416
Other revenue	22,468
Total operating revenues	<u>1,678,421</u>
OPERATING EXPENSES	
Water:	
Personnel services - salaries and wages	201,702
Personnel services - employee benefits	59,510
Purchased professional and technical services	1,215
Purchased services	69,109
Other operating expenses	403,287
Supplies	165,582
Total Water	<u>900,405</u>
Depreciation	296,121
Total expenses	<u>1,196,526</u>
Total operating income	481,895
NON-OPERATING REVENUES (EXPENSES)	
Amortization of bond issuance costs	(6,911)
Investment earnings	615
Interest expense	(284,395)
Total non-operating revenues (expenses)	<u>(290,691)</u>
Net income before capital grants and transfers	191,204
Capital grants	<u>23,030</u>
TRANSFERS	
Transfers in	450,495
Transfers out	(906,943)
Total transfers	<u>(456,448)</u>
Change in net position	(242,214)
Total net position-beginning of year	<u>3,812,635</u>
Total net position-end of year	<u>\$ 3,570,421</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, 2013

	Business-Type Activities
	<u>Water Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,685,328
Other cash receipts	22,468
Payments to suppliers for goods and services	(575,823)
Payments to employees for salaries and benefits	(262,403)
Net cash provided by operating activities	<u>869,570</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(906,943)
Transfers from other funds	450,495
Net cash (used) in non-capital financing activities	<u>(456,448)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital grants	23,030
Purchase of capital assets	(49,169)
Principal paid on debt	(165,000)
Interest and fiscal charges paid	(285,494)
Net cash (used) in capital and related financing activities	<u>(476,633)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	615
Net cash provided by investing activities	<u>615</u>
Net decrease in cash and cash equivalents	(62,896)
Cash and cash equivalents at beginning of period	541,194
Cash and cash equivalents at end of period	\$ <u>478,298</u>
CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 481,895
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	296,121
Bad debt expense	19,446
Change in assets and liabilities:	
Accounts receivable	19,151
Accounts payable	43,924
Accrued expenses	(1,191)
Customer deposits payable	10,224
Net cash provided by operating activities	\$ <u>869,570</u>
Cash and cash equivalents at end of period consist of:	
Cash and cash equivalents	\$ 73,566
Investments	67
Restricted cash and cash equivalents	220,369
Restricted investments	184,296
Cash and cash equivalents at end of period	\$ <u>478,298</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, 2013

Note A – Nature of Operations and Summary of Significant Accounting Policies

The City of Granite Shoals, Texas (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 authorized by its code of ordinances and its citizens.

The City Council, which is elected at large, consists of a mayor and six council members 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.

The financial statements of 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

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 the following:

- 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 organization would result in misleading or incomplete financial statements

Based on these criteria, the City has no component units. 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, 2013

Note A – Nature of Operations and Summary of Significant Accounting Policies (Continued)

Government-Wide Financial Statements

The Statement of Net Position 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 Funds Balance Sheet and as other financing sources (uses) on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances. All interfund transactions between governmental funds are eliminated on the government-wide Statement of Activities. Interfund activities between governmental activities and business-type activities remain as due to/due from on the government-wide Statement of Net Position.

The government-wide 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, 2013

Note A – Nature of Operations and 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 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, 2013

Note A – Nature of Operations and 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.

The City reports the following nonmajor governmental funds: Sherwood Shores Trust Fund, Parks Fund, Hotel Tax Fund, Street & Maintenance Sales Fund, City Cleanup Fund and Capital Projects Fund.

The City reports the following major proprietary fund:

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

Fund Equity

In March 2009, the Governmental Accounting Standards Board approved Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (the Statement). The Statement requires that fund balances for each of the City's governmental funds (general fund, special revenue funds, capital projects funds, and debt service funds) be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The City did not have any nonspendable fund balances as of September 30, 2013.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority. The highest level of decision-making authority for the City is the City Council. All fund balance commitments are authorized by ordinances.
- *Assigned fund balance*—amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The City Council has authorized the City Manager to assign fund balances.
- *Unassigned fund balance*—amounts that are available for any purpose; these amounts can be reported only in the City's General Fund. If a fund deficit exists in other funds, then that amount is reported as a negative unassigned fund balance.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2013

Note A – Nature of Operations and Summary of Significant Accounting Policies (Continued)

Fund Equity (Continued)

In addition, the Statement clarifies the definitions of the various types of governmental funds. Interpretations of certain terms within the new definition of special revenue funds may affect which activities the City can report in special revenue funds.

