

**ANNUAL  
FINANCIAL REPORT**

**CITY OF GROVES, TEXAS**

**For the fiscal year ended  
September 30, 2010**



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**CITY OF GROVES, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
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## **Introductory Section**



**CITY OF GROVES, TEXAS**  
*PRINCIPAL CITY OFFICIALS*

**CITY COUNCIL**

**Brad P. Bailey    Mayor**

**Joseph P. Arisco    Council Member, Ward 1**

**Karen Theis        Council Member, Ward 2**

**Sidney Badon       Council Member, Ward 3**

**Kyle Hollier        Council Member, Ward 4**

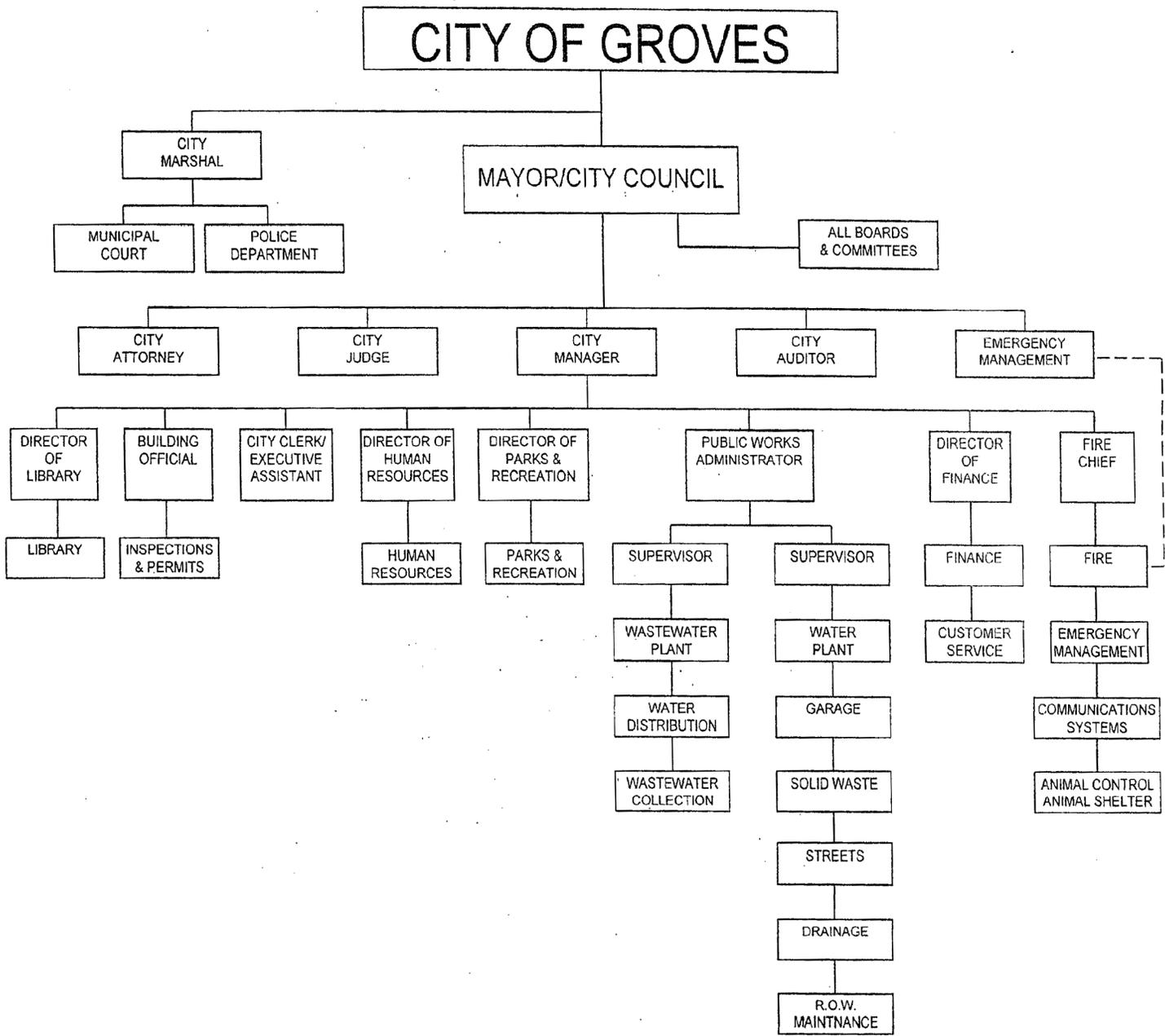
**CITY MANAGER**

**D.E. Sosa**

**CITY ATTORNEY**

**James Black**

**CITY OF GROVES, TEXAS**  
**ORGANIZATIONAL CHART**



## Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council  
City of Groves, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Groves, Texas (the City), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 13, as well as the budgetary comparison and pension system and other post employment benefits supplementary information on pages 54 through 57, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Houston, Texas  
June 30, 2011

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**CITY OF GROVES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Groves (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, 2010.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial 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 assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement 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 administration and general. The business-type activities of the City include a water and sewer operating system and a solid waste system.

The government-wide financial statements can be found on pages 17 through 19 of this report.

**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 two categories: governmental funds and proprietary funds.

**CITY OF GROVES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**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 evaluating 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 six 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, Debt Service, Capital Projects, and Groves Economic Development, which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its General and Debt Service Funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 20 through 27 of this report.

**Proprietary Funds**

The City maintains one type of proprietary fund. 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 and Sewer Fund and Solid Waste Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements, which begin on page 28 of this report, provide separate information for the Water and Sewer and Solid Waste Enterprise Funds since it is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 28 through 30 of this report.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 through 52 of this report.

**CITY OF GROVES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents other required supplementary information as well as combining and individual fund statements and schedules that further support the information in the financial statements. This information is presented immediately following the notes to the financial statements beginning on page 53 of this report.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$31.0 million (net assets). At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

By far, the largest portion of the City's net assets ( \$25.2 million) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. 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 capital assets themselves cannot be used to liquidate these liabilities.

**CONDENSED SCHEDULE OF NET ASSETS**

*September 30, 2010 and 2009*

*Amounts in (000's)*

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 7,420	\$ 13,973	\$ 1,096	\$ 1,376	\$ 8,516	\$ 15,349
Internal balances	2,120				2,120	
Capital assets	7,738	7,608	32,161	28,969	39,899	36,577
<b>Total Assets</b>	<b>17,278</b>	<b>21,581</b>	<b>33,257</b>	<b>30,345</b>	<b>50,535</b>	<b>51,926</b>
Other liabilities	830	2,272	714	2,678	1,544	4,950
Internal balances			2,120		2,120	
Long-term liabilities	13,864	13,039	2,018	1,372	15,882	14,411
<b>Total Liabilities</b>	<b>14,694</b>	<b>15,311</b>	<b>4,852</b>	<b>4,050</b>	<b>19,546</b>	<b>19,361</b>
Net assets:						
Invested in capital assets, net of related debt	(5,007)	(4,764)	30,185	27,448	25,177	22,684
Restricted	1,250	1,695			1,250	1,695
Unrestricted	6,341	9,339	(1,780)	(1,153)	4,562	8,186
<b>Total Net Assets</b>	<b>\$ 2,584</b>	<b>\$ 6,270</b>	<b>\$ 28,405</b>	<b>\$ 26,295</b>	<b>\$ 30,989</b>	<b>\$ 32,565</b>

An additional portion of the City's net assets (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$4.6 million, may be used to meet the government's ongoing obligations to citizens and creditors.

The City's net assets decreased by \$1.6 million during the current fiscal year, primarily due to unexpected wastewater plant repairs and higher depreciation expenses due to construction projects that became active in the current year for both the business and governmental activities.

**CITY OF GROVES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Government-wide Financial Analysis (continued)**

The following table summarizes the changes in net assets for the City for the year ended September 30, 2010.

