

CITY OF GRANITE SHOALS, TEXAS

Annual Financial Report

For the Year Ended September 30, 2011

CITY OF GRANITE SHOALS, TEXAS

Annual Financial Report
For the Year Ended September 30, 2011

TABLE OF CONTENTS

Introductory Section

City Officials..... 1

Financial Section

Independent Auditor’s Report..... 2

Management’s Discussion and Analysis 4

Basic Financial Statements

Government-Wide Financial Statements

 Statement of Net Assets 12

 Statement of Activities..... 13

Fund Financial Statements

 Balance Sheet – Governmental Funds 14

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

 Statement of Net Assets – Proprietary Funds 17

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

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

 Notes to the Financial Statements..... 20

Required Supplemental Information

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

 General Fund..... 40

 Notes to the Budgetary Comparison Schedule – General Fund 41

CITY OF GRANITE SHOALS, TEXAS

Annual Financial Report
For the Year Ended September 30, 2011

TABLE OF CONTENTS (CONTINUED)

Required Supplemental Information (Continued)

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

Supplemental Section

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45
Schedule of Findings and Responses	47

INTRODUCTORY SECTION

CITY OF GRANITE SHOALS, TEXAS

City Officials

Dennis Maier..... Mayor

Carl Brugger..... Mayor Pro-Tem

Shirley King..... Council Member

Slayton Marks Council Member

Eric Tanner..... Council Member

David Dittmar Council Member

Bessie Jackson Council Member

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Granite Shoals, Texas (the City) as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the fiscal year ended September 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, and the Texas Municipal Retirement System schedule of funding progress on pages 4 through 11, 40 through 44, and 45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Antonio, Texas
April 27, 2012

A handwritten signature in cursive script, appearing to read "David Butler".

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2011

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, 2011. Please read it in conjunction with the independent auditors' report on page 2, and the City's Basic Financial Statements which begin on page 12.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5,483,452 (net assets). Of this amount, \$582,904 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net assets decreased by \$194,968 as a result of this year's operations.
- At September 30, 2011, the City's governmental funds reported combined ending fund balances of \$661,692, an increase of \$53,881 in comparison with the prior year.
- At September 30, 2011, the City's Utility Fund reported net assets of \$3,560,248, a decrease of \$523,839 in comparison with the prior year.

USING THIS ANNUAL REPORT

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

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

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

The Budgetary Comparison Schedules are presented as required supplementary information beginning on page 40.

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2011

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

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

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

- Governmental activity - Most of the City's basic services are reported here, including the public safety, public works, municipal court and administration. Property taxes, user charges, sales tax and franchise tax finance most of these activities.
- Business-type activity - The City's 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, 2011

The City has two kinds of funds:

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net assets of the City's governmental activities increased from \$1,594,333 to \$1,923,204. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, was \$320,149 at September 30, 2011. This increase in governmental net assets was the result of several factors. First, the City's expenditures exceeded the revenues by \$342,963. Second, the City paid principal on long-term debt in the amount of \$311,419 and acquired capital assets in the amount of \$87,411. The City recorded depreciation in the amount of \$235,618. Third, the water fund transferred \$671,834 to help subsidize the City's operations.

Net assets of the City's business-type activities decreased from \$4,084,087 to \$3,560,248. Unrestricted net assets were \$262,755 at September 30, 2011. This decrease in business-type net assets was the result of a net gain of \$147,995 and transfers out to the governmental activities of \$671,834.

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2011

Table I
NET ASSETS

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 650,236	\$ 983,384	\$ 336,170	\$ 700,556	\$ 986,406	\$ 1,683,940
Restricted assets	274,417	-	383,049	378,441	657,466	378,441
Bond issuance costs	71,590	75,788	152,045	158,956	223,635	234,744
Capital assets, net	6,623,110	6,771,317	9,312,490	9,574,747	15,935,600	16,346,064
Total assets	<u>7,619,353</u>	<u>7,830,489</u>	<u>10,183,754</u>	<u>10,812,700</u>	<u>17,803,107</u>	<u>18,643,189</u>
Current liabilities	193,814	422,383	225,460	184,568	419,274	606,951
Payable from restricted assets	-	-	253,046	249,045	253,046	249,045
Long-term liabilities	5,502,335	5,813,773	6,145,000	6,295,000	11,647,335	12,108,773
Total liabilities	<u>5,696,149</u>	<u>6,236,156</u>	<u>6,623,506</u>	<u>6,728,613</u>	<u>12,319,655</u>	<u>12,964,769</u>
Net assets:						
Invested in capital assets, net of related debt	1,252,226	1,105,835	3,167,490	3,279,747	4,419,716	4,385,582
Restricted	350,829	173,599	130,003	129,396	480,832	302,995
Unrestricted	320,149	314,899	262,755	674,944	582,904	989,843
Total net assets	<u>\$ 1,923,204</u>	<u>\$ 1,594,333</u>	<u>\$ 3,560,248</u>	<u>\$ 4,084,087</u>	<u>\$ 5,483,452</u>	<u>\$ 5,678,420</u>

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2011

Table II

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Charges for services	\$ 539,780	\$ 472,250	\$ 1,718,023	\$ 1,502,881	\$ 2,257,803	\$ 1,975,131
Operating grants & contributions	-	163	-	-	-	163
Capital grants & contributions	-	-	21,188	208,583	21,188	208,583
Property taxes	1,893,390	1,772,476	-	-	1,893,390	1,772,476
Sales taxes	81,112	71,815	-	-	81,112	71,815
Franchise & other taxes	114,937	116,932	-	-	114,937	116,932
Miscellaneous	51,126	38,859	15,909	7,819	67,035	46,678
Interest	1,089	2,229	418	1,510	1,507	3,739
Total revenue	2,681,434	2,474,724	1,755,538	1,720,793	4,436,972	4,195,517
Expenses:						
Municipal court	109,885	113,873	-	-	109,885	113,873
Finance and administration	1,125,799	918,755	-	-	1,125,799	918,755
Police	766,480	751,993	-	-	766,480	751,993
Fire protection	249,254	265,801	-	-	249,254	265,801
Highways and streets	349,145	475,627	-	-	349,145	475,627
Animal control	54,073	45,577	-	-	54,073	45,577
Building inspection	-	-	-	-	-	-
Parks	100,170	57,765	-	-	100,170	57,765
Interest	265,061	240,759	-	-	265,061	240,759
Amortization of issuance costs	4,530	4,756	-	-	4,530	4,756
Loss on disposal of assets	-	5,538	-	614,691	-	620,229
Utility	-	-	1,607,543	1,566,407	1,607,543	1,566,407
Total expenses	3,024,397	2,880,444	1,607,543	2,181,098	4,631,940	5,061,542
Increase (decrease) in net assets						
before transfers and capital contributions	(342,963)	(405,720)	147,995	(460,305)	(194,968)	(866,025)
Transfers	671,834	363,522	(671,834)	(363,522)	-	-
Net assets - beginning	1,594,333	1,581,206	4,084,087	4,945,741	5,678,420	6,526,947
Prior period adjustments	-	55,325	-	(37,827)	-	17,498
Net assets - ending	\$ 1,923,204	\$ 1,594,333	\$ 3,560,248	\$ 4,084,087	\$ 5,483,452	\$ 5,678,420

CITY OF GRANITE SHOALS, TEXAS

Management’s Discussion and Analysis
For the Year Ended September 30, 2011

The cost of all governmental activities this year was \$3,024,397. However, as shown in the Statement of Activities on page 13, the amount that our taxpayers ultimately financed for these activities through City property taxes was only \$1,893,390 because the other costs were paid by sales taxes (\$81,112), franchise and other taxes (\$114,937), investment earnings (\$1,089), user charges (\$539,780) and other miscellaneous (\$51,126).

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 \$661,692, which is more than last year’s total of \$607,811. Included in this year’s total change in fund balance is an increase of \$94,676 in the City’s General Fund.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2011, the City had the following amounts invested in capital assets:

CAPITAL ASSETS

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
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	4,028,529	4,028,529	2,189	2,189	4,030,718	4,030,718
Improvements	753,318	685,848	10,851,401	10,846,151	11,604,719	11,531,999
Machinery and equipment	1,596,972	1,577,031	86,452	95,148	1,683,424	1,672,179
Construction in progress	-	-	21,000	-	21,000	-
Total capital assets	8,499,374	8,411,963	10,978,844	10,961,290	19,478,218	19,373,253
Less:						
Accumulated depreciation	(1,876,264)	(1,640,646)	(1,666,354)	(1,386,543)	(3,542,618)	(3,027,189)
Net fixed assets	\$ <u>6,623,110</u>	\$ <u>6,771,317</u>	\$ <u>9,312,490</u>	\$ <u>9,574,747</u>	\$ <u>15,935,600</u>	\$ <u>16,346,064</u>

CITY OF GRANITE SHOALS, TEXAS

Management’s Discussion and Analysis
For the Year Ended September 30, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

This year’s major additions included:

	Governmental Activities	Business-Type Activities
Construction in progress	\$ -	\$ 21,000
Improvements	67,470	5,250
Machinery and equipment	19,941	-
Total additions	<u>\$ 87,411</u>	<u>\$ 26,250</u>

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

For business-type activities, the City paid principal of \$150,000 during the year.

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

OUTSTANDING DEBT

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Certificates of obligation	\$ 5,405,000	\$ 5,630,000	\$ 6,145,000	\$ 6,295,000	\$ 11,550,000	\$ 11,925,000
Capital leases	97,335	183,754	-	-	97,335	183,754
Total outstanding debt	<u>\$ 5,502,335</u>	<u>\$ 5,813,754</u>	<u>\$ 6,145,000</u>	<u>\$ 6,295,000</u>	<u>\$ 11,647,335</u>	<u>\$ 12,108,754</u>

ECONOMIC FACTORS AND 2011-2012 FISCAL YEAR BUDGETS AND RATES

The City’s elected and appointed officials considered many factors when setting the fiscal year 2011-2012 budget and tax rates. Those major indicators were economy, pollution growth and assessed property valuation. Amounts available for appropriation in the General Fund budget are \$2,317,818 (including transfer from the utility fund of \$691,514) and expenditures are estimated to be \$2,317,818.

This budget represents a continued conservative approach to revenue and expenses for the city. There are no new city programs in this budget. Capital in the general fund is for a purchase of a police vehicle, new radios for police and fire department to comply with the FCC’s mandatory narrow banding requirement and new software package for the Municipal Court.

Water fund has one major project for additional water storage which was approved in 2010 but will start construction in fourth quarter of 2011.

CITY OF GRANITE SHOALS, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2011

**ECONOMIC FACTORS AND 2011-2012 FISCAL YEAR BUDGETS AND RATES
(CONTINUED)**

There are no new debts in the plan and the city's approved tax rate for 2012 is \$0.462 per \$100 of property valuation.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City 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 Assets
September 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 443,024	\$ 37,402	\$ 480,426
Investments	75,015	102,518	177,533
Accounts Receivable (Net of Allowance for Uncollectibles)	132,197	196,250	328,447
Prepaid expenses	-	-	-
Total current assets	<u>650,236</u>	<u>336,170</u>	<u>986,406</u>
Noncurrent assets			
Restricted cash and cash equivalents	274,417	183,016	457,433
Restricted investments	-	200,033	200,033
Bond issue costs, net of amortization	71,590	152,045	223,635
Capital assets:			
Land	1,725,805	17,802	1,743,607
Construction in progress	-	21,000	21,000
Mineral rights	394,750	-	394,750
Buildings, net	3,640,032	1,761	3,641,793
Improvements, net	641,307	9,258,124	9,899,431
Machinery and equipment, net	221,216	13,803	235,019
Total noncurrent assets	<u>6,969,117</u>	<u>9,847,584</u>	<u>16,816,701</u>
Total assets	<u>7,619,353</u>	<u>10,183,754</u>	<u>17,803,107</u>
LIABILITIES			
Current liabilities			
Accounts payable	61,138	163,398	224,536
Accrued payroll liabilities	87,386	13,413	100,799
Accrued interest payable	45,290	48,649	93,939
Total current liabilities	<u>193,814</u>	<u>225,460</u>	<u>419,274</u>
Payable from restricted assets			
Customer deposits	-	253,046	253,046
Total payable from restricted assets	<u>-</u>	<u>253,046</u>	<u>253,046</u>
Long-term liabilities			
Due within one year	266,628	160,000	426,628
Due in more than one year	5,235,707	5,985,000	11,220,707
Total long-term liabilities	<u>5,502,335</u>	<u>6,145,000</u>	<u>11,647,335</u>
Total liabilities	<u>5,696,149</u>	<u>6,623,506</u>	<u>12,319,655</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,252,226	3,167,490	4,419,716
Restricted	350,829	130,003	480,832
Unrestricted net assets	320,149	262,755	582,904
Total net assets	<u>\$ 1,923,204</u>	<u>\$ 3,560,248</u>	<u>\$ 5,483,452</u>

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

CITY OF GRANITE SHOALS, TEXAS

Statement of Activities
For the Year Ended September 30, 2011

Functions and Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		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	\$ 109,885	\$ 144,523	\$ -	\$ -	\$ 34,638	\$ -	\$ 34,638
Finance and administration	1,125,799	292,394	-	-	(833,405)	-	(833,405)
Police	766,480	-	-	-	(766,480)	-	(766,480)
Fire protection	249,254	37,554	-	-	(211,700)	-	(211,700)
Highways and streets	349,145	-	-	-	(349,145)	-	(349,145)
Animal control	54,073	1,885	-	-	(52,188)	-	(52,188)
Parks	100,170	63,424	-	-	(36,746)	-	(36,746)
Debt service:							
Interest	265,061	-	-	-	(265,061)	-	(265,061)
Amortization of bond issuance costs	4,530	-	-	-	(4,530)	-	(4,530)
Total governmental activities	3,024,397	539,780	-	-	(2,484,617)	-	(2,484,617)
Business-type activities:							
Water	1,607,543	1,718,023	-	21,188	-	131,668	131,668
Total business-type activities	1,607,543	1,718,023	-	21,188	-	131,668	131,668
Total primary government	\$ 4,631,940	\$ 2,257,803	\$ -	\$ 21,188	-	131,668	(2,352,949)
General revenues:							
Property taxes					1,893,390	-	1,893,390
Sales taxes					81,112	-	81,112
Franchise taxes					100,619	-	100,619
Other taxes					301	-	301
Hotel Occupancy Tax					14,017	-	14,017
Interest					1,089	418	1,507
Miscellaneous					51,126	15,909	67,035
Total general revenues					2,141,654	16,327	2,157,981
Change in net assets before transfers					(342,963)	147,995	(194,968)
Transfers In (Out)					671,834	(671,834)	-
Change in net assets					328,871	(523,839)	(194,968)
Net assets at the beginning of the year					1,594,333	4,084,087	5,678,420
Net assets at the end of the year					\$ 1,923,204	\$ 3,560,248	\$ 5,483,452

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

CITY OF GRANITE SHOALS, TEXAS

Balance Sheet – Governmental Funds
September 30, 2011

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 395,612	\$ 274,417	\$ 47,412	\$ 717,441
Investments	66,068	-	8,947	75,015
Taxes receivable	53,600	78,213	-	131,813
Allowance for uncollectible taxes	(2,680)	(3,911)	-	(6,591)
Other Receivables (net of allowances)	6,885	-	90	6,975
Due from other funds	-	260,825	-	260,825
Total assets	<u>\$ 519,485</u>	<u>\$ 609,544</u>	<u>\$ 56,449</u>	<u>\$ 1,185,478</u>
LIABILITIES				
Accounts payable	\$ 60,592	\$ -	\$ 546	\$ 61,138
Accrued payroll liabilities	86,902	-	484	87,386
Due to other funds	260,825	-	-	260,825
Deferred revenue	46,659	67,778	-	114,437
Total liabilities	<u>454,978</u>	<u>67,778</u>	<u>1,030</u>	<u>523,786</u>
FUND BALANCES				
Restricted	2,110	541,766	-	543,876
Committed	131,451	-	55,419	186,870
Unassigned	(69,054)	-	-	(69,054)
Total fund balances	<u>64,507</u>	<u>541,766</u>	<u>55,419</u>	<u>661,692</u>
Total liabilities and fund balances	<u>\$ 519,485</u>	<u>\$ 609,544</u>	<u>\$ 56,449</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund, net of accumulated depreciation of \$1,876,264.	6,623,110
Property taxes receivable are unavailable to pay current expenses and will be collected after year-end, therefore they are deferred in the funds.	114,437
Bond issue costs which will be amortized in future years are expended in the funds when incurred.	71,590
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Notes, bonds, and capital leases payable	(5,502,335)
Accrued interest payable	<u>(45,290)</u>
Net Assets of Governmental Activities	<u>\$ 1,923,204</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, 2011

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property taxes	\$ 706,367	\$ 1,075,814	\$ -	\$ 1,782,181
General sales and use tax	81,112	-	-	81,112
Franchise taxes	100,619	-	-	100,619
Other taxes	301	-	-	301
Licenses and permits	293,214	-	-	293,214
Intergovernmental revenue	37,554	-	-	37,554
Charges for services	645	-	63,424	64,069
Fines	144,523	-	-	144,523
Investment earnings	1,063	-	26	1,089
Rents and royalties	-	-	420	420
Hotel Occupancy Tax	14,017	-	-	14,017
Other revenue	19,954	-	31,172	51,126
Total revenues	<u>1,399,369</u>	<u>1,075,814</u>	<u>95,042</u>	<u>2,570,225</u>
EXPENDITURES				
Current:				
General government:				
Municipal court	124,989	-	-	124,989
Finance and administration	829,586	168,896	3,889	1,002,371
Public safety:				
Police	725,379	-	-	725,379
Fire protection	231,574	-	-	231,574
Public works:				
Highways and streets	379,510	-	11,000	390,510
Health and welfare:				
Animal control	53,856	-	-	53,856
Culture and recreation:				
Parks	-	-	77,920	77,920
Debt Service:				
Principal	59,792	251,627	-	311,419
Interest	12,656	257,172	-	269,828
Bond Issuance Costs	-	-	332	332
Total expenditures	<u>2,417,342</u>	<u>677,695</u>	<u>93,141</u>	<u>3,188,178</u>
Excess (deficiency) of revenues over (under) expenditures	(1,017,973)	398,119	1,901	(617,953)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,119,729	-	7,080	1,126,809
Transfers out	(7,080)	(447,895)	-	(454,975)
Total other financing sources (uses)	<u>1,112,649</u>	<u>(447,895)</u>	<u>7,080</u>	<u>671,834</u>
Change in fund balances	94,676	(49,776)	8,981	53,881
Total fund balance-beginning of year	(30,169)	591,542	46,438	607,811
Total fund balance-end of year	<u>\$ 64,507</u>	<u>\$ 541,766</u>	<u>\$ 55,419</u>	<u>\$ 661,692</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, 2011

Change in fund balances - governmental funds	\$	53,881
Amounts reported in governmental activities and in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are capitalized.		87,411
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.		(235,618)
Revenues that are deferred in governmental activities because they do not provide current financial resources are not deferred in the Statement of Activities.		
Property tax revenue		111,209
Repayments of bond, note, and capital lease principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the Statement of Net Assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.		
Bond, loan, and capital lease principal payments	\$	311,419
Amortization of bond issuance costs		<u>(4,198)</u>
		307,221
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>4,748</u>
		4,748
Other adjustments necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting.		<u>19</u>
Change in net assets of governmental activities	\$	<u><u>328,871</u></u>

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

CITY OF GRANITE SHOALS, TEXAS

Statement of Net Assets – Proprietary Funds
September 30, 2011

	<u>Business Type</u> <u>Activities</u> <u>Water Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 37,402
Investments	102,518
Accounts receivable-net of allowance for uncollectibles	175,250
Grants Receivable	21,000
Total current assets	<u>336,170</u>
Non-current assets:	
Restricted cash and cash equivalents	183,016
Restricted Investments	200,033
Bond issue costs, net of amortization	152,045
Capital assets:	
Land	17,802
Construction in progress	21,000
Buildings	2,189
Improvements	10,851,401
Machinery and equipment	86,452
Accumulated depreciation	(1,666,354)
Net capital assets	<u>9,312,490</u>
Total assets	<u>10,183,754</u>
LIABILITIES	
Accounts payable	163,398
Accrued payroll liabilities	13,413
Accrued interest	48,649
Bonds payable - current portion	160,000
Total current liabilities	<u>385,460</u>
Non-current liabilities:	
Bonds payable - long term portion	5,985,000
Payable from restricted assets:	
Customer deposits payable	253,046
Total liabilities	<u>6,623,506</u>
NET ASSETS	
Invested in capital assets, net of related debt	3,167,490
Restricted net assets:	
Debt Service	130,003
Unrestricted net assets	262,755
Total net assets	<u>\$ 3,560,248</u>

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

CITY OF GRANITE SHOALS, TEXAS

Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds
For the Year Ended September 30, 2011

	Business Type
	Activities
	Water Fund
OPERATING REVENUES	
Charges for water services	\$ 1,545,355
Charges for sanitation services	149,668
Rents and royalties	23,000
Other revenue	15,909
Total operating revenues	<u>1,733,932</u>
OPERATING EXPENSES	
Water:	
Personnel services - salaries and wages	191,095
Personnel services - employee benefits	67,351
Purchased professional and technical services	49,949
Purchases property services	87,915
Other operating expenses	399,498
Supplies	219,684
Total Water	<u>1,015,492</u>
Depreciation	288,507
Total expenses	<u>1,303,999</u>
Total operating income	429,933
NON-OPERATING REVENUES (EXPENSES)	
Amortization of bond issuance costs	(6,911)
Investment earnings	418
Interest expense	(296,633)
Total non-operating revenues (expenses)	<u>(303,126)</u>
Net income before capital grants and transfers	126,807
Capital Grants	<u>21,188</u>
TRANSFERS	
Transfers in	447,895
Transfers out	(1,119,729)
Total transfers	<u>(671,834)</u>
Change in net assets	(523,839)
Total net assets-beginning of year	<u>4,084,087</u>
Total net assets-end of year	<u>\$ 3,560,248</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, 2011

	Business-Type Activities Water Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,677,036
Other cash receipts	38,909
Payments to suppliers for goods and services	(726,636)
Payments to employees for salaries and benefits	(246,702)
Net cash provided by operating activities	<u>742,607</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(1,119,729)
Transfers from other funds	447,895
Net cash used by non-capital financing activities	<u>(671,834)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital grants	62,746
Purchase of capital assets	(26,250)
Principal paid on debt	(150,000)
Interest and fiscal charges paid	(297,895)
Net cash used by capital and related financing activities	<u>(411,399)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	418
Net cash provided by investing activities	<u>418</u>
Net decrease in cash and cash equivalents	(340,208)
Cash and cash equivalents at beginning of period	<u>863,177</u>
Cash and cash equivalents at end of period	<u>\$ 522,969</u>
CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 429,933
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	288,507
Change in assets and liabilities:	
Accounts receivable	(21,988)
Accounts payable	30,410
Accrued expenses	11,744
Customer deposits payable	4,001
Net cash provided by operating activities	<u>\$ 742,607</u>
Cash and cash equivalents at end of period consist of:	
Cash and cash equivalents	\$ 37,402
Investments	102,518
Restricted cash and cash equivalents	183,016
Restricted investments	200,033
Cash and cash equivalents at end of period	<u>\$ 522,969</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, 2011

Note A – Summary of Significant Accounting Policies

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

Financial Reporting Entity

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

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

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

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

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Financial Reporting Entity (Continued)

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

Government-Wide Financial Statements

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

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

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

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

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and 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, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

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

The City reports the following nonmajor governmental funds: Sherwood Shores Trust Fund (a blended component unit), Parks Fund, and Capital Projects Fund.

The City reports the following major proprietary fund:

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

Fund Equity

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

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The City did not have any nonspendable fund balances as of September 30, 2011.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority. The highest level of decision-making authority for the City is the City Council. All fund balance commitments are authorized by ordinances.
- *Assigned fund balance*—amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The City Council has authorized the City Manager to assign fund balances.
- *Unassigned fund balance*—amounts that are available for any purpose; these amounts can be reported only in the City's General Fund. If a fund deficit exists in other funds, then that amount is reported as unassigned fund balance.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Fund Equity (Continued)

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

As of the fiscal year ended September 30, 2011, the City has implemented the Statement and reclassified its fund balances accordingly.

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

Long-Term Debt

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

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

Capital Assets

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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

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

Assets	Years
Infrastructure	20-40
Buildings	30
Improvements	30
Equipment	7
Vehicles	5

Reservations of Fund Balance

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

Restricted Net Assets

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

Budget

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

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note A – Summary of Significant Accounting Policies (Continued)

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.

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, 2011, the carrying amount of the City's deposits was \$936,460 and the bank balance was \$956,967. The carrying amount of the deposit of Sherwood Shores Trust Fund was \$19,700 and the bank balance was \$19,700. The City's cash deposits held at American Bank during the year ended September 30, 2011 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. The City had cash on hand of \$1,400 at September 30, 2011.

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.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note B – Deposits and Investments (Continued)

The carrying value of investments at September 30, 2011 was \$377,566 (TexPool Investment Pool). Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment, Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

Policies Governing Deposits and Investments

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

Custodial Credit Risk - Deposits

This is the risk that in the event of bank failure, the City's deposit may not be returned to it. The City was not exposed to custodial credit risk since its deposits during the year ended September 30, 2011 were covered by depository insurance or by pledged collateral held by the City's agent bank in the City's name.

Custodial Credit Risk - Investments

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

Other Credit Risk

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note C – Accounts Receivable

Accounts receivable consisted of the following at September 30, 2011:

	General Fund	Debt Service Fund	Sherwood Shores Trust Fund	Water Fund	Totals
Property Taxes	\$ 53,600	\$ 78,213	\$ -	\$ -	\$ 131,813
Customer Accounts	-	-	-	247,021	247,021
Grants	-	-	-	21,000	21,000
Other	6,885	-	180,512	-	187,397
Gross Receivables	60,485	78,213	180,512	268,021	587,231
Less: Allowance for Uncollectibles	(2,680)	(3,911)	(180,422)	(71,771)	(258,784)
Net Total Receivable	<u>\$ 57,805</u>	<u>\$ 74,302</u>	<u>\$ 90</u>	<u>\$ 196,250</u>	<u>\$ 328,447</u>

Note D – Property Taxes

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

The Burnet County Appraisal District appraises and collects taxes for the City. For 2011, the City of Granite Shoals had property with an assessed valuation of \$436,410,183. The tax rate was \$.448 (\$.1766 for the General Fund and \$.2714 for the Debt Service Fund) per \$100 valuation.

Note E – Interfund Balances

Individual interfund receivable and payable balances and operating transfers at September 30, 2011, were as follows:

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note F - 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	\$ 1,119,729	\$ (7,080)	\$ 1,112,649	Operational costs
Capital Projects Fund	7,080	-	7,080	Operational costs
Debt Service Fund	-	(447,895)	(447,895)	Debt Service
Total Governmental Activities	<u>1,126,809</u>	<u>(454,975)</u>	<u>671,834</u>	
<u>Business-Type Activities</u>				
Water Fund	447,895	(1,119,729)	(671,834)	Operational costs, Debt Service
Total Business-Type Activities	<u>447,895</u>	<u>(1,119,729)</u>	<u>(671,834)</u>	
Total Transfers	<u>\$ 1,574,704</u>	<u>\$ (1,574,704)</u>	<u>\$ -</u>	

Note G – Capital Assets

Capital assets activity in the governmental activities for the year ended September 30, 2011 was as follows:

	Balance 10/01/2010	Additions	Deletions	Transfers	Balance 09/30/2011
<u>Governmental Activities</u>					
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>-</u>	<u>2,120,555</u>
Capital assets being depreciated					
Buildings	4,028,529	-	-	-	4,028,529
Improvements	685,848	67,470	-	-	753,318
Machinery and equipment	1,577,031	19,941	-	-	1,596,972
Total capital assets being depreciated	<u>6,291,408</u>	<u>87,411</u>	<u>-</u>	<u>-</u>	<u>6,378,819</u>
Accumulated depreciation					
Buildings	(286,365)	(102,132)	-	-	(388,497)
Improvements	(80,516)	(31,495)	-	-	(112,011)
Machinery and equipment	(1,273,765)	(101,991)	-	-	(1,375,756)
Total accumulated depreciation	<u>(1,640,646)</u>	<u>(235,618)</u>	<u>-</u>	<u>-</u>	<u>(1,876,264)</u>
Net capital assets being depreciated	<u>4,650,762</u>	<u>(148,207)</u>	<u>-</u>	<u>-</u>	<u>4,502,555</u>
Net capital assets	<u>\$ 6,771,317</u>	<u>\$ (148,207)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,623,110</u>

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note G – Capital Assets (Continued)

Capital asset activity in the business-type activities for the City for the year ended September 30, 2011, was as follows:

Business-Type Activities	Balance 10/01/2010	Additions	Deletions	Transfers	Balance 09/30/2011
Capital assets not being depreciated					
Land	\$ 17,802	\$ -	\$ -	\$ -	\$ 17,802
Construction in progress	-	21,000	-	-	21,000
Total capital assets not being depreciated	17,802	21,000	-	-	38,802
Capital assets being depreciated					
Buildings	2,189	-	-	-	2,189
Improvements	10,846,151	5,250	-	-	10,851,401
Machinery and equipment	95,148	-	(8,696)	-	86,452
Total capital assets being depreciated	10,943,488	5,250	(8,696)	-	10,940,042
Accumulated depreciation					
Buildings	(319)	(109)	-	-	(428)
Improvements	(1,314,005)	(279,272)	-	-	(1,593,277)
Machinery and equipment	(72,219)	(9,126)	8,696	-	(72,649)
Total accumulated depreciation	(1,386,543)	(288,507)	8,696	-	(1,666,354)
Net capital assets being depreciated	9,556,945	(283,257)	-	-	9,273,688
Net capital assets	\$ 9,574,747	\$ (262,257)	\$ -	\$ -	\$ 9,312,490

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

Governmental Activities:	
Municipal Court	\$ 256
Finance and administration	123,428
Police	45,682
Fire protection	17,680
Highways and streets	26,105
Animal control	217
Parks	22,250
Total Governmental Activities Depreciation Expense	\$ 235,618
Business-Type Activities	
Water	\$ 288,507
Total Business-Type Activities Depreciation Expense	\$ 288,507

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note H – Restricted Cash and Investments

Restricted consisted of the following at September 30, 2011:

	Governmental Activities	Business-Type Activities	Total
Cash restricted for Debt Service	\$ 274,417	\$ 11,756	\$ 286,173
Cash restricted for Water Customer Deposits	-	171,260	171,260
Investments restricted for Debt Service	-	118,247	118,247
Investments restricted for Water Customer Deposits	-	81,786	81,786
Total Restricted Assets	<u>\$ 274,417</u>	<u>\$ 383,049</u>	<u>\$ 657,466</u>

Note I – Long-Term Debt

Changes in long-term debt for the year ended September 30, 2011 are as follows:

	Balance 10/01/2010	Additions	Reductions	Balance 09/30/2011	Due Within One Year
<u>Governmental Activities</u>					
Certificate of Obligation					
Series 2008	\$ 4,880,000	-	\$ (200,000)	\$ 4,680,000	\$ 205,000
Series 2010	750,000		(25,000)	725,000	25,000
Capital leases					
Ford Motor Credit	110,366	-	(51,558)	58,808	-
Catepillar	23,323	-	(10,418)	12,905	11,006
First American Bank	50,065	-	(24,443)	25,622	25,622
Total Governmental Activities	<u>5,813,754</u>	<u>-</u>	<u>(311,419)</u>	<u>5,502,335</u>	<u>266,628</u>
<u>Business-Type Activities</u>					
Certificate of Obligation					
Series 2004	6,295,000	-	(150,000)	6,145,000	160,000
Total Business-Type Activities	<u>6,295,000</u>	<u>-</u>	<u>(150,000)</u>	<u>6,145,000</u>	<u>160,000</u>
Total Long-Term Debt	<u>\$ 12,108,754</u>	<u>\$ -</u>	<u>\$ (461,419)</u>	<u>\$ 11,647,335</u>	<u>\$ 426,628</u>

Description of Debt

Combination Tax and Limited Revenue Certificates of Obligation – Series 2004

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note I – Long-Term Debt (Continued)

Description of Debt (Continued)

Combination Tax and Limited Revenue Certificates of Obligation – Series 2008

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

Combination Tax and Limited Revenue Certificates of Obligation – Series 2010

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

Capital Lease – Caterpillar Financing

In November 2007, the City entered into a lease-purchase agreement with Caterpillar Financial Services Corporation to purchase a Caterpillar soil compactor. The term of the lease is 60 months with monthly payments of \$953 plus interest. The lease is due in November 2012. The capitalized cost of the soil compactor was \$49,913. Accumulated depreciation as of September 30, 2011 was \$24,362.

Capital Lease – Ford Motor Credit

In August 2007, the City entered into a lease-purchase agreement with Ford Motor Credit for the purchase of four vehicles. The term of the lease is 60 months, with annual payments of \$32,436 including interest. The lease is due in October 2013. The capitalized cost of the vehicles is \$141,202. Accumulated depreciation as of September 30, 2011 was \$58,834.

Capital Lease – First American Bank

In September 2007, the City entered into a lease-purchase agreement with First American Bank for the purchase of financial software. The term of the lease is 58 months, with annual payments of \$2,381 including interest. The lease is due in August 2012. The capitalized cost of the software is \$137,874. Accumulated depreciation as of September 30, 2011 was \$110,299.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note I – Long-Term Debt (Continued)

Debt Service Requirements

Debt service requirements for the revenue bonds and certificates of obligation outstanding as of September 30, 2011 are as follows:

Year Ended September 30,	Principal	Interest	Annual Requirements
2012	\$ 390,000	\$ 534,652	\$ 924,652
2013	410,000	517,923	927,923
2014	425,000	500,319	925,319
2015	445,000	482,066	927,066
2016	460,000	471,575	931,575
2017-2021	2,655,000	2,023,901	4,678,901
2022-2026	3,330,000	1,345,805	4,675,805
2027-2031	2,205,000	596,860	2,801,860
2032-2034	1,230,000	125,000	1,355,000
Totals	<u>\$ 11,550,000</u>	<u>\$ 6,598,101</u>	<u>\$ 18,148,101</u>

Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2011 and are as follows:

Year Ended September 30,	Governmental Activities
2012	\$ 37,801
2013	34,343
2014	32,436
Subtotal	<u>104,580</u>
Less amounts representing interest	<u>(7,245)</u>
Principal amounts due	97,335
Current portion	<u>(36,628)</u>
Long-term portion	<u>\$ 60,707</u>

Note J – Risk Management

The City of Granite Shoals is exposed to various risks of loss relating to general liability, accidental loss of real and personal property, damage to assets, errors and omissions, acts of God, and personnel risks which relate to workers compensation. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for identified risks. TML is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are sent annually to TML. Liability by the City is generally limited to the contributed amounts. Contributions for the year ended September 30, 2011 were \$58,057.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note K – Pension Plan

Plan Description

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

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

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

	<u>Plan Year 2010</u>	<u>Plan Year 2011</u>
Employee deposit rate	5%	5%
Matching ratio (city to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Contributions

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

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note K – Pension Plan (Continued)

Contributions (Continued)

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

Annual Required Contribution (ARC)	\$	25,413
Interest on Net Pension Obligation		-
Adjustment to the ARC		-
Annual Pension Cost (APC)		<u>25,413</u>
Contributions Made		<u>(25,413)</u>
Increase (decrease) in net pension		-
Net Pension Obligation/(Asset), beginning of year		<u>-</u>
Net Pension Obligation/(Asset), end of year	\$	<u><u>-</u></u>

Three-year trend information:

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC contributed	Net Pension Obligation (Asset)
2009	\$ 26,790	\$ 26,790	100%	\$ -
2010	\$ 26,964	\$ 26,964	100%	\$ -
2011	\$ 25,413	\$ 25,413	100%	\$ -

The required contributions rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Valuation Date	<u>December 31, 2008</u>	<u>December 31, 2009</u>	prior to restructuring <u>December 31, 2010</u>	restructured <u>December 31, 2010</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortizaion Period	24.0 years; closed period	22.3 years; closed period	19.4 years; closed period	18.1 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years	25 years
Asset Valuation Method	Amortized Cost	10-year Smoothed	10-year Smoothed	10-year Smoothed
Actuarial Assumptions:		Market	Market	Market
Investment Rate of Return*	7.5%	7.5%	7.5%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
* Includes inflation at	3.00%	3.00%	3.00%	3.00%
Cost of Living Adjustments	0%	0%	0%	0%

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
 For the Year Ended September 30, 2011

Note K – Pension Plan (Continued)

Contributions (Continued)

Funded Status and Funding Progress – In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructuring of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) = (1) / (2)	Unfunded AAL (UAAL) (4) = (2) - (1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) = (4) / (5)
12/31/2010 ¹	\$ 478,397	\$ 505,614	94.6%	\$ 27,217	\$ 1,129,555	2.4%
12/31/2010 ²	\$ 487,178	\$ 498,560	97.7%	\$ 11,382	\$ 1,129,555	1.0%

(1) Actuarial valuation performed under the original fund structure.

(2) Actuarial valuation performed under the new fund structure.

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.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note K – Pension Plan (Continued)

Supplemental Death Benefits

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

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

The City's contributions to the TMRS SDBF for the years ending September 30, 2011, 2010, and 2009 were \$1,781, \$3,268 and \$4,640, respectively, which equaled the required contributions each year.

Note L – Sherwood Shores Trust Fund

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

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

During the year ended September 30, 2011, the District Court of Burnet County (33rd Judicial District) in Cause No. 34866 entered a final judgment modifying the Sherwood Shores Trust Fund. The Court ordered the following:

1. The \$25 cap on the annual assessment imposed by this Court's final judgments in Cause Nos. 4736, 5601-A, and 5601-B is hereby lifted. The Trustee shall collect an annual assessment of \$10 per lot from each property owner in the Sherwood Shores I, II and IV subdivisions, effective as of the date of this Judgment.

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note L – Sherwood Shores Trust Fund (Continued)

2. At such date that is two years after the date that the City of Granite Shoals, Texas may complete annexation of the remainder of Sherwood Shores I, II and IV into the city limits, the Sherwood Shores Trust Fund shall terminate without the necessity of further court proceedings; provided, however, that any moneys that would otherwise remain in the Trust Fund upon the date of termination shall be spent by the Trustees prior to termination for any permissible trust purpose.
3. In the event that the City receives any trust proceeds subsequent to termination, such proceeds shall be assigned to the City and shall be used by the City for any permissible trust purpose pursuant to the *cy pres* doctrine.
4. Prior to the termination of the Trust Fund as provided above, the Trustee shall reimburse each property owner who paid an assessment in excess of \$25 per three lots per year to the Trust Fund between July 21, 2004 and the date of this Judgment in an amount that is equal to the amount that the property owner paid that exceeded \$25 per three lots per year between July 21, 2004 and the date of this Judgment. Such reimbursement may take the form of a check made out to the property owner from the Trust Fund or a credit against future assessments, the choice of which shall be in the Trustee's discretion.
5. The provisions of this Final Judgment shall be cumulative of the Agreed Judgments in Cause Nos. 4736, 5601-A, and 5601-B in the 33rd District Court, dated July 30, 1973; provided, however, that any provision in such prior judgments that is inconsistent or in conflict with any of the provisions of this Final Judgment are hereby expressly overruled.

Note M – Commitments and Contingencies

Commitments

The City (Enterprise Fund) has contracted with Allied Waste Services, Inc. to provide for the collection of refuse and recyclable materials. The contract was dated September 1, 1993, for a period of five years, renewable unless terminated by either party. The contract was previously extended on September 1, 1998 and September 1, 2005 for additional five-year terms. The contract was renewed on September 1, 2010 for an additional two years. Collection rates are adjusted by the agreement of both parties. Under the terms of the contract, the City collects and remits to Allied Waste Services, Inc. its portion of the sanitation fees, less eight percent which is retained as a franchise fee.

Contingencies

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

CITY OF GRANITE SHOALS, TEXAS

Notes to the Financial Statements
For the Year Ended September 30, 2011

Note N – Fund Balances

The City reported the following fund balance designations at September 30, 2011:

<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	\$ -	\$ 541,766	\$ -	\$ 541,766
Police Activities	2,110	-	-	2,110
Total Restricted	2,110	541,766	-	543,876
Committed for:				
Parks Maintenance	-	-	55,419	55,419
Capital Projects	131,451	-	-	131,451
Total Committed	131,451	-	55,419	186,870
Unassigned	(69,054)	-	-	(69,054)
Total Fund Balances	\$ 64,507	\$ 541,766	\$ 55,419	\$ 661,692

Note O – Restricted Net Assets

The City reported the following restricted net assets at September 30, 2011:

<u>Net Assets Restricted For</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Debt Service	\$ 348,719	\$ 130,003	\$ 478,722
Police Activities	2,110	-	2,110
Total Restricted Net Assets	\$ 350,829	\$ 130,003	\$ 480,832

Note P – Settlement of Lawsuit

On February 24, 2011, the City, as defendant, agreed to a settlement in connection with 33rd Judicial District Court of Burnet County Cause No. 32649 regarding the City’s annexation and taxation of certain properties. The City has agreed to refund property taxes collected from the annexed properties (the plaintiffs), and has further agreed to de-annex the properties effective no later than December 31, 2010. On March 3, 2011, the City paid \$275,000 to the plaintiffs to refund property taxes.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF GRANITE SHOALS, TEXAS

Required Supplemental Information
 Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
 General Fund
 For the Year Ended September 30, 2011

	Budget Amounts		2011 Actual (Budget Basis)	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 714,293	\$ 727,252	\$ 706,367	\$ (20,885)
Sales taxes	75,000	75,000	81,112	6,112
Franchise taxes	154,076	116,044	100,619	(15,425)
Other taxes	200	200	301	101
Licenses and permits	359,973	309,173	293,214	(15,959)
Intergovernmental revenues	30,724	40,050	37,554	(2,496)
Charges for services	600	600	645	45
Fines	97,021	145,421	144,523	(898)
Investments earnings	4,000	4,000	1,063	(2,937)
Hotel Occupancy Tax	-	-	14,017	14,017
Other revenue	18,650	16,767	19,954	3,187
Total revenues	<u>1,454,537</u>	<u>1,434,507</u>	<u>1,399,369</u>	<u>(35,138)</u>
EXPENDITURES				
Current:				
General government:				
Municipal court	112,012	116,012	124,989	(8,977)
Finance and administration	764,732	1,045,732	858,157	187,575
Public safety:				
Police	714,968	728,968	757,815	(28,847)
Fire protection	221,577	221,577	231,574	(9,997)
Public works:				
Highways and streets	454,196	454,196	390,951	63,245
Health and welfare:				
Animal control	54,875	55,875	53,856	2,019
Total expenditures	<u>2,322,360</u>	<u>2,622,360</u>	<u>2,417,342</u>	<u>205,018</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(867,823)</u>	<u>(1,187,853)</u>	<u>(1,017,973)</u>	<u>169,880</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	894,729	839,277	1,119,729	280,452
Transfers out	-	-	(7,080)	(7,080)
Total other financing sources (uses)	<u>894,729</u>	<u>839,277</u>	<u>1,112,649</u>	<u>273,372</u>
Net change in fund balance	<u>26,906</u>	<u>(348,576)</u>	<u>94,676</u>	<u>443,252</u>
Total fund balance-beginning of year	<u>(30,169)</u>	<u>(30,169)</u>	<u>(30,169)</u>	<u>-</u>
Total fund balance-end of year	<u>\$ (3,263)</u>	<u>\$ (378,745)</u>	<u>\$ 64,507</u>	<u>\$ 443,252</u>

CITY OF GRANITE SHOALS, TEXAS

Required Supplemental Information
 Notes to the Budgetary Comparison Schedule
 General Fund
 For the Year Ended September 30, 2011

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>2011 Actual</u> <u>(GAAP Basis)</u>	<u>GAAP to</u> <u>Budget</u> <u>Differences</u>	<u>2011 Actual</u> <u>(Budget Basis)</u>
EXPENDITURES			
Current:			
General government:			
Municipal court	\$ 124,989	\$ -	\$ 124,989
Finance and administration	829,586	28,571	858,157 (a)
Public safety:			
Police	725,379	32,436	757,815 (a)
Fire protection	231,574	-	231,574
Public works:			
Highways and streets	379,510	11,441	390,951 (a)
Health and welfare:			
Animal control	53,856	-	53,856
Debt Service:			
Principal	59,792	(59,792)	-
Interest	12,656	(12,656)	-
Total expenditures	<u>\$ 2,417,342</u>	<u>\$ -</u>	<u>\$ 2,417,342</u>

- (a) The City budgets debt service payments in the General Fund within the respective departments (finance and administration, police, and highways and streets), but for GAAP reporting purposes, the expenditures are shown under the Debt Service line item.

CITY OF GRANITE SHOALS, TEXAS

Required Supplemental Information
 Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
 Debt Service Fund
 For the Year Ended September 30, 2011

	Budget Amounts		2011 Actual (Budget Basis)	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 1,222,645	\$ 1,222,645	\$ 1,075,814	\$ (146,831)
Total revenues	<u>1,222,645</u>	<u>1,222,645</u>	<u>1,075,814</u>	<u>(146,831)</u>
EXPENDITURES				
Current:				
General government:				
Financial administration	-	-	168,896	(168,896)
Debt Service:				
Principal	375,000	375,000	401,627	(26,627)
Interest	<u>560,007</u>	<u>560,007</u>	<u>555,067</u>	<u>4,940</u>
Total expenditures	<u>935,007</u>	<u>935,007</u>	<u>1,125,590</u>	<u>(190,583)</u>
Net change in fund balance	<u>287,638</u>	<u>287,638</u>	<u>(49,776)</u>	<u>(337,414)</u>
Total fund balance-beginning of year	<u>-</u>	<u>-</u>	<u>591,542</u>	<u>(591,542)</u>
Total fund balance-end of year	<u>\$ 287,638</u>	<u>\$ 287,638</u>	<u>\$ 541,766</u>	<u>\$ (254,128)</u>

CITY OF GRANITE SHOALS, TEXAS

Required Supplemental Information
 Notes to the Budgetary Comparison Schedule
 Debt Service Fund
 For the Year Ended September 30, 2011

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>2011 Actual</u> <u>(GAAP Basis)</u>	<u>GAAP to</u> <u>Budget</u> <u>Differences</u>	<u>2011 Actual</u> <u>(Budget Basis)</u>
EXPENDITURES			
Current:			
General government:			
Financial administration	\$ 168,896	\$ -	\$ 168,896
Debt Service:			
Principal	251,627	150,000	401,627 (a)
Interest	12,656	297,895	310,551 (a)
Total expenditures	<u>\$ 433,179</u>	<u>\$ 447,895</u>	<u>\$ 881,074</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	\$ (447,895)	\$ 447,895	\$ - (a)
Total other financing sources (uses)	<u>\$ (447,895)</u>	<u>\$ 447,895</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.

Note C – Excess of Expenditures Over Appropriations

Actual expenditures exceeded appropriations by \$190,583 for the year ended September 30, 2011 in the Debt Service Fund.

CITY OF GRANITE SHOALS, TEXAS

Required Supplemental Information

Texas Municipal Retirement System Schedule of Funding Progress (Unaudited)

For the Year Ended September 30, 2011

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)
12/31/2008	\$ 325,458	\$ 381,314	85.4%	\$ 55,856	\$ 957,015	5.8%
12/31/2009	\$ 411,024	\$ 450,410	91.3%	\$ 39,386	\$ 1,121,438	3.5%
12/31/2010 ¹	\$ 478,397	\$ 505,614	94.6%	\$ 27,217	\$ 1,129,555	2.4%
12/31/2010 ²	\$ 487,178	\$ 498,560	97.7%	\$ 11,382	\$ 1,129,555	1.0%

(1) Actuarial valuation performed under the original fund structure.

(2) Actuarial valuation performed under the new fund structure.

SUPPLEMENTAL SECTION

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Granite Shoals, Texas (the City) as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. [2010-1].

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

Compliance and Other Matters

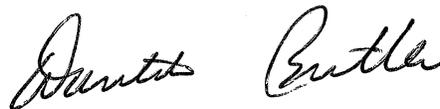
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

We noted certain other matters that we reported to management of the City in a separate letter dated April 27, 2012.

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

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

San Antonio, Texas
April 27, 2012



CITY OF GRANITE SHOALS, TEXAS

Schedule of Findings and Responses
For the Year Ended September 30, 2011

Internal Control Over Financial Reporting

2010-1 – Bank Reconciliations

The City did not prepare accurate bank reconciliations for its pooled cash account in a timely manner during the fiscal year. Adjustments were proposed during the audit process to reconcile the bank accounts to the general ledger.

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

Management's Response and Planned Corrective Action

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

Implementation: The City will implement this recommendation immediately.