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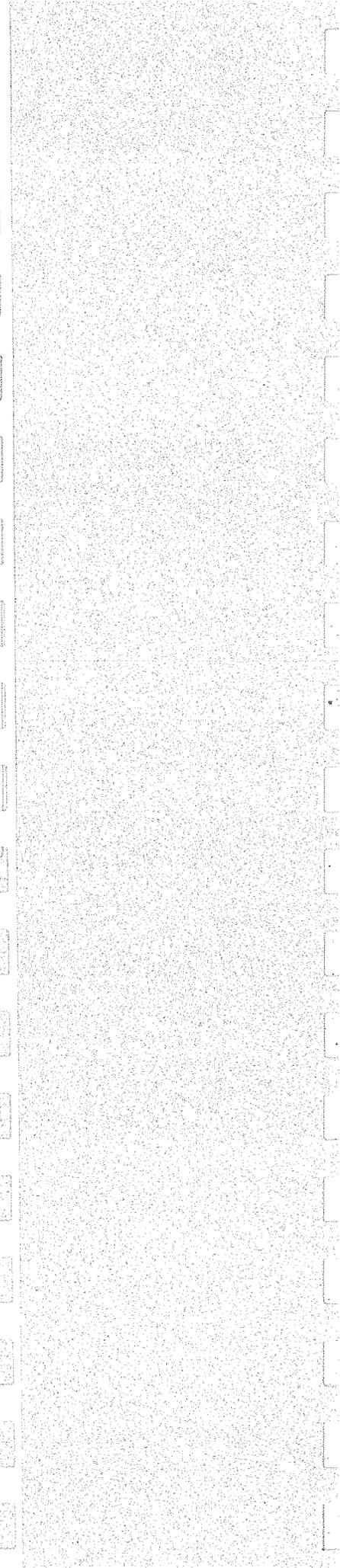
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**For the
Septem**

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Certified Public Accountants

FREDERICKSBURG, TEXAS



CITY OF GRANITE SHOALS, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2008

CITY OF GRANITE SHOALS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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Independent Auditors' Report

Honorable Mayor and City Council Members
City of Granite Shoals, Texas
Granite Shoals, TX 78654

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 City of Granite Shoals as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Granite Shoals management. Our responsibility is to express opinions on these basic 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 basic 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 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 of Granite Shoals as of September 30, 2008, 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.

The management's discussion and analysis (pages 3 through 8) and budgetary comparison information (page 34) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2009 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 the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Granite Shoal's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements 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.

Neffendorf, Knopp, Doss + Company, P.C.

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Fredericksburg, Texas

February 16, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Granite Shoals, 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, 2008. Please read it in conjunction with the independent auditors' report on page 1, and City's Basic Financial Statements which begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$6,386,325 (net assets). Of this amount, \$661,484 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net assets increased by \$86,949 as a result of this year's operations.
- At September 30, 2008, the City's governmental funds reported combined ending fund balances of \$2,063,762, an increase of \$1,758,222 in comparison with the prior year.
- At September 30, 2008, the City's Utility Fund reported net assets of \$5,046,582, a decrease of \$77,145 in comparison with the prior year.
- The City issued \$5,000,000 Combination Tax and Limited Revenue Certificates of Obligation – Series 2008 for the purchase of land (including buildings) for a new city hall.

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 9 and 10). 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 12) 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 35.

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 9. 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.

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 II 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 \$1,175,648 to \$1,339,742. 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 \$171,240 at September 30, 2008. This increase in governmental net assets was the result of three factors. First, the City's revenues exceeded the expenditures by \$23,439. Second, the City issued long-term debt of \$5,169,768, paid principal on long-term debt in the amount of \$182,065 and acquired capital assets in the amount of \$3,582,196. Third, the City recorded depreciation in the amounts of \$247,062.

Net assets of the City's business-type activities decreased from \$5,123,727 to \$5,046,582. Unrestricted net assets were \$490,245 at September 30, 2008. This decrease in business-type net assets was the result of a net loss of \$77,145.

Table I
City of Granite Shoals

NET ASSETS
in thousands

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 690	\$ 468	\$ 669	\$ 889	\$ 1,359	\$ 1,357
Bond Issuance Costs	68	-	180	187	248	187
Capital Assets, Net	4,437	1,084	10,497	10,239	14,934	11,323
Restricted Assets	1,610	-	765	995	2,375	995
Total Assets	\$ 6,805	\$ 1,552	\$ 12,111	\$ 12,310	\$ 18,916	\$ 13,862
Current Liabilities	342	227	333	255	675	482
Customer Deposits	-	-	231	226	231	226
Noncurrent Liabilities	5,124	150	6,501	6,706	11,625	6,856
Total Liabilities	\$ 5,466	\$ 377	\$ 7,065	\$ 7,187	\$ 12,531	\$ 7,564
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	\$ 737	\$ 780	\$ 3,791	\$ 3,335	\$ 4,528	\$ 4,115
Restricted For:						
Debt Service	240	116	765	591	1,005	707
Sherwood Shores	191	173	-	-	191	173
Unrestricted	171	106	490	1,198	661	1,304
Total Net Assets	\$ 1,339	\$ 1,175	\$ 5,046	\$ 5,124	\$ 6,385	\$ 6,299