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Long-Term Debt

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

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.

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.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2013

Note A – Nature of Operations and Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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 Position

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.

Use of Estimates

The presentation of financial statements in conformity with GAAP 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.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2013

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, 2013, the carrying amount of the City's deposits was \$982,133 and the bank balance was \$1,083,243. The City's cash deposits during the year ended September 30, 2013 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent banks in the City's name. The City had cash on hand of \$1,300 at September 30, 2013.

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; and (10) 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.

The carrying value of investments at September 30, 2013 was \$301,318 (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:

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2013

Note B – Deposits and Investments (Continued)

Policies Governing Deposits and Investments (Continued)

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, 2013 were covered by depository insurance or by collateral held by the City’s agent bank pledged 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.

Note C – Accounts Receivable

Accounts receivable consisted of the following at September 30, 2013:

	General Fund	Debt Service Fund	Water Fund	Totals
Property taxes	\$ 67,050	\$ 80,413	\$ -	\$ 147,463
Customer accounts	-	-	183,754	183,754
Other	1,168	-	-	1,168
Gross receivables	68,218	80,413	183,754	332,385
Less: allowance for uncollectibles	(3,352)	(4,021)	(9,717)	(17,090)
Net total receivable	\$ 64,866	\$ 76,392	\$ 174,037	\$ 315,295

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2013

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’s fiscal year.

The Burnet County Appraisal District appraises and collects taxes for the City. For 2013, the City of Granite Shoals had property with an assessed valuation of \$445,686,500. The tax rate was \$.46 (\$.26 for the General Fund and \$.20 for the Debt Service Fund) per \$100 valuation.

Note E – 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.

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers In/Out</u>	<u>Purpose</u>
<u>Governmental Activities</u>				
General Fund	\$ 780,687	\$ (46,700)	\$ 733,987	Operational costs
Sherwood Shores Trust Fund	-	(5,167)	(5,167)	Operational costs
Hotel Fund	46,700	24	46,724	Operational costs
Debt Service Fund	-	(450,495)	(450,495)	Debt Service
Capital Projects Fund	131,399	-	131,399	
Total Governmental Activities	<u>958,786</u>	<u>(502,338)</u>	<u>456,448</u>	
<u>Business-Type Activities</u>				
Water Fund	450,495	(906,943)	(456,448)	Operational costs, Debt Service
Total Business-Type Activities	<u>450,495</u>	<u>(906,943)</u>	<u>(456,448)</u>	
Total Transfers	<u>\$ 1,409,281</u>	<u>\$ (1,409,281)</u>	<u>\$ -</u>	

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2013

Note F – Capital Assets

Capital assets activity in the governmental activities for the year ended September 30, 2013 was as follows:

<u>Governmental Activities</u>	Balance 10/01/2012	Additions	Deletions	Transfers and Reclassifications	Balance 09/30/2013
Capital assets not being depreciated					
Land	\$ 1,725,805	\$ -	\$ -	\$ -	\$ 1,725,805
Mineral Rights	394,750	-	-	-	394,750
Total capital assets not being depreciated	2,120,555	-	-	-	2,120,555
Capital assets being depreciated					
Buildings	4,020,147	6,905	-	-	4,027,052
Improvements	798,932	61,236	-	-	860,168
Machinery and equipment	1,562,090	71,372	(90,070)	-	1,543,392
Total capital assets being depreciated	6,381,169	139,513	(90,070)	-	6,430,612
Accumulated depreciation					
Buildings	(490,630)	(103,513)	-	8,383	(585,760)
Improvements	(145,283)	(44,403)	-	-	(189,686)
Machinery and equipment	(1,264,477)	(93,256)	63,012	18,675	(1,276,046)
Total accumulated depreciation	(1,900,390)	(241,172)	63,012	27,058	(2,051,492)
Net capital assets being depreciated	4,480,779	(101,659)	(27,058)	27,058	4,379,120
Net capital assets	\$ 6,601,334	\$ (101,659)	\$ (27,058)	\$ 27,058	\$ 6,499,675

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2013

Note F – Capital Assets (Continued)

Capital asset activity in the business-type activities for the City for the year ended September 30, 2013, was as follows:

