

ANNUAL FINANCIAL REPORT

For Fiscal Year Ended September 30, 2016



The City of Granite Shoals
2221 N. Phillips Ranch Rd | Granite Shoals, TX 78654
(P) 830.598.2424 | www.graniteshoals.org

(This page intentionally left blank.)

City of Granite Shoals, Texas

TABLE OF CONTENTS

September 30, 2016

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis	7

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position	19
Statement of Activities	20

Fund Financial Statements

Governmental Funds:

Balance Sheet	22
Reconciliation of the Balance Sheet to the Statement of Net Position- Governmental Funds	23
Statement of Revenues, Expenditures, and Changes in Fund Balance- Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25

Proprietary Funds:

Statement of Net Position	26
Statement of Revenues, Expenses, and Changes in Fund Net Position	27
Statement of Cash Flows	28

Notes to Financial Statements	31
-------------------------------	----

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual - General Fund	63
Schedule of Changes in Net Pension Liability and Related Ratios	64
Schedule of Employer Contributions to Pension Plan	65

**COMBINING AND INDIVIDUAL FUND STATEMENTS AND
SCHEDULES**

Combining Balance Sheet – Nonmajor Governmental Funds	68
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds	70
Combining Statement of Net Position – Nonmajor Proprietary Funds	72
Combining Statement of Revenues, Expenditures, and Changes in Net Position - Nonmajor Proprietary Funds	73
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual – Debt Service Fund	75

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Granite Shoals, Texas (the "City"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Correction of an Error

As discussed in Note IV.E to the financial statements, beginning net position has been restated to reflect a correction of an error in the 2015 financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Brooks Cardiel, PLLC". The signature is written in a cursive, flowing style.

BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
April 7, 2017

(This page intentionally left blank.)

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

(This page intentionally left blank.)

City of Granite Shoals, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2016

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 activities of the City for the fiscal year ended September 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information contained in this report.

Financial Highlights

- The City's total combined net position was \$7,411,607 at September 30, 2016. Of this, \$1,256,541 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,194,194, an increase of \$32,772.
- As of the end of the year, the unassigned fund balance of the general fund was \$554,168 or 18% of total general fund expenditures.
- The City had an overall increase in net position of \$388,989.
- The City closed the year with a net pension liability of \$161,660.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving

City of Granite Shoals, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2016

rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, culture and recreation, and economic development. The business-type activities of the City include water and sewer, and solid waste operations.

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and debt service fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in a separate section of the report.

City of Granite Shoals, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2016

The City adopts an annual appropriated budget for its general and debt service funds. A budgetary comparison statement has been provided for each fund to demonstrate compliance with their respective budget.

Proprietary Funds

The City's proprietary funds are all enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water operations, utility equipment reserve and the meter reader project. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, debt service, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Proprietary financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, utility equipment reserve and the meter reader project funds, of which only the water fund is considered to be a major fund of the City.

Notes to Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The required RSI includes a budgetary comparison schedule for the general fund and debt service fund, schedule of changes in the net pension liability and related ratios and schedule of employer contributions for the Texas Municipal Retirement System. RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Granite Shoals, assets exceed liabilities by \$7,411,607 as of September 30, 2016, in the primary government.

The largest portion of the City's net position, \$5,515,815, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to

City of Granite Shoals, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

The following table reflects the condensed Statement of Net Position:

	2016			2015		
	Governmental	Business-Type		Governmental	Business-Type	
	Activities	Activities	Total	Activities	Activities	Total
Current and						
other assets	\$ 1,496,122	\$ 1,101,330	\$ 2,597,452	\$ 1,553,223	\$ 1,130,718	\$ 2,683,941
Capital assets, net	6,719,833	9,181,009	15,900,842	6,750,544	9,434,931	16,185,475
Total Assets	8,215,955	10,282,339	18,498,294	8,303,767	10,565,649	18,869,416
 Deferred Outflows						
of Resources	131,954	30,952	162,906	49,608	11,636	61,244
 Other liabilities	188,975	416,405	605,380	280,896	552,962	833,858
Long-term liabilities	4,690,284	5,953,929	10,644,213	4,865,950	6,208,234	11,074,184
Total Liabilities	4,879,259	6,370,334	11,249,593	5,146,846	6,761,196	11,908,042
 Net Position:						
Net investment						
in capital assets	2,234,632	3,281,183	5,515,815	1,985,003	3,390,793	5,375,796
Restricted	639,251	-	639,251	620,189	-	620,189
Unrestricted	594,767	661,774	1,256,541	601,337	425,296	1,026,633
Total Net Position	\$ 3,468,650	\$ 3,942,957	\$ 7,411,607	\$ 3,206,529	\$ 3,816,089	\$ 7,022,618

City of Granite Shoals, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2016

Statement of Activities:

The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2016			For the Year Ended September 30, 2015		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities	Primary Government	Activities	Activities	Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 559,906	\$ 2,242,350	\$ 2,802,256	\$ 542,484	\$ 1,598,588	\$ 2,141,072
Grants and contributions	307,761	14,736	322,497	498,365	222,678	721,043
General revenues:						
Property taxes	2,240,557	-	2,240,557	2,151,968	-	2,151,968
Sales taxes	251,524	-	251,524	170,592	-	170,592
Franchise and local taxes	177,584	-	177,584	176,584	-	176,584
Sanitation sales	-	-	-	594,419	-	594,419
Investment income	6,422	1,122	7,544	4,291	369	4,660
Other revenues	112,065	51,082	163,147	133,653	53,429	187,082
Total Revenues	3,655,819	2,309,290	5,965,109	4,272,356	1,875,064	6,147,420
Expenses						
General government	925,887	-	925,887	950,313	-	950,313
Public safety	1,345,093	-	1,345,093	1,347,499	-	1,347,499
Streets and parks	696,127	-	696,127	548,134	-	548,134
Animal control	68,416	-	68,416	64,104	-	64,104
Code compliance	137,728	-	137,728	123,370	-	123,370
Sanitation	-	-	-	494,625	-	494,625
Interest and fiscal charges	203,207	197,014	400,221	220,141	185,433	405,574
Utility	-	2,002,648	2,002,648	-	1,400,580	1,400,580
Total Expenses	3,376,458	2,199,662	5,576,120	3,748,186	1,586,013	5,334,199
Change in Net Position						
Before Transfers	279,361	109,628	388,989	524,170	289,051	813,221
Transfers	(17,240)	17,240	-	(1,986)	1,986	-
Total	(17,240)	17,240	-	(1,986)	1,986	-
Change in Net Position	262,121	126,868	388,989	522,184	291,037	813,221
Beginning Net Position	3,206,529	3,816,089	7,022,618	2,684,345	3,525,052	6,209,397
Ending Net Position	\$ 3,468,650	\$ 3,942,957	\$ 7,411,607	\$ 3,206,529	\$ 3,816,089	\$ 7,022,618