**CONDENSED SCHEDULE OF CHANGES IN NET ASSETS**

*For the Year Ended September 30, 2010 and 2009*

*Amounts in (000's)*

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues						
Program revenue:						
Charges for services	\$ 492	316	\$ 4,877	5,190	\$ 5,369	\$ 5,506
Operating grants and contributions	967	416	28		995	416
General revenues:						
Property taxes	4,664	4,359			4,664	4,359
Sales and use taxes	1,739	2,049			1,739	2,049
Franchise taxes	996	780			996	780
Unrestricted investment earnings	30	49			30	49
Miscellaneous	118	168	16		133	168
<b>Total Revenues</b>	<u>9,006</u>	<u>8,137</u>	<u>4,921</u>	<u>5,190</u>	<u>13,926</u>	<u>13,327</u>
Expenses:						
General government	1,336	1,812			1,336	1,812
Public safety	4,031	3,844			4,031	3,844
Public works	3,051	3,286			3,051	3,286
Culture and recreation	827	692			827	692
Interest on long-term debt	537	263			537	263
Water and sewer			4,598	4,523	4,598	4,523
Solid Waste			1,123	1,368	1,123	1,368
<b>Total Expenses</b>	<u>9,782</u>	<u>9,897</u>	<u>5,721</u>	<u>5,891</u>	<u>15,503</u>	<u>15,788</u>
Decrease in net assets before transfers	(776)	(1,761)	(800)	(701)	(1,576)	(2,461)
Transfers	(2,910)	(1,726)	2,910	1,726		
Change in net assets	(3,686)	(3,487)	2,110	1,025	(1,576)	(2,461)
<b>Net Assets - Beginning Restated</b>	<u>6,270</u>	<u>9,757</u>	<u>26,295</u>	<u>25,270</u>	<u>32,565</u>	<u>35,027</u>
<b>Net Assets - Ending</b>	<u>\$ 2,584</u>	<u>\$ 6,270</u>	<u>\$ 28,405</u>	<u>\$ 26,295</u>	<u>\$ 30,989</u>	<u>\$ 32,565</u>

**CITY OF GROVES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Governmental Activities**

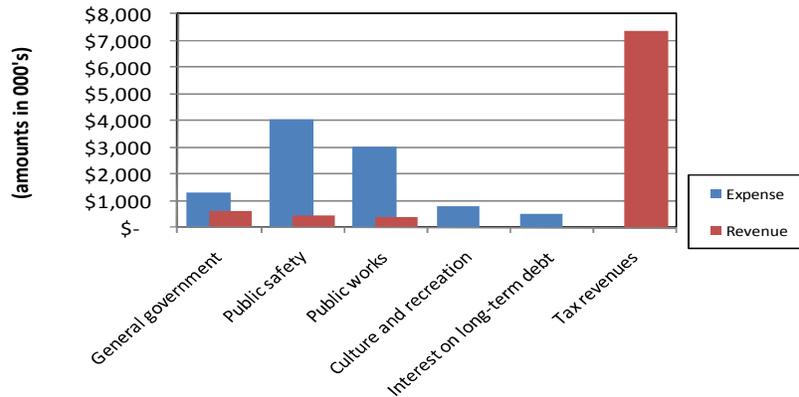
Governmental activities decreased the City's net assets by approximately \$3.7 million. The key elements of this decrease are as follows:

- The City transferred funds from governmental activity to business activity in the amount of \$3.3 million for construction of the wastewater treatment plant.
- Sales and use taxes of \$1.7 million decreased by \$310 thousand from the prior year as a result of lower consumer spending.

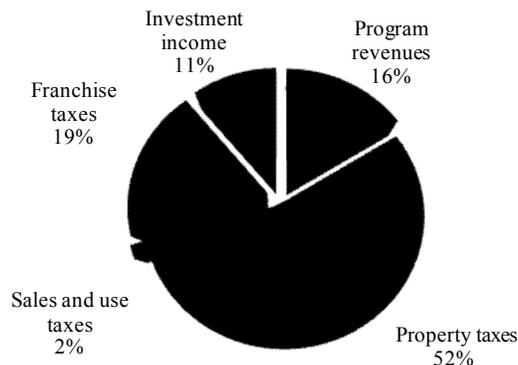
The decrease was offset by the following:

- Increases in property taxes of \$305 thousand from the prior year due to greater property values and improved collections.
- Increases in operating grants and contributions during the year of \$551 thousand as a result of the timing of the receipt of federal program reimbursements.
- Increases in franchise fees of \$215.7 thousand as a result of increased fees from new agreement with utility franchisee.
- Lower general government expenses of \$476 thousand as a result of management's decision to decrease spending.

A comparison of program expenses to program revenues follows:



Revenue sources for governmental activities were distributed as follows:

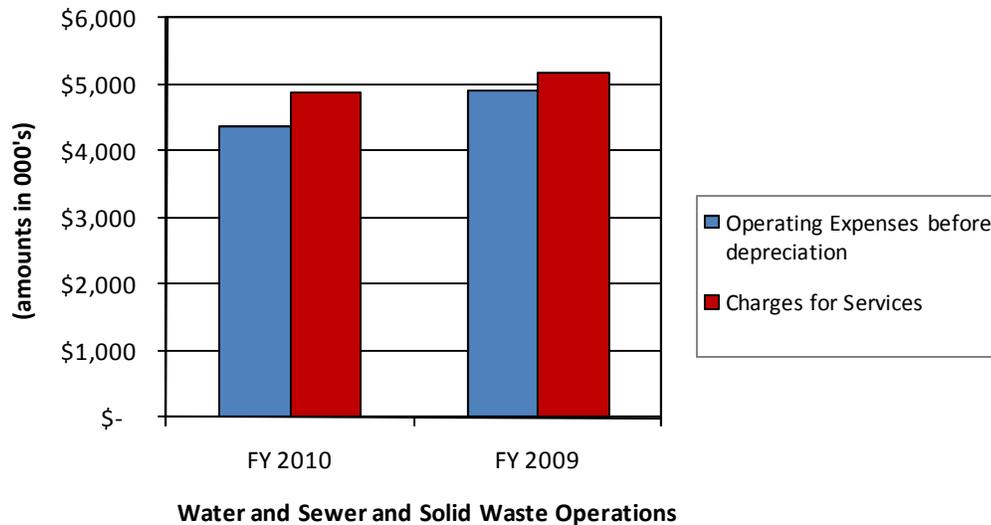


**CITY OF GROVES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Business-type Activities**

Business-type activities increased the City's net assets by \$2.1 million. The majority of this increase is due to the transfer of \$3.3 million from governmental activities in the Capital Projects fund to the Water and Sewer fund. Other key activity included the following:

- Charges for services of \$4.9 million, a decrease of approximately \$313 thousand from prior year due to reduced usage from fiscal year 2009 to 2010.
- Water and sewer and solid waste expenses of \$4.6 million and \$1.1 million respectively. This resulted in an increase in expenses of \$75 thousand from prior year for water and sewer expenses and a decrease of expenses of \$245 thousand for solid waste expenses. These increases are due to unexpected repairs and maintenance activity.



**CITY OF GROVES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Financial Analysis of the Government's Funds**

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

**Governmental Funds**

The focus of the City's governmental funds is to provide information on 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 a government's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$8.4 million, a decrease of approximately \$4.2 million from the prior year. The key elements of this decrease are as follows:

- A decrease of \$3.5 million in the capital projects fund. This is due to primarily to transfers to the water and sewer proprietary fund.
- A decrease of \$386 thousand in the general fund due to greater total expenditures versus revenues, offset by an increase in other resources of \$285 thousand as a result of proceeds from issuance of tax notes.
- A decrease of \$401 thousand in the economic development fund primarily due to transfers to the debt service fund of \$488 thousand for payment of debt.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$2.9 million. The unreserved fund balance decreased by 5% from fiscal year 2009. The key elements of this decrease are as follows:

- Lower revenues than anticipated of approximately \$149,705 from primarily from sales and use taxes and miscellaneous revenues
- This decrease is offset by proceeds from long-term debt from tax revenue bonds of \$285,000 .

The General Fund has unreserved, designated fund balance amounts of \$583 thousand and \$1.1 million designated for long-term compensated absences and equipment replacement respectively as of September 30, 2010.

At the close of the current fiscal year, the City's debt service fund reported a fund balance of \$6,245, an increase of \$17,485 from the prior year. Debt service expenditures for the year ending September 30, 2010, totaled \$1,486,782.

At the close of the current fiscal year, the City's capital projects fund reported a fund balance of \$363 thousand, a decrease of \$3.5 million from the prior year. The decrease is due to transfers to the water and sewer proprietary fund relating to water and sewer construction projects. The remaining fund balance is for future construction and various maintenance projects throughout the City.

**Proprietary Funds**

The City's proprietary funds provide the same type of information found in the government-wide financial statements.

