

CITY OF GRANITE SHOALS, TEXAS

Annual Financial Report

For the Year Ended September 30, 2014

CITY OF GRANITE SHOALS, TEXAS

Annual Financial Report
For the Year Ended September 30, 2014

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CITY OF GRANITE SHOALS, TEXAS

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INTRODUCTORY SECTION

CITY OF GRANITE SHOALS, TEXAS

City Officials

Dennis Maier..... Mayor
Carl Brugger Mayor Pro-Tem
Anita Hisey Council Member
Shirley King..... Council Member
Eric Tanner..... Council Member
Tom Dillard Council Member
Mark Morren..... Council Member
Kenneth R. Nickel..... City Manager
Wendy M. Gholson..... Director of Finance

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Granite Shoals, Texas (the City) as of and for the year ended September 30, 2014, and related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting

As discussed in Note L to the financial statements, in 2014 the City adopted new accounting guidance, *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

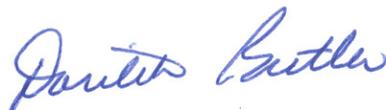
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, the budgetary comparison information on pages 41 through 44, and the Texas Municipal Retirement System Schedule of Funding Progress on page 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

San Antonio, Texas
March 23, 2015



CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2014

As management of the City of Granite Shoals, Texas (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the year ended September 30, 2014. Please read it in conjunction with the independent auditors' report on pages 2 and 3, and the City's Basic Financial Statements which begin on page 12.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$2,533,307 (net position). Of this amount, net position classified as unrestricted may be used to meet the City's ongoing obligations to citizen's and creditors. At September 30, 2014, the City had an unrestricted net position in the amount of \$363,134.
- The City's net position increased by \$200,733 as a result of this year's operations and bond refunding.
- At September 30, 2014, the City's governmental funds reported combined ending fund balances of \$862,738, an increase of \$88,332 in comparison with the prior year.
- At September 30, 2014, the City's Utility Fund reported net position of \$3,428,470, a decrease of \$141,951 in comparison with the prior year.

USING THIS ANNUAL REPORT

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

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

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

The Budgetary Comparison Schedules are presented as required supplementary information beginning on page 41.

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2014

USING THIS ANNUAL REPORT (CONTINUED)

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

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

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

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

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activities presented:

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

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2014

USING THIS ANNUAL REPORT (CONTINUED)

Reporting the City's Most Significant Funds (Continued)

Fund Financial Statements (Continued)

The City has two kinds of funds:

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the City's governmental activities increased from \$2,395,773 to \$2,533,307. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, was \$363,134 at September 30, 2014. The increase in overall governmental net position was the result of net transfers into the governmental activities were \$12,577, including transfers totaling (\$454,902) from the City's Utility Fund to the General Fund to help subsidize the City's operations.

Net position of the City's business-type activities decreased from \$3,507,421 to \$3,428,470. Unrestricted net position was \$135,493 at September 30, 2014. The decrease in business-type net position was the result of a net loss of \$32,744 before transfers, and net transfers out to the governmental activities of \$12,577, including transfers of \$454,902 to the City's General Fund to help subsidize operations.

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2014

Table I
NET POSITION

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 691,827	\$ 459,378	\$ 432,390	\$ 247,670	\$ 1,124,217	\$ 707,048
Restricted assets	479,263	573,974	274,639	404,665	753,902	978,639
Bond issuance costs	-	63,200	-	138,222	-	201,422
Capital assets, net	6,439,814	6,499,675	8,821,494	9,078,470	15,261,308	15,578,145
Total assets	<u>7,610,904</u>	<u>7,596,227</u>	<u>9,528,523</u>	<u>9,869,027</u>	<u>17,139,427</u>	<u>17,465,254</u>
Current liabilities	247,753	156,284	112,624	210,241	360,377	366,525
Payable from restricted assets	-	-	262,429	268,365	262,429	268,365
Long-term liabilities	4,829,844	5,044,170	5,725,000	5,820,000	10,554,844	10,864,170
Total liabilities	<u>5,077,597</u>	<u>5,200,454</u>	<u>6,100,053</u>	<u>6,298,606</u>	<u>11,177,650</u>	<u>11,499,060</u>
Net position:						
Invested in capital assets, net of related debt	1,609,970	1,455,505	3,096,494	3,258,470	4,706,464	4,713,975
Restricted	560,203	660,663	12,210	136,300	572,413	796,963
Unrestricted	363,134	279,605	319,766	175,651	682,900	455,256
Total net position	<u>\$ 2,533,307</u>	<u>\$ 2,395,773</u>	<u>\$ 3,428,470</u>	<u>\$ 3,570,421</u>	<u>\$ 5,961,777</u>	<u>\$ 5,966,194</u>

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2014

Table II

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues:						
Charges for services	\$ 670,846	\$ 625,892	\$ 1,570,670	\$ 1,655,953	\$ 2,241,516	\$ 2,281,845
Capital grants & contributions	-	-	-	23,030	-	23,030
Property taxes	1,997,324	1,839,377	-	-	1,997,324	1,839,377
Sales taxes	127,645	98,065	-	-	127,645	98,065
Franchise & other taxes	142,205	133,179	-	-	142,205	133,179
Sanitation sales	582,045	-	-	-	582,045	-
Miscellaneous	208,529	166,570	27,133	22,468	235,662	189,038
Interest	4,113	4,108	367	615	4,480	4,723
Total revenue	<u>3,732,707</u>	<u>2,867,191</u>	<u>1,598,170</u>	<u>1,702,066</u>	<u>5,330,877</u>	<u>4,569,257</u>
Expenses:						
Municipal court	94,155	98,290	-	-	94,155	98,290
Finance and administration	931,199	930,711	-	-	931,199	930,711
Police	825,169	804,704	-	-	825,169	804,704
Fire protection	404,860	386,992	-	-	404,860	386,992
Streets and parks	467,027	431,684	-	-	467,027	431,684
Animal control	62,829	64,749	-	-	62,829	64,749
Sanitation	479,344	-	-	-	479,344	-
Interest	254,814	231,816	-	-	254,814	231,816
Amortization of issuance costs	-	4,195	-	-	-	4,195
Utility	-	-	1,630,914	1,487,832	1,630,914	1,487,832
Total expenses	<u>3,519,397</u>	<u>2,953,141</u>	<u>1,630,914</u>	<u>1,487,832</u>	<u>5,150,311</u>	<u>4,440,973</u>
Increase (decrease) in net position before transfers and special items	213,310	(85,950)	(32,744)	214,234	180,566	128,284
Capital grants	-	-	16,438	-	16,438	-
Transfers	(12,577)	456,448	12,577	(456,448)	-	-
	<u>(12,577)</u>	<u>456,448</u>	<u>29,015</u>	<u>(456,448)</u>	<u>16,438</u>	<u>-</u>
Change in net position	200,733	370,498	(3,729)	(242,214)	197,004	128,284
Net position - beginning	2,395,774	2,025,275	3,570,421	3,812,635	5,966,195	5,837,910
Prior period adjustments	(63,200)	-	(138,222)	-	(201,422)	-
Net position - beginning restated	2,332,574	2,025,275	3,432,199	3,812,635	5,764,773	5,837,910
Net position - ending	<u>\$ 2,533,307</u>	<u>\$ 2,395,773</u>	<u>\$ 3,428,470</u>	<u>\$ 3,570,421</u>	<u>\$ 5,961,777</u>	<u>\$ 5,966,194</u>

CITY OF GRANITE SHOALS, TEXAS

Management’s Discussion and Analysis
For the Year Ended September 30, 2014

The cost of all governmental activities this year was \$3,519,397. However, as shown in the Statement of Activities on page 13, the amount that our taxpayers ultimately paid for these activities through City property taxes was only \$1,997,324. The other costs were paid by sales taxes \$127,645, franchise and other taxes \$142,205, interest income \$4,113, user charges \$670,846, sanitation sales \$582,045 and other miscellaneous income \$208,529.

The City’s Funds

As the City completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$862,738, which is more than last year’s total of \$774,406. Included in this year’s total change in fund balance is an increase of \$88,332 in the City’s governmental funds.

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

Capital Assets and Debt Administration

Capital Assets

At September 30, 2014, the City had the following amounts invested in capital assets:

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,725,805	\$ 1,725,805	\$ 17,802	\$ 17,802	\$ 1,743,607	\$ 1,743,607
Mineral rights	394,750	394,750	-	-	394,750	394,750
Buildings	4,027,052	4,027,052	2,189	2,189	4,029,241	4,029,241
Improvements	945,698	860,168	11,230,479	11,205,179	12,176,177	12,065,347
Machinery and equipment	1,667,079	1,543,392	132,163	111,566	1,799,242	1,654,958
Total capital assets	8,760,384	8,551,167	11,382,633	11,336,736	20,143,017	19,887,903
Less:						
Accumulated depreciation	(2,320,570)	(2,051,492)	(2,561,139)	(2,258,265)	(4,881,709)	(4,309,757)
Net fixed assets	\$ 6,439,814	\$ 6,499,675	\$ 8,821,494	\$ 9,078,471	\$ 15,261,308	\$ 15,578,146

This year’s major additions included:

	Governmental Activities	Business-Type Activities
Improvements	\$ 85,530	\$ 25,300
Machinery and equipment	123,687	20,597
Total additions	\$ 209,217	\$ 45,897

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

CITY OF GRANITE SHOALS, TEXAS

Management’s Discussion and Analysis
For the Year Ended September 30, 2014

Capital Assets and Debt Administration (Continued)

Debt Administration

For business-type activities, the City refinanced \$5,650,000 certificates of obligation during the fiscal year.

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

At September 30, 2014, the City had outstanding debt as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Certificates of obligation	\$ 4,675,000	\$ 4,930,000	\$ 5,725,000	\$ 5,820,000	\$ 10,400,000	\$ 10,750,000
Notes to Financial Institutions	34,324	51,629	-	-	34,324	51,629
Capital leases	120,520	62,542	-	-	120,520	62,542
Total outstanding debt	\$ 4,829,844	\$ 5,044,171	\$ 5,725,000	\$ 5,820,000	\$ 10,554,844	\$ 10,864,171

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The City’s elected and appointed officials considered many factors when setting the fiscal year 2014-2015 budget and tax rates. Based on major indicators such as economic conditions, population growth, assessed property valuations and the health and safety of Granite Shoals residents, the City Council establishes annual goals and priorities. Fiscal year 2014 was a year of “alignment” priorities and goals during which the city identified the need to establish a reserve fund balance policy and 10 year capital replacement plans. In accordance with the fund balance policy, the city was once again successfully increased the general fund reserve balance in a more positive manner than planned due to increased revenues with effective spending.

The fiscal year 2015 budget and rates were once again set to continue to support current operation activity in addition to capital asset needs identified by the capital replacement plans and to continue increasing reserve funds. While total revenues available for appropriation in the General Fund are estimated at \$3,183,241, expenditures are only budgeted at \$3,130,150; thereby establishing a planned increase to fund balance of \$53,091.

The budget includes rolling capital replacements such as SCBA bottles, fire hose, police tasers and bullet proof vests as well as additional capital in the debt service fund which includes two police SUVs, a dump truck, and two utility trucks.

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)

The Utility Fund budget also focuses on establishing reserves with an additional monthly fee of \$0.50 per water customer and a planned surplus of \$20,625 from unappropriated revenues. The budgeted expenditures of \$1,580,795 include \$87,000 in capital replacement items such as new water lines, plant improvements, a utility tractor, a utility vehicle, and a back-up pump. Also included in the utility fund plan is the installation and implementation of an automated meter reading system. The new system will provide more accurate water usage data for billing as well as allow the City to shift their employee resource focus to water system improvements and maintenance. Based upon return on investment information compiled with a pilot AMR program in Granite Shoals, the cost of the new system is anticipated to be covered by increased revenues as a result of more accurate billing data.

The FY 2015 plan includes one new debt acquired for the purpose of funding police SUVs and one Refunding Bond debt for the city's original 2004 Certificates of Obligation which resulted in debt service savings of \$1,125,350. The city's approved tax rate for 2015 is \$0.5198 per \$100 property valuation.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Secretary's office at 830-598-2424, or 2221 N. Phillips Ranch Road, Granite Shoals, Texas, 78654.

BASIC FINANCIAL STATEMENTS

CITY OF GRANITE SHOALS, TEXAS

Statement of Net Position
September 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 479,859	\$ 269,855	\$ 749,714
Investments	74,766	138	74,904
Accounts receivable, net of allowance for uncollectibles	136,482	162,157	298,639
Prepaid expenses	720	240	960
Total current assets	691,827	432,390	1,124,217
Noncurrent assets			
Restricted cash and cash equivalents	479,263	90,344	569,607
Restricted investments	-	184,295	184,295
Capital assets:			
Land	1,725,805	17,802	1,743,607
Mineral rights	394,750	-	394,750
Buildings, net	3,337,780	1,432	3,339,212
Improvements, net	710,417	8,773,612	9,484,029
Machinery and equipment, net	271,062	28,648	299,710
Total noncurrent assets	6,919,077	9,096,133	16,015,210
Total assets	7,610,904	9,528,523	17,139,427
LIABILITIES			
Current liabilities			
Accounts payable	108,528	97,698	206,226
Accrued payroll liabilities	73,167	14,926	88,093
Accrued interest payable	66,058	-	66,058
Total current liabilities	247,753	112,624	360,377
Payable from restricted assets			
Customer deposits	-	262,429	262,429
Total payable from restricted assets	-	262,429	262,429
Long-term liabilities			
Due within one year	324,817	-	324,817
Due in more than one year	4,505,027	5,725,000	10,230,027
Total long-term liabilities	4,829,844	5,725,000	10,554,844
Total liabilities	5,077,597	6,100,053	11,177,650
NET POSITION			
Invested in capital assets, net of related debt	1,609,970	3,096,494	4,706,464
Restricted	560,203	12,210	572,413
Unrestricted	363,134	319,766	682,900
Total net position	\$ 2,533,307	\$ 3,428,470	\$ 5,961,777

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

CITY OF GRANITE SHOALS, TEXAS

Statement of Activities
For the Year Ended September 30, 2014

Functions and Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total Primary Government
Primary government							
Governmental activities:							
Municipal court	\$ 94,155	\$ 119,354	\$ -	\$ -	\$ 25,199	\$ -	\$ 25,199
Finance and administration	931,199	284,167	-	-	(647,032)	-	(647,032)
Police	825,169	-	-	-	(825,169)	-	(825,169)
Fire protection	404,860	237,038	-	-	(167,822)	-	(167,822)
Streets and parks	467,027	25,882	-	-	(441,145)	-	(441,145)
Animal control	62,829	4,405	-	-	(58,424)	-	(58,424)
Sanitation	479,344	-	-	-	(479,344)	-	(479,344)
Debt service:							
Interest	254,814	-	-	-	(254,814)	-	(254,814)
Total governmental activities	3,519,397	670,846	-	-	(2,848,551)	-	(2,848,551)
Business-type activities:							
Water	1,585,414	1,570,670	-	-	-	(14,744)	(14,744)
Water Storage	45,500	-	-	16,438	-	(29,062)	(29,062)
Total business-type activities	1,630,914	1,570,670	-	16,438	-	(43,806)	(43,806)
Total primary government	\$ 5,150,311	\$ 2,241,516	\$ -	\$ 16,438	(2,848,551)	(43,806)	(2,892,357)
General revenues:							
Property taxes					1,997,324	-	1,997,324
Sales taxes					127,645	-	127,645
Franchise taxes					142,205	-	142,205
Other taxes					750	-	750
Hotel occupancy tax					30,755	-	30,755
Sanitation sales					582,045	-	582,045
Interest					4,113	367	4,480
Miscellaneous					177,024	27,133	204,157
Total general revenues					3,061,861	27,500	3,089,361
Change in net position before transfers					213,310	(16,306)	197,004
Transfers In (Out)					(12,577)	12,577	-
Change in net position					200,733	(3,729)	197,004
Net position at the beginning of the year					2,395,774	3,570,421	5,966,195
Prior period adjustments					(63,200)	(138,222)	(201,422)
Net position - beginning as restated					2,332,574	3,432,199	5,764,773
Net position at the end of the year					\$ 2,533,307	\$ 3,428,470	\$ 5,961,777

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

CITY OF GRANITE SHOALS, TEXAS

Balance Sheet – Governmental Funds
September 30, 2014

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 266,114	\$ 473,215	\$ 219,793	\$ 959,122
Investments	66,228	-	8,538	74,766
Taxes receivable	68,442	75,223	-	143,665
Allowance for uncollectible taxes	(3,422)	(3,761)	-	(7,183)
Prepaid Items	720	-	-	720
Total assets	<u>\$ 398,082</u>	<u>\$ 544,677</u>	<u>\$ 228,331</u>	<u>\$ 1,171,090</u>
LIABILITIES				
Accounts payable	\$ 94,269	\$ -	\$ 14,259	\$ 108,528
Accrued payroll liabilities	73,167	-	-	73,167
Total liabilities	<u>167,436</u>	<u>-</u>	<u>14,259</u>	<u>181,695</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	56,073	70,584	-	126,657
FUND BALANCES				
Restricted	15,526	474,093	86,166	575,785
Committed	-	-	125,113	125,113
Unassigned	159,047	-	2,793	161,840
Total fund balances	<u>174,573</u>	<u>474,093</u>	<u>214,072</u>	<u>862,738</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 398,082</u>	<u>\$ 544,677</u>	<u>\$ 228,331</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund, net of accumulated depreciation of \$2,320,570.	6,439,814
Some of the City's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are not reported in the governmental funds.	126,657
Some liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Notes, bonds, and capital leases payable	(4,829,844)
Accrued interest payable	<u>(66,058)</u>
Net Position of Governmental Activities	<u>\$ 2,533,307</u>

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

CITY OF GRANITE SHOALS, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Year Ended September 30, 2014

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property taxes	\$ 1,132,369	\$ 877,951	\$ -	\$ 2,010,320
General sales and use tax	103,930	-	23,715	127,645
Franchise taxes	142,205	-	-	142,205
Other taxes	750	-	-	750
Licenses and permits	51,824	-	-	51,824
Intergovernmental revenue	237,038	-	-	237,038
Charges for services	235,470	-	25,882	261,352
Fines	119,354	-	-	119,354
Investment earnings	3,458	564	91	4,113
Contributions and donations	25	-	1,253	1,278
Hotel occupancy tax	-	-	30,755	30,755
Sanitation sales	582,045	-	-	582,045
Other revenue	89,341	-	87,683	177,024
Total revenues	<u>2,697,809</u>	<u>878,515</u>	<u>169,379</u>	<u>3,745,703</u>
EXPENDITURES				
Current:				
General government:				
Municipal court	91,083	-	-	91,083
Finance and administration	793,724	-	44,487	838,211
Public safety:				
Police	752,800	-	-	752,800
Fire protection	365,920	-	-	365,920
Public works:				
Streets and parks	333,467	-	72,068	405,535
Health and welfare:				
Animal control	62,612	-	-	62,612
Sanitation	479,344	-	-	479,344
Debt service:				
Principal	17,039	297,870	-	314,909
Interest	2,539	223,208	-	225,747
Capital outlay	209,217	-	-	209,217
Total expenditures	<u>3,107,745</u>	<u>521,078</u>	<u>116,555</u>	<u>3,745,378</u>
Excess (deficiency) of revenues over (under) expenditures	(409,936)	357,437	52,824	325
OTHER FINANCING SOURCES (USES)				
Loan proceeds	-	100,583	-	100,583
Transfers in	579,509	-	24,000	603,509
Transfers out	-	(549,478)	(66,608)	(616,086)
Total other financing sources (uses)	<u>579,509</u>	<u>(448,895)</u>	<u>(42,608)</u>	<u>88,006</u>
Change in fund balances	169,573	(91,458)	10,216	88,331
Total fund balance-beginning of year	<u>5,000</u>	<u>565,551</u>	<u>203,856</u>	<u>774,407</u>
Total fund balance-end of year	<u>\$ 174,573</u>	<u>\$ 474,093</u>	<u>\$ 214,072</u>	<u>\$ 862,738</u>

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

CITY OF GRANITE SHOALS, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Year Ended September 30, 2014

Change in fund balances - governmental funds	\$ 88,331
Amounts reported as governmental funds in the Statement of Revenues, Expenditures, and Changes in Fund Balance and in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are capitalized.	209,217
Capital assets are not recorded in government funds and are therefore not depreciated. However, in the Statement of Activities these assets are depreciated over their estimated useful lives.	(269,078)
Revenues that are deferred in governmental funds because they do not provide current financial resources are not deferred in the Statement of Activities.	
Property tax revenue	(12,996)
Lease and bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayments of bond, note, and capital lease principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the Statement of Net Position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.	
Loan Proceeds	(100,583)
Bond, loan, and capital lease principal payments	314,909
Some revenues and expenses reported in the Statement of Activities do not require the use of current financial resources are therefore are not reported as expenditures in the governmental funds.	
Change in accrued interest payable	<u>(29,067)</u>
Change in net position of governmental activities	\$ <u><u>200,733</u></u>

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

CITY OF GRANITE SHOALS, TEXAS

Statement of Net Position – Proprietary Funds
September 30, 2014

	<u>Water Fund</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 229,855	\$ 40,000	\$ 269,855
Investments	138	-	138
Accounts receivable, net of allowance for uncollectibles	162,157	-	162,157
Prepaid Expenses	240	-	240
Total current assets	<u>392,390</u>	<u>40,000</u>	<u>432,390</u>
Non-current assets:			
Restricted cash and cash equivalents	78,156	12,188	90,344
Restricted investments	184,295	-	184,295
Capital assets:			
Land	17,802	-	17,802
Buildings	2,189	-	2,189
Improvements	11,230,479	-	11,230,479
Machinery and equipment	132,163	-	132,163
Accumulated depreciation	(2,561,139)	-	(2,561,139)
Net capital assets	<u>8,821,494</u>	<u>-</u>	<u>8,821,494</u>
Total assets	<u>9,476,335</u>	<u>52,188</u>	<u>9,528,523</u>
LIABILITIES			
Accounts payable	97,698	-	97,698
Accrued payroll liabilities	14,926	-	14,926
Total current liabilities	<u>112,624</u>	<u>-</u>	<u>112,624</u>
Non-current liabilities:			
Bonds payable - long term portion	5,725,000	-	5,725,000
Payable from restricted assets:			
Customer deposits payable	262,429	-	262,429
Total liabilities	<u>6,100,053</u>	<u>-</u>	<u>6,100,053</u>
NET POSITION			
Net position, invested in capital assets, net of related debt	3,096,494	-	3,096,494
Restricted	22	12,188	12,210
Unrestricted	279,766	40,000	319,766
Total net position	<u>\$ 3,376,282</u>	<u>\$ 52,188</u>	<u>\$ 3,428,470</u>

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

CITY OF GRANITE SHOALS, TEXAS

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
September 30, 2014

	<u>Water Fund</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total</u>
OPERATING REVENUES			
Charges for water services	\$ 1,570,637	\$ -	\$ 1,570,637
Charges for sanitation services	33	-	33
Other revenue	27,133	-	27,133
Total operating revenues	<u>1,597,803</u>	<u>-</u>	<u>1,597,803</u>
OPERATING EXPENSES			
Water			
Employee benefits	63,245	-	63,245
Other operating expenses	533,990	-	533,990
Professional and technical services	9,203	-	9,203
Purchased services	68,951	-	68,951
Salaries and wages	223,646	-	223,646
Supplies	151,093	-	151,093
Water Storage			
Grant administration	-	10,500	10,500
Grant engineering	-	21,250	21,250
Water system	-	13,750	13,750
Depreciation	302,873	-	302,873
Total expenses	<u>1,353,001</u>	<u>45,500</u>	<u>1,398,501</u>
Total operating income	244,802	(45,500)	199,302
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	367	-	367
Interest expense	(232,413)	-	(232,413)
Total non-operating revenues (expenses)	<u>(232,046)</u>	<u>-</u>	<u>(232,046)</u>
Net income before capital grants and transfers	12,756	(45,500)	(32,744)
Capital grants	-	16,438	16,438
TRANSFERS			
Transfers in	467,479	81,250	548,729
Transfers out	(536,152)	-	(536,152)
Total transfers	<u>(68,673)</u>	<u>81,250</u>	<u>12,577</u>
Change in net position	(55,917)	52,188	(3,729)
Total net position - beginning	3,570,421	-	3,570,421
GASB 65 prior period adjustment	(138,222)	-	(138,222)
Restated net position - beginning	3,432,199	-	3,432,199
Total net position-end of year	<u>\$ 3,376,282</u>	<u>\$ 52,188</u>	<u>\$ 3,428,470</u>

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

CITY OF GRANITE SHOALS, TEXAS

Statement of Cash Flows – Proprietary Funds
For the Year Ended September 30, 2014

	<u>Water Fund</u>	<u>Nonmajor Proprietary Funds</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,567,339	\$ -	\$ 1,567,339
Other cash receipts	27,133	-	27,133
Payments to suppliers for goods and services	(497,959)	(45,500)	(543,459)
Payments to employees for salaries and benefits	(594,028)	-	(594,028)
Increase in prepaid expenses	(240)	-	(240)
Net cash provided by operating activities	<u>502,245</u>	<u>(45,500)</u>	<u>456,745</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(536,152)	-	(536,152)
Transfers from other funds	467,479	81,250	548,729
Net cash (used) in non-capital financing activities	<u>(68,673)</u>	<u>81,250</u>	<u>12,577</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from capital grants	-	16,438	16,438
Purchase of capital assets	(45,897)	-	(45,897)
Principal paid on debt	(95,000)	-	(95,000)
Interest and fiscal charges paid	(278,896)	-	(278,896)
Net cash (used) in capital and related financing activities	<u>(419,793)</u>	<u>16,438</u>	<u>(403,355)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	367	-	367
Net cash provided by investing activities	<u>367</u>	<u>-</u>	<u>367</u>
Net decrease in cash and cash equivalents	14,146	52,188	66,334
Cash and cash equivalents at beginning of period	478,298	-	478,298
Cash and cash equivalents at end of period	<u>\$ 492,444</u>	<u>\$ 52,188</u>	<u>\$ 544,632</u>
CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 244,802	\$ (45,500)	\$ 199,302
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	302,873	-	302,873
Bad debt expense	9,275	-	9,275
Change in assets and liabilities:			
Accounts receivable	2,605	-	2,605
Accounts payable	(54,341)	-	(54,341)
Accrued expenses	3,207	-	3,207
Prepaid expenses	(240)	-	(240)
Customer deposits payable	(5,936)	-	(5,936)
Net cash provided by operating activities	<u>\$ 502,245</u>	<u>\$ (45,500)</u>	<u>\$ 456,745</u>
Cash and cash equivalents at end of period consist of:			
Cash and cash equivalents	\$ 229,855	\$ 40,000	\$ 269,855
Investments	138	-	138
Restricted cash and cash equivalents	78,156	12,188	90,344
Restricted investments	184,295	-	184,295
Cash and cash equivalents at end of period	<u>\$ 492,444</u>	<u>\$ 52,188</u>	<u>\$ 544,632</u>

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

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

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

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

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

Financial Reporting Entity

As required by GAAP, the financial statements of the reporting entity include those of the City and its component units. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, *The Financial Reporting Entity*, include the following:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

Based on these criteria, the City has no component units. Additionally, the City is not a component unit of any other reporting entity as defined by GASB Statement No. 14.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

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

Government-Wide Financial Statements

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

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

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

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

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept; that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

Fund Accounting

The City reports the following major governmental funds:

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

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

Fund Accounting (Continued)

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

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

The City reports the following major proprietary fund:

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

The City reports the following nonmajor proprietary funds: Water Storage Fund and Utility Equipment Reserve Fund.

Fund Equity

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

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The City did not have any nonspendable fund balances as of September 30, 2014.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority. The highest level of decision-making authority for the City is the City Council. All fund balance commitments are authorized by ordinances.
- *Assigned fund balance*—amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The City Council has authorized the City Manager to assign fund balances.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

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

Fund Equity (Continued)

- *Unassigned fund balance*—amounts that are available for any purpose; these amounts can be reported only in the City’s General Fund. If a fund deficit exists in other funds, then that amount is reported as a negative unassigned fund balance.

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

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

Long-Term Debt

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental and business-type activities or proprietary fund type statement of net position. Bond premiums and discounts 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 expensed when bonds are issued.

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

Capital Assets

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

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

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

Capital Assets (Continued)

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

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

Reservations of Fund Balance

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

Restricted Net Position

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

Budget

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

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

Use of Estimates

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note B – Deposits and Investments

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At September 30, 2014, the carrying amount of the City's deposits was \$1,318,020 and the bank balance was \$1,411,396. The City's cash deposits during the year ended September 30, 2014 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent banks in the City's name. The City had cash on hand of \$1,300 at September 30, 2014.

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

The carrying value of investments at September 30, 2014 was \$259,199 (TexPool Investment Pool). Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

Policies Governing Deposits and Investments

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note B – Deposits and Investments (Continued)

Policies Governing Deposits and Investments (Continued)

Custodial Credit Risk - Deposits

This is the risk that in the event of bank failure, the City’s deposit may not be returned to it. The City was not exposed to custodial credit risk since its deposits during the year ended September 30, 2014 were covered by depository insurance or by collateral held by the City’s agent bank pledged in the City’s name.

Custodial Credit Risk - Investments

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

Other Credit Risk

There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, TexPool Investment Pool invests only in investments authorized under the Public Funds Investment Act. TexPool’s portfolio has low market (credit) risk due to restrictions on weighted average maturity and maximum maturity of any one investment. The investment manager is required to maintain a stable \$1.00 net asset value and must take immediate action if the net asset value of the portfolio falls below \$.995 or rises above \$1.005.

Note C – Accounts Receivable

Accounts receivable consisted of the following at September 30, 2014:

	General Fund	Debt Service Fund	Water Fund	Totals
Property Taxes	\$ 68,442	\$ 75,223	\$ -	\$ 143,665
Customer Accounts	-	-	173,869	173,869
Gross Receivables	68,442	75,223	173,869	317,534
Less: Allowance for Uncollectibles	(3,422)	(3,761)	(11,712)	(18,895)
Net Total Receivable	<u>\$ 65,020</u>	<u>\$ 71,462</u>	<u>\$ 162,157</u>	<u>\$ 298,639</u>

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note D – Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the City’s fiscal year.

The Burnet County Appraisal District appraises and collects taxes for the City. For 2014, the City of Granite Shoals had property with an assessed valuation of \$449,013,237. The tax rate was \$.4970 (\$.2821 for the General Fund and \$.2149 for the Debt Service Fund) per \$100 valuation.

Note E – Transfers

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

	Transfers In	Transfers Out	Net Transfers In/Out	Purpose
<u>Governmental Activities</u>				
General Fund	\$ 579,509	\$ -	\$ 579,509	Operational costs
Parks Fund	24,000	-	24,000	Operational costs
Hotel Fund	-	(24,024)	(24,024)	Operational costs
Street & Maintenance Sales Tax	-	(24,000)	(24,000)	Operational costs
Debt Service Fund	-	(549,478)	(549,478)	Debt Service
Capital Projects Fund	-	(18,584)	(18,584)	
Total Governmental Activities	<u>603,509</u>	<u>(616,086)</u>	<u>(12,577)</u>	
<u>Business-Type Activities</u>				
Water Fund	467,479	(536,152)	(68,673)	Operational costs, Debt Service
Utility Equipment Reserve Fund	40,000	-	40,000	
Water Storage Fund	41,250	-	41,250	Operational costs
Total Business-Type Activities	<u>548,729</u>	<u>(536,152)</u>	<u>12,577</u>	
Total Transfers	<u>\$ 1,152,238</u>	<u>\$ (1,152,238)</u>	<u>\$ -</u>	

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note F – Capital Assets

Capital assets activity in the governmental activities for the year ended September 30, 2014 was as follows:

<u>Governmental Activities</u>	Balance 10/01/2013	Additions	Deletions	Balance 09/30/2014
Capital assets not being depreciated				
Land	\$ 1,725,805	\$ -	\$ -	\$ 1,725,805
Mineral Rights	394,750	-	-	394,750
Total capital assets not being depreciated	<u>2,120,555</u>	<u>-</u>	<u>-</u>	<u>2,120,555</u>
Capital assets being depreciated				
Buildings	4,027,052	-	-	4,027,052
Improvements	860,168	85,530	-	945,698
Machinery and equipment	1,543,392	123,687	-	1,667,079
Total capital assets being depreciated	<u>6,430,612</u>	<u>209,217</u>	<u>-</u>	<u>6,639,829</u>
Accumulated depreciation				
Buildings	(585,760)	(103,512)	-	(689,272)
Improvements	(189,686)	(45,595)	-	(235,281)
Machinery and equipment	(1,276,046)	(119,971)	-	(1,396,017)
Total accumulated depreciation	<u>(2,051,492)</u>	<u>(269,078)</u>	<u>-</u>	<u>(2,320,570)</u>
Net capital assets being depreciated	<u>4,379,120</u>	<u>(59,861)</u>	<u>-</u>	<u>4,319,259</u>
Net capital assets	<u>\$ 6,499,675</u>	<u>\$ (59,861)</u>	<u>\$ -</u>	<u>\$ 6,439,814</u>

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note F – Capital Assets (Continued)

Capital asset activity in the business-type activities for the City for the year ended September 30, 2014, was as follows:

<u>Business-Type Activities</u>	Balance 10/01/2013	Additions	Deletions	Balance 09/30/2014
Capital assets not being depreciated				
Land	\$ 17,802	\$ -	\$ -	\$ 17,802
Total capital assets not being depreciated	17,802	-	-	17,802
Capital assets being depreciated				
Buildings	2,189	-	-	2,189
Improvements	11,205,179	25,300	-	11,230,479
Machinery and equipment	111,566	20,597	-	132,163
Total capital assets being depreciated	11,318,934	45,897	-	11,364,831
Accumulated depreciation				
Buildings	(646)	(109)	-	(755)
Improvements	(2,163,368)	(293,500)	-	(2,456,868)
Machinery and equipment	(94,251)	(9,265)	-	(103,516)
Total accumulated depreciation	(2,258,265)	(302,874)	-	(2,561,139)
Net capital assets being depreciated	9,060,669	(256,977)	-	8,803,692
Net capital assets	\$ 9,078,471	\$ (256,977)	\$ -	\$ 8,821,494

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

Governmental Activities:	
Municipal court	\$ 3,072
Finance and administration	92,988
Police	72,369
Fire protection	38,940
Streets and parks	61,492
Animal control	217
Total governmental activities depreciation expense	\$ 269,078
Business-Type Activities:	
Water	\$ 302,873
Total business-type activities depreciation expense	\$ 302,873

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note G – Restricted Cash and Investments

Restricted cash and investments consisted of the following at September 30, 2014:

	Governmental Activities	Business- Type Activities	Total
Cash restricted for debt service	\$ 473,215	\$ -	\$ 473,215
Cash restricted for police education	3,425	-	3,425
Cash restricted for police seizures	2,623	-	2,623
Cash restricted for water customer deposits	-	78,156	78,156
Cash restricted for water storage	-	12,188	12,188
Investments restricted for water customer deposits	-	184,295	184,295
Total restricted assets	<u>\$ 479,263</u>	<u>\$ 274,639</u>	<u>\$ 753,902</u>

Note H – Long-Term Debt

Changes in long-term debt for the year ended September 30, 2014 were as follows:

	Balance 10/01/2013	Additions	Reductions	Balance 09/30/2014	Due Within One Year
<u>Governmental Activities</u>					
Certificate of obligation					
Series 2008	\$ 4,260,000	\$ -	\$ (225,000)	\$ 4,035,000	\$ 235,000
Series 2010	670,000	-	(30,000)	640,000	30,000
First State Bank Central Texas	51,629	-	(17,305)	34,324	17,725
Capital leases					
Motorola	35,113	-	(8,218)	26,895	8,581
Government Capital Corporation	27,429	-	(8,820)	18,609	9,139
Government Capital Corporation	-	100,582	(25,566)	75,016	24,372
Total governmental activities	<u>5,044,171</u>	<u>100,582</u>	<u>(314,909)</u>	<u>4,829,844</u>	<u>324,817</u>
<u>Business-Type Activities</u>					
Certificate of obligation					
Series 2004	5,820,000	-	(5,820,000)	-	-
Series 2014	-	5,725,000	-	5,725,000	208,000
Total business-type activities	<u>5,820,000</u>	<u>5,725,000</u>	<u>(5,820,000)</u>	<u>5,725,000</u>	<u>208,000</u>
Total long-term debt	<u>\$ 10,864,171</u>	<u>\$ 5,825,582</u>	<u>\$ (6,134,909)</u>	<u>\$ 10,554,844</u>	<u>\$ 532,817</u>

Description of Debt

Combination Tax and Limited Revenue Certificates of Obligation – Series 2008

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note H – Long-Term Debt (Continued)

Description of Debt (Continued)

Combination Tax and Limited Revenue Certificates of Obligation – Series 2010

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

Combination Tax and Limited Revenue Certificates of Obligation – Series 2004

The City issued \$6,815,000 Combination Tax and Limited Revenue Certificates of Obligation - Series 2004 for improvements to the waterworks system including a new water treatment plant. The certificates were issued at an interest rate of 3.0%. The certificates are payable from a tax levied on all taxable property within the City and limited surplus revenues of the waterworks system. The Combination Tax and Limited Revenue Certificates of Obligation Series 2004, were refunded and defeased in August 2014 by the General Obligation Refunding Bonds Series 2014. Accordingly, no liability for these future principal maturities is recorded on the financial statements.

General Obligation Refunding Bonds – Series 2014

The City issued \$5,725,000 General Obligation Refunding Bonds - Series 2014 for the purpose of refunding the Combination Tax and Limited Revenue Certificates of Obligation – Series 2004. Principal is due semi-annually. Interest is due semi-annually on February 1 and August 1 at a rate of 3.25% over the life of the bonds. The Combination Tax and Limited Revenue Certificates of Obligation Series 2004 are considered to be defeased in accordance with GASB Statement No. 7. Accordingly, no liability for these future principal maturities is recorded on the financial statements.

First State Bank of Central Texas

In August 2013, the City borrowed from First State Bank of Central Texas for the purchase of fire department communications equipment. The term of the note is 36 months, with annual payments of \$18,354, including interest of 2.4%. The note is due in August 2016. The capitalized cost of the communications equipment was \$53,050. Accumulated depreciation as of September 30, 2014 was \$7,578.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
 For the Year Ended September 30, 2014

Note H – Long-Term Debt (Continued)

Description of Debt (Continued)

Capital Lease – Motorola

In April 2012, the City entered into a lease-purchase agreement with Motorola for the purchase of police communications equipment. The term of the lease is 60 months, with annual payments of \$9,767, including interest of 4.41%. The lease is due in April 2017. The capitalized cost of the communications equipment was \$42,984. Accumulated depreciation as of September 30, 2014 was \$15,351.

Capital Lease – Government Capital Corporation

In March 2012, the City entered into a lease-purchase agreement with Government Capital Corporation for the purchase of police vehicles. The term of the lease is 48 months, with annual payments of \$9,811, including interest of 3.58%. The lease is due in October 2015. The capitalized cost of the vehicles was \$35,057. Accumulated depreciation as of September 30, 2014 was \$17,528.

Capital Lease – Government Capital Corporation

In October 2013, the City entered into a lease-purchase agreement with Government Capital Corporation for the purchase of police vehicles. The term of the lease is 48 months, with annual payments of \$26,307, including interest of 2.5%. The lease is due in February 2017. The capitalized cost of the vehicles was \$100,583. Accumulated depreciation as of September 30, 2014 was \$20,117.

Debt Service Requirements

Debt service requirements for the revenue bonds and certificates of obligation outstanding as of September 30, 2014 are as follows:

Year Ended September 30,	Principal	Interest	Total Requirements
2015	\$ 490,725	\$ 396,664	\$ 887,389
2016	505,624	388,252	893,876
2017	511,000	366,767	877,767
2018	534,000	246,035	780,035
2019	556,000	324,370	880,370
2020-2024	3,136,000	1,262,795	4,398,795
2025-2029	2,911,000	584,138	3,495,138
2030-2034	1,790,000	178,198	1,968,198
Totals	\$ 10,434,349	\$ 3,747,219	\$ 14,181,568

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note H – Long-Term Debt (Continued)

Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for the following minimum future lease payments as of September 30, 2014:

<u>Year Ended September 30,</u>	<u>Governmental Activities</u>
2015	\$ 45,885
2016	45,885
2017	36,074
Subtotal	<u>127,844</u>
Less amounts representing interest	<u>(7,325)</u>
Principal amounts due	120,519
Current portion	<u>(45,885)</u>
Long-term portion	<u>\$ 74,634</u>

Note I – Risk Management

The City of Granite Shoals is exposed to various risks of loss relating to general liability, accidental loss of real and personal property, damage to assets, errors and omissions, acts of God, and personnel risks which relate to workers compensation. The City contracts with the Texas Municipal League Intergovernmental Risk Pool (TML-IRP) to provide insurance coverage for identified risks. TML-IRP is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are sent quarterly to TML. Liability of the City is limited to contributed amounts. Contributions for the year ended September 30, 2014 were \$77,620.

Note J – Pension Plan

Plan Description

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

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note J – Pension Plan (Continued)

Plan Description (Continued)

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

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Employee deposit rate	5%	5%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method has been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member’s compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

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

The annual pension cost and net pension obligation/(asset) are as follows:

Annual Required Contribution (ARC)	\$	46,020
Interest on Net Pension Obligation		-
Adjustment to the ARC		-
Annual Pension Cost (APC)		<u>46,020</u>
Contributions Made		<u>(46,020)</u>
Increase (decrease) in net pension		-
Net Pension Obligation/(Asset), beginning of year		-
Net Pension Obligation/(Asset), end of year	\$	<u><u>-</u></u>

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note J – Pension Plan (Continued)

Contributions (Continued)

Three-year trend information:

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation (Asset)
2012	\$ 13,037	\$ 13,037	100%	\$ -
2013	\$ 33,277	\$ 33,277	100%	\$ -
2014	\$ 46,020	\$ 46,020	100%	\$ -

The required contributions rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	12/31/2011	12/31/2012	12/31/2013
Actuarial Cost Method	Projected Unit Cost	Projected Unit Cost	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	25.3 years; closed period	24.5 years; closed period	30.0 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7%	7%	7%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
Projected Salary Increases*	3%	3%	3%
Projected Salary Increases*	0%	0%	0%

Funded Status and Funding Progress –

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note J – Pension Plan (Continued)

Contributions (Continued)

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

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Liability (AAL) (2)	Funded Ratio (3) = (1) / (2)	Unfunded AAL (UAAL) (4) = (2) - (1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) = (4) / (5)
12/31/2013	\$ 792,083	\$ 845,281	93.7%	\$ 53,198	\$ 1,377,606	3.9%

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

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

Supplemental Death Benefits

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note J – Pension Plan (Continued)

Supplemental Death Benefits (Continued)

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

The City's contributions to the TMRS SDBF for the years ending September 30, 2014, 2013, and 2012 were \$2,764, \$1,900, and \$1,485, respectively, which equaled the required contributions each year.

Note K – Commitments and Contingencies

Commitments

The City (Enterprise Fund) has contracted with BFI Waste Services of Texas, LP, DBA Republic Services of Marble Falls, a Delaware Limited Partnership (formerly Allied Waste Services, Inc.) to provide for the collection of refuse and recyclable materials. The contract was dated September 1, 1993, for a period of five years, renewable unless terminated by either party. The contract has been extended to November 30, 2019. Collection rates are adjusted by the agreement of both parties. Under the terms of the contract, the City collects and remits to Allied Waste Services, Inc. its portion of the sanitation fees, less eight percent which is retained as a franchise fee.

Note L – Net Position

Implementation of New Accounting Principles

Governmental Accounting Standards Board Statement No. 65

The City adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement modifies financial reporting of certain assets and liabilities to be reclassified as deferred outflows of resources or deferred inflows of resources. This statement mandates that debt issuance costs, which had previously been capitalized and amortized over the life of the related debt, be expensed as incurred.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
 For the Year Ended September 30, 2014

Note L – Net Position (Continued)

Restatement of Net Position

For the fiscal year ending September 30, 2014, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (“the Statement”) was implemented. The implementation of the statement resulted in the City eliminating the bond issuance costs that were previously capitalized and amortized over the life of the related debt. The City’s government-wide net position and proprietary fund net position as of September 30, 2014, have been restated as follows:

	Government-Wide Statement of Net Position	
	Governmental Activities	Business-Type Activities
Net position at September 30, 2013, as previously reported	\$ 2,395,774	\$ 3,570,421
GASB Statement No. 65 adjustment: Bond Issuance Costs	(63,200)	(138,222)
Net position at September 30, 2013, as restated	<u>\$ 2,332,574</u>	<u>\$ 3,432,199</u>

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City does not have any items that qualify for reporting in this category. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from uncollected property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2014

Note M – Fund Balances

The City reported the following fund balance designations at September 30, 2014:

<u>Fund Balance Designations</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted for:				
Debt Service	\$ -	\$ 474,093	\$ -	\$ 474,093
Court Activity	9,478	-	-	9,478
Police Activities	6,048	-	-	6,048
Hotel Occupancy Tax	-	-	84,140	84,140
Street Maintenance	-	-	2,026	2,026
Total Restricted	<u>15,526</u>	<u>474,093</u>	<u>86,166</u>	<u>575,785</u>
Committed for:				
Parks Maintenance	-	-	116,575	116,575
Capital Projects	-	-	8,538	8,538
Total Committed	<u>-</u>	<u>-</u>	<u>125,113</u>	<u>125,113</u>
Unassigned	<u>159,047</u>	<u>-</u>	<u>2,793</u>	<u>161,840</u>
Total Fund Balances	<u>\$ 174,573</u>	<u>\$ 474,093</u>	<u>\$ 214,072</u>	<u>\$ 862,738</u>

Note N – Restricted Net Position

The City reported the following restricted net position at September 30, 2014:

<u>Restricted For</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Debt Service	\$ 544,677	\$ 12,210	\$ 556,887
Court Activity	9,478	-	9,478
Police Activities	6,048	-	6,048
Total Restricted Net Position	<u>\$ 560,203</u>	<u>\$ 12,210</u>	<u>\$ 572,413</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF GRANITE SHOALS, TEXAS

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
 General Fund
 For the Year Ended September 30, 2014

REVENUES	Budget Amounts		2014 Actual (Budget Basis)	Variance With Final Budget
	Original	Final		
Property taxes	\$ 1,128,737	\$ 1,128,737	\$ 1,132,369	\$ 3,632
Sales taxes	108,500	108,500	103,930	(4,570)
Franchise taxes	150,000	150,000	142,205	(7,795)
Other taxes	300	300	750	450
Licenses and permits	41,500	41,500	51,824	10,324
Intergovernmental revenues	232,970	239,939	237,038	(2,901)
Charges for services	236,000	236,000	235,470	(530)
Fines	95,000	95,000	119,354	24,354
Investments earnings	1,200	1,200	3,458	2,258
Contributions and donations	-	-	25	25
Sanitation sales	547,386	547,386	582,045	34,659
Other revenue	47,000	59,851	89,341	29,490
Total revenues	2,588,593	2,608,413	2,697,809	89,396
EXPENDITURES				
Current:				
General government:				
Municipal court	90,624	88,824	91,083	(2,259)
Finance and administration	805,445	810,689	798,728	11,961
Public safety:				
Police	783,757	793,782	885,461	(91,679)
Fire protection	355,576	365,827	371,520	(5,693)
Public works:				
Streets and parks	421,004	417,104	418,997	(1,893)
Health and welfare:				
Animal control	72,187	72,187	62,612	9,575
Solid Waste	468,803	468,803	479,344	(10,541)
Total expenditures	2,997,396	3,017,216	3,107,745	(90,529)
Excess (deficiency) of revenues over (under) expenditures	(408,803)	(408,803)	(409,936)	179,925
OTHER FINANCING SOURCES (USES)				
Transfers in	453,802	453,802	579,509	125,707
Total other financing sources (uses)	453,802	453,802	579,509	125,707
Net change in fund balance	44,999	44,999	169,573	305,632
Total fund balance-beginning of year	5,000	5,000	5,000	-
Total fund balance-end of year	\$ 49,999	\$ 49,999	\$ 174,573	\$ 305,632

CITY OF GRANITE SHOALS, TEXAS

Notes to the Budgetary Comparison Schedule
 General Fund
 For the Year Ended September 30, 2014

Note A – Budgetary Procedures

The following procedures are followed in establishing the budgetary data:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget.
- c. Prior to the start of the next fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

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

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

	<u>2014 Actual (GAAP Basis)</u>	<u>GAAP to Budget Differences</u>	<u>2014 Actual (Budget Basis)</u>	
EXPENDITURES				
Current:				
General government:				
Municipal court	\$ 91,083	\$ -	\$ 91,083	
Finance and administration	793,724	5,004	798,728	
Public safety:				
Police	752,800	132,661	885,461	(a)
Fire protection	365,920	5,600	371,520	
Public works:				
Streets and parks	333,467	85,530	418,997	(a)
Health and welfare:				
Animal control	62,612	-	62,612	
Collections	479,344		479,344	
Debt Service:				
Principal	17,039	(17,039)	-	(a)
Interest	2,539	(2,539)	-	(a)
Capital Outlay	209,217	(209,217)	-	(a)
Total expenditures	<u>\$ 3,107,745</u>	<u>\$ -</u>	<u>\$ 3,107,745</u>	

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

CITY OF GRANITE SHOALS, TEXAS

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
 Debt Service Fund
 For the Year Ended September 30, 2014

	Budget Amounts		2014 Actual (Budget Basis)	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 862,239	\$ 862,239	\$ 877,951	\$ 15,712
Investments earnings	350	350	564	214
Total revenues	<u>862,589</u>	<u>862,589</u>	<u>878,515</u>	<u>15,926</u>
EXPENDITURES				
Current:				
General government:				
Financial administration	350	350	-	350
Public safety:				
Police	25,000	25,000	-	25,000
Fire protection	21,200	21,200	-	21,200
Debt Service:				
Principal	425,000	425,000	467,870	(42,870)
Interest	500,319	500,319	602,686	(102,367)
Total expenditures	<u>971,869</u>	<u>971,869</u>	<u>1,070,556</u>	<u>(98,687)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(109,280)</u>	<u>(109,280)</u>	<u>(192,041)</u>	<u>114,613</u>
OTHER FINANCING SOURCES (USES)				
Loan Proceeds	-	-	100,583	(100,583)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>100,583</u>	<u>(100,583)</u>
Net change in fund balance	<u>(109,280)</u>	<u>(109,280)</u>	<u>(91,458)</u>	<u>14,030</u>
Total fund balance-beginning of year	<u>565,551</u>	<u>565,551</u>	<u>565,551</u>	<u>-</u>
Total fund balance-end of year	<u>\$ 456,271</u>	<u>\$ 456,271</u>	<u>\$ 474,093</u>	<u>\$ 14,030</u>

CITY OF GRANITE SHOALS, TEXAS

Notes to the Budgetary Comparison Schedule
 Debt Service Fund
 For the Year Ended September 30, 2014

Note A – Budgetary Procedures

The following procedures are followed in establishing the budgetary data:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget.
- c. Prior to the start of the next fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

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

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

	<u>2014 Actual (GAAP Basis)</u>	<u>GAAP to Budget Differences</u>	<u>2014 Actual (Budget Basis)</u>
EXPENDITURES			
Debt Service:			
Principal	297,870	170,000	467,870 (a)
Interest	223,208	379,478	602,686 (a)
Total expenditures	<u>\$ 521,078</u>	<u>\$ 549,478</u>	<u>\$ 1,070,556</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	\$ (549,478)	\$ 549,478	\$ - (a)
Total other financing sources (uses)	<u>\$ (549,478)</u>	<u>\$ 549,478</u>	<u>\$ -</u>

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

CITY OF GRANITE SHOALS, TEXAS

Texas Municipal Retirement System Schedule of Funding Progress (Unaudited)
 For the Year Ended September 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) = (1) / (2)	Unfunded AAL (UAAL) (4) = (2) - (1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) = (4) / (5)
12/31/2011	\$ 599,460	\$ 678,667	88.3%	\$ 79,207	\$ 1,226,116	6.5%
12/31/2012	\$ 692,367	\$ 766,914	90.3%	\$ 74,547	\$ 1,405,488	5.3%
12/31/2013	\$ 792,083	\$ 845,281	93.7%	\$ 53,198	\$ 1,377,606	3.9%

SUPPLEMENTAL SECTION

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Granite Shoals, Texas (the City) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 23, 2015.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

San Antonio, Texas
March 23, 2015