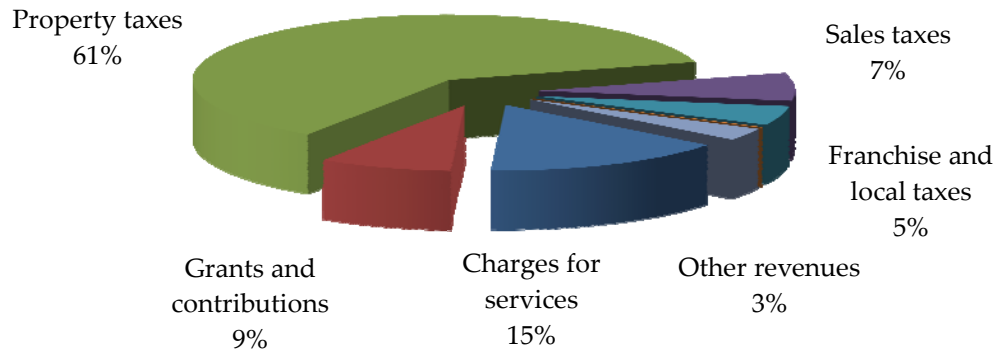
City of Granite Shoals, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2016

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

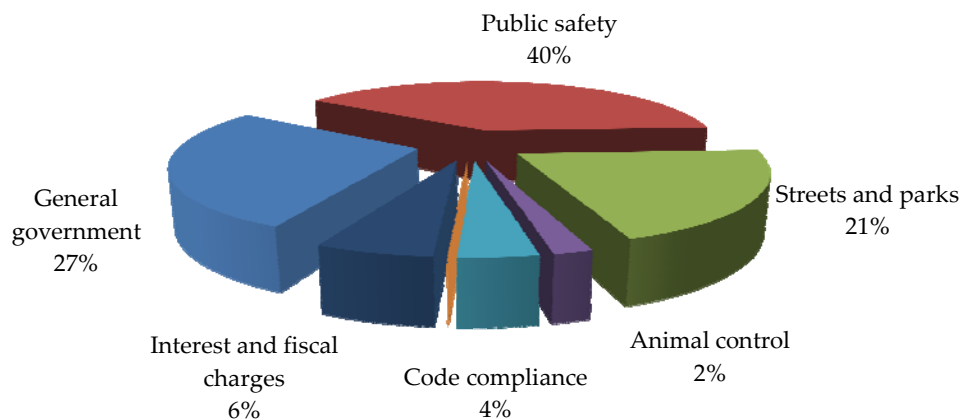
Governmental Activities - Revenues



For the year ended September 30, 2016, revenues from governmental activities totaled \$3,655,819. Property tax and sales tax are the City's largest revenue sources. Property tax increased by \$88,589 or 4% when compared to 2015 due to an increase in overall assessed property values and an increase in the property tax rate. Sales taxes increased by \$80,932 or 47% due primarily to the rise in sales tax rate for property tax relief, effective at the beginning of the fiscal year. Grants and contributions decreased by \$190,604 primarily due to a reduction in nonrecurring funding for park projects. In addition, sanitation revenues were removed from within the general fund and is now a separate proprietary fund. All other revenues remained relatively stable when compared to the previous year.

This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



For the year ended September 30, 2016, expenses for governmental activities totaled \$3,376,458. This represents a decrease of \$371,728 or 10% from the prior year. The City's largest functional expense is public safety of \$1,345,093, which is consistent to the prior year. Streets and parks expenditures

City of Granite Shoals, Texas

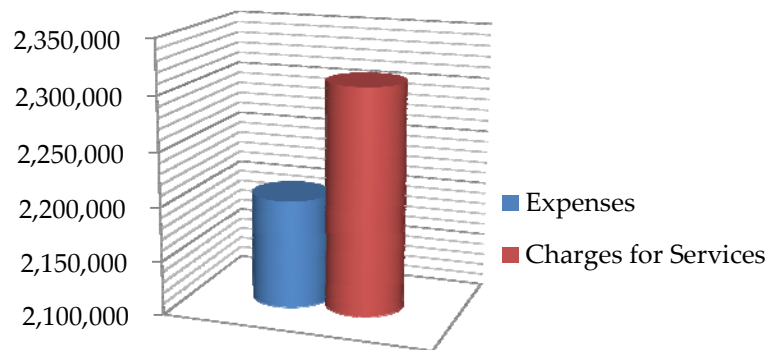
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2016

increased by \$147,993 or 27%. This increase is primarily due to the City's paving initiative of an additional \$50,000, added personnel costs of approximately \$30,000 due to being fully staffed, as well as additional repairs and maintenance costs. Interest and fiscal charges increased by \$16,934 or 8%, which is in accordance with debt agreements. Sanitation expenses are now tracked in a separate proprietary funds. All other expenditures remained relatively consistent with the previous year.

Business-type activities are shown comparing operating costs to revenues generated by related services.

Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2016, charges for services by business-type activities totaled \$2,242,350. This is an increase of \$643,762, or 40%, from the previous year. This increase is primarily a result of the sanitation fund, previously included within the general fund, being segregated into its own business-type fund. The sanitation accounts for \$605,793 or 94% of the overall increase. Grants and contributions decreased by \$207,942 due to a grant issued to the City by the Texas Department of Agriculture for community development in the prior year.

Total operating expenses increased by \$602,068 during the year, which is primarily a result of the sanitation fund being segregated into its own business-type fund, adding sanitation expenses of \$579,059. All other business-type expenses were relatively consistent.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

City of Granite Shoals, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

As of the end of the year the general fund reflected a total fund balance of \$554,943. Of this, \$775 is considered nonspendable due to prepaid assets. Unassigned fund balance totaled \$554,168 as of year-end.

The debt service fund had an ending fund balance of \$429,047 at year end for an increase of \$1,524. Total principal and interest payments made during the year were \$387,252 and \$204,104, respectively.

There was an overall increase in governmental fund balance of \$32,772 from the prior year. The increase was primarily related to proceeds from the issuance of debt in the general fund.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

There was a total positive revenue variance of \$50,666 and a negative expenditure variance of \$50,795 for the year. Other financing sources (uses) had an overall negative budget variance of \$40,603. There was a negative total net budget variance of \$40,732.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested \$6,719,833 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$9,181,009 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current year include the following:

- Purchase of brush truck for fire department
- Purchase of two police vehicles

More detailed information about the City's capital assets is presented in note IV. C to the financial statements.

City of Granite Shoals, Texas
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
September 30, 2016

LONG-TERM DEBT

At the end of the current year, the City had total bonds, notes, and leases outstanding of \$10,395,242. During the year, the City payments on the long-term debt of \$684,427. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Granite Shoals and improving services provided to their public citizens. The City is budgeting to maintain services in the upcoming year and does not anticipate significant changes from fiscal year ending September 30, 2016.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Granite Shoals' finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Finance Director, 2221 N. Phillips Ranch Road, Granite Shoals, Texas 78654.

(This page intentionally left blank.)

FINANCIAL STATEMENTS

(This page intentionally left blank.)

City of Granite Shoals, Texas

STATEMENT OF NET POSITION

September 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 1,304,056	\$ 495,979	\$ 1,800,035
Restricted cash - deposits	-	292,900	292,900
Receivables, net	191,291	311,701	502,992
Prepaid items	775	750	1,525
Total Current Assets	1,496,122	1,101,330	2,597,452
Capital assets:			
Non-depreciable	2,120,555	593,501	2,714,056
Net depreciable capital assets	4,599,278	8,587,508	13,186,786
	6,719,833	9,181,009	15,900,842
Total Assets	8,215,955	10,282,339	18,498,294
<u>Deferred Outflows of Resources</u>			
Pension contributions	45,512	10,676	56,188
Pension investment earnings	47,915	11,239	59,154
Pension gains/losses	38,527	9,037	47,564
Total Deferred Outflows of Resources	131,954	30,952	162,906
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and accrued liabilities	158,263	94,780	253,043
Customer deposits	-	292,900	292,900
Accrued interest payable	30,712	28,725	59,437
Current portion of long-term debt	494,744	299,557	794,301
	683,719	715,962	1,399,681
Noncurrent liabilities:			
Long-term debt	4,064,595	5,623,657	9,688,252
Net pension liability	130,945	30,715	161,660
	4,195,540	5,654,372	9,849,912
Total Liabilities	4,879,259	6,370,334	11,249,593
<u>Net Position</u>			
Net investment in capital assets	2,234,632	3,281,183	5,515,815
Restricted for:			
Streets and parks	97,743	-	97,743
Tourism	101,258	-	101,258
Enabling legislation	11,203	-	11,203
Debt service	429,047	-	429,047
Unrestricted	594,767	661,774	1,256,541
Total Net Position	\$ 3,468,650	\$ 3,942,957	\$ 7,411,607

See Notes to Financial Statements.

City of Granite Shoals, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 925,887	\$ 390,840	\$ 307,761
Public safety	1,345,093	88,471	-
Streets and parks	696,127	80,595	-
Animal control	68,416	-	-
Code compliance	137,728	-	-
Interest and fiscal charges	203,207	-	-
Total Governmental Activities	3,376,458	559,906	307,761
Business-Type Activities			
Water	1,620,603	1,688,253	-
Solid Waste	579,059	605,793	-
Nonmajor proprietary funds		14,122	-
Total Business-Type Activities	2,199,662	2,308,168	-
Total Primary Government	\$ 5,576,120	\$ 2,868,074	\$ 307,761

General Revenues:

Taxes

Property taxes

Sales taxes

Franchise and local taxes

Investment income

Other revenues

Gain (loss) on sale of capital assets

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (227,286)	\$ -	\$ (227,286)
(1,256,622)	-	(1,256,622)
(615,532)	-	(615,532)
(68,416)	-	(68,416)
(137,728)	-	(137,728)
(203,207)	-	(203,207)
<u>(2,508,791)</u>	<u>-</u>	<u>(2,508,791)</u>
-	67,650	67,650
-	26,734	26,734
-	14,122	14,122
-	108,506	108,506
<u>(2,508,791)</u>	<u>108,506</u>	<u>(2,400,285)</u>
2,240,557	-	2,240,557
251,524	-	251,524
177,584	-	177,584
6,422	1,122	7,544
98,567	-	98,567
13,498	-	13,498
(17,240)	17,240	-
<u>2,770,912</u>	<u>18,362</u>	<u>2,789,274</u>
262,121	126,868	388,989
3,206,529	3,816,089	7,022,618
<u>\$ 3,468,650</u>	<u>\$ 3,942,957</u>	<u>\$ 7,411,607</u>

City of Granite Shoals, Texas

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2016

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 668,855	\$ 429,048	\$ 206,153	\$ 1,304,056
Receivables, net	108,002	75,222	8,067	191,291
Prepays	775	-	-	775
Total Assets	\$ 777,632	\$ 504,270	\$ 214,220	\$ 1,496,122
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 154,247	\$ -	\$ 4,016	\$ 158,263
Total Liabilities	154,247	-	4,016	158,263
<u>Deferred Inflows of Resources</u>				
Unavailable revenue:				
Property tax	68,442	75,223	-	143,665
Total Deferred Inflows of Resources	68,442	75,223	-	143,665
<u>Fund Balances</u>				
Nonspendable:				
Prepays	775	-	-	775
Restricted for:				
Streets and parks	-	-	97,743	97,743
Tourism	-	-	101,258	101,258
Enabling legislation	-	-	11,203	11,203
Debt service	-	429,047	-	429,047
Unassigned reported in:				
General fund	554,168	-	-	554,168
Total Fund Balances	554,943	429,047	210,204	1,194,194
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 777,632	\$ 504,270	\$ 214,220	\$ 1,496,122

See Notes to Financial Statements.

City of Granite Shoals, Texas

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION GOVERNMENTAL FUNDS

September 30, 2016

Fund Balances - Total Governmental Funds	\$ 1,194,194
---	---------------------

Adjustments for the Statement of Net Position:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - non-depreciable	2,120,555
Capital assets - net depreciable	4,599,278

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.

Property tax receivable	143,665
-------------------------	---------

Deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expenditure) until then.

Pension contributions	45,512
Pension investment earnings	47,915
Pension (gains) losses	38,527

Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.

Accrued interest	(30,712)
Compensated absences	(74,137)
Bonds, notes, and capital leases	(4,485,202)
Net pension liability	(130,945)

Net Position of Governmental Activities	\$ 3,468,650
--	---------------------

See Notes to Financial Statements.

City of Granite Shoals, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended September 30, 2016

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<u>Revenues</u>				
Property tax	\$ 1,255,494	\$ 985,063	\$ -	\$ 2,240,557
Sales tax	215,592	-	35,932	251,524
Franchise and local taxes	158,910	-	18,674	177,584
Intergovernmental	274,321	-	28,063	302,384
Charges for services	370,647	-	20,193	390,840
License and permits	80,595	-	-	80,595
Fines and forfeitures	83,575	-	4,896	88,471
Investment income	4,885	1,120	417	6,422
Contributions and donations	-	-	5,377	5,377
Other revenue	65,279	-	33,288	98,567
Total Revenues	2,509,298	986,183	146,840	3,642,321
<u>Expenditures</u>				
Current:				
General government	807,551	-	19,444	826,995
Public safety	1,318,418	-	2,468	1,320,886
Streets and parks	507,641	-	107,388	615,029
Animal control	67,543	-	-	67,543
Code compliance	136,198	-	-	136,198
Debt Service:				
Principal	18,428	387,252	-	405,680
Interest and fiscal charges	1,150	204,104	-	205,254
Capital outlay	153,563	-	-	153,563
Total Expenditures	3,010,492	591,356	129,300	3,731,148
Excess (Deficiency) of Revenues Over (Under) Expenditures	(501,194)	394,827	17,540	(88,827)
<u>Other Financing Sources (Uses)</u>				
Transfers in	422,161	-	-	422,161
Transfers (out)	(46,098)	(393,303)	-	(439,401)
Proceeds from debt issuance	125,341	-	-	125,341
Gain (loss) on sale of capital assets	13,498	-	-	13,498
Total	514,902	(393,303)	-	121,599
Net Change in Fund Balances	13,708	1,524	17,540	32,772
Beginning fund balances	541,235	427,523	192,664	1,161,422
Ending Fund Balances	\$ 554,943	\$ 429,047	\$ 210,204	\$ 1,194,194

See Notes to Financial Statements.

City of Granite Shoals, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$	32,772
---	----	--------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay		265,737
Depreciation expense		(296,449)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences		(466)
Accrued interest		2,049
Pension expense		(21,861)

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Notes payable issuance		(125,341)
Principal payments		405,680

Change in Net Position of Governmental Activities	\$	262,121
--	-----------	----------------

See Notes to Financial Statements.

City of Granite Shoals, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2016

	Water	Solid Waste	Nonmajor Proprietary Funds	Total
<u>Assets</u>				
<u>Current Assets</u>				
Cash and cash equivalents	\$ 333,415	\$ 1,675	\$ 160,889	\$ 495,979
Restricted cash - deposits	292,900	-	-	292,900
Receivables, net	215,608	96,093	-	311,701
Prepaid items	750	-	-	750
Total Current Assets	842,673	97,768	160,889	1,101,330
<u>Noncurrent Assets</u>				
Capital assets:				
Non-depreciable	17,802	-	575,699	593,501
Net depreciable capital assets	8,587,508	-	-	8,587,508
Total Noncurrent Assets	8,605,310	-	575,699	9,181,009
Total Assets	9,447,983	97,768	736,588	10,282,339
<u>Deferred Outflows of Resources</u>				
Pension contributions	10,676	-	-	10,676
Pension investment earnings	11,239	-	-	11,239
Pension gains/losses	9,037	-	-	9,037
Total Deferred Outflows of Resources	30,952	-	-	30,952
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accounts payable and accrued liabilities	47,785	46,995	-	94,780
Customer deposits	292,900	-	-	292,900
Accrued interest payable	28,725	-	-	28,725
Current portion of long-term debt	241,445	-	58,112	299,557
Total Current Liabilities	610,855	46,995	58,112	715,962
<u>Noncurrent Liabilities</u>				
Long-term debt	5,095,856	-	527,801	5,623,657
Net pension liability	30,715	-	-	30,715
Total Liabilities	5,737,426	46,995	585,913	6,370,334
<u>Net Position</u>				
Net investment in capital assets	3,281,183	-	-	3,281,183
Unrestricted	460,326	50,773	150,675	661,774
Total Net Position	\$ 3,741,509	\$ 50,773	\$ 150,675	\$ 3,942,957

See Notes to Financial Statements.

City of Granite Shoals, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2016

	Water	Solid Waste	Nonmajor Proprietary Funds	Total
<u>Operating Revenues</u>				
Charges for services	\$ 1,622,435	\$ 605,793	\$ 14,122	\$ 2,242,350
Intergovernmental	14,736	-	-	14,736
Other revenue	51,082	-	-	51,082
Total Operating Revenues	1,688,253	605,793	14,122	2,308,168
<u>Operating Expenses</u>				
Salaries and wages	285,163	27,608	-	312,771
Employee benefits	92,321	6,949	-	99,270
Professional services	6,616	503,086	-	509,702
Other operating expenses	547,447	41,416	-	588,863
Supplies	122,207	-	-	122,207
Water purchase	58,324	-	-	58,324
Depreciation	311,511	-	-	311,511
Total Operating Expenses	1,423,589	579,059	-	2,002,648
Operating Income (Loss)	264,664	26,734	14,122	305,520
<u>Nonoperating Revenues (Expenses)</u>				
Investment earnings	1,092	-	30	1,122
Interest expense	(197,014)	-	-	(197,014)
Total Nonoperating Revenues (Expenses)	(195,922)	-	30	(195,892)
Income (Loss) Before Transfers	68,742	26,734	14,152	109,628
Transfers in	393,303	46,098	56,371	495,772
Transfers (out)	(456,473)	(22,059)	-	(478,532)
Change in Net Position	5,572	50,773	70,523	126,868
Beginning net position	3,735,937	-	80,152	3,816,089
Ending Net Position	\$ 3,741,509	\$ 50,773	\$ 150,675	\$ 3,942,957

See Notes to Financial Statements.

City of Granite Shoals, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2) For the Year Ended September 30, 2016

	Water	Solid Waste	Nonmajor Proprietary Funds	Total
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 1,728,618	\$ 564,590	14,122	\$ 2,307,330
Payments to suppliers	(940,310)	(559,346)	(83,830)	(1,583,486)
Payments to employees	(280,036)	(27,608)	-	(307,644)
Net Cash Provided by Operating Activities	508,272	(22,364)	(69,708)	416,200
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfer in	393,303	46,098	56,371	495,772
Transfer (out)	(456,473)	(22,059)	-	(478,532)
Net Cash Provided (Used) by Noncapital Financing Activities	(63,170)	24,039	56,371	17,240
<u>Cash Flows from Capital and Related Financing Activities</u>				
Capital purchases	(50,761)	-	(6,827)	(57,588)
Principal paid on debt	(222,376)	-	(56,371)	(278,747)
Interest paid on debt	(198,174)	-	-	(198,174)
Net Cash (Used) by Capital and Related Financing Activities	(471,311)	-	(63,198)	(534,509)
<u>Cash Flows from Investing Activities</u>				
Interest on investments	1,092	-	30	1,122
Net Cash Provided by Investing Activities	1,092	-	30	1,122
Increase (Decrease) in Cash and Cash Equivalents	(25,117)	1,675	(76,505)	(99,947)
Beginning cash and cash equivalents	651,432	-	237,394	888,826
Ending Cash and Cash Equivalents	\$ 626,315	\$ 1,675	\$ 160,889	\$ 788,879

See Notes to Financial Statements.

City of Granite Shoals, Texas

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 2 of 2) For the Year Ended September 30, 2016

	Water	Solid Waste	Nonmajor Proprietary Funds	Total
<u>Reconciliation of Operating</u>				
<u>Income (Loss) to Net Cash Provided by</u>				
<u>Operating Activities</u>				
Operating Income (Loss)	\$ 264,664	\$ 26,734	\$ 14,122	\$ 305,520
Adjustments to reconcile operating income (loss) to net cash provided:				
Depreciation	311,511	-	-	311,511
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in:				
Accounts receivable	25,419	(41,203)	-	(15,784)
Prepaid expenses	115	-	-	115
Deferred Outflows of Resources:				
Pension contributions	(1,119)	-	-	(1,119)
Investment experience	(9,617)	-	-	(9,617)
Actual experience vs. assumption	(8,580)	-	-	(8,580)
Increase (Decrease) in:				
Accounts payable and accrued liabilities	(113,510)	(7,895)	(83,830)	(205,235)
Customer deposits	14,946	-	-	14,946
Net pension liability	24,443	-	-	24,443
Net Cash Provided by Operating				
Activities	\$ 508,272	\$ (22,364)	\$ (69,708)	\$ 416,200

See Notes to Financial Statements.

(This page intentionally left blank.)

City of Granite Shoals, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting Entity

The City of Granite Shoals, Texas, was incorporated on May 9, 1966. The City operates under a "Council-Manager" government. Pursuant to its provisions and subject only to its limitations imposed by the State Constitution and by the City's charter, all powers of the City shall be vested in an elective Council composed of six Council Members and a Mayor, collectively known as the City Council. The City Council enacts local legislation, adopts budgets, determines policies, and appoints the City Manager, who in turn is responsible to the City Council for the execution of laws and the administration of the government of the City. The Mayor is the presiding officer of the City Council. The City provides the following services: public safety, highways, streets, sanitation and water, recreation, public improvements, planning and zoning, general administrative, and other services as authorized by its code of ordinances and its citizens.

The City is an independent political subdivision of the State of Texas governed by an elected council and is considered a primary government for financial reporting purposes as its activities are not considered a part of any other governmental or other type of reporting entity. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

C. Basis of Presentation – Government-Wide and Fund Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and the proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the government's funds, including its blended component units. Separate statements for each fund category—governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

General Fund

The general fund is the main operating fund of the City and is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, health and welfare and sanitation.