**CITY OF GROVES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Unrestricted net assets at the end of the year amounted to ( \$2.0 )million for the Water and Sewer Fund. Net assets in the Water and Sewer Fund increased by \$1.8 million. Unrestricted net assets at the end of the year amounted to \$222 thousand for the Solid Waste Fund. Net assets in the Solid Waste Fund increased by \$307 thousand. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

**General Fund Budgetary Highlights**

Actual revenues differed from budgeted revenues by \$ 286,000 , primarily as a result of decreases to sales and use tax revenue than expected, due to lower consumer spending. This decrease is offset in part by an increase in intergovernmental revenues of \$136,000 as a result of the timing of the receipt of FEMA grant revenues received this year for expenditures relating to prior years. During the budgeting process, the city factored in a slight decrease in fund balance, while still maintaining a fund balance amount sufficient to cover over a three-month operating reserve.

Actual expenditures did not significantly differ from budgeted expenditures in total. The key elements of are as follows:

- General government with a negative variance of \$152,000 due higher costs.
- Capital outlay with a negative variance of \$104,000 due to greater construction and maintenance activity, which were unbudgeted expenditures expected to be reimbursed by state and federal proceeds.
- Public safety with a positive variance of \$138,000 due to lower costs than anticipated.

**Capital Asset and Debt Administration**

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2010, amounted to \$39.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, roads, park facilities, water and sewer plants and service lines, machinery and equipment, and construction in progress. Capital asset balances increased by approximately \$3.3 million from the prior year due to the wastewater plant construction, building renovations, street improvements, and purchases of equipment.

Major capital asset events during the current fiscal year included the transfer of water and sewer related capital assets from governmental activities to business activities, and the construction of the water lines and sewer lines.

**CITY OF GROVES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The following table shows the balances at September 30, 2009 and 2010 (in 000's):

	<u>2009</u>	<u>2010</u>
<b>Governmental Activities</b>		
Capital Assets not being depreciated		
Land	\$	\$
Construction in progress		6
Capital Assets, net of depreciation		
Infrastructure	5,450	5,337
Buildings	773	718
Machinery and Equipment	415	792
Improvements other than buildings	970	885
Total capital assets - Governmental Activities	<u>\$ 7,608</u>	<u>\$ 7,738</u>
<b>Business-Type Activities</b>		
Capital Assets not being depreciated		
Land	\$ 677	\$ 678
Construction in progress	8,534	6,146
Capital Assets, net of depreciation		
Buildings & System	12,293	19,045
Machinery and Equipment	7,454	6,293
Total capital assets - Business-Type Activities	<u>\$ 28,958</u>	<u>\$ 32,161</u>

Additional information on the City's capital assets can be found in Note 5 to the basic financial statements of this report.

**CITY OF GROVES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Capital Asset and Debt Administration (continued)**

**Long-term Liabilities**

At the end of the current fiscal year, the City had total bonded debt outstanding of \$12.8 million. This is a decrease from the prior year of \$990 thousand, due to scheduled principal debt payments. The entire amount of bonded debt is backed by the full faith and credit of the City. In addition, the debt agreements allow for the obligations to be paid from certain sales and use tax receipts and water/wastewater revenues. A schedule of long-term debt at September 30, 2009 and 2010, follows (in \$000's):

<b>Governmental Activities</b>	<u><b>2009</b></u>	<u><b>2010</b></u>
General obligation bonds	\$ 13,815	\$ 12,825
Tax notes		285
Capital leases	67	21
Compensated absences	858	733
	<u>\$ 14,740</u>	<u>\$ 13,865</u>
<b>Business Activities</b>	<u><b>2009</b></u>	<u><b>2010</b></u>
Tax notes	\$	\$ 605
Capital leases	1,563	1,372
	<u>\$ 1,563</u>	<u>\$ 1,977</u>

The City issued Tax Notes totaling \$890,000 during the year, with \$284,764 and \$605,236 allocated to governmental and business activity, respectively.

The City and its Water and Sewer Enterprise Fund both maintain a rating of A1 from Moody's Investor Services.

The City has no legal debt limit provision in its charter. Additional information on the City's long-term debt can be found in Note 6 to the basic financial statements of this report.

**Economic Factors and Next Year's Budget and Rates**

The City realized and continues to face several of the anticipated factors discussed in the 2009 financial report. The significant economic pressures faced by the country have depressed and continue to depress sales tax receipts. The year-to-year change reflects approximately a 12% decrease. The 2011 budget anticipates a recovery back to the previous year, but not to the historical increases of the previous years beginning in FYE 2004. The City will continue to pursue aggressive economic development activities in order to diversify and strengthen this important revenue stream.

Housing starts have significantly slowed with the vast majority arising from redevelopment efforts by the City to raze dangerous structures damaged by hurricanes and neglect. The City has realized several successes with razed structures being replaced by multiple, new single family residences on the same lot. The City's efforts to replace older, decaying structures with new and more valuable buildings will continue.

**CITY OF GROVES, TEXAS**  
***MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)***

The local petrochemical refineries have chosen to continue their expansions. These expansions have benefited the local economy by providing additional employment opportunities and the temporary migration of skilled laborers to the area. Additionally, two companies have located their expansion warehouses in the City, and we have begun discussions with those companies about permanently maintaining these warehouses after the expansions are completed.

Interest rates have remained at historically low levels greatly affecting the income realized by the City on its cash reserves. The City anticipates these levels being maintained for a majority of the upcoming fiscal year and has budgeted accordingly. The City does anticipate a slight improvement by the end of the fiscal year, but the expected increase in rates will not create a significant windfall. It is expected the increase will provide an improved yield for the following fiscal year.

The City did issue tax notes in January 2010 to fund the purchase of public works machinery to replace much older and less efficient construction equipment, and to construct a new, more efficient and accessible septic receiving station. The station will benefit the City by attracting new customers to the facility, reduce the maintenance costs and reduce the risk to the wastewater treatment plant. The old receiving station was located at the wastewater treatment plant and was not easily accessible. The new receiving station is located in a more marketable location on a major commercial thoroughfare several miles away from the previous location with the distance now providing a buffer to reduce the risk of contamination to the wastewater treatment plant. The revenues from the station will fund the debt cost and generate additional incremental revenues.

The City's workforce has experienced reductions in number due several expected retirements and attrition. Each created vacancy has been reviewed and, in several cases, the duties were reassigned to existing positions and the vacant position was eliminated. The City will continue these reviews as more retirements are expected. Retirement incentives will be studied to determine if such incentives would effectively reduce the workforce in those areas that can operate with fewer and less tenured employees. If the cost/benefit analysis is positive, this option will be looked into further.

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show accountability for the funding it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Groves, Finance Department, 3947 Lincoln, Groves, Texas, 77619.

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## **Basic Financial Statements**

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**CITY OF GROVES, TEXAS**

**STATEMENT OF NET ASSETS**

September 30, 2010

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 6,348,780	\$ 130,659	\$ 6,479,439
Accounts receivable	755,871	435,421	1,191,292
Due from other governments	310,023		310,023
Internal balances	2,120,209	(2,120,209)	
Inventories	5,557	86,360	91,917
Restricted assets		443,392	443,392
Capital assets, not subject to depreciation:			
Land		677,865	677,865
Construction in progress	5,646	6,145,839	6,151,485
Capital assets, net of depreciation:			
Infrastructure	6,222,060		6,222,060
Buildings and improvements	718,285	19,044,775	19,763,060
Machinery and equipment	791,888	6,293,013	7,084,901
<b>Total Capital Assets</b>	<u>7,737,879</u>	<u>32,161,492</u>	<u>39,899,371</u>
<b>Total Assets</b>	<u>17,278,319</u>	<u>31,137,115</u>	<u>48,415,434</u>
<b>Liabilities</b>			
Accounts payable and accrued expenses	770,075	702,836	1,472,911
Unearned revenues	20,464		20,464
Accrued interest	40,111	12,222	52,333
Long-term liabilities:			
Due within one year	1,083,213	231,663	1,314,876
Due in more than one year	12,780,444	1,785,872	14,566,316
<b>Total Liabilities</b>	<u>14,694,307</u>	<u>2,732,593</u>	<u>17,426,900</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	(5,007,401)	30,184,702	25,177,301
Restricted for:			
Debt service	5,434		5,434
Economic development	1,166,819		1,166,819
Public safety	77,409		77,409
Unrestricted	6,341,751	(1,780,180)	4,561,571
<b>Total Net Assets</b>	<u>\$ 2,584,012</u>	<u>\$ 28,404,522</u>	<u>\$ 30,988,534</u>

See Notes To Basic Financial Statements.

