

*REPORT OF EXAMINATION*

**CITY OF  
GRANITE SHOALS**

*Granite Shoals, Texas*

**For the Year Ended  
September 30, 2009**



CITY OF GRANITE SHOALS, TEXAS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2009



CITY OF GRANITE SHOALS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

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# NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.

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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, 2009, 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, 2009, 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 36) 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 March 12, 2010 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

March 12, 2010



## 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, 2009. 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 \$6,526,947 (net assets). Of this amount, \$316,503 (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 \$140,622 as a result of this year's operations.
- At September 30, 2009, the City's governmental funds reported combined ending fund balances of \$1,635,568, a decrease of \$428,195 in comparison with the prior year.
- At September 30, 2009, the City's Utility Fund reported net assets of \$4,945,742, a decrease of \$100,841 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 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 22) 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 36.



## **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 \$1,339,742 to \$1,581,206. 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 \$30,247 at September 30, 2009. This increase in governmental net assets was the result of three factors. First, the City's expenditures exceeded the revenues by \$428,195. Second, the City issued long-term debt of \$141,202, paid principal on long-term debt in the amount of \$199,530 and acquired capital assets in the amount of \$762,083. Third, the City recorded depreciation in the amounts of \$149,514.

Net assets of the City's business-type activities decreased from \$5,046,582 to \$4,945,742. Unrestricted net assets were \$286,256 at September 30, 2009. This decrease in business-type net assets was the result of a net loss of \$100,841.

**Table I**  
**City of Granite Shoals**

**NET ASSETS**  
in thousands

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2009	2008	2009	2008	2009	2008
Current and Other Assets	\$ 1,891	\$ 690	\$ 623	\$ 669	\$ 2,514	\$ 1,359
Bond Issuance Costs	65	68	173	180	238	248
Capital Assets, Net	5,049	4,437	10,246	10,497	15,295	14,934
Restricted Assets	-	1,610	791	765	791	2,375
<b>Total Assets</b>	<b>\$ 7,005</b>	<b>\$ 6,805</b>	<b>\$ 11,833</b>	<b>\$ 12,111</b>	<b>\$ 18,838</b>	<b>\$ 18,916</b>
Current Liabilities	384	342	355	333	739	675
Customer Deposits	-	-	237	231	237	231
Noncurrent Liabilities	5,040	5,124	6,295	6,501	11,335	11,625
<b>Total Liabilities</b>	<b>\$ 5,424</b>	<b>\$ 5,466</b>	<b>\$ 6,887</b>	<b>\$ 7,065</b>	<b>\$ 12,311</b>	<b>\$ 12,531</b>
<b>Net Assets:</b>						
Invested in Capital Assets						
Net of Related Debt	\$ 1,051	\$ 737	\$ 3,869	\$ 3,791	\$ 4,920	\$ 4,528
Restricted For:						
Debt Service	396	240	791	765	1,187	1,005
Sherwood Shores	104	191	-	-	104	191
Unrestricted	30	171	286	490	316	661
<b>Total Net Assets</b>	<b>\$ 1,581</b>	<b>\$ 1,339</b>	<b>\$ 4,946</b>	<b>\$ 5,046</b>	<b>\$ 6,527</b>	<b>\$ 6,385</b>