<u>Business-Type Activities</u>	Balance 10/01/2012	Additions	Deletions	Reclassifications	Balance 09/30/2013
Capital assets not being depreciated					
Land	\$ 17,802	\$ -	\$ -	\$ -	\$ 17,802
Total capital assets not being depreciated	17,802	-	-	-	17,802
Capital assets being depreciated					
Buildings	2,189	-	-	-	2,189
Improvements	11,151,908	49,166	-	4,105	11,205,179
Machinery and equipment	115,667	4	-	(4,105)	111,566
Total capital assets being depreciated	11,269,764	49,170	-	-	11,318,934
Accumulated depreciation					
Buildings	(537)	(109)	-	-	(646)
Improvements	(1,873,989)	(289,379)	-	-	(2,163,368)
Machinery and equipment	(87,618)	(6,633)	-	-	(94,251)
Total accumulated depreciation	(1,962,144)	(296,121)	-	-	(2,258,265)
Net capital assets being depreciated	9,307,620	(246,951)	-	-	9,060,669
Net capital assets	\$ 9,325,422	\$ (246,951)	\$ -	\$ -	\$ 9,078,471

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

Governmental Activities:	
Municipal court	\$ 3,072
Finance and administration	95,113
Police	55,034
Fire protection	30,561
Streets and parks	57,175
Animal control	217
Total governmental activities depreciation expense	\$ <u>241,172</u>
Business-Type Activities	
Water	\$ 296,121
Total business-type activities depreciation expense	\$ <u>296,121</u>

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2013

Note G – Restricted Cash and Investments

Restricted cash and investments consisted of the following at September 30, 2013:

	Governmental Activities	Business- Type Activities	Total
Cash restricted for debt service	\$ 573,974	\$ -	\$ 573,974
Cash restricted for water customer deposits	-	84,069	84,069
Investments restricted for debt service	-	136,300	136,300
Investments restricted for water customer deposits	-	184,296	184,296
Total restricted assets	<u>\$ 573,974</u>	<u>\$ 404,665</u>	<u>\$ 978,639</u>

Note H – Long-Term Debt

Changes in long-term debt for the year ended September 30, 2013 were as follows:

	Balance 10/01/2012	Additions	Reductions	Balance 09/30/2013	Due Within One Year
<u>Governmental Activities</u>					
Certificate of obligation					
Series 2008	\$ 4,475,000	\$ -	\$ (215,000)	\$ 4,260,000	\$ 225,000
Series 2010	700,000	-	(30,000)	670,000	30,000
First State Bank Central Texas	-	53,050	(1,421)	51,629	17,305
Capital leases					
Ford Motor Credit	30,371	-	(30,371)	-	-
Caterpillar	1,896	-	(1,896)	-	-
Motorola	42,984	-	(7,871)	35,113	8,218
Government Capital Corporation	36,500	-	(9,071)	27,429	8,820
Total governmental activities	<u>5,286,751</u>	<u>53,050</u>	<u>(295,630)</u>	<u>5,044,171</u>	<u>289,343</u>
<u>Business-Type Activities</u>					
Certificate of obligation					
Series 2004	5,985,000	-	(165,000)	5,820,000	170,000
Total business-type activities	<u>5,985,000</u>	<u>-</u>	<u>(165,000)</u>	<u>5,820,000</u>	<u>170,000</u>
Total long-term debt	<u>\$ 11,271,751</u>	<u>\$ 53,050</u>	<u>\$ (460,630)</u>	<u>\$ 10,864,171</u>	<u>\$ 459,343</u>

Description of Debt

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 of 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, 2013

Note H – 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), 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.

First State Bank of Central Texas

In August 2013, the City borrowed from First State Bank of Central Texas for the purchase of fire department communications equipment. The term of the note is 36 months, with annual payments of \$18,354, including interest of 2.4%. The note is due in August 2016. The capitalized cost of the communications equipment was \$53,050. Accumulated depreciation as of September 30, 2013 was \$0.

Capital Lease – Motorola

In April 2012, the City entered into a lease-purchase agreement with Motorola for the purchase of police communications equipment. The term of the lease is 60 months, with annual payments of \$9,767, including interest of 4.41%. The lease is due in April 2017. The capitalized cost of the communications equipment was \$42,984. Accumulated depreciation as of September 30, 2013 was \$9,211.

Capital Lease – Government Capital Corporation

In March 2012, the City entered into a lease-purchase agreement with Government Capital Corporation for the purchase of police vehicles. The term of the lease is 48 months, with annual payments of \$9,811, including interest of 3.58%. The lease is due in October 2015. The capitalized cost of the vehicles was \$35,057. Accumulated depreciation as of September 30, 2013 was \$10,517.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
 For the Year Ended September 30, 2013

Note H – Long-Term Debt (Continued)

Description of Debt (Continued)

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 police vehicles. The term of the lease is 60 months, with annual payments of \$32,436, including interest 6.8%. The capitalized cost of the vehicles is \$141,202. Accumulated depreciation as of September 30, 2013 was \$115,315. The lease matured and was paid in full during fiscal year ended September 30, 2013.

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 of 5.5%. The lease is due in November 2012. The capitalized cost of the soil compactor was \$49,913. Accumulated depreciation as of September 30, 2013 was \$38,623. The lease matured and was paid in full during the fiscal year ended September 30, 2013.

Debt Service Requirements

Debt service requirements for the revenue bonds and certificates of obligation outstanding as of September 30, 2013 are as follows:

Year Ended September 30,	Principal	Interest	Total Requirements
2014	\$ 442,280	\$ 501,369	\$ 943,649
2015	462,725	482,696	945,421
2016	476,624	473,305	949,929
2017	485,000	450,819	935,819
2018	505,000	428,885	933,885
2019-2023	2,905,000	1,773,588	4,678,588
2024-2028	3,175,000	1,017,623	4,192,623
2029-2033	1,920,000	399,150	2,319,150
2034	430,000	21,500	451,500
Totals	\$ <u>10,801,629</u>	\$ <u>5,548,935</u>	\$ <u>16,350,564</u>

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2013

Note H – Long-Term Debt (Continued)

Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for the following minimum future lease payments as of September 30, 2013:

<u>Year Ended September 30,</u>	<u>Governmental Activities</u>
2014	\$ 20,627
2015	20,207
2016	21,308
2017	9,767
Subtotal	<u>71,909</u>
Less amounts representing interest	<u>(9,368)</u>
Principal amounts due	62,541
Current portion	<u>(20,627)</u>
Long-term portion	<u>\$ 41,914</u>

Note I – 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 Intergovernmental Risk Pool (TML-IRP) to provide insurance coverage for identified risks. TML-IRP is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are sent quarterly to TML. Liability of the City is limited to contributed amounts. Contributions for the year ended September 30, 2013 were \$74,745.

Note J – 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 from TMRS' website at www.TMRS.com.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2013

Note J – Pension Plan (Continued)

Plan Description (Continued)

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 2012</u>	<u>Plan Year 2013</u>
Employee deposit rate	5%	5%
Matching ratio (city to employee)	1 to 1	2 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

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)	\$	33,277
Interest on Net Pension Obligation		-
Adjustment to the ARC		-
Annual Pension Cost (APC)		<u>33,277</u>
Contributions Made		<u>(33,277)</u>
Increase (decrease) in net pension		-
Net Pension Obligation/(Asset), beginning of year		-
Net Pension Obligation/(Asset), end of year	\$	<u><u>-</u></u>

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2013

Note J – Pension Plan (Continued)

Contributions (Continued)

Three-year trend information:

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation (Asset)
2011	\$ 25,413	\$ 25,413	100%	\$ -
2012	\$ 13,037	\$ 13,037	100%	\$ -
2013	\$ 33,277	\$ 33,277	100%	\$ -

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

Valuation Date	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</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	18.1 years; closed period	25.3 years; closed period	24.5 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed	10-year Smoothed	10-year Smoothed
Actuarial Assumptions:	Market	Market	Market
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes inflation at Cost of Living Adjustments	3.00%	3.00%	3.00%
	0%	0%	0%

Funded Status and Funding Progress –

The funded status as of December 31, 2012, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) = (1) / (2)	Unfunded AAL (UAAL) (4) = (2) - (1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) = (4) / (5)
12/31/2012	\$ 692,367	\$ 766,914	90.3%	\$ 74,547	\$ 1,405,488	5.3%

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2013

Note J – Pension Plan (Continued)

Contributions (Continued)

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

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

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.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ending September 30, 2013, 2012, and 2011 were \$1,900, \$1,485, and \$1,781, respectively, which equaled the required contributions each year.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2013

Note K – Sherwood Shores Trust Fund

Upon the dissolution of the Trust Fund in December 2011, the related assets and liabilities were accounted for by the City in a special revenue fund. As of September 30, 2013, any collection activity for past due assessments has slowed and the fund balance has been depleted; therefore, the Sherwood Shores special revenue fund has been closed to the General Fund in support of current Park related activities.

Note L – Commitments and Contingencies

Commitments

The City (Enterprise Fund) has contracted with BFI Waste Services of Texas, LP, DBA Republic Services of Marble Falls, a Delaware Limited Partnership (formerly 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 has been extended to November 30, 2019. 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.

Note M – Fund Balances

The City reported the following fund balance designations at September 30, 2013:

Fund Balance Designations	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Restricted for:				
Debt Service	\$ -	\$ 565,551	\$ -	\$ 565,551
Court Activity	4,096	-	-	4,096
Police Activities	6,201	-	-	6,201
Total Restricted	10,297	565,551	-	575,848
Committed for:				
Parks Maintenance	-	-	76,201	76,201
Capital Projects	-	-	41,784	41,784
Total Committed	-	-	117,985	117,985
Unassigned	(5,297)	-	(454)	(5,751)
Total Fund Balances	\$ 5,000	\$ 565,551	\$ 117,531	\$ 688,082

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2013

Note N – Restricted Net Position

The City reported the following restricted net position at September 30, 2013:

<u>Restricted For</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Debt Service	\$ 650,366	\$ 136,300	\$ 786,666
Court Activity	4,096	-	4,096
Police Activities	6,201	-	6,201
Total Restricted Net Position	<u>\$ 660,663</u>	<u>\$ 136,300</u>	<u>\$ 796,963</u>

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, 2013

	Budget Amounts		2013 Actual (Budget Basis)	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 1,056,170	\$ 1,056,170	\$ 1,033,524	\$ (22,646)
Sales taxes	108,500	108,500	95,754	(12,746)
Franchise taxes	120,000	120,000	133,179	13,179
Other taxes	300	300	336	36
Licenses and permits	66,100	66,100	35,858	(30,242)
Intergovernmental revenues	242,554	242,554	236,714	(5,840)
Charges for services	900	900	235,880	234,980
Fines	95,000	95,000	84,284	(10,716)
Investments earnings	1,000	1,000	3,061	2,061
Hotel Occupancy Tax	40,000	-	-	-
Other revenue	42,000	42,000	70,696	28,696
Total revenues	<u>1,772,524</u>	<u>1,732,524</u>	<u>1,929,286</u>	<u>196,762</u>
EXPENDITURES				
Current:				
General government:				
Municipal court	88,110	88,110	95,218	(7,108)
Finance and administration	819,224	819,224	755,228	63,996
Public safety:				
Police	813,393	813,393	818,488	(5,095)
Fire protection	357,326	357,326	356,431	895
Public works:				
Streets and parks	416,926	416,926	399,579	17,347
Health and welfare:				
Animal control	62,998	62,998	64,532	(1,534)
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital Outlay	-	-	-	-
Total expenditures	<u>2,557,977</u>	<u>2,557,977</u>	<u>2,489,476</u>	<u>68,501</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(785,453)</u>	<u>(825,453)</u>	<u>(560,190)</u>	<u>265,263</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	825,453	825,453	780,687	(44,766)
Transfers out	-	-	(46,700)	(46,700)
Total other financing sources (uses)	<u>825,453</u>	<u>825,453</u>	<u>733,987</u>	<u>(91,466)</u>
Net change in fund balance	<u>40,000</u>	<u>-</u>	<u>173,797</u>	<u>173,797</u>
Total fund balance-beginning of year	<u>(168,797)</u>	<u>(168,797)</u>	<u>(168,797)</u>	<u>-</u>
Total fund balance-end of year	<u>\$ (128,797)</u>	<u>\$ (168,797)</u>	<u>\$ 5,000</u>	<u>\$ 173,797</u>

CITY OF GRANITE SHOALS, TEXAS

Required Supplemental Information
 Notes to the Budgetary Comparison Schedule
 General Fund
 For the Year Ended September 30, 2013

Note A – Budgetary Procedures

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.

Note B – Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	<u>2013 Actual</u> <u>(GAAP Basis)</u>	<u>GAAP to</u> <u>Budget</u> <u>Differences</u>	<u>2013 Actual</u> <u>(Budget Basis)</u>	
EXPENDITURES				
Current:				
General government:				
Municipal court	\$ 95,218	\$ -	\$ 95,218	
Finance and administration	755,228	-	755,228	
Public safety:				
Police	749,670	68,818	818,488	(a)
Fire protection	356,431	-	356,431	
Public works:				
Streets and parks	345,352	54,227	399,579	(a)
Health and welfare:				
Animal control	64,532	-	64,532	
Debt Service:				
Principal	49,210	(49,210)	-	(a)
Interest	5,934	(5,934)	-	(a)
Capital Outlay	67,901	(67,901)	-	(a)
Total expenditures	<u>\$ 2,489,476</u>	<u>\$ -</u>	<u>\$ 2,489,476</u>	

- (a) The City budgets debt service payments and Capital Outlay in the General Fund within the respective departments, but for GAAP reporting purposes, the expenditures are shown under the Debt Service & Capital Outlay line items.

CITY OF GRANITE SHOALS, TEXAS

Required Supplemental Information

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

Debt Service Fund

For the Year Ended September 30, 2013

	<u>Budget Amounts</u>		<u>2013 Actual (Budget Basis)</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 799,361	\$ 799,361	\$ 780,934	\$ (18,427)
Investments earnings	128,562	128,562	532	(128,030)
Total revenues	<u>927,923</u>	<u>927,923</u>	<u>781,466</u>	<u>(146,457)</u>
EXPENDITURES				
Current:				
General government:				
Financial administration	-	-	350	350
Debt Service:				
Principal	410,000	410,000	411,421	1,421
Interest	<u>517,923</u>	<u>517,923</u>	<u>518,018</u>	<u>95</u>
Total expenditures	<u>927,923</u>	<u>927,923</u>	<u>929,789</u>	<u>1,866</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>(148,323)</u>	<u>(148,323)</u>
Total fund balance-beginning of year	<u>713,874</u>	<u>713,874</u>	<u>713,874</u>	<u>-</u>
Total fund balance-end of year	<u>\$ 713,874</u>	<u>\$ 713,874</u>	<u>\$ 565,551</u>	<u>\$ (148,323)</u>

CITY OF GRANITE SHOALS, TEXAS

Required Supplemental Information
 Notes to the Budgetary Comparison Schedule
 Debt Service Fund
 For the Year Ended September 30, 2013

Note A – Budgetary Procedures

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.

Note B – Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	<u>2013 Actual (GAAP Basis)</u>	<u>GAAP to Budget Differences</u>	<u>2013 Actual (Budget Basis)</u>
EXPENDITURES			
Current:			
General government:			
Financial administration	\$ 350	\$ -	\$ 350
Debt Service:			
Principal	246,421	165,000	411,421 (a)
Interest	232,524	(53,049)	179,475 (a)
Total expenditures	<u>\$ 479,295</u>	<u>\$ 111,951</u>	<u>\$ 591,246</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	\$ (450,495)	\$ 450,495	\$ - (a)
Total other financing sources (uses)	<u>\$ (450,495)</u>	<u>\$ 450,495</u>	<u>\$ -</u>

- (a) The City budgets debt service expenditures for its Water Fund (a proprietary fund) in its Debt Service Fund (a governmental fund). For GAAP reporting purposes, debt service expenditures are shown as a transfer of funds in the Debt Service Fund and as a reduction of liabilities in the Water Fund.

CITY OF GRANITE SHOALS, TEXAS

Required Supplemental Information

Texas Municipal Retirement System Schedule of Funding Progress (Unaudited)

For the Year Ended September 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) = (1) / (2)	Unfunded AAL (UAAL) (4) = (2) - (1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) = (4) / (5)
12/31/2010	\$ 487,178	\$ 498,560	97.7%	\$ 11,382	\$ 1,129,555	1.0%
12/31/2011	\$ 599,460	\$ 678,667	88.3%	\$ 79,207	\$ 1,226,116	6.5%
12/31/2012	\$ 692,367	\$ 766,914	90.3%	\$ 74,547	\$ 1,405,488	5.3%

SUPPLEMENTAL SECTION

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council
City of Granite Shoals, Texas

We have audited, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 4, 2014.

Internal Control Over Financial Reporting

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

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

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (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*.

Purpose of this Report

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

San Antonio, Texas
April 4, 2014