**CITY OF GROVES, TEXAS**  
**STATEMENT OF ACTIVITIES**  
*For the Year Ended September 30, 2010*

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenue</b>	
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>
<b>Primary government</b>			
Governmental Activities:			
General government	\$ 1,336,468	\$ 71,622	\$ 570,303
Public safety	4,031,186	326,408	104,904
Public works	3,050,926	93,851	291,807
Culture and recreation	827,323		
Interest on long-term debt	536,584		
Total governmental activities	<u>9,782,487</u>	<u>491,881</u>	<u>967,014</u>
Business-type activities:			
Water and sewer	4,607,610	3,480,214	
Solid Waste	1,123,153	1,396,704	27,915
Total business-type activities	<u>5,730,763</u>	<u>4,876,918</u>	<u>27,915</u>
<b>Total primary government</b>	<u>\$ 15,513,250</u>	<u>\$ 5,368,799</u>	<u>\$ 994,929</u>

**General revenues:**

Taxes:

Property taxes

Sales and use taxes

Franchise taxes

Unrestricted investment earnings

Miscellaneous

Transfers

**Total general revenues**

Change in net assets

**Net Assets - Beginning, Restated**

**Net Assets - Ending**

*See Notes to Basic Financial Statements.*

**Net (Expense) Revenue and Changes in Net Assets**

**Primary Government**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (694,543)	\$	\$ (694,543)
(3,599,874)		(3,599,874)
(2,665,268)		(2,665,268)
(827,323)		(827,323)
(536,584)		(536,584)
<u>(8,323,592)</u>		<u>(8,323,592)</u>
	(1,127,396)	(1,127,396)
	301,466	301,466
	<u>(825,930)</u>	<u>(825,930)</u>
<u>(8,323,592)</u>	<u>(825,930)</u>	<u>(9,149,522)</u>
4,664,476		4,664,476
1,738,799		1,738,799
996,356		996,356
29,912		29,912
117,762	15,687	133,449
<u>(2,910,083)</u>	<u>2,910,083</u>	
<u>4,637,222</u>	<u>2,935,038</u>	<u>7,572,260</u>
<u>(3,686,370)</u>	<u>2,109,108</u>	<u>(1,577,262)</u>
<u>6,270,382</u>	<u>26,295,414</u>	<u>32,565,796</u>
<u>\$ 2,584,012</u>	<u>\$ 28,404,522</u>	<u>\$ 30,988,534</u>

**CITY OF GROVES, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**September 30, 2010**

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects Fund</u>	<u>GEDC</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 4,775,754	\$ 6,245	\$ 644,398	\$ 1,088,833
Taxes receivable, net	353,332	39,300		
Fines and fees receivable	363,240			
Due from other funds	2,120,209			240,490
Receivable from other governments	206,979			103,044
Inventories	4,787			
Prepaid expenses	770			
<b>Total Assets</b>	<u>\$ 7,825,071</u>	<u>\$ 45,545</u>	<u>\$ 644,398</u>	<u>\$ 1,432,367</u>
 <b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 75,584	\$	\$ 281,047	\$ 265,548
Due to other funds	240,490			
Deferred revenue	353,333	39,300		
Other accrued expenses	413,444			
<b>Total Liabilities</b>	<u>1,082,851</u>	<u>39,300</u>	<u>281,047</u>	<u>265,548</u>
 Fund balances:				
Reserved for:				
Debt service		6,245		
Long-term interfund receivables	2,120,209			
Public safety				
Economic development				1,166,819
Unreserved, designated for:				
Long-term compensated absences	583,024			
Equipment replacement	1,099,817			
Unreserved, reported in:				
General fund	2,939,170			
Special revenue funds				
Capital projects funds			363,351	
<b>Total Fund Balances</b>	<u>6,742,220</u>	<u>6,245</u>	<u>363,351</u>	<u>1,166,819</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 7,825,071</u>	<u>\$ 45,545</u>	<u>\$ 644,398</u>	<u>\$ 1,432,367</u>

*See Notes to Basic Financial Statements.*

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 77,409	\$ 6,592,639
	392,632
	363,240
	2,360,699
	310,023
	4,787
	770
<u>\$ 77,409</u>	<u>\$ 10,024,790</u>

\$	\$ 622,179
	240,490
	392,633
	413,444
	<u>1,668,746</u>

	6,245
	2,120,209
77,409	77,409
	1,166,819
	583,024
	1,099,817
	2,939,170
	363,351
<u>77,409</u>	<u>8,356,044</u>
<u>\$ 77,409</u>	<u>\$ 10,024,790</u>

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**CITY OF GROVES, TEXAS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

*September 30, 2010*

Total fund balance, governmental funds \$ 8,356,044

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 7,759,567

Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 372,169

Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.

Bonds and capital leases (13,130,319)  
Accrued long-term interest (40,111)  
Accrued compensated absences (733,338)

Net Assets of Governmental Activities in the Statement of Net Assets \$ 2,584,012

*See Notes to Basic Financial Statements.*

**CITY OF GROVES, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2010**

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects Fund</u>	<u>GEDC</u>
<b>Revenues</b>				
Taxes:				
Property taxes	\$ 4,113,129	\$ 551,347	\$	\$
Sales and use taxes	1,105,295			550,740
Franchise taxes	992,541			
Hotel taxes	86,579			
Fines and forfeitures	326,358			
Licenses and permits	145,623			
Intergovernmental	699,667		237,941	
Investment earnings	24,576	330	72	4,943
Other	118,071			
<b>Total Revenues</b>	<u>7,636,023</u>	<u>551,677</u>	<u>238,013</u>	<u>555,683</u>
<b>Expenditures</b>				
Current:				
General government	1,258,699			
Public safety	3,849,766			
Public works	2,139,258			
Culture and recreation	768,370			
Economic development				468,681
Capital Outlay	431,886		250,709	
Debt Service:				
Principal	3,810	990,000	42,866	
Interest and other charges	205	496,782	1,361	
<b>Total Expenditures</b>	<u>8,451,994</u>	<u>1,486,782</u>	<u>294,936</u>	<u>468,681</u>
Revenues over (under) expenditures	<u>(815,971)</u>	<u>(935,105)</u>	<u>(56,923)</u>	<u>87,002</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from issuance of tax notes	284,764			
Transfers in	144,719	952,590		
Transfers out			(3,397,603)	(487,590)
<b>Total other financing sources (uses)</b>	<u>429,483</u>	<u>952,590</u>	<u>(3,397,603)</u>	<u>(487,590)</u>
Net Changes in Fund Balances	(386,488)	17,485	(3,454,526)	(400,588)
<b>Fund Balances - Beginning of Year Restated</b>	<u>7,128,708</u>	<u>(11,240)</u>	<u>3,817,877</u>	<u>1,567,407</u>
<b>Fund Balances - End of Year</b>	<u>\$ 6,742,220</u>	<u>\$ 6,245</u>	<u>\$ 363,351</u>	<u>\$ 1,166,819</u>

See Notes to Basic Financial Statements.

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$	\$ 4,664,476
	1,656,035
	992,541
	86,579
9,979	336,337
	145,623
21,804	959,412
64	29,985
	118,071
<u>31,847</u>	<u>9,013,243</u>
3,248	1,261,947
4,767	3,854,533
	2,139,258
	768,370
	468,681
16,987	699,582
	1,036,676
	498,348
<u>25,002</u>	<u>10,727,395</u>
<u>6,845</u>	<u>(1,714,152)</u>
	284,764
	1,097,309
	<u>(3,885,193)</u>
	<u>(2,503,120)</u>
<u>6,845</u>	<u>(4,217,272)</u>
70,564	12,573,316
<u>\$ 77,409</u>	<u>\$ 8,356,044</u>

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**CITY OF GROVES, 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, 2010*

Net change in fund balances - total governmental funds: \$ (4,217,272)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The capital asset expenditures are allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which depreciation of \$835,362 exceeded capital outlay of \$754,975 in the current period. (80,793)

Governmental funds do not report capital asset transfers to other funds. In contrast, capital asset transfers are recorded on the Statement of Activities. (122,199)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 20,464

Governmental funds report the proceeds of bond and note sales as another financial source or an increase to fund balance. In contrast, the Statement of Activities treats such proceeds as an increase in long-term liabilities. (284,764)

Governmental funds report repayment of bond principal and capital leases as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of payments made on long-term debt. 993,810

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

Accrued interest not reflected in Governmental funds (40,110)  
 Compensated absences 44,494

Change in net assets of governmental activities \$ (3,686,370)