**Table II**  
**City of Granite Shoals**

**CHANGES IN NET ASSETS**  
in thousands

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2009	2008	2009	2008	2009	2008
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 312	\$ 396	\$ 1,578	\$ 1,519	\$ 1,890	\$ 1,915
Operating Grants & Contributions	83	90	-	-	83	119
Capital Grants & Contributions	-	-	-	18	-	18
<b>General Revenues:</b>						
Property Taxes	1,570	1,209	-	-	1570	1,209
Sales Taxes	64	56	-	-	64	56
Franchise Taxes	75	63	-	-	75	63
Penalty & Interest	21	14	-	-	21	14
Grants & Contributions Not Restr.	34	51	-	-	34	51
Miscellaneous	145	47	88	61	233	108
Interest	13	34	8	42	21	76
<b>Total Revenues</b>	<b>\$ 2,317</b>	<b>\$ 1,961</b>	<b>\$ 1,674</b>	<b>\$ 1,640</b>	<b>\$ 3,991</b>	<b>\$ 3,629</b>
<b>Expenses:</b>						
Financial Administration	\$ 724	\$ 546	\$ -	\$ -	\$ 724	\$ 563
Public Safety	711	585	-	-	711	596
Public Works	382	318	-	-	382	318
Municipal Court	107	89	-	-	107	89
Building Inspection	88	72	-	-	88	72
Animal Control	17	47	-	-	17	47
Parks	100	202	-	-	100	202
Fire Department	244	230	-	-	244	230
Interest	227	158	310	315	537	473
Issuance Costs/Fiscal Agent's Fees	4	4	8	7	12	11
Utility	-	-	954	941	954	941
<b>Total Expenses</b>	<b>\$ 2,605</b>	<b>\$ 2,250</b>	<b>\$ 1,272</b>	<b>\$ 1,263</b>	<b>\$ 3,877</b>	<b>\$ 3,542</b>
<b>Increase (Decrease) in Net Assets Before Transfers &amp; Capital Contributions</b>						
Capital Contributions	\$ (288)	\$ (289)	\$ 402	\$ 377	\$ 114	\$ 87
Transfers	529	454	(529)	(455)	-	-
Capital Contributions	-	-	27	-	27	-
<b>Net Assets - Beginning</b>	<b>1,340</b>	<b>1,175</b>	<b>5,046</b>	<b>5,124</b>	<b>6,386</b>	<b>6,299</b>
<b>Net Assets - Ending</b>	<b>\$ 1,581</b>	<b>\$ 1,340</b>	<b>\$ 4,946</b>	<b>\$ 5,046</b>	<b>\$ 6,527</b>	<b>\$ 6,386</b>



The cost of all governmental activities this year was \$2,604,576. 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 \$1,570,139 because the other costs were paid by sales tax (\$63,953), franchise tax (\$74,697), investment earnings (\$13,381), grants and contributions (\$117,357), user charges (\$311,910) and other miscellaneous (\$144,579).

#### 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 \$1,635,568, which is less than last year's total of \$2,063,762. Included in this year's total change in fund balance is a decrease of \$108,764 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, 2009, the City had the following amounts invested in capital assets:

#### CAPITAL ASSETS

in thousands

	Governmental Activities	Business-Type Activities	TOTALS	
			9/30/09	9/30/08
Land	\$ 1,726	18	\$ 1,744	\$ 1,744
Buildings	2,739	26	2,765	2,351
Improvements	523	12,289	12,812	12,575
Machinery & Equipment	1,746	292	2,038	1,886
Construction in Progress	-	27	27	-
<b>TOTALS</b>	<b>\$ 6,734</b>	<b>12,652</b>	<b>\$ 19,386</b>	<b>\$ 18,556</b>
Less:				
Accumulated Depreciation	1,685	2,406	4,091	3,622
<b>Net Fixed Assets</b>	<b>\$ 5,049</b>	<b>10,246</b>	<b>\$ 15,295</b>	<b>\$ 14,934</b>

This year's major additions included:

	Governmental Activities	Business Type Activities
Building	\$ 398,171	\$ -
Improvements	211,452	68,283
Vehicles	141,202	-
Equipment	11,258	-
<b>TOTALS</b>	<b>\$ 762,083</b>	<b>\$ 68,283</b>

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	
			9/30/09	9/30/08
Tax Anticipation Notes	\$ 64	\$ 61	\$ 125	\$ 250
Certificates of Obligation	4,950	6,440	11,390	11,585
Notes Payable	-	-	-	-
Capital Leases	220	-	220	164
Total Outstanding Debt	<u>\$ 5,234</u>	<u>\$ 6,501</u>	<u>\$ 11,735</u>	<u>\$ 11,999</u>

For governmental activities, the City issued \$141,202 in capital leases for the purchase of vehicles and paid principal of \$199,530 during the year.

For business-type activities, the City paid principal of \$205,669 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 2010 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 2010. Amounts available for appropriation in the General Fund budget are \$2,035,521 (including transfers from the utility fund of \$868,497) and expenditures are estimated to be \$2,035,521.

If these estimates are realized, the City's budgetary General fund balance is expected to remain the same by the close of 2010.

### 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, 2009

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 340,690	\$ 105,214	\$ 445,904
Investments - Current	1,418,814	348,267	1,767,081
Receivables (net of allowance for uncollectibles)	119,102	165,225	284,327
Prepaid Items	13,156	4,144	17,300
Capitalized Debt Issuance Costs	64,619	173,070	237,689
Restricted Assets:			
Temporarily Restricted:			
Restricted Asset - Debt Service	-	790,995	790,995
Capital Assets:			
Land	34,854	17,802	52,656
Buildings, net	4,129,474	25,880	4,155,354
Improvements other than Buildings, net	472,392	12,288,949	12,761,341
Machinery and Equipment, net	412,515	292,548	705,063
Capital Assets, net	-	(2,406,309)	(2,406,309)
Construction in Progress	-	27,000	27,000
Total Assets	<u>7,005,616</u>	<u>11,832,785</u>	<u>18,838,401</u>
<b>LIABILITIES</b>			
Accounts Payable	153,215	97,293	250,508
Intergovernmental Payable	-	2,211	2,211
Accrued Interest Payable	36,644	49,780	86,424
Deferred Revenues	312	-	312
Customer Deposits	-	237,090	237,090
Noncurrent Liabilities			
Due Within One Year	194,309	205,670	399,979
Due in More Than One Year	5,039,930	6,295,000	11,334,930
Total Liabilities	<u>5,424,410</u>	<u>6,887,044</u>	<u>12,311,454</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	1,050,970	3,868,490	4,919,460
Restricted for:			
Restricted for Debt Service	396,447	790,995	1,187,442
Restricted for Sherwood Shores Trust Fund	103,542	-	103,542
Unrestricted Net Assets	30,247	286,256	316,503
Total Net Assets	<u>\$ 1,581,206</u>	<u>\$ 4,945,741</u>	<u>\$ 6,526,947</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, 2009

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
Municipal Court	\$ 106,810	\$ 48,180	-	-
Financial Administration	724,029	-	-	-
Police	711,252	-	-	-
Fire Protection	243,754	-	-	-
Highways and Streets	382,459	197,431	83,026	-
Building Inspection	87,883	65,775	-	-
Animal Control	17,287	524	-	-
Parks	99,967	-	-	-
Bond Interest	227,389	-	-	-
Issuance Costs	3,746	-	-	-
Total Governmental Activities:	2,604,576	311,910	83,026	-
<b>BUSINESS-TYPE ACTIVITIES:</b>				
	1,272,210	1,577,338	-	27,000
Total Business-Type Activities:	1,272,210	1,577,338	-	27,000
<b>TOTAL PRIMARY GOVERNMENT:</b>	\$ 3,876,786	\$ 1,889,248	\$ 83,026	\$ 27,000

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
\$ (58,630)	\$ -	\$ (58,630)
(724,029)	-	(724,029)
(711,252)	-	(711,252)
(243,754)	-	(243,754)
(102,002)	-	(102,002)
(22,108)	-	(22,108)
(16,763)	-	(16,763)
(99,967)	-	(99,967)
(227,389)	-	(227,389)
(3,746)	-	(3,746)
<u>(2,209,640)</u>	<u>-</u>	<u>(2,209,640)</u>
-	332,128	332,128
-	332,128	332,128
<u>(2,209,640)</u>	<u>332,128</u>	<u>(1,877,512)</u>
561,297	-	561,297
1,008,842	-	1,008,842
63,953	-	63,953
74,697	-	74,697
281	-	281
21,378	-	21,378
34,331	-	34,331
144,298	87,410	231,708
13,382	8,265	21,647
528,645	(528,645)	-
<u>2,451,104</u>	<u>(432,970)</u>	<u>2,018,134</u>
241,464	(100,842)	140,622
1,339,742	5,046,583	6,386,325
<u>\$ 1,581,206</u>	<u>\$ 4,945,741</u>	<u>\$ 6,526,947</u>

CITY OF GRANITE SHOALS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2009

	General Fund	Sherwood Shores Trust Fund	Debt Service Fund
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 123,502	\$ 144,408	\$ 29,766
Investments - Current	65,800	8,918	105,855
Taxes Receivable	34,148	-	48,420
Allowance for Uncollectible Taxes (credit)	(1,707)	-	(2,421)
Receivables (Net)	16,124	-	-
Due from Other Funds	48,522	-	260,825
Prepaid Items	13,156	-	-
<b>Total Assets</b>	<u>\$ 299,545</u>	<u>\$ 153,326</u>	<u>\$ 442,445</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts Payable	\$ 25,754	\$ 949	\$ -
Wages and Salaries Payable	49,931	313	-
Due to Other Funds	260,825	48,522	-
Deferred Revenues	32,441	-	45,998
<b>Total Liabilities</b>	<u>368,951</u>	<u>49,784</u>	<u>45,998</u>
<b>Fund Balances:</b>			
<b>Unreserved and Undesignated:</b>			
Reported in the General Fund	(69,406)	-	-
Reported in the Special Revenue Fund	-	103,542	-
Reported in the Debt Service Fund	-	-	396,447
Reported in the Capital Projects Fund	-	-	-
<b>Total Fund Balances</b>	<u>(69,406)</u>	<u>103,542</u>	<u>396,447</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 299,545</u>	<u>\$ 153,326</u>	<u>\$ 442,445</u>

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

Capital Projects	Total Governmental Funds
\$ 43,014	\$ 340,690
1,238,241	1,418,814
-	82,568
-	(4,128)
-	16,124
-	309,347
-	13,156
<u>\$ 1,281,255</u>	<u>\$ 2,176,571</u>
\$ 76,270	\$ 102,973
-	50,244
-	309,347
-	78,439
<u>76,270</u>	<u>541,003</u>
-	(69,406)
-	103,542
-	396,447
1,204,985	1,204,985
<u>1,204,985</u>	<u>1,635,568</u>
<u>\$ 1,281,255</u>	<u>\$ 2,176,571</u>



CITY OF GRANITE SHOALS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2009

<b>Total Fund Balances - Governmental Funds</b>	\$	1,635,568
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 \$5,971,676 and the accumulated depreciation was \$1,535,010. 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.		824,912
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 2009 capital outlays and debt principal payments is to increase net assets.		961,613
The 2009 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(149,514)
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.		(1,691,373)
<b>Net Assets of Governmental Activities</b>	<b>\$</b>	<b>1,581,206</b>

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, 2009

	General Fund	Sherwood Shores Trust Fund	Debt Service Fund
<b>REVENUES:</b>			
Taxes:			
Property Taxes	\$ 570,052	\$ -	\$ 1,013,759
General Sales and Use Taxes	69,100	-	-
Franchise Tax	74,697	-	-
Other Taxes	281	-	-
Licenses and Permits	65,775	-	-
Intergovernmental Revenue and Grants	115,695	-	-
Charges for Services	197,954	58,097	-
Fines	48,180	-	-
Investment Earnings	1,273	823	977
Rents and Royalties	-	2,070	-
Contributions & Donations from Private Sources	-	1,662	-
Other Revenue	84,915	-	-
Total Revenues	1,227,922	62,652	1,014,736
<b>EXPENDITURES:</b>			
Current:			
General Government:			
Municipal Court	101,150	-	-
Financial Administration	771,983	-	-
Public Safety:			
Police	856,516	-	-
Fire Protection	238,667	-	-
Public Works:			
Highways and Streets	454,657	-	-
Building Inspection	83,228	-	-
Health and Welfare:			
Animal Control	16,372	-	-
Culture and Recreation:			
Parks	-	150,465	-
Debt Service:			
Bond Interest	-	-	342,452
Capital Outlay:			
Capital Outlay	-	-	-
Total Expenditures	2,522,573	150,465	342,452
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,294,651)	(87,813)	672,284
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from Capital Leases	141,202	-	-
Transfers In	1,044,684	-	-
Transfers Out (Use)	-	-	(516,039)
Total Other Financing Sources (Uses)	1,185,886	-	(516,039)
Net Change in Fund Balances	(108,765)	(87,813)	156,245
Fund Balance - October 1 (Beginning)	39,359	191,355	240,202
Fund Balance - September 30 (Ending)	\$ (69,406)	\$ 103,542	\$ 396,447

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

Capital Projects	Total Governmental Funds
\$ -	\$ 1,583,811
-	69,100
-	74,697
-	281
-	65,775
-	115,695
-	256,051
-	48,180
10,310	13,383
-	2,070
-	1,662
-	84,915
10,310	2,315,620
-	101,150
-	771,983
-	856,516
-	238,667
-	454,657
-	83,228
-	16,372
-	150,465
-	342,452
398,171	398,171
398,171	3,413,661
(387,861)	(1,098,041)
-	141,202
-	1,044,684
-	(516,039)
-	669,847
(387,861)	(428,194)
1,592,846	2,063,762
\$ 1,204,985	\$ 1,635,568



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, 2009

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(428,194)
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 2009 capital outlays and debt principal payments is to increase net assets.		961,613
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.		(149,514)
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.		(142,441)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b>241,464</b>

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, 2009

	Business Type Activities
	Utility Fund
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 105,214
Investments - Current	348,267
Restricted Assets - Current:	
Restricted Asset - Debt Service	790,995
Accounts Receivable-Net of Uncollectible Allowance	165,225
Prepaid Items	4,144
Total Current Assets	1,413,845
<b>Noncurrent Assets:</b>	
Capitalized Debt Issuance Costs	173,070
Capital Assets:	
Land Purchase and Improvements	17,802
Buildings	25,880
Improvements other than Buildings	12,288,949
Machinery and Equipment	292,548
Accumulated Depreciation - Capital Assets	(2,406,309)
Construction in Progress	27,000
Total Noncurrent Assets	10,418,940
Total Assets	11,832,785
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable	90,829
Wages and Salaries Payable	6,464
Intergovernmental Payable	2,211
Accrued Interest Payable	49,780
Bonds Payable - Current:	
Bonds Payable - Current	205,670
Customer Deposits	237,090
Total Current Liabilities	592,044
<b>NonCurrent Liabilities:</b>	
Bonds Payable - Non-Current:	
General Obligation Bonds Payable	6,295,000
Total Noncurrent Liabilities	6,295,000
Total Liabilities	6,887,044
<b>NET ASSETS</b>	
Investments in Capital Assets, Net of Debt	3,868,490
Restricted for Debt Service	790,995
Unrestricted Net Assets	286,256
Total Net Assets	\$ 4,945,741

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, 2009

EXHIBIT D-2

	Business Type Activities
	Utility Fund
<b>OPERATING REVENUES:</b>	
Charges for Water Services	\$ 1,497,393
Charges for Sanitation Service	40,704
Franchise Fees	39,241
Rents and Royalties	18,000
Other Revenue	69,410
Total Operating Revenues	1,664,748
<b>OPERATING EXPENSES:</b>	
Water	
Personnel Services - Salaries and Wages	216,063
Personnel Services - Employee Benefits	52,576
Purchased Professional & Technical Services	1,330
Purchased Property Services	158,940
Other Operating Expenses	73,107
Supplies	132,935
Total Water	634,951
Depreciation	319,812
Total Operating Expenses	954,763
Operating Income	709,985
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
Bond Issuance Cost	(7,773)
Investment Earnings	8,265
Interest Expense - Non-Operating	(309,674)
Total Non-operating Revenue (Expenses)	(309,182)
Income Before Contributions & Transfers	400,803
Capital Contributions	27,000
Non-Operating Transfer In	516,039
Transfers Out	(1,044,684)
Change in Net Assets	(100,842)
Total Net Assets - October 1 (Beginning)	5,046,583
Total Net Assets - September 30 (Ending)	\$ 4,945,741

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, 2009

	Business Type Activities
	Utility Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 1,472,272
Cash Received from Franchise Fees	39,241
Cash Received From Others	77,411
Cash Payments to Employees for Service	(268,639)
Cash Payments for Suppliers	(320,200)
Cash Payments for Other Operating Expenses	(74,437)
Net Cash Provided by Operating Activities	<u>925,648</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	(1,044,684)
Operating Transfer In	516,039
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(528,645)</u>
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>	
Acquisition of Capital Assets	(68,283)
Capital Contributed by Others	27,000
Use of Restricted Assets	25,720
Interest Paid	(302,428)
Principal Paid - Long Term Debt	(205,669)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(523,660)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>8,265</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(118,392)
Cash and Cash Equivalents at Beginning of the Year:	<u>571,873</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 453,481</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, 2009

	Business Type Activities
	Utility Fund
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided By Operating Activities:</u>	\$ 709,985
Operating Income:	
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	319,812
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(72,220)
Increase (decrease) in Accounts Payable	(28,983)
Increase (decrease) in Accrued Salaries and Bene	3,449
Increase (decrease) in Customer Deposits	(6,395)
Net Cash Provided by Operating Activities	<u>\$ 925,648</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, 2009

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, 2009, the carrying amount of the City's deposits was \$389,097 and the bank balance was \$468,378. The carrying amount of the deposit of Sherwood Shores Trust Fund was \$144,408 and the bank balance was \$144,408. 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, 2009 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, 2009 was \$2,470,306 (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, 2009 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 2009, the City of Granite Shoals had property with an assessed valuation of \$315,030,740. 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 \$73,620. Based on historical collection rates for the various courts, the City has booked an allowance for uncollectible court fines and fees of \$49,080, resulting in a net receivable of \$24,540.

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 10/01/08	Additions	Deletions	Balance 9/30/09
Land	\$ 17,802	\$	\$	\$ 17,802
Buildings	25,880			25,880
Improvements	12,247,666	41,283		12,288,949
Machinery and Equipment	292,552			292,552
Construction in Progress	-	27,000		27,000
Total Fixed Assets	\$ 12,583,900	\$ 68,283	\$	\$ 12,652,183
Less: Reserve for Depreciation	(2,086,498)	(319,812)		(2,406,310)
Net Fixed Assets	\$ 10,497,402	\$ (251,529)	\$	\$ 10,245,873

F. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2009, was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental Activities:				
Land	\$ 1,725,805	\$	\$	\$ 1,725,805
Buildings	2,340,554	398,171		2,738,725
Machinery & Equipment	1,593,528	152,460		1,745,988
Improvements	311,789	211,452		523,241
Totals at Historic Cost	\$ 5,971,676	\$ 762,083	\$	\$ 6,733,759
Less Accumulated Depreciation For:				
Building & Improvements	\$ (314,484)	\$ (36,459)	\$	\$ (350,943)
Machinery & Equipment	(1,220,526)	(113,055)		(1,333,581)
Total Accumulated Depreciation	\$ (1,535,010)	\$ (149,514)	\$	\$ (1,684,524)
Governmental Activities Capital Assets, Net	\$ 4,436,666	\$ 612,569	\$	\$ 5,049,235

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

Governmental Activities:	
Financial Administration	\$ 43,180
Police	47,904
Highways and Streets	25,430
Animal Control	915
Parks	8,420
Municipal Court	5,660
Building Inspection	4,655
Fire Department	13,350
Total Depreciation Expense - Governmental Activities	\$ 149,514



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 2003	\$ 128,661	\$	\$ 64,331	\$ 64,330	\$ 64,330
Series 2008	5,000,000		50,000	4,950,000	70,000
Capital Leases -					
Ford Motor Credit	21,130	141,202	51,966	110,366	24,931
Caterpillar	41,757		9,378	32,379	9,907
First American Bank	101,000		23,855	77,145	25,141
Government Activity -					
Long-Term Debt	<u>\$ 5,292,548</u>	<u>\$ 141,202</u>	<u>\$ 199,530</u>	<u>\$ 5,234,220</u>	<u>\$ 194,309</u>
<u>Business-Type Activities -</u>					
Tax Anticipation Notes -					
Series 2003	\$ 121,339	\$	\$ 60,669	\$ 60,670	\$ 60,670
Certificates of Obligation -					
Series 2004	<u>6,585,000</u>		<u>145,000</u>	<u>6,440,000</u>	<u>145,000</u>
Business-Type Activity -					
Long-Term Debt	<u>\$ 6,706,339</u>	<u>\$</u>	<u>\$ 205,669</u>	<u>\$ 6,500,670</u>	<u>\$ 205,670</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, 2009 are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Requirements</u>
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	395,000	470,169	865,169
2015 – 2019	2,255,000	2,075,908	4,330,908
2020 – 2024	2,810,000	1,523,357	4,333,357
2025 – 2029	2,670,000	828,143	3,498,143
2030 – 2034	1,950,000	302,500	2,252,500
Totals	\$ <u>11,515,000</u>	\$ <u>7,233,181</u>	\$ <u>18,748,181</u>

I. Capital Leases

Capital lease obligations at September 30, 2009 are composed of the following:

<u>Payee and Terms</u>	<u>Interest Rate</u>	<u>Balance at 9/30/09</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%	\$ 32,379	\$ 9,907
Ford Motor Credit payable in annual installments of \$32,436 including interest beginning October 2009, due October 2013 to purchase (4) 2009 Ford Crown Victoria police vehicles, secured by the vehicles.	6.85%	110,366	24,931
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%	<u>77,145</u>	<u>25,141</u>
<b>TOTAL CAPITAL LEASES</b>		<u>\$ 219,890</u>	<u>59,979</u>



Future minimum lease payments under the leases along with the present value of the minimum lease payments as of September 30, 2009:

Year Ended September 30,	General Long-Term Obligations
2010	\$ 72,448
2011	72,449
2012	<u>70,066</u>
Total Minimum Lease Payments	\$ 248,353
Less Amount Representing Interest	<u>28,463</u>
Present Value of Lease Payments	<u><u>\$ 219,890</u></u>

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, 2009 were \$67,988.

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), 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,

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, 2007 valuation is effective for rates beginning January, 2009).

**Annual Pension Cost**

For the employer's accounting for the year ended September 30, 2009, the pension cost for the TMRS plan for its employees was \$31,776 and the actual contributions were \$31,776.

**Schedule of Actuarial Liabilities and Funding Progress**

Actuarial Valuation Date	12/31/08	12/31/07	12/31/06	12/31/05
Actuarial Value of Assets	\$ 325,458	\$ 263,563	\$ 214,701	\$ 161,283
Actuarial Accrued Liability	\$ 381,314	\$ 328,242	\$ 282,427	\$ 231,295
Percentage Funded	85.4%	80.3%	76.0%	69.7%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ 55,856	\$ 64,679	\$ 67,726	\$ 70,012
Annual Covered Payroll	\$ 957,015	\$ 796,778	\$ 731,854	\$ 704,578
UAAL as a Percentage of Covered Payroll	5.8%	8.1%	9.2%	9.9%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Annual Pension Cost:				
Annual required contribution (ARC)	\$ 31,776	\$ 30,698	\$ 27,132	\$ 22,916
Interest on NPO	-0-	-0-	-0-	-0-
Adjustment to the ARC	-0-	-0-	-0-	-0-
Total Annual Pension Cost	\$ 31,776	\$ 30,698	\$ 27,132	\$ 22,916
Contributions Made	\$ 31,776	\$ 30,698	\$ 27,132	\$ 22,916
Net Pension Obligation at the End of Period	\$ -0-	\$ -0-	\$ -0-	\$ -0-



Actuarial Assumptions

Actuarial Cost Method -	Projected Unit Credit
Amortization Method -	Level Percent of Payroll
Remaining Amortization Period -	24 Years – Closed Period
Asset Valuation Method -	Amortized Cost (to accurately reflect the requirements of GASB Statement No. 25, paragraphs 36e and 138)
Investment Rate of Return -	7.5%
Projected Salary Increases -	Varies by age and service
Includes Inflation At -	3.0%
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 2009 and 2008. The City paid interest in the amount of \$310,370 in 2009 and \$317,461 in 2008 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, 2009 as follows:

<u>Year Ending September 30</u>	<u>Amount</u>
2010	\$ 2,394
2011	600
<b>TOTAL MINIMUM RENTALS</b>	<b>\$ 2,994</b>
Rental Expenditures in 2009	\$ 10,794



O. Interfund Balances

Individual interfund receivable and payable balances and operating transfers at September 30, 2009, were as follows:

Fund	Interfund Receivables	Interfund Payables	Transfers In	Transfers Out
General Fund:				
Special Revenue Fund	\$ 48,522	\$	\$	\$
Proprietary Fund			1,044,684	
Debt Service Fund		260,825		
Proprietary Fund:				
General Fund				1,044,684
Debt Service Fund			516,039	
Debt Service Fund:				
General Fund	260,825			
Proprietary Fund				516,039
Special Revenue Fund:				
General Fund		48,522		
<b>TOTALS</b>	<b>\$ 309,347</b>	<b>\$ 309,347</b>	<b>\$ 1,560,723</b>	<b>\$ 1,560,723</b>

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.

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

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



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

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. General Fund Balance Deficit

The General Fund had a fund balance deficit of \$69,406 at September 30, 2009. The deficit will be funded in fiscal year 2010 with increased revenues or additional transfers from the enterprise fund.



REQUIRED SUPPLEMENTARY INFORMATION



CITY OF GRANITE SHOALS  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 503,989	\$ 503,989	\$ 570,052	\$ 66,063
General Sales and Use Taxes	85,800	85,800	69,100	(16,700)
Franchise Tax	75,550	75,550	74,697	(853)
Other Taxes	518	518	281	(237)
Licenses and Permits	73,000	73,000	65,775	(7,225)
Intergovernmental Revenue and Grants	117,508	117,508	115,695	(1,813)
Charges for Services	53,954	153,954	197,954	44,000
Fines	3,120	3,120	48,180	45,060
Investment Earnings	34,982	34,982	1,273	(33,709)
Contributions & Donations from Private Sources	300	300	-	(300)
Other Revenue	70,135	70,134	84,915	14,781
<b>Total Revenues</b>	<b>1,018,856</b>	<b>1,118,855</b>	<b>1,227,922</b>	<b>109,067</b>
<b>EXPENDITURES:</b>				
Current:				
General Government:				
Municipal Court	124,007	124,007	101,150	22,857
Financial Administration	708,436	849,411	771,983	77,428
Public Safety:				
Police	673,639	673,639	856,516	(182,877)
Fire Protection	221,128	221,128	238,667	(17,539)
Public Works:				
Highways and Streets	573,395	573,395	454,657	118,738
Building Inspection	84,324	84,324	83,228	1,096
Health and Welfare:				
Animal Control	67,977	67,977	16,372	51,605
<b>Total Expenditures</b>	<b>2,452,906</b>	<b>2,593,881</b>	<b>2,522,573</b>	<b>71,308</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,434,050)	(1,475,026)	(1,294,651)	180,375
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from Capital Leases	-	-	141,202	141,202
Transfers In	1,013,759	1,013,759	1,044,684	30,925
<b>Total Other Financing Sources (Uses)</b>	<b>1,013,759</b>	<b>1,013,759</b>	<b>1,185,886</b>	<b>172,127</b>
Net Change	(420,291)	(461,267)	(108,765)	352,502
Fund Balance - October 1 (Beginning)	39,359	39,359	39,359	-
Fund Balance - September 30 (Ending)	\$ (380,932)	\$ (421,908)	\$ (69,406)	\$ 352,502