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all general obligation debt and other long-term debt of governmental funds. The primary source of revenue for debt service is local property taxes.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the

City of Granite Shoals, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB. The government reports the following major enterprise fund:

Water Fund

The water fund is used to account for the City's water utility operations. Activities of the fund include administration, operations and maintenance of the water system, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Solid Waste Fund

The solid waste fund is used to account for the City's sanitation service operations. Activities of the fund include administration, professional collection and disposal of garbage, and billing and collection activities. All costs are financed through charges to solid waste customers with rates reviewed regularly and adjusted if necessary to ensure fund integrity.

Additionally, the government reports the following fund types:

Special Revenue Funds

The City accounts for resources restricted to, or designated for, specific purposes in a special revenue fund. These funds consist of the economic development fund and police forfeitures fund.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Measurement focus refers to what is being measured and basis of accounting refers to when transactions are recorded in the financial records and reported on the financial statements and relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable. Proprietary fund equity consists of net position. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

All governmental funds and component units are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

E. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

F. Assets, Liabilities, Deferred Inflows/Outflows, and Net Position/Fund Balance

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexSTAR, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Fair Value Measurement

The City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

3. Receivables and Interfund Transactions

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. 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 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. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

5. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Vehicles	5 years
Machinery and equipment	5 to 7 years
Water system	20 to 40 years
Buildings and improvements	30 years
Infrastructure	20 to 40 years

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and fines and forfeitures. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources can also occur at the government wide level due to differences between investment gains and losses realized on pension investments compared to assumption used within the pension actuarial valuation model.

8. Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

9. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance.

City of Granite Shoals, Texas

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2016

Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Compensated Absences

The City maintains formal programs for vacation and sick leave. Eligible employees are granted vacation pay benefits in varying amounts to specified maximums depending on tenure with the City. The City's personnel policy permits its eligible employees to accumulate earned but unused vacation pay benefits.

Upon separation from the City, employees will be paid for their accrued and unused vacation pay benefits earned in the year.

Sick leave accrues to eligible employees to specified maximums, including the maximum number of hours that can be carried over from the previous year. Unused sick leave will be canceled upon termination of employment, and the employee will not be compensated for it.

The estimated amount of accrued vacation benefits that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it upon maturity. Amounts of accrued vacation pay benefits that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

12. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. The long-term debt consists primarily of bonds payable, capital leases, and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

13. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

2. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

The principal operating revenues of the water fund are charges to customers for sales and services. The water fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds. Reconciling items have been presented on the balance sheet of governmental funds in the basic financial statements

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” A reconciliation has been presented in the basic financial statements.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, debt service, water, and special revenue funds. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the fund level. No funds can be transferred or added to a budgeted fund without Council approval. Appropriations lapse at the end of the year. Several supplemental budget appropriations were made during the year.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

A. Expenditures Over Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control and as follows:

General Fund:

Finance and administration	\$ 10,809
Fire protection	\$ 4,107
Capital outlay	\$ 143,313
Transfers out	\$ 46,098

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2016, the primary government had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
External investment pools	\$ 807,189	0.12
Total fair value	\$ 807,189	
Portfolio weighted average maturity		0.12

Interest rate risk In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk The City's investment policy limits investments to obligations of the United States, State of Texas, or their agencies and instrumentalities with an investment quality rating of not less than "A" or its equivalent, by a nationally recognized investment rating firm. Other obligations must be unconditionally guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency and investment pools with an investment quality not less than AAA or AAA-m, or equivalent, by at least one nationally recognized rating service.

Custodial credit risk – deposits In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities

City of Granite Shoals, Texas

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2016

that have a market value of not less than the principal amount of the deposits. The City's investment policy requires funds on bank deposit at the depository bank to be collateralized by securities with a collective market value (market value of the principal and accrued interest) of at least 102%. As of September 30, 2016, the market values of pledged securities and FDIC exceeded bank balances.

Custodial credit risk – investments For an investment, 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. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

B. Receivables

The following comprise receivable balances of the primary government at year end:

	General	Debt Service	Water	Solid Waste	Other Nonmajor Funds	Total
Property taxes	\$ 68,443	\$ 75,222	\$ -	\$ -	\$ -	\$ 143,665
Sales tax	39,559	-	-	-	-	39,559
Accounts	-	-	227,320	96,093	8,067	331,480
Allowance	-	-	(11,712)	-	-	(11,712)
	<u>\$ 108,002</u>	<u>\$ 75,222</u>	<u>\$ 215,608</u>	<u>\$ 96,093</u>	<u>\$ 8,067</u>	<u>\$ 502,992</u>

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 1,725,805	\$ -	\$ -	\$ 1,725,805
Mineral rights	394,750	-	-	394,750
Total capital assets not being depreciated	<u>2,120,555</u>	<u>-</u>	<u>-</u>	<u>2,120,555</u>
Capital assets, being depreciated:				
Buildings and improvements	4,027,051	-	-	4,027,051
Improvements & infrastructure	1,267,935	-	-	1,267,935
Machinery & equipment	1,872,252	265,737	-	2,137,989
Total capital assets being depreciated	<u>7,167,238</u>	<u>265,737</u>	<u>-</u>	<u>7,432,975</u>
Less accumulated depreciation				
Buildings and improvements	(792,784)	(103,513)	-	(896,297)
Improvements & infrastructure	(279,835)	(60,919)	-	(340,754)
Machinery & equipment	(1,464,629)	(132,017)	-	(1,596,646)
Total accumulated depreciation	<u>(2,537,248)</u>	<u>(296,449)</u>	<u>-</u>	<u>(2,833,697)</u>
Net capital assets being depreciated	4,629,990	(30,712)	-	4,599,278
Total Net Capital Assets	<u><u>\$ 6,750,545</u></u>	<u><u>\$ (30,712)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,719,833</u></u>

Depreciation was charged to governmental functions as follows:

General government	\$ 95,804
Public safety	122,609
Streets and parks	77,819
Animal control	217
Total Governmental Activities Depreciation Expense	<u><u>\$ 296,449</u></u>

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

A summary of changes in business-type activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	\$ 17,802	\$ -	\$ -	\$ 17,802
Construction in progress	792,549	17,877	(234,727)	575,699
Total capital assets not being depreciated	<u>810,351</u>	<u>17,877</u>	<u>(234,727)</u>	<u>593,501</u>
Capital assets, being depreciated:				
Buildings	2,189	-	-	2,189
Improvements and infrastructure	11,304,587	39,711	234,727	11,579,025
Machinery and equipment	154,658	-	-	154,658
Total capital assets being depreciated	<u>11,461,434</u>	<u>39,711</u>	<u>234,727</u>	<u>11,735,872</u>
Less accumulated depreciation				
Buildings	(866)	(109)	-	(975)
Improvements and infrastructure	(2,756,578)	(299,712)	-	(3,056,290)
Machinery and equipment	(79,409)	(11,690)	-	(91,099)
Total accumulated depreciation	<u>(2,836,853)</u>	<u>(311,511)</u>	<u>-</u>	<u>(3,148,364)</u>
Net capital assets being depreciated	<u>8,624,581</u>	<u>(271,800)</u>	<u>234,727</u>	<u>8,587,508</u>
Total Net Capital Assets	<u><u>\$ 9,434,932</u></u>	<u><u>\$ (253,923)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 9,181,009</u></u>

Depreciation was charged to business-type functions as follows:

Water fund	<u>\$ 311,511</u>
Total Business-type Activities Depreciation Expense	<u><u>\$ 311,511</u></u>

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

D. Long-term Debt

The following is a summary of changes in the City's total long-term liabilities for the year ended. In general, the City uses the debt service fund to liquidate certain governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Bonds and other payables:					
Certificates of Obligation	\$ 4,410,000	\$ -	\$ (275,000)	\$ 4,135,000	\$ 290,000
Notes payable	337,228	125,341	(121,722)	340,847	128,666
Capital Leases	18,313	-	(8,958)	9,355	9,355
Other liabilities:					
Compensated Absences	73,671	466	-	74,137	66,723
Total Governmental Activities	<u>\$ 4,839,212</u>	<u>\$ 125,807</u>	<u>\$ (405,680)</u>	<u>\$ 4,559,339</u>	<u>\$ 494,744</u>
Long-term liabilities due in more than one year				<u>\$ 4,064,595</u>	
Business-Type Activities:					
Bonds, leases, and other payables:					
General Obligation Refunding Bonds	\$ 5,517,000	\$ -	\$ (214,000)	\$ 5,303,000	\$ 221,000
Notes payable	671,787	-	(64,747)	607,040	66,700
Other liabilities:					
Compensated Absences	13,174	-	-	13,174	11,857
Total Business-Type Activities	<u>\$ 6,201,961</u>	<u>\$ -</u>	<u>\$ (278,747)</u>	<u>\$ 5,923,214</u>	<u>\$ 299,557</u>
Long-term liabilities due in more than one year				<u>\$ 5,623,657</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Long-term debt at year end was comprised of the following debt issues:

	Governmental Activities	Business - Type Activities	Total
General Obligation Refunding Bonds:			
\$5,725,000 General Obligation Refunding Bonds, Series 2014, due in installments through 2034, interest at 3.25%	\$ -	\$ 5,303,000	\$ 5,303,000
Total General Obligation Refunding Bonds	\$ -	\$ 5,303,000	\$ 5,303,000
Certificates of Obligation:			
\$5,000,000 Certificates of Obligation, Series 2008, due in annual installments through 2027, interest at 4.49%	\$ 3,555,000	\$ -	\$ 3,555,000
\$750,000 Certificates of Obligation, Series 2010, due in annual installments through 2028, interest at 5.92%	580,000	-	580,000
Total Certificates of Obligation	\$ 4,135,000	\$ -	\$ 4,135,000
Notes Payable			
\$113,525 Note Payable, First State Bank, due in installments through 2019, interest at 2.5%	\$ 62,898	\$ -	\$ 62,898
\$81,020 Note Payable, First State Bank, due in installments through 2020, interest at 2.75%	56,557	-	56,557
\$71,518 Note Payable, First State Bank, due in installments through 2019, interest at 2.5%	49,939	-	49,939
\$99,999 Note Payable, Schertz Bank & Trust, due in installments through 2017, interest at 2.5%	25,646	-	25,646
\$34,294 Note Payable, First State Bank, due in installments through 2019, interest at 2.5%	-	21,127	21,127
\$40,775 Note Payable, Spirit of Texas Bank, due in installments through 2018, interest at 2.68%	20,466	-	20,466
\$629,690 Note Payable, Spirit of Texas Bank, due in installments through 2025, interest at 2.81%	-	585,913	585,913
\$125,341 Note Payable, BB&T Governmental Finance, due in installments through 2020, interest at 1.69%	125,341	-	125,341
Total Notes Payable	\$ 340,847	\$ 607,040	\$ 947,887
Capital Leases Payable:			
\$42,984 Capital lease payable to Motorola, due in annual installments of through 2017, interest at 4.41%	\$ 9,355	\$ -	\$ 9,355
Total Capital Leases Payable	\$ 9,355	\$ -	\$ 9,355
Compensated Absences	74,137	13,174	87,311
Total Debt	\$ 4,559,339	\$ 5,923,214	\$ 10,482,553

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

The annual requirements to amortize total government-wide debt issues outstanding at year ending were as follows:

Year ending September 30,	Certificates of Obligation		Notes Payable		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 290,000	\$ 184,270	\$ 128,666	\$ 6,995	\$ 9,355	\$ 412
2018	305,000	171,333	105,425	3,928	-	-
2019	320,000	157,722	67,420	1,704	-	-
2020	335,000	143,450	39,336	592	-	-
2021	350,000	136,030	-	-	-	-
2022	365,000	119,635	-	-	-	-
2023	385,000	102,567	-	-	-	-
2024	400,000	84,526	-	-	-	-
2025	420,000	65,811	-	-	-	-
2026	440,000	46,122	-	-	-	-
2027	460,000	25,460	-	-	-	-
2028	65,000	3,900	-	-	-	-
Total	<u>\$ 4,135,000</u>	<u>\$ 1,240,824</u>	<u>\$ 340,847</u>	<u>\$ 13,219</u>	<u>\$ 9,355</u>	<u>\$ 412</u>

The asset under capital lease had an original book value of \$42,984 and a current book value of \$15,351, net of depreciation.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

The annual requirements to amortize business-type activities debt issues outstanding at year ending were as follows:

Year ending September 30,	General Obligation Refunding Bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2017	\$ 221,000	\$ 172,348	\$ 66,700	\$ 16,917
2018	229,000	165,165	68,553	15,065
2019	236,000	157,723	65,163	13,194
2020	244,000	150,053	63,157	11,442
2021	252,000	142,123	64,935	9,665
2022	260,000	133,933	66,762	7,838
2023	268,000	125,483	68,641	5,959
2024	277,000	116,773	70,572	4,028
2025	286,000	107,770	72,557	2,042
2026	295,000	98,475	-	-
2027	305,000	88,888	-	-
2028	315,000	78,975	-	-
2029	325,000	68,738	-	-
2030	336,000	58,175	-	-
2031	346,000	47,255	-	-
2032	358,000	36,010	-	-
2033	369,000	24,375	-	-
2034	381,000	12,383	-	-
Total	\$ 5,303,000	\$ 1,784,640	\$ 607,040	\$ 86,150

E. Customer Deposits

The City had customer deposits of \$292,900 in the water fund as of year end. The City requires a refundable deposit for all new utility customers. This amount will be returned to the customer when utility service is discontinued and all outstanding utility expenses are paid.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

F. Interfund Transactions

Interfund balances resulted from the timing difference between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances are expected to be paid in the subsequent year.

Transfers between the primary government funds during the 2016 year were as follows:

Transfers In:	Transfers Out:				Total
	General	Debt Service	Water & Sewer	Solid Waste	
General	\$ -	\$ -	\$ 400,102	\$ 22,059	\$ 422,161
Water & Sewer	-	393,303	-	-	393,303
Solid Waste	46,098	-	-	-	46,098
Nonmajor					
Proprietary Funds	-	-	56,371	-	56,371
Total	\$ 46,098	\$ 393,303	\$ 456,473	\$ 22,059	\$ 917,933

Amounts transferred between funds relate to amounts collected by the governmental and enterprise funds for various capital expenditures and principal and interest payments.

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with more than 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums.

The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

The City uses a number of approaches to decrease risks and protect against losses to the City, including internal practices, employee training, and a code of ethics, which all employees are required to acknowledge

The City owns and operates motor vehicles and may provide such vehicle to employees for business use during the course and scope of their employment. The City is insured as to its own property losses, and the liability of loss to others.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

B. Contingent Liabilities

Amounts received or receivable from granting 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 amounts 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.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City had not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does not anticipate that it will have an arbitrage liability and reviews the estimate for this potential liability annually. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

D. Defined Benefit Pension Plans

Texas Municipal Retirement System

1. Plan Description

The City of Granite Shoals, Texas participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the city are required to participate in TMRS.

2. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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 2015</u>	<u>Plan Year 2016</u>
Employee deposit rate	5%	5%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	23
Active employees	<u>33</u>
Total	<u>61</u>

3. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Granite Shoals, Texas were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Granite Shoals, Texas were 4.25% and 4.45% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$75,179, and were equal to the required contributions.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

4. Net Pension Liability (Asset)

The City's Net Pension Liability (Asset) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2013, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	<u>5.0%</u>	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
<u>\$ 358,092</u>	<u>\$ 161,660</u>	<u>\$ (574)</u>

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/14	\$ 995,264	\$ 962,254	\$ 33,010
Changes for the year:			
Service cost	150,157	-	150,157
Interest	73,811	-	73,811
Difference between expected and actual experience	13,012	-	13,012
Changes of assumptions	42,993	-	42,993
Contributions – employer	-	69,291	(69,291)
Contributions – employee	-	81,519	(81,519)
Net investment income	-	1,420	(1,420)
Benefit payments, including refunds of emp. contributions	(31,792)	(31,792)	-
Administrative expense	-	(865)	865
Other changes	-	(42)	42
Net changes	248,181	119,531	128,650
Balance at 12/31/15	\$ 1,243,445	\$ 1,081,785	\$ 161,660

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmr.com.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

5. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the City recognized pension expense of \$102,170.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows (Inflows) of Resources
Differences between expected and actual economic experience	\$ 47,564
Difference between projected and investment earnings	59,154
Contributions subsequent to the measurement date	398,134
Total	\$ 504,852

The City reported \$56,188 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year	
2016	\$ 26,171
2017	26,171
2018	26,169
2019	23,585
2020	4,622
Total	\$ 106,718

Supplemental Death Benefits Fund

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.

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

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 ended 2016, 2015 and 2014 were \$3,330, \$2,980 and \$2,661, respectively, which equaled the required contributions each year.

Three-Year Contribution Information

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2013	0.15%	0.15%	100.0%
2014	0.20%	0.20%	100.0%
2015	0.18%	0.18%	100.0%

E. Restatement

The City has restated beginning net position within business-type activities due to a change in capitalized interest. The restatement of beginning net position is as follows:

	Business-type Activities	Auto Meter Project
Prior year ending net position as reported	\$ 3,803,495	\$ (12,594)
Change in reporting of capitalized interest	12,594	12,594
Restated beginning net position	<u>\$ 3,816,089</u>	<u>\$ -</u>

City of Granite Shoals, Texas
NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2016

F. New Accounting Pronouncements

The GASB issued Statement No. 72, entitled Fair Value Measurement and Application; the provisions of GASB Statement No. 72 are effective for reporting periods beginning after June 15, 2015. GASB Statement No. 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement generally requires state and local governments to measure investments at fair value. The statement defines an investment as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. The City has adopted this statement during the current fiscal year, but it had no material effect on these accompanying financial statements.

The GASB issued Statement No. 74 titled, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans; GASB Statement No. 75, titled, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions; GASB Statement No. 77; titled, Tax Abatement Disclosures; GASB Statement No. 78, titled, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, which will require adoption in the future, if applicable. These statements may or will have a material effect on the City's financial statements once implemented. The City will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

G. Subsequent Events

There were no material subsequent events through April 7, 2017, the date the financial statements were issued.

(This page intentionally left blank.)

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank.)

City of Granite Shoals, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended September 30, 2016

	Original Budget	Final Budget	2016 Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Property tax	\$ 1,261,291	\$ 1,261,291	\$ 1,255,494	\$ (5,797)
Sales tax	205,065	205,065	215,592	10,527
Franchise and local taxes	152,000	152,000	158,910	6,910
Intergovernmental	253,479	263,487	274,321	10,834
Charges for services	370,872	370,872	370,647	(225)
License and permits	55,000	55,000	80,595	25,595
Fines and forfeitures	95,000	95,000	83,575	(11,425)
Investment income	3,000	3,000	4,885	1,885
Other revenue	50,340	52,917	65,279	12,362
Total Revenues	2,446,047	2,458,632	2,509,298	50,666
<u>Expenditures</u>				
Current:				
Municipal court	65,522	65,666	65,463	203
Finance and administration	721,223	731,279	742,088	(10,809) *
Police	975,277	978,857	928,344	50,513
Fire protection	378,839	385,967	390,074	(4,107) *
Streets and parks	549,544	551,421	507,641	43,780
Animal control	87,900	77,900	67,543	10,357
Code compliance	138,979	138,779	136,198	2,581
Debt Service:				
Principal	18,428	18,428	18,428	-
Interest and fiscal charges	1,150	1,150	1,150	-
Capital outlay	8,250	10,250	153,563	(143,313) *
Total Expenditures	2,945,112	2,959,697	3,010,492	(50,795)
Revenues Over (Under) Expenditures	(499,065)	(501,065)	(501,194)	(129)
<u>Other Financing Sources (Uses)</u>				
Transfers in	422,161	422,161	422,161	-
Transfers (out)	-	-	(46,098)	(46,098) *
Proceeds from debt issuance	125,344	125,344	125,341	(3)
Gain (loss) on sale of capital assets	6,000	8,000	13,498	5,498
Total Other Financing Sources (Uses)	422,161	555,505	514,902	(40,603)
Net Change in Fund Balance	\$ (76,904)	\$ 54,440	13,708	\$ (40,732)
Beginning fund balance			541,235	
Ending Fund Balance			\$ 554,943	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

*Expenditures exceeded appropriations at the legal level of control.

City of Granite Shoals, Texas

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

September 30, 2016

	2015	2014	¹
Total pension liability			
Service cost	\$ 150,157	\$ 128,541	
Interest	73,811	62,140	
Changes in benefit terms	-	-	
Differences between expected and actual experience	13,012	2,977	
Changes of assumptions	42,993	-	
Benefit payments, including refunds of participant contributions	(31,792)	(43,675)	
Net change in total pension liability	248,181	149,983	
Total pension liability - beginning	995,264	845,281	
Total pension liability - ending (a)	1,243,445	995,264	
Plan fiduciary net position			
Contributions - employer	\$ 69,291	\$ 47,394	
Contributions - members	81,519	75,836	
Net investment income	1,420	47,807	
Benefit payments, including refunds of participant contributions	(31,792)	(43,675)	
Administrative expenses	(865)	(499)	
Other	(43)	(41)	
Net change in plan fiduciary net position	119,531	126,822	
Plan fiduciary net position - beginning	962,254	835,432	
Plan fiduciary net position - ending (b)	\$ 1,081,785	\$ 962,254	
Fund's net pension liability (asset) - ending (a) - (b)	\$ 161,660	\$ 33,010	
 Plan fiduciary net position as a percentage of the total pension	 87%	 97%	
Covered employee payroll	\$ 1,630,373	\$ 1,516,714	
Fund's net position as a percentage of covered employee payroll	9.92%	2%	

Notes to schedule:

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

City of Granite Shoals, Texas

SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

For the Year Ended September 30, 2016

	9/30/2016	9/30/2015
Actuarially determined employer contributions	\$ 75,179	\$ 63,558
Contributions in relation to the actuarially determined contribution	\$ 75,179	\$ 63,558
Contribution deficiency (excess)	\$ -	\$ -
Annual covered employee payroll	\$ 1,709,498	\$ 1,608,453
Employer contributions as a percentage of covered employee payroll	4.43%	3.32%

1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Valuation Date:

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes

There were no benefit changes during the year.

(This page intentionally left blank.)

***COMBINING STATEMENTS AND
INDIVIDUAL FUND SCHEDULES***

City of Granite Shoals, Texas

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

September 30, 2016

	Restricted Park	Hotel Tax Fund	Street Maintenance Sales Tax	Police Seizure
<u>Assets</u>				
Cash and cash equivalents	\$ 55,587	\$ 102,074	\$ 6,634	\$ 1,278
Receivables, net	-	-	6,594	-
Total Assets	\$ 55,587	\$ 102,074	\$ 13,228	\$ 1,278
<u>Liabilities</u>				
Accounts payable	\$ 3,200	\$ 816	\$ -	\$ -
Total Liabilities	3,200	816	-	-
<u>Fund Balances</u>				
Restricted for:				
Streets and parks	52,387	-	13,228	-
Tourism	-	101,258	-	-
Enabling legislation	-	-	-	1,278
Total Fund Balances	52,387	101,258	13,228	1,278
Liabilities and Fund Balances	\$ 55,587	\$ 102,074	\$ 13,228	\$ 1,278

Law Enforcement Education	City Cleanup	Court Technology	Court Security	Total
\$ 3,806	\$ 30,655	\$ 3,423	\$ 2,696	\$ 206,153
-	1,473	-	-	8,067
<u>\$ 3,806</u>	<u>\$ 32,128</u>	<u>\$ 3,423</u>	<u>\$ 2,696</u>	<u>\$ 214,220</u>
\$ -	\$ -	\$ -	\$ -	\$ 4,016
-	-	-	-	4,016
-	32,128	-	-	97,743
-	-	-	-	101,258
3,806	-	3,423	2,696	11,203
<u>3,806</u>	<u>32,128</u>	<u>3,423</u>	<u>2,696</u>	<u>210,204</u>
<u>\$ 3,806</u>	<u>\$ 32,128</u>	<u>\$ 3,423</u>	<u>\$ 2,696</u>	<u>\$ 214,220</u>

City of Granite Shoals, Texas
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2016

	Restricted Park	Hotel Tax Fund	Street Maintenance Sales Tax	Police Seizure
<u>Revenues</u>				
Sales tax	\$ -	\$ -	\$ 35,932	\$ -
Hotel occupancy tax	-	18,674	-	-
Intergovernmental	28,063	-	-	-
Charges for services	-	-	-	-
Fines and forfeitures	-	-	-	405
Investment income	117	271	29	-
Contributions and donations	5,307	-	-	-
Other revenue	32,942	-	-	-
Total Revenues	66,429	18,945	35,961	405
<u>Expenditures</u>				
Streets and parks	49,769	-	35,226	-
Tourism	-	19,444	-	-
Public safety	-	-	-	2,078
Total Expenditures	49,769	19,444	35,226	2,078
Revenues Over (Under)				
Expenditures	16,660	(499)	735	(1,673)
Net Change in Fund Balances	16,660	(499)	735	(1,673)
Beginning fund balances	35,727	101,757	12,493	2,951
Ending Fund Balances	\$ 52,387	\$ 101,258	\$ 13,228	\$ 1,278

Law Enforcement Education	City Cleanup	Court Technology	Court Security	Total
\$ -	\$ -	\$ -	\$ -	\$ 35,932
-	-	-	-	18,674
-	-	-	-	28,063
-	20,193	-	-	20,193
1,155	-	1,908	1,428	4,896
-	-	-	-	417
-	70	-	-	5,377
-	346	-	-	33,288
<u>1,155</u>	<u>20,609</u>	<u>1,908</u>	<u>1,428</u>	<u>146,840</u>
-	22,393	-	-	107,388
-	-	-	-	19,444
-	-	-	390	2,468
<u>-</u>	<u>22,393</u>	<u>-</u>	<u>390</u>	<u>129,300</u>
<u>1,155</u>	<u>(1,784)</u>	<u>1,908</u>	<u>1,038</u>	<u>17,540</u>
1,155	(1,784)	1,908	1,038	17,540
2,651	33,912	1,515	1,658	192,664
<u>\$ 3,806</u>	<u>\$ 32,128</u>	<u>\$ 3,423</u>	<u>\$ 2,696</u>	<u>\$ 210,204</u>

City of Granite Shoals, Texas
COMBINING STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
September 30, 2016

	Utility Equipment Reserve	Meter Reader Project	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 94,304	\$ 66,585	\$ 160,889
Total Current Assets	<u>\$ 94,304</u>	<u>\$ 66,585</u>	<u>\$ 160,889</u>
<u>Noncurrent Assets</u>			
Capital assets:			
Non-depreciable	-	575,699	575,699
Total Noncurrent Assets	<u>-</u>	<u>575,699</u>	<u>575,699</u>
Total Assets	<u>94,304</u>	<u>642,284</u>	<u>736,588</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Current portion of long-term debt	\$ -	\$ 58,112	\$ 58,112
Total Current Liabilities	<u>-</u>	<u>58,112</u>	<u>58,112</u>
<u>Noncurrent Liabilities</u>			
Long-term debt		527,801	527,801
Total Liabilities	<u>-</u>	<u>585,913</u>	<u>585,913</u>
<u>Net Position</u>			
Unrestricted	94,304	56,371	150,675
Total Net Position	<u>\$ 94,304</u>	<u>\$ 56,371</u>	<u>\$ 150,675</u>

City of Granite Shoals, Texas
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND NET POSITION
NONMAJOR PROPRIETARY FUNDS
For the Year Ended September 30, 2016

	Utility Equipment Reserve	Meter Reader Project	Total
<u>Revenues</u>			
Charges for services	\$ 14,122	\$ -	\$ 14,122
Total Revenues	<u>14,122</u>	<u>-</u>	<u>14,122</u>
<u>Nonoperating Revenues (Expenses)</u>			
Investment earnings	30	-	30
Total Nonoperating Revenues (Expenses)	<u>30</u>	<u>-</u>	<u>30</u>
Income (Loss) Before Transfers			
Transfers in	-	56,371	56,371
Change in Net Position	14,152	56,371	70,523
Beginning net position	80,152	-	80,152
Ending Net Position	<u>\$ 94,304</u>	<u>\$ 56,371</u>	<u>\$ 150,675</u>

(This page intentionally left blank.)

City of Granite Shoals, Texas
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2016

	Original and Final Budget	2016 Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property tax	\$ 986,119	\$ 985,063	\$ (1,056)
Investment income	400	1,120	720
Total Revenues	986,519	986,183	(336)
<u>Expenditures</u>			
Debt Service:			
Principal	610,348	387,252	223,096
Interest and fiscal charges	386,523	204,104	182,419
Total Expenditures	996,871	591,356	405,515
Revenues Over (Under) Expenditures	(10,352)	394,827	405,179
<u>Other Financing Sources (Uses)</u>			
Transfers out	-	(393,303)	(393,303)
Total Other Financing Sources (Uses)	-	(393,303)	(393,303)
Net Change in Fund Balance	\$ (10,352)	1,524	\$ 11,876
Beginning fund balance		427,523	
Ending Fund Balance		\$ 429,047	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

(This page intentionally left blank.)