*See Notes to Basic Financial Statements.*

**CITY OF GROVES, TEXAS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**September 30, 2010**

	<b>Business-type Activities</b>		
	<b>Water and Sewer</b>	<b>Solid Waste</b>	<b>Total</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$	\$ 130,659	\$ 130,659
Accounts receivable, net	435,421		435,421
Due from other funds		158,866	158,866
Restricted cash and cash equivalents	443,392		443,392
Inventories	86,360		86,360
<b>Total Current Assets</b>	<b>965,173</b>	<b>289,525</b>	<b>1,254,698</b>
Non-current assets:			
Capital assets not being depreciated:			
Land and improvements	677,865		677,865
Construction in progress	6,145,839		6,145,839
Other capital assets, net of depreciation:			
Infrastructure	28,209		28,209
Buildings	19,016,566		19,016,566
Equipment and furniture	5,820,217	472,796	6,293,013
<b>Total Non-Current Assets</b>	<b>31,688,696</b>	<b>472,796</b>	<b>32,161,492</b>
<b>Total Assets</b>	<b>32,653,869</b>	<b>762,321</b>	<b>33,416,190</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued expenses	130,170	9,752	139,922
Due to other funds	2,279,075		2,279,075
Deposits	456,135		456,135
Accrued interest payable	12,222		12,222
Salaries payable	53,447	53,332	106,779
<b>Total Current Liabilities</b>	<b>2,931,049</b>	<b>63,084</b>	<b>2,994,133</b>
Non-current liabilities:			
Compensated absences	36,347	4,398	40,745
Capital lease obligation	1,371,554		1,371,554
Bonds, notes and loans payable	605,236		605,236
<b>Total Non-Current Liabilities</b>	<b>2,013,137</b>	<b>4,398</b>	<b>2,017,535</b>
<b>Total Liabilities</b>	<b>4,944,186</b>	<b>67,482</b>	<b>5,011,668</b>
<b>Net Assets</b>			
Invested in capital assets	29,711,906	472,796	30,184,702
Unrestricted	(2,002,223)	222,043	(1,780,180)
<b>Total Net Assets</b>	<b>\$ 27,709,683</b>	<b>\$ 694,839</b>	<b>\$ 28,404,522</b>

See Notes to Basic Financial Statements.

**CITY OF GROVES, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended September 30, 2010**

	<u>Business-type Activities</u> <u>Water and Sewer</u>	<u>Business-type Activities</u> <u>Solid Waste</u>	<u>Total</u>
<b>Operating Revenues</b>			
Charges for services	\$ 3,480,214	\$ 1,396,704	\$ 4,876,918
<b>Total Operating Revenues</b>	<u>3,480,214</u>	<u>1,396,704</u>	<u>4,876,918</u>
<b>Operating Expenses</b>			
Personnel services	1,837,861	312,463	2,150,324
Supplies	683,323	126,426	809,749
Contracted services	326,975	491,169	818,144
Utilities	215,065	2,511	217,576
Repairs and maintenance	317,487	56,901	374,388
Depreciation	1,202,455	133,682	1,336,137
<b>Total Operating Expenses</b>	<u>4,583,166</u>	<u>1,123,152</u>	<u>5,706,318</u>
<b>Operating income (loss)</b>	<u>(1,102,952)</u>	<u>273,552</u>	<u>(829,400)</u>
<b>Non-Operating Revenues (Expenses)</b>			
Intergovernmental		27,915	27,915.0
Interest expense	(24,445)		(24,445)
Other	15,688		15,688
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(8,757)</u>	<u>27,915</u>	<u>19,158</u>
<b>Income before Transfers</b>	<u>(1,111,709)</u>	<u>301,467</u>	<u>(810,242)</u>
Capital contributions	122,198		122,198
Transfers in	3,252,884		3,252,884
Transfers out	(465,000)		(465,000)
Special item - gain (loss) on sale of land	3,784	5,484	9,268
Change in Net Assets	1,802,157	306,951	2,109,108
<b>Total Net Assets - Beginning of Year</b>			
<b>Restated</b>	25,907,526	387,888	26,295,414
<b>Total Net Assets - End of Year</b>	<u>\$ 27,709,683</u>	<u>\$ 694,839</u>	<u>\$ 28,404,522</u>

See Notes to Basic Financial Statements.

**CITY OF GROVES, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
*For the Year Ended September 30, 2010*

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water and Sewer</b>	<b>Solid Waste</b>	<b>Total</b>
<b>Cash Flows From Operating Activities</b>			
Receipts from customers and users	\$ 3,880,164	\$ 1,396,704	\$ 5,276,868
Disbursed for personnel services	(1,801,514)	(308,065)	(2,109,579)
Disbursed for goods and services	(1,399,058)	(505,332)	(1,904,390)
<b>Net cash provided by operating activities</b>	<b>679,592</b>	<b>583,307</b>	<b>1,262,899</b>
<b>Cash Flows From Noncapital Financing Activities</b>			
Transfers from other funds	3,252,884		3,252,884
Transfers to other funds	(465,000)		(465,000)
<b>Net cash used by noncapital financing activities</b>	<b>2,787,884</b>		<b>2,787,884</b>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Proceeds from debt issuance	605,236		605,236
Principal payments on debt	(191,840)		(191,840)
Cash receipts from sale of assets	3,784	5,484	9,268
Acquisition and construction of capital assets	(3,417,265)	(471,311)	(3,888,576)
<b>Cash flows from capital and related financing activities</b>	<b>(3,000,085)</b>	<b>(465,827)</b>	<b>(3,465,912)</b>
<b>Cash Flows From Investing Activities</b>			
Interest received			
Interest paid	(24,445)		(24,445)
<b>Net cash used by investing activities</b>	<b>(24,445)</b>		<b>(24,445)</b>
Net increase (decrease) in cash and cash equivalents	442,942	153,828	560,426
<b>Cash and cash equivalents - beginning of year</b>	<b>450</b>	<b>(23,169)</b>	<b>(22,719)</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 443,392</b>	<b>\$ 130,659</b>	<b>\$ 537,707</b>
Unrestricted cash and cash equivalents	\$ 443,392	\$ 130,659	\$ 130,659
Restricted cash and cash equivalents	443,392		443,392
	<b>\$ 443,392</b>	<b>\$ 130,659</b>	<b>\$ 574,051</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
Operating Income	\$ (1,102,952)	\$ 273,552	\$ (829,400)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,202,455	133,682	1,336,137
(Increase) decrease in accounts receivable	410,242		410,242
Increase (decrease) in interfund receivables		(98,014)	(98,014)
Increase (decrease) in interfund payables	2,218,223		2,218,223
Increase (decrease) in accounts payable	(2,074,431)	269,689	(1,804,742)
Increase (decrease) in accrued compensated absences	36,347	4,398	40,745
Increase (decrease) in customer deposits	(10,292)		(10,292)
<b>Net cash provided by operating activities</b>	<b>\$ 679,592</b>	<b>\$ 583,307</b>	<b>\$ 1,262,899</b>
<b>Non-Cash Investments</b>			
Capital asset contributions	\$ 122,198	\$	\$ 122,198

*See Notes to Basic Financial Statements.*

**CITY OF GROVES, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**Note 1 - Organization**

The City of Groves, Texas, was incorporated in December 1952. The City operates under a Council-Manager form of 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 four 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 City Marshal is elected at-large by the citizens in Groves to manage the municipal court and police department. Departments and agencies of the City submit budget requirements to the Mayor. The Mayor is the presiding officer of the City Council.

The City provides the following services: public safety, public works, parks and recreation, library, water and sewer and general administrative services.

**Note 2 - Summary of Significant Accounting Policies**

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

**A. Reporting Entity**

The financial reporting entity consists of the primary government and other organizations for which the primary government is financially accountable.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

In conformity with generally accepted accounting principles, the financial statements of the Groves Economic Development Corporation (GEDC) are presented as a blended component unit. The GEDC board of directors includes a majority of the City Council, and this majority constitutes a voting majority on the GEDC board of directors. GEDC's revenues (from sales tax) are required to be used to pay debt for the City's debt obligations authorized by the GEDC board. The GEDC is reported as a governmental fund. Separately-issued financial statements are not available for this entity.

## **CITY OF GROVES, TEXAS**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

#### **Note 2 - Summary of Significant Accounting Policies (continued)**

##### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

##### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

General property taxes are recorded as receivables when levied and as revenue in the period for which they were levied and become available. Property taxes receivable have been recorded as deferred revenues at year-end.