Table II
City of Granite Shoals

CHANGES IN NET ASSETS
in thousands

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for Services	\$ 396	\$ 271	\$ 1,519	\$ 1,325	\$ 1,915	\$ 1,596
Operating Grants & Contributions	90	-	-	-	119	-
Capital Grants & Contributions	-	-	18	156	18	156
General Revenues:						
Property Taxes	1,209	1,057	-	-	1,209	1,057
Sales Taxes	56	54	-	-	56	54
Franchise Taxes	63	66	-	-	63	66
Penalty & Interest	14	16	-	-	14	16
Grants & Contributions Not Restr.	51	70	-	-	51	70
Miscellaneous	47	88	61	3	108	91
Interest	34	8	42	189	76	197
Total Revenues	<u>\$ 1,961</u>	<u>\$ 1,630</u>	<u>\$ 1,640</u>	<u>\$ 1,673</u>	<u>\$ 3,629</u>	<u>\$ 3,303</u>
Expenses:						
Financial Administration	\$ 546	\$ 475	\$ -	\$ -	\$ 563	\$ 475
Public Safety	585	528	-	-	596	528
Public Works	318	277	-	-	318	277
Municipal Court	89	59	-	-	89	59
Building Inspection	72	66	-	-	72	66
Animal Control	47	49	-	-	47	49
Parks	202	131	-	-	202	131
Fire Department	230	179	-	-	230	179
Interest	158	9	315	-	473	9
Issuance Costs/Fiscal Agent's Fees	4	1	7	-	11	1
Utility	-	-	941	875	941	875
Total Expenses	<u>\$ 2,250</u>	<u>\$ 1,774</u>	<u>\$ 1,263</u>	<u>\$ 875</u>	<u>\$ 3,542</u>	<u>\$ 2,649</u>
Increase (Decrease) in Net Assets Before Transfers & Capital Contributions	\$ (289)	\$ (144)	\$ 377	\$ 798	\$ 87	\$ 654
Transfers	454	152	(455)	(152)	-	-
Capital Contributions	-	-	-	-	-	-
Net Assets - Beginning	1,175	1,167	5,124	4,478	6,299	5,645
Net Assets - Ending	<u>\$ 1,340</u>	<u>\$ 1,175</u>	<u>\$ 5,046</u>	<u>\$ 5,124</u>	<u>\$ 6,386</u>	<u>\$ 6,299</u>

The cost of all governmental activities this year was \$2,250,084. However, as shown in the Statement of Activities on page 10, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$1,209,154 because the other costs were paid by sales tax (\$56,461), franchise tax (\$62,991), investment earnings (\$33,749), grants and contributions (\$140,642), user charges (\$396,119) and other miscellaneous (\$47,169).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 9) reported a combined fund balance of \$2,063,762, which is more than last year's total of \$305,544. Included in this year's total change in fund balance is an increase of \$23,439 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, 2008, the City had the following amounts invested in capital assets:

CAPITAL ASSETS in thousands

	Governmental Activities	Business-Type Activities	TOTALS	
			9/30/08	9/30/07
Land	\$ 1,726	18	\$ 1,744	\$ 53
Buildings	2,325	26	2,351	816
Improvements	327	12,248	12,575	11,906
Machinery & Equipment	1,594	292	1,886	1,614
Construction in Progress	-	-	-	1
TOTALS	\$ 5,972	12,584	\$ 18,556	\$ 14,390
Less:				
Accumulated Depreciation	1,535	2,087	3,622	(3,067)
Net Fixed Assets	\$ 4,437	10,497	\$ 14,934	\$ 11,323

This year's major additions included:

	Governmental Activities	Business Type Activities
Land & Building	\$ 3,239	\$ -
Improvements	101	552
Incode System	138	-
Equipment and Vehicles	121	14
TOTALS	\$ 3,599	\$ 566

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

Debt

OUTSTANDING DEBT
in thousands

	Governmental Activities	Business-Type Activities	TOTALS	
			9/30/08	9/30/07
Tax Anticipation Notes	\$ 129	\$ 121	\$ 250	\$ 375
Certificates of Obligation	5,000	6,585	11,585	6,725
Notes Payable	-	-	-	7
Capital Leases	164	-	164	102
Total Outstanding Debt	<u>\$ 5,293</u>	<u>\$ 6,706</u>	<u>\$ 11,999</u>	<u>\$ 7,209</u>

For governmental activities, the City issued \$5,000,000 in certificates of obligation for the purchase of land and building and \$167,768 in capital leases for the purchase of equipment and Incode system and paid principal of \$182,065 during the year.

For business-type activities, the City paid principal of \$197,932 during the year.

More detailed information about the City's long-term liabilities is presented in Notes G, H, I and J to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2009 budget and tax rates. The major factors are the economy, population growth, and assessed property valuation. These indicators were taken into account when adopting the General Fund budget for 2009. Amounts available for appropriation in the General Fund budget are \$2,405,166 (including transfers from the utility fund of \$731,995) and expenditures are estimated to be \$2,405,166.

If these estimates are realized, the City's budgetary General fund balance is expected to remain the same by the close of 2009.

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
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

EXHIBIT A-1

Data Control Codes	Primary Government			
	Governmental Activities	Business Type Activities	Total	
ASSETS				
1010	Cash and Cash Equivalents	\$ 571,872	\$ 225,234	\$ 797,106
1030	Investments - Current	1,590,912	346,639	1,937,551
1150	Receivables (net of allowance for uncollectibles)	125,748	93,005	218,753
1430	Prepaid Items	11,821	4,144	15,965
1520	Capitalized Debt Issuance Costs	68,365	179,992	248,357
	Restricted Assets:			
	Temporarily Restricted:			
1611	Restricted Asset - Debt Service	-	765,275	765,275
	Capital Assets:			
1710	Land	1,725,805	17,802	1,743,607
1730	Buildings, net	2,060,222	25,880	2,086,102
1740	Improvements other than Buildings, net	277,529	12,247,666	12,525,195
1750	Machinery and Equipment, net	373,110	292,552	665,662
1760	Accumulated Depreciation	-	(2,086,498)	(2,086,498)
1000	Total Assets	<u>6,805,384</u>	<u>12,111,691</u>	<u>18,917,075</u>
LIABILITIES				
2020	Accounts Payable	81,884	74,733	156,617
2070	Intergovernmental Payable	-	2,506	2,506
2140	Accrued Interest Payable	37,376	50,836	88,212
2220	Deferred Revenues	52,912	-	52,912
2270	Customer Deposits	903	230,695	231,598
	Noncurrent Liabilities			
2501	Due Within One Year	168,694	205,669	374,363
2502	Due in More Than One Year	5,123,873	6,500,670	11,624,543
2000	Total Liabilities	<u>5,465,642</u>	<u>7,065,109</u>	<u>12,530,751</u>
NET ASSETS				
3200	Invested in Capital Assets, Net of Related Debt	736,945	3,791,063	4,528,008
	Restricted for:			
3810	Restricted for Sherwood Shores Trust Fund	191,355	-	191,355
3820	Restricted for Debt Service	240,202	765,275	1,005,477
3900	Unrestricted Net Assets	171,240	490,244	661,484
3000	Total Net Assets	<u>\$ 1,339,742</u>	<u>\$ 5,046,582</u>	<u>\$ 6,386,324</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF GRANITE SHOALS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
Municipal Court	\$ 88,890	\$ 41,816	-	\$ -
Financial Administration	545,551	-	-	-
Police	585,105	-	-	-
Fire Protection	230,464	-	-	-
Highways and Streets	318,050	51,425	90,108	-
Building Inspection	71,505	92,097	-	-
Animal Control	46,967	1,304	-	-
Parks	201,969	209,477	-	-
Bond Interest	157,921	-	-	-
Fiscal Agent's Fees	850	-	-	-
Issuance Costs	2,811	-	-	-
Capital Outlay	1	-	-	-
Total Governmental Activities:	2,250,084	396,119	90,108	-
BUSINESS-TYPE ACTIVITIES:				
Utility Fund	1,262,567	1,518,785	-	17,956
Total Business-Type Activities:	1,262,567	1,518,785	-	17,956
TOTAL PRIMARY GOVERNMENT:	\$ 3,512,651	\$ 1,914,904	\$ 90,108	\$ 17,956

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Franchise Taxes

Other Taxes

Penalty and Interest

Grants and Contributions Not Restricted

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Assets

Net Assets--Beginning

Net Assets--Ending

The notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (47,074)	\$ -	\$ (47,074)
(545,551)	-	(545,551)
(585,105)	-	(585,105)
(230,464)	-	(230,464)
(176,517)	-	(176,517)
20,592	-	20,592
(45,663)	-	(45,663)
7,508	-	7,508
(157,921)	-	(157,921)
(850)	-	(850)
(2,811)	-	(2,811)
(1)	-	(1)
<u>(1,763,857)</u>	<u>-</u>	<u>(1,763,857)</u>
-	274,174	274,174
-	274,174	274,174
<u>(1,763,857)</u>	<u>274,174</u>	<u>(1,489,683)</u>
504,183	-	504,183
704,971	-	704,971
56,461	-	56,461
62,991	-	62,991
300	-	300
14,069	-	14,069
50,534	-	50,534
47,169	60,622	107,791
33,749	41,583	75,332
453,524	(453,524)	-
<u>1,927,951</u>	<u>(351,319)</u>	<u>1,576,632</u>
164,094	(77,145)	86,949
<u>1,175,648</u>	<u>5,123,727</u>	<u>6,299,375</u>
<u>\$ 1,339,742</u>	<u>\$ 5,046,582</u>	<u>\$ 6,386,324</u>

CITY OF GRANITE SHOALS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008

	General Fund	Sherwood Shores Trust Fund	Debt Service
ASSETS			
Cash and Cash Equivalents	\$ 4,083	\$ 89,436	\$ 96,275
Investments - Current	154,576	103,124	105,006
Taxes Receivable	32,333	-	41,794
Allowance for Uncollectible Taxes (credit)	(1,617)	-	(2,090)
Receivables (Net)	24,857	-	-
Due from Other Funds	-	-	38,921
Prepaid Items	11,821	-	-
Total Assets	\$ 226,053	\$ 192,560	\$ 279,906
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 21,588	\$ 933	\$ -
Wages and Salaries Payable	41,653	272	-
Due to Other Funds	38,921	-	-
Deferred Revenues	83,629	-	39,704
Other Current Liabilities	903	-	-
Total Liabilities	186,694	1,205	39,704
Fund Balances:			
Unreserved and Undesignated:			
Reported in the General Fund	39,359	-	-
Reported in the Special Revenue Fund	-	191,355	-
Reported in the Debt Service Fund	-	-	240,202
Reported in the Capital Projects Fund	-	-	-
Total Fund Balances	39,359	191,355	240,202
Total Liabilities and Fund Balances	\$ 226,053	\$ 192,560	\$ 279,906

The notes to the Financial Statements are an integral part of this statement.

Capital Projects Fund	Total Governmental Funds
\$ 382,078	\$ 571,872
1,228,206	1,590,912
-	74,127
-	(3,707)
-	24,857
-	38,921
-	11,821
<u>\$ 1,610,284</u>	<u>\$ 2,308,803</u>
\$ 17,438	\$ 39,959
-	41,925
-	38,921
-	123,333
-	903
<u>17,438</u>	<u>245,041</u>
-	39,359
-	191,355
-	240,202
<u>1,592,846</u>	<u>1,592,846</u>
<u>1,592,846</u>	<u>2,063,762</u>
<u>\$ 1,610,284</u>	<u>\$ 2,308,803</u>

CITY OF GRANITE SHOALS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2008

Total Fund Balances - Governmental Funds	\$	2,063,762
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$2,372,309 and the accumulated depreciation was \$1,287,947. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.		775,759
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2008 capital outlays and debt principal payments is to increase net assets.		3,764,261
The 2008 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(247,062)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net assets.		(5,016,978)
Net Assets of Governmental Activities	\$	1,339,742

The notes to the Financial Statements are an integral part of this statement.

CITY OF GRANITE SHOALS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General Fund	Sherwood Shores Trust Fund	Debt Service
REVENUES:			
Taxes:			
Property Taxes	\$ 506,497	\$ -	\$ 706,469
General Sales and Use Taxes	62,058	-	-
Franchise Tax	62,991	-	-
Other Taxes	300	-	-
Licenses and Permits	92,097	-	-
Intergovernmental Revenue and Grants	115,928	24,000	-
Charges for Services	52,730	209,477	-
Fines	41,816	-	-
Investment Earnings	5,786	3,829	1,606
Rents and Royalties	-	2,366	-
Contributions & Donations from Private Sources	327	387	-
Other Revenue	42,915	-	-
Total Revenues	983,445	240,059	708,075
EXPENDITURES:			
Current:			
General Government:			
Municipal Court	80,417	-	-
Financial Administration	684,981	-	-
Public Safety:			
Police	567,458	-	-
Fire Protection	248,939	-	-
Public Works:			
Highways and Streets	406,171	-	-
Building Inspection	64,689	-	-
Health and Welfare:			
Animal Control	42,490	-	-
Culture and Recreation:			
Parks	-	221,903	-
Debt Service:			
Bond Principal	-	-	67,050
Bond Interest	-	-	124,284
Fiscal Agent's Fees	-	-	850
Issuance Costs	-	-	-
Capital Outlay:			
Capital Outlay	-	-	-
Total Expenditures	2,095,145	221,903	192,184
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,111,700)	18,156	515,891
OTHER FINANCING SOURCES (USES):			
Capital-related Debt Issued (Regular Bonds)	-	-	-
Proceeds from Capital Leases	169,768	-	-
Transfers In	965,371	-	119,733
Transfers Out (Use)	-	-	(511,847)
Total Other Financing Sources (Uses)	1,135,139	-	(392,114)

The notes to the Financial Statements are an integral part of this statement.

Capital Projects Fund	Total Governmental Funds
\$ -	\$ 1,212,966
-	62,058
-	62,991
-	300
-	92,097
-	139,928
-	262,207
-	41,816
22,528	33,749
-	2,366
-	714
-	42,915
22,528	1,954,107
-	80,417
-	684,981
-	567,458
-	248,939
-	406,171
-	64,689
-	42,490
-	221,903
-	67,050
-	124,284
-	850
71,176	71,176
3,238,773	3,238,773
3,309,949	5,819,181
(3,287,421)	(3,865,074)
5,000,000	5,000,000
-	169,768
-	1,085,104
(119,733)	(631,580)
4,880,267	5,623,292

CITY OF GRANITE SHOALS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General Fund	Sherwood Shores Trust Fund	Debt Service
Net Change in Fund Balances	23,439	18,156	123,777
Fund Balance - October 1 (Beginning)	<u>15,920</u>	<u>173,199</u>	<u>116,425</u>
Fund Balance - September 30 (Ending)	<u>\$ 39,359</u>	<u>\$ 191,355</u>	<u>\$ 240,202</u>

The notes to the Financial Statements are an integral part of this statement.

<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
1,592,846	1,758,218
-	305,544
<u>\$ 1,592,846</u>	<u>\$ 2,063,762</u>

CITY OF GRANITE SHOALS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2008

Total Net Change in Fund Balances - Governmental Funds	\$	1,758,218
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2008 capital outlays and debt principal payments is to increase net assets.		3,764,261
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(247,062)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net assets.		(5,111,323)
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>164,094</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF GRANITE SHOALS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2008

	Business Type Activities
	Utility Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 225,234
Investments - Current	346,639
Restricted Assets - Current:	
Restricted Asset - Debt Service	765,275
Accounts Receivable-Net of Uncollectible Allowance	93,005
Prepaid Items	4,144
Total Current Assets	<u>1,434,297</u>
Noncurrent Assets:	
Capitalized Debt Issuance Costs	179,992
Capital Assets:	
Land Purchase and Improvements	17,802
Buildings	25,880
Improvements other than Buildings	12,247,666
Machinery and Equipment	292,552
Accumulated Depreciation - Capital Assets	<u>(2,086,498)</u>
Total Noncurrent Assets	<u>10,677,394</u>
Total Assets	<u>12,111,691</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	61,188
Wages and Salaries Payable	2,180
Compensated Absences Payable	7,732
Intergovernmental Payable	2,506
Due to Others	3,633
Accrued Interest Payable	50,836
Bonds Payable - Current:	
Bonds Payable - Current	205,669
Customer Deposits	230,695
Total Current Liabilities	<u>564,439</u>
NonCurrent Liabilities:	
Bonds Payable - Non-Current:	
General Obligation Bonds Payable	<u>6,500,670</u>
Total Noncurrent Liabilities	<u>6,500,670</u>
Total Liabilities	<u>7,065,109</u>
NET ASSETS	
Investments in Capital Assets, Net of Debt	3,791,063
Restricted for Debt Service	765,275
Unrestricted Net Assets	490,244
Total Net Assets	<u>\$ 5,046,582</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF GRANITE SHOALS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

EXHIBIT D-2

	Business Type Activities
	Utility Fund
OPERATING REVENUES:	
Charges for Water Services	\$ 1,458,418
Charges for Sanitation Service	34,040
Franchise Fees	26,327
Rents and Royalties	36,000
Other Revenue	24,622
Total Operating Revenues	1,579,407
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	228,875
Personnel Services - Employee Benefits	54,021
Purchased Professional & Technical Services	51,502
Purchased Property Services	140,170
Other Operating Expenses	30,028
Supplies	128,436
Depreciation	307,463
Total Operating Expenses	940,495
Operating Income	638,912
NON-OPERATING REVENUES (EXPENSES):	
Bond Issuance Cost	(6,923)
Investment Earnings	41,583
Interest Expense - Non-Operating	(315,149)
Total Non-operating Revenue (Expenses)	(280,489)
Income Before Contributions & Transfers	358,423
Capital Contributions	17,956
Non-Operating Transfer In	511,847
Transfers Out	(965,371)
Change in Net Assets	(77,145)
Total Net Assets - October 1 (Beginning)	5,123,727
Total Net Assets - September 30 (Ending)	\$ 5,046,582

The notes to the Financial Statements are an integral part of this statement.

CITY OF GRANITE SHOALS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business Type Activities
	Utility Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 1,521,305
Cash Received from Franchise Fees	26,327
Cash Received from Others	60,622
Cash Payments to Employees for Service	(274,102)
Cash Payments for Suppliers	(148,201)
Cash Payments for Other Operating Expenses	(221,700)
Net Cash Provided by Operating Activities	<u>964,251</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	(965,371)
Operating Transfer In	511,847
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(453,524)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(565,626)
Capital Contributed by Other Funds	17,956
Use of Restricted Assets	229,443
Interest Paid	(317,461)
Principal Paid - Long Term Debt	(197,932)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(833,620)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	<u>41,583</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(281,310)
Cash and Cash Equivalents at Beginning of the Year:	<u>853,183</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 571,873</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF GRANITE SHOALS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Business Type Activities
	Utility Fund
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided By Operating Activities:</u>	
Operating Income:	\$ 638,912
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	307,463
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	23,874
Increase (decrease) in Accounts Payable	64,609
Increase (decrease) in Salaries and Benefits	8,794
Increase (decrease) in Customer Deposits	4,973
Increase (decrease) in Due to Other Funds	(84,374)
Net Cash Provided by Operating Activities	<u>\$ 964,251</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF GRANITE SHOALS, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Granite Shoals, Texas, have been prepared in conformity with generally accepted accounting principles (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:

A. 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 generally accepted accounting principles, 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 accounting principles generally accepted in the United States of America. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant indication of this ability is financial interdependency. Other indications of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. The component unit discussed below is included because of the significance of its operational or financial relationships with the City.

Component Unit

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 410 North Phillips Ranch Road, Granite Shoals, Texas 78654.

B. Government-Wide and Fund 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 nonfiduciary 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 froms 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 froms 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.

C. 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 unmatured 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 some times require the City to refund all or part of the unused amount.

D. Fund Accounting

The City reports the following major governmental funds:

1. **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.

Additionally, the City reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds** - The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.
2. **Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Proprietary Fund:

1. **Enterprise Fund** - The Utility Fund is operated as an Enterprise Fund.

E. Other Accounting Policies

1. 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.

2. Capital assets, which include land, buildings, furniture and equipment, 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.

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

Pursuant to GASB Statement Number 34, an extended period of deferral is available before the requirement to record and depreciate infrastructure assets (e.g., roads, bridges, and similar items) acquired before the implementation date becomes effective. Therefore, infrastructure assets acquired prior to October 1, 2001 have not yet been capitalized.

3. 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.
4. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
5. 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.

6. 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 expenses during the reporting period. Actual results could differ from those estimates.

NOTE II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. 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, 2008, the carrying amount of the City's deposits was \$757,859 and the bank balance was \$787,122. The carrying amount of the deposit of Sherwood Shores Trust Fund was \$89,336 and the bank balance was \$89,336. The City's cash deposits held at American Bank during January and February 2008 were not entirely covered by FDIC or pledged collateral. The City's cash deposits after February 2008 and through September 30, 2008 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

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.

The carrying value of investments at September 30, 2008 was \$2,557,129 (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 deposits may not be returned to it. The City was exposed to custodial credit risk since its deposits during the year ended September 30, 2008 were not 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.

B. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property 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 2008, the City of Granite Shoals had property with an assessed valuation of \$309,535,202. The tax rate was \$.40 (General Fund .1662 and Debt Service .2338) per \$100 valuation.

C. Court Fines and Fees Receivable

With the implementation of GASB Statement Number 34, the City has determined the amount of court fines and fees receivable to be \$101,296. Based on historical collection rates for the various courts, the City has booked an allowance for uncollectible court fines and fees of \$75,972, resulting in a net receivable of \$25,324.

D. Restricted Assets

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

E. Property, Plant and Equipment

A summary of fixed assets for the Utility Fund appears below:

	Balance 10/01/07	Additions	Deletions	Balance 9/30/08
Land	\$ 17,802	\$ -	\$ -	\$ 17,802
Buildings	23,691	2,189	-	25,880
Improvements	11,696,359	551,307	-	12,247,666
Machinery and Equipment	279,108	13,444	-	292,552
Construction in Progress	1,314	-	1,314	-
Total Fixed Assets	\$ 12,018,274	\$ 566,940	\$ 1,314	\$ 12,583,900
Less: Reserve for Depreciation	(1,779,035)	(307,463)	-	(2,086,498)
Net Fixed Assets	\$ 10,239,239	\$ 259,477	\$ 1,314	\$ 10,497,402

F. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2008, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 34,854	\$ 1,690,951	\$ -	\$ 1,725,805
Buildings	792,732	1,547,822	-	2,340,554
Machinery & Equipment	1,334,731	258,797	-	1,593,528
Improvements	209,992	101,797	-	311,789
Totals at Historic Cost	\$ 2,372,309	\$ 3,599,367	\$ -	\$ 5,971,676
Less Accumulated Depreciation For:				
Building & Improvements	\$ (246,314)	\$ (68,170)	\$ -	\$ (314,484)
Machinery & Equipment	(1,041,633)	(178,893)	-	(1,220,526)
Total Accumulated Depreciation	\$ (1,287,947)	\$ (247,063)	\$ -	\$ (1,535,010)
Governmental Activities Capital Assets, Net	\$ 1,084,362	\$ 3,352,304	\$ -	\$ 4,436,666

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

Governmental Activities:	
Financial Administration	\$ 74,053
Police	60,947
Highways and Streets	42,797
Animal Control	4,477
Parks	23,270
Municipal Court	8,473
Building Inspection	6,817
Fire Department	26,229
Total Depreciation Expense - Governmental Activities	\$ 247,063

G. Changes in Long-Term Debt

A summary of changes in long-term debt appears below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities -</u>					
Tax Anticipation Notes -					
Series 2001	\$ 67,069	\$ -	\$ 67,069	\$ -	\$ -
Series 2003	128,661	-	-	128,661	64,331
Series 2008	-	5,000,000	-	5,000,000	50,000
Notes Payable -					
Highland Lakes Bank	7,437	-	7,437	-	-
Capital Leases -					
Oshkosh Capital	37,266	-	37,266	-	-
Ford Motor Credit	64,430	-	43,300	21,130	21,130
Caterpillar	-	49,913	8,156	41,757	9,378
First American Bank	-	119,855	18,855	101,000	23,855
<u>Government Activity -</u>					
Long-Term Debt	<u>\$ 304,863</u>	<u>\$ 5,169,768</u>	<u>\$ 182,083</u>	<u>\$ 5,292,548</u>	<u>\$ 168,694</u>
<u>Business-Type Activities -</u>					
Tax Anticipation Notes -					
Series 2001	\$ 57,932	\$ -	\$ 57,932	\$ -	\$ -
Series 2003	121,339	-	-	121,339	60,669
Certificates of Obligation -					
Series 2004	<u>6,725,000</u>	<u>-</u>	<u>140,000</u>	<u>6,585,000</u>	<u>145,000</u>
<u>Business-Type Activity -</u>					
Long-Term Debt	<u>\$ 6,904,271</u>	<u>\$ -</u>	<u>\$ 197,932</u>	<u>\$ 6,706,339</u>	<u>\$ 205,669</u>

H. Tax Anticipation Notes and Certificates of Deposit

The City issued \$755,000 tax anticipation notes - Series 2001 for (1) improvements to the utility system including a water tower and (2) purchase of vehicles and equipment for the police, public works and fire departments. The notes were issued at interest rates from 3.5% in 2002 to 5.0% in 2008. The notes are payable from a tax levied on all taxable property within the City. Of the original \$755,000 tax notes issued, the amount allocated to governmental activities was \$405,020 and the business-type activities portion was \$349,980.

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.

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 a limited subordinate lien pledge in an amount not to exceed \$10,000 of the surplus revenues of the waterworks system.

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 a limited subordinate lien pledge in an amount not to exceed \$10,000 of the surplus revenues of the waterworks system.

Debt service requirements for the revenue bonds and certificates of obligation outstanding as of September 30, 2008 are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Requirements</u>
2009	\$ 320,000	\$ 538,851	\$ 858,851
2010	340,000	527,647	867,647
2011	350,000	517,007	867,007
2012	365,000	502,027	867,027
2013	380,000	486,423	866,423
2014 – 2018	2,160,000	2,170,615	4,330,615
2019 – 2023	2,685,000	1,646,488	4,331,488
2024 - 2028	2,950,000	301,768	3,251,768
2029 – 2033	1,855,000	395,250	2,250,250
2034 - 2036	430,000	21,500	451,500
Totals	\$ 11,835,000	\$ 7,107,576	\$ 18,942,576

I. Capital Leases

Capital lease obligations at September 30, 2008 are composed of the following:

<u>Payee and Terms</u>	<u>Interest Rate</u>	<u>Balance at 9/30/08</u>	<u>Due Within One Year</u>
Caterpillar Financial, payable in monthly installments of \$953, including interest, beginning November, 2007, due November, 2012, to purchase a Caterpillar Soil Compactor, secured by the equipment.	5.5%	\$ 41,757	\$ 9,378
Ford Motor Credit, payable in monthly installments of \$1,045 including interest, beginning January, 2006, due December, 2008, to purchase 2006 Ford Crown Victoria, secured by the police car.	5.25%	3,109	3,109
Ford Motor Credit payable in annual installments of \$19,265 including interest beginning April 2007, due April 2009 to purchase (2) 2007 Ford Crown Victoria police vehicles, secured by the vehicles.	6.9%	18,021	18,021
First American Bank, payable in monthly installments of \$2,381, including interest, beginning November, 2007, due November, 2012, to purchase Incode hardware and software.	6.15%	101,000	23,855
TOTAL CAPITAL LEASES		\$ 163,887	54,363

Future minimum lease payments under the leases along with the present value of the minimum lease payments as of September 30, 2008:

Year Ended September 30,	General Long-Term Obligations
2009	\$ 62,183
2010	39,783
2011	39,783
2012	39,783
2013	2,860
Total Minimum Lease Payments	\$ 184,392
Less Amount Representing Interest	20,505
Present Value of Lease Payments	\$ 163,887

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, 2008 were \$74,270.

K. Defined Benefit Pension Plan

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as of the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows (as of 4/04/07):

Deposit Rate:	5%
Matching Ratio (City to Employee)	1 to 1
A member is vested after	5 yrs

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: 5 yrs/age 60, 20 yrs/any age

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2006 valuation is effective for rates beginning January, 2008).

Annual Pension Cost

For the employer's accounting for the year ended September 30, 2008, the pension cost for the TMRS plan for its employees was \$30,698 and the actual contributions were \$30,698.

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/07	12/31/06	12/31/05	12/31/04
Actuarial Value of Assets	\$ 263,563	\$ 214,701	\$ 161,283	\$ 110,829
Actuarial Accrued Liability	\$ 328,242	\$ 282,427	\$ 231,295	\$ 181,232
Percentage Funded	80.3%	76.0%	69.7%	61.2%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ 64,679	\$ 67,726	\$ 70,012	\$ 70,403
Annual Covered Payroll	\$ 760,186	\$ 731,854	\$ 704,578	\$ 662,359
UAAL as a Percentage of Covered Payroll	9.0%	9.2%	9.9%	10.6%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Annual Pension Cost:				
Annual required contribution (ARC)	\$ 30,698	\$ 27,132	\$ 22,916	\$ 22,658
Interest on NPO	-0-	-0-	-0-	-0-
Adjustment to the ARC	-0-	-0-	-0-	-0-
Total Annual Pension Cost	\$ 30,698	\$ 27,132	\$ 22,916	\$ 22,658
Contributions Made	\$ 30,698	\$ 27,132	\$ 22,916	\$ 22,658
Net Pension Obligation at the End of Period	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Actuarial Assumptions

Actuarial Cost Method -	Unit Credit
Amortization Method -	Level Percent of Payroll
Remaining Amortization Period -	25 Years - Open Period
Asset Valuation Method -	Amortized Cost (to accurately reflect the requirements of GASB Statement No. 25, paragraphs 36e and 138)
Investment Rate of Return -	7%
Projected Salary Increases -	None
Includes Inflation At -	3.5%
Cost-of-Living Adjustments	None

L. Employee Insurance Benefits

All regular full time employees of the city are eligible for coverage under the group hospitalization, medical, dental and life insurance program provided by the city through Texas Municipal League Intergovernmental Employee Benefits Pool. The city pays the premium for eligible employees and employees, at their option, may authorize payroll withholdings to pay premiums for eligible family members.

M. Cash Flows Statement - Supplemental Disclosure

Since the City is tax exempt, no income tax was paid in 2008 and 2007. The City paid interest in the amount of \$317,461 in 2008 and \$322,023 in 2007 on their outstanding debt.

N. Operating Leases

Commitments under operating (non-capitalized) lease agreements for equipment and a condominium for the interim city manager provide for future minimum rental payments as of September 30, 2008 as follows:

<u>Year Ending September 30</u>	<u>Amount</u>
2009	\$ 3,327
2010	2,394
2011	600
TOTAL MINIMUM RENTALS	<u>\$ 6,321</u>
Rental Expenditures in 2008	<u>\$ 5,014</u>

O. Interfund Balances

Individual interfund receivable and payable balances and operating transfers at September 30, 2008, were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:				
Proprietary Fund	\$ -	\$ -	\$ 965,371	\$ -
Debt Service Fund	-	38,921	-	-
Proprietary Fund:				
General Fund	-	-	-	965,371
Debt Service Fund	-	-	511,847	-
Debt Service Fund:				
General Fund	38,921	-	-	-
Proprietary Fund	-	-	-	511,847
TOTALS	\$ 38,921	\$ 38,921	\$ 1,477,218	\$ 1,477,218

P. 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.

Q. 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 a lawsuit filed by a group of property owners primarily to seek 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 (about \$225,000). The City denies the plaintiffs' claims and will vigorously defend the case. Although the outcome is not presently determinable, management believes the resolution will not have a material adverse effect on the financial condition of the City.

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.

R. Subsequent Event – Component Unit

Subsequent to the audit period, the District Court of Burnet County (33rd 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.
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 33rd 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.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GRANITE SHOALS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 607,519	\$ 607,519	\$ 506,497	\$ (101,022)
General Sales and Use Taxes	50,000	50,000	62,058	12,058
Franchise Tax	65,000	65,000	62,991	(2,009)
Other Taxes	-	-	300	300
Licenses and Permits	67,500	67,500	92,097	24,597
Intergovernmental Revenue and Grants	205,139	205,139	115,928	(89,211)
Charges for Services	10,900	10,900	52,730	41,830
Fines	32,960	32,960	41,816	8,856
Investment Earnings	5,320	5,320	5,786	466
Contributions & Donations from Private Sources	-	-	327	327
Other Revenue	58,020	58,020	42,915	(15,105)
Total Revenues	1,102,358	1,102,358	983,445	(118,913)
EXPENDITURES:				
Current:				
General Government:				
Municipal Court	90,534	90,534	80,417	10,117
Financial Administration	912,756	912,756	684,981	227,775
Public Safety:				
Police	538,664	538,664	567,458	(28,794)
Fire Protection	217,431	217,431	248,939	(31,508)
Public Works:				
Highways and Streets	531,845	531,845	406,171	125,674
Building Inspection	64,833	64,833	64,689	144
Health and Welfare:				
Animal Control	60,341	60,341	42,490	17,851
Total Expenditures	2,416,404	2,416,404	2,095,145	321,259
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,314,046)	(1,314,046)	(1,111,700)	202,346
OTHER FINANCING SOURCES (USES):				
Proceeds from Capital Leases	-	-	169,768	169,768
Transfers In	588,864	588,864	965,371	376,507
Total Other Financing Sources (Uses)	588,864	588,864	1,135,139	546,275
Net Change	(725,182)	(725,182)	23,439	748,621
Fund Balance - October 1 (Beginning)	15,920	15,920	15,920	-
Fund Balance - September 30 (Ending)	\$ (709,262)	\$ (709,262)	\$ 39,359	\$ 748,621

The accompanying notes are an integral part of this statement.