## **CITY OF GROVES, TEXAS**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

#### **Note 2 - Summary of Significant Accounting Policies (continued)**

##### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

Property taxes collected within 60 days subsequent to September 30, 2010, have not been recorded as revenue as the amount is not considered material. Franchise taxes and sales taxes relating to underlying transactions that occurred prior to September 30, 2010, have been recorded as receivables and revenue. Licenses and permits and fines are not susceptible to accrual since they are not measurable until received. Revenue on federal and state cost-reimbursement grants is accrued when the related expenditures are incurred. Interest is recorded when earned.

The City has the following major governmental funds:

- General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.
- Debt Service Fund - The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- Capital Projects Fund - The Special Construction Fund accounts for the financial resources to be used for the construction or acquisition of major capital facilities (other than those financed by proprietary funds or trust funds).
- Economic Development Corporation Fund - The Economic Development Corporation Fund is used to account for the ½ cent sales tax received for Economic Development.

The City reports the following major proprietary funds:

- Water and Sewer Fund - The Water and Sewer Fund accounts for the provision of water and sewer services to residents and commercial businesses in the City.
- Solid Waste Fund - The Solid Waste Fund accounts for solid waste disposal services for residents and commercial businesses in the City.

These funds are financed and operated in a manner similar to private business enterprises -- where the intent of the City is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition, maintenance and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds (revenue or general obligation), impact fees and other City funds.

Private-sector standards for accounting and financial reporting issued prior to December 1, 1999, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. The City has elected not to follow private sector guidance issued subsequent to that date.

## **CITY OF GROVES, TEXAS**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

#### **Note 2 - Summary of Significant Accounting Policies (continued)**

##### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the water and wastewater enterprise fund are charges to customers for sales and services. Operational expenses for the fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues not meeting this definition are reported as non-operating revenues and expenses.

Net assets are categorized into three components -- invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are as follows:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.
- Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

##### **D. Cash and Cash Equivalents**

The City reports cash and cash equivalents in the District's statement of cash flows for Proprietary Fund Types and in all other financial statements of financial position. The City considers cash and cash equivalents to be cash on hand, demand deposits, certificates of deposit, balances in public funds investment pools and short-term investments with original maturities of three months or less from the date of acquisition.

##### **E. Investments**

Investments consist of balances in public funds investment pools. The City reports all investments at fair value based on quoted market prices at year-end date.

**CITY OF GROVES, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**F. Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the Water and Sewer Fund are considered to be immaterial and have not been recognized at the end of the current fiscal year.

**G. Due to and from Other Funds**

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. These receivables and payables are, for the most part, eliminated from the Government-Wide Statement of Net Assets and are recorded as “due from other funds” or “due to other funds” in the fund financial statements.

**H. Inventories and Prepaid Items**

The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**I. Capital Assets**

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of one year. All purchased capital assets are valued at cost where historical records exist. Donated capital assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements, including public domain, and equipment are capitalized and depreciated over the remaining useful lives of the related capital assets using the straight line method, as applicable.

<u>Asset</u>	<u>Estimated Useful Lives</u>
Building	40
Building Improvements	15-40
System Improvements	15-40
Vehicles	5-10
Office Equipment	5-10
Computer Equipment	3-5

**CITY OF GROVES, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 2 - Summary of Significant Accounting Policies (continued)**

**J. Compensated Absences**

Employees earn vacation based on years of service with the City. In accordance with GAAP, the liability for accumulated vacation at September 30, 2010, has been recorded as a liability in the Government-Wide Statement of Net Assets.

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time, permanent employees to specified maximums. Although employees are encouraged to take vacations in the year earned, payment of accrued vacation time is eligible to employees who separated from the City in good standing. Accumulated sick leave is not compensated upon resignation or dismissal. Fifty percent of accumulated sick leave is compensated in the event of the death or retirement of an employee.

Employees continuously employed with the City in good-standing prior to 1984 can have their accrued sick hours up to 960 paid to them upon no longer being employed with the City.

**K. General Property Taxes**

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt and all taxes not paid prior to February 1 are deemed delinquent and are subject to such penalty and interest set forth by the Property Tax Code. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Appraised values are established by the Jefferson County Appraisal District (the "Appraisal District"). Taxes are levied by the City Council based on the appraised values received from the Appraisal District.

**L. Debt Service**

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. The full amount estimated to be required for debt service on the general obligation debt is provided by the debt service tax together with interest earned in the Debt Service Fund.

**M. Use of Estimate**

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, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts may differ from these estimates.

**N. Bond Discounts/Issuance Costs**

In governmental fund types, bond discounts and issuance costs are recognized in the current period and are deferred and amortized in the Government-wide Statement of Activities. Bond discounts and issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond discounts and issuance costs are recorded as deferred charges.

## **CITY OF GROVES, TEXAS**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

#### **Note 2 - Summary of Significant Accounting Policies (continued)**

##### **O. Fund Equity**

In the fund financial statements, the City reserves or designates all or portions of fund equity in the various governmental fund financial statements. The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes. Unreserved net assets for proprietary funds represent the net assets available for future operations or distribution. Reserved net assets for proprietary funds represent the net assets that have been legally identified for specific purposes.

##### **P. Revenues and Expenditures/Expenses**

In the fund financial statements, revenues for governmental funds are recorded when they are determined to be both measurable and available. Generally, tax revenues, fees and non-tax revenues are recognized when received. Grants from other governments are recognized when qualifying expenditures are incurred. Expenditures for governmental funds are recorded when the related liability is incurred.

Revenues and expenses in the Government-wide Statement of Activities are recognized in essentially the same manner as used in commercial accounting.

##### **Q. Post-employment Healthcare Benefits**

The City does not provide post-employment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and the City incurs no direct costs.

#### **Note 3 - Deposits (Cash) and Investments**

##### **Authorization for Deposits and Investments**

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the City.

In accordance with applicable statutes, the City has a depository contract with an area bank (depository) providing for interest rates to be earned on deposited funds and for banking charges the City incurs for banking services received. The City may place funds with the depository in interest and non-interest bearing accounts. State law provides that collateral pledged as security for bank deposits must have a market value of not less than the amount of the deposits and must consist of: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas; and/or (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent. City policy requires the collateralization level to be at least 102% of market value of principal and accrued interest.

**CITY OF GROVES, TEXAS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 3 - Deposits (Cash) and Investments (continued)**

**Authorization for Deposits and Investments (continued)**

The Council has adopted a written investment policy regarding the investment of City funds as required by the Public Funds Investment Act (Chapter 2256, Texas Government Code). The investments of the City are in compliance with the City's investment policy. The City's investment policy is more restrictive than the PFIA requires. It is the City's policy to restrict its direct investments to obligations of the U.S. Government or U.S. Government Agencies, fully collateralized certificates of deposit, money market mutual funds and local government investment pools. The maximum maturity allowed is ten years from date of purchase. The City's investment policy does not allow investments in certain collateralized mortgage obligations.

**Deposit and Investment Amounts**

The City's cash and investments are classified as: cash and cash equivalents, investments, and restricted cash and investments. The cash and cash equivalents include cash on hand, deposits with financial institutions, and non-negotiable certificates of deposit. The restricted cash and investments are assets restricted for specific use.

The following schedule shows the City's recorded cash and cash equivalents at year-end:

	<u>Fair Value</u>
<b>Primary Government</b>	
Cash Deposits	\$ 6,822,831
Certificates of Deposit	<u>100,000</u>
<b>Total</b>	<u>\$ 6,922,831</u>

At September 30, 2010, the City reported deposits in the amount of \$6,922,831 and the bank balance was \$6,672,202 . The City's collateral requirement in accordance with its investment policy is 102%. Of the bank balance, the entire amount was covered by federal depository insurance or by collateral held by the City's agent in the City's name, which totaled \$10,037,419 as of September 30, 2010.

**CITY OF GROVES, TEXAS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 3 - Deposits (Cash) and Investments (continued)**

**Interest Rate Risk**

The City measures interest rate risk using the weighted average maturity method for the portfolio. The City's investment policy specifies a maximum weighted average maturity of 365 days based on the stated maturity date for each investment in the portfolio. To the extent possible, the City attempts to match investments with anticipated cash flow requirements. The City does not directly invest in securities with a stated maturity date more than 10 years from date of purchase. The settlement date is considered the date of purchase.

**Concentration of Credit Risk**

The City's investment policy allows investments by type based on the following diversification requirements:

U.S. Treasury Securities	100%
Certificates of Deposit	100%
Agencies and Instrumentalities	75%
Authorized Pools	50%
Other Obligations Described in V. B-C	50%
Repurchase Agreements	5%
Money Market Mutual Funds	5%
Collateralized Accounts	100%

**Credit Risk**

Certificates of Deposit are not rated. Investments with minimum required ratings do not qualify as authorized investments during the period the investment does not have the minimum rating.

**CITY OF GROVES, TEXAS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 4 - Receivables**

Amounts recorded as receivables as of September 30, 2010, for the government’s individual major and non-major funds, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Economic Development Fund</u>	<u>Water and Sewer</u>	<u>Total</u>
<b>Receivables:</b>					
Fines and Forfeitures	\$ 354,406	\$	\$	\$	\$ 354,406
Property taxes	375,885	41,808			417,693
Customer accounts				435,421	435,421
Other	<u>206,979</u>		<u>103,044</u>		<u>310,023</u>
<b>Gross Receivables</b>	<u>937,270</u>	<u>41,808</u>	<u>103,044</u>	<u>435,421</u>	<u>1,517,543</u>
Less: allowance for uncollectibles	<u>(22,553)</u>	<u>(2,508)</u>			<u>(25,061)</u>
<b>Net Total Receivables</b>	<u><u>\$ 914,717</u></u>	<u><u>\$ 39,300</u></u>	<u><u>\$ 103,044</u></u>	<u><u>\$ 435,421</u></u>	<u><u>\$ 1,492,482</u></u>

Revenue from delinquent property taxes and outstanding warrants receivable of \$372,169 at September 30, 2010, has been deferred in the fund financial statements until collected. Delinquent tax collections during the first sixty days subsequent to September 30, 2010, have not been recorded as revenue as of September 30, 2010, as the amount is not considered material.

**CITY OF GROVES, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 5 - Capital Assets**

A summary of activity for capital assets capitalized by the City for the year ended September 30, 2010, follows:

**Governmental Activities:**

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not being depreciated:				
Construction in Progress	\$	\$ 5,646		\$ 5,646
Total		5,646		5,646
Capital Assets being depreciated:				
Buildings	3,561,084			3,561,084
Improvements other than Buildings	2,142,879		(7)	2,142,872
Machinery & Equipment	1,421,511	1,205,240	(550,776)	2,075,975
Public domain infrastructure	15,141,972	88,097		15,230,069
Total Capital Assets being depreciated	22,267,446	1,293,337	(550,783)	23,010,000
Less Accumulated Depreciation for:				
Buildings	2,788,579	54,220		2,842,799
Improvements other than Buildings	1,173,379	84,050		1,257,429
Machinery & Equipment	1,006,608	494,464	(216,985)	1,284,087
Public domain infrastructure	9,690,824	202,628		9,893,452
Total	14,659,390	835,362	(216,985)	15,277,767
Total Capital Assets being depreciated, Net	7,608,056	457,975	(333,798)	7,732,233
Total Government Activities Capital Assets, Net	\$ 7,608,056	\$ 463,621	\$ (333,798)	\$ 7,737,879

**Business-Type Activities:**

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not being depreciated:				
Land	\$ 677,865	\$	\$	\$ 677,865
Construction in Progress	8,534,229	4,722,226	(7,110,616)	6,145,839
Total	9,212,094	4,722,226	(7,110,616)	6,823,704
Capital Assets being depreciated:				
Buildings & System	20,051,567	7,110,831		27,162,398
Machinery & Equipment	14,461,029		(272,611)	14,188,418
Total Capital Assets being depreciated	34,512,596	7,110,831	(272,611)	41,350,816
Less Accumulated Depreciation for:				
Buildings & System	7,759,038	358,585		8,117,623
Machinery & Equipment	7,007,023	977,552	(89,170)	7,895,405
Total	14,766,061	1,336,137	(89,170)	16,013,028
Total Capital Assets being depreciated, Net	19,746,535	5,774,694	(183,441)	25,337,788
Total Business Type Activities Capital Assets, Net	\$ 28,958,629	\$ 10,496,920	\$ (7,294,057)	\$ 32,161,492

**CITY OF GROVES, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 5 - Capital Assets (continued)**

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

<b>Governmental Activities</b>	
General	\$ 12,446
Public safety	165,151
Public works	569,801
Culture and recreation	87,964
	<u>\$ 835,362</u>
<b>Business-type Activities</b>	
Water and sewer	\$ 1,202,455
Solid waste	133,682
	<u>\$ 1,336,137</u>

**Note 6 - Long-Term Debt**

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities and equipment for general government and enterprise fund activities. These instruments include general obligation bonds. Future ad valorem tax revenues secure these debt obligations.

During the year ended September 30, 2010, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
General obligation bonds	\$ 13,815,000	\$	\$ (990,000)	\$ 12,825,000	\$ 1,040,000
Tax notes		284,764		284,764	35,196
Capital leases	67,231		(46,676)	20,555	8,017
Compensated absences	857,706		(124,368)	733,338	
<b>Governmental Activities Long-term Liabilities</b>	<u>\$ 14,739,937</u>	<u>\$ 284,764</u>	<u>\$ (1,161,044)</u>	<u>\$ 13,863,657</u>	<u>\$ 1,083,213</u>
<b>Business Activities:</b>					
Capital leases	\$ 1,563,394	\$	\$ (191,840)	\$ 1,371,554	\$ 156,858
Tax notes		605,236		605,236	74,805
<b>Business-type Activities Long-term Liabilities</b>	<u>\$ 1,563,394</u>	<u>\$ 605,236</u>	<u>\$ (191,840)</u>	<u>\$ 1,976,790</u>	<u>\$ 231,663</u>

**CITY OF GROVES, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 6 - Long-Term Debt (continued)**

The following is a summary of the terms of obligations of general obligation bonds outstanding as of September 30, 2010:

<b>Governmental Activities:</b>			<b>Maturity</b>	<b>Debt</b>
<u>Series</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Date</u>	<u>Outstanding</u>
<b>General Obligation Bonds</b>				
Series 2004	1.85%-4.25%	\$ 715,000	2026	\$ 615,000
Series 2005	3.25%-4.00%	10,855,000	2018	7,750,000
Series 2006	3.65%	5,000,000	2027	4,460,000
<b>Total General Obligation Bonds</b>				<u>12,825,000</u>
<b>Tax Notes</b>				
Series 2010	1.70%-4.00%	\$ 284,764	2016	\$ 284,764
<b>Total Tax Notes</b>				<u>284,764</u>
<b>Total Governmental Activities</b>				<u>\$ 13,109,764</u>
<b>Business Activities:</b>				<b>Debt</b>
<u>Series</u>	<u>Interest Rate</u>	<u>Original Issue</u>		<u>Outstanding</u>
<b>Tax Notes</b>				
Series 2010	1.70%-4.00%	\$ 605,236	2016	\$ 605,236
<b>Total Business Activities</b>				<u>\$ 605,236</u>

**CITY OF GROVES, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 6 - Long-Term Debt (continued)**

Annual debt service requirements to retire outstanding general obligation bonds and tax notes are as follows:

<b>Year Ending 9/30</b>	<b>Governmental Activities</b>			
	<b>General Obligation Bonds</b>		<b>Tax Notes</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2011	\$ 1,040,000	\$ 482,215	\$ 35,196	\$ 13,106
2012	1,085,000	445,966	44,794	7,313
2013	1,150,000	406,804	47,994	6,171
2014	1,195,000	365,119	49,594	4,768
2015	1,250,000	320,344	52,793	3,100
2016	1,300,000	272,016	54,393	1,088
2017	1,350,000	222,883		
2018	1,405,000	170,240		
2019	300,000	115,288		
2020	310,000	104,448		
2021	315,000	93,073		
2022	330,000	81,495		
2023	345,000	69,195		
2024	355,000	56,145		
2025	370,000	42,520		
2026	380,000	28,285		
2027	345,000	13,455		
	<u>\$ 12,825,000</u>	<u>\$ 3,289,491</u>	<u>\$ 284,764</u>	<u>\$ 35,546</u>

<b>Business Activities</b>	
<b>Tax Notes</b>	
<b>Principal</b>	<b>Interest</b>
\$ 74,805	\$ 27,855
95,206	15,542
102,006	13,116
105,406	10,134
112,207	6,588
115,607	2,312
<u>\$ 605,237</u>	<u>\$ 75,547</u>

The City issued Tax Notes totaling \$890,000 during the year, with \$284,764 and \$605,236 allocated to governmental and business activity, respectively. The notes mature in March 2016 with interest due annually in the month of March. Interest rates range from 1.7 percent to 4.0 percent.

**CITY OF GROVES, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 6 - Long-Term Debt (continued)**

**Capital Leases**

The City has entered into a lease agreement as the lessee for financing the acquisition of heavy equipment for public works. Equipment with a purchase price of approximately \$176,000 has been leased under the agreement as of September 30, 2010. The capital lease agreement bears an interest rate of 4.5 percent and matures in 2012.

The City entered into a lease agreement to finance the acquisition of equipment for use in the Water and Sewer Enterprise Fund. This lease bears an interest rate 4.6 percent. The total purchase price of the equipment is approximately \$1.7 million. The agreement matures in 2018.

Amortization of leased vehicles under capital assets is included with depreciation expense.

Annual debt service requirements to retire capital leases are as follows:

<b>Year Ending</b>	<b>Governmental Activities</b>	
	<b>Capital Leases</b>	
	<b>Principal</b>	<b>Interest</b>
<b>9/30</b>		
2011	\$ 8,017	\$ 13
2012	12,538	
	<u>\$ 20,555</u>	<u>\$ 13</u>

<b>Year Ending</b>	<b>Business Activities</b>	
	<b>Capital Leases</b>	
	<b>Principal</b>	<b>Interest</b>
<b>9/30</b>		
2011	\$ 156,858	\$ 60,411
2012	164,199	53,071
2013	171,883	45,386
2014	179,927	37,342
2015	188,348	28,922
2016	197,130	20,139
2017	206,389	10,880
2018	106,820	1,228
	<u>\$ 1,371,554</u>	<u>\$ 257,379</u>

**Legal Compliance**

A number of limitations and restrictions are contained in the various bond ordinances. The City has complied with all significant limitations and restrictions.

**CITY OF GROVES, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 7 - Interfund Transactions**

The composition of interfund balances as of September 30, 2010, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 2,120,209	\$ 240,490
Economic Development Fund	240,490	
Water and Sewer Fund		2,279,075
Solid Waste Fund	158,866	
	<u>\$ 2,519,565</u>	<u>\$ 2,519,565</u>

The Water and Sewer Fund has an amount due to the General Fund for \$2,120,209. This amount is considered a long-term receivable as it will be paid from future cash flows from water and sewer activity. Amounts recorded as interfund receivables and payables are considered to be temporary loans and will be repaid during the following fiscal year. A summary of interfund transfers, the purpose of which is to cover operational expenses/expenditures, for the year ended September 30, 2010, is as follows:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amounts</u>
Capital Projects Fund	General Fund	\$ 144,719
Capital Projects Fund	Water and Sewer Fund	3,252,884
Water and Sewer Fund	Debt Service	465,000
Economic Development	Debt Service	487,590
		<u>\$ 4,350,193</u>

In addition to the transfers stated above, the City transferred \$7.4 million in capital assets from governmental activities to business activities as they related to the water and sewer system assets.

**Note 8 - Employee Retirement System**

**Plan Description**

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. The report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677. In addition, this report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

**CITY OF GROVES, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 8 - Employee Retirement System (continued)**

**Benefits**

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

The plan provisions are adopted by the City Council of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City are as follows:

Employee deposit rate:	6%
Matching ratio (city to employee):	2 to 1
Years required for vesting	10
Updated service credit	100% repeating transfers

Members can retire at age 60 and above with five or more years of service or with 20 years of service regardless of age.

**Contributions**

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2008, valuation is effective for rates beginning in January 2010).

**CITY OF GROVES, TEXAS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 8 - Employee Retirement System (continued)**

**Contributions (continued)**

The City's total payroll in fiscal year 2010 was \$7.4 million and the City's contributions were based on a payroll of \$6.9 million. Contributions made by employees totaled \$482 thousand, and the City made contributions of \$1 million during the fiscal year ended September 30, 2010.

**Annual Pension Cost**

The City's annual pension cost was equal to the City's required and actual contributions. Three-year trend information for the City's TMRS plan follows:

<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Percent Contributed</b>
2008	\$ 854,787	100%
2009	\$ 785,506	100%
2010	\$ 963,733	100%

**CITY OF GROVES, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 8 - Employee Retirement System (continued)**

**Funding Policy**

Cities are required to contribute at an actuarially determined rate; these rates are provided to the City on an annual basis, following the completion of actuarial valuation. As explained above, there is a time delay in the valuation and when the rate becomes effective. For example, the January 1, 2010, contribution rate is based on the December 31, 2008, valuation results. If a change in plan provisions is elected by the City, this rate can change. The actuary determines contribution rates on a calendar-year basis; the City discloses the annual pension costs (which equal the required contributions) based on the calculated rate(s) for the City's fiscal year.

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008, valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Valuation date	December 31, 2007	December 31, 2008	December 31, 2009
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	30 years; closed period	29 years; closed period	28 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	Amortized cost	Amortized cost	Amortized cost
Actuarial Assumptions:			
Investment return *	7.5%	7.5%	7.5%
Projected salary increases *	varies by age and service	varies by age and service	varies by age and service
* Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living adjustments	0.0%	0.0%	0.0%

The funded status of the plan as of December 31, 2009, the most recent actuarial valuation date, is as follows:

	December 31, 2009
Actuarial valuation date	
Actuarial value of plan assets (a)	\$17,244,164
Actuarial accrued liability (AAL) (b)	\$21,987,964
Unfunded/(Overfunded) actuarial accrued liability (UAAL or OAAL) (b-a)	\$4,743,800
Funded Ratio (a/b)	78.4%
Projected Annual Covered Payroll (c)	\$6,158,168
UAAL or OAAL as % of covered payroll ((b-a)/c)	77.0%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## **CITY OF GROVES, TEXAS**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

#### **Note 9 - Employee Section 457 Plan**

The City offers its employees a deferred compensation plan through the International City Management Association (ICMA), created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Prior to the passage of a City ordinance on December 16, 1996, all amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts or rights were (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provision of benefits under the plan). As a result of these terms, the City considered itself as an agent of the plan acting in a fiduciary capacity and reflected this status in previous years' financial statements.

However, as mentioned above, the City of Groves, Texas passed an ordinance on December 16, 1996, whereby the City amended and restated the deferred compensation plan (the "Plan") in the form of the ICMA Retirement Corporation Deferred Compensation Plan and Trust. The assets of the Plan shall be held in trust for the exclusive benefit of the Plan participants and their beneficiaries, and the assets shall not be diverted to any other purpose. The beneficial ownership of Plan assets held in the ICMA Retirement Trust shall be held for the participants and their beneficiaries, and not subject to the claims of the City's general creditors.

#### **Note 10 - Employee Section 401 Plans**

The City offers its employees options under two separate qualified defined contribution retirement plans which meet the requirements of Section 401(a) of the Internal Revenue Code. The City has selected ICMA Retirement Corporation, an agent multiple-employer public employee retirement program, as the administrator for the employee 401(a) retirement programs.

- (1) Section 401 Money Purchase Plan - Each participant has a plan account to which they may contribute up to 8% of qualified earnings on a pretax basis with the City matching 4%. Employee contributions, employer contributions, and earnings are not taxed until they are withdrawn. Participants may choose from a variety of mutual funds available in which to invest. Participants are always fully vested in their own contributions and the earnings on those contributions. Participant vesting in employer contributions are based on years of service.
- (2) Section 401 Profit Sharing Plan - Each participant has a plan account to which he/she may contribute up to 8% of qualified earnings on an after-tax basis, with the City matching one-half up to 4% of employee earnings. Earnings on plan contributions are not taxed until withdrawn.

**CITY OF GROVES, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 10 - Employee Section 401 Plans (continued)**

401 Money Purchase Plan		
Employee Contributions	\$	1,279,271
Employer Contributions		638,762
		<hr/>
Total	\$	1,918,033
401 Profit Sharing		
Employee Contributions	\$	2,308,802
Employer Contributions		1,374,570
		<hr/>
Total	\$	3,683,372

**Note 11 - Commitments and Contingencies**

**Litigation and Other Contingencies**

From time to time, the City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of City Management and legal counsel that any ultimate uninsured liability to the City from these lawsuits will not be material.

**Note 12 - Risk Management**

The City is exposed to various risks of losses related to torts, theft of, damage to and destruction of fixed assets; errors and omissions; injuries to employees; and natural disasters. The City has obtained commercial insurance coverage for these risks and provided various employee education and prevention programs.

There have been no significant reductions in insurance from the prior year. The liabilities for claims have not changed since last year. There have been no settlements in excess of coverage in the past three years. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience. Claims liabilities include specific, incremental claim adjustment expenses, allocated loss adjustment expenses, and are reduced for estimated recoveries on unsettled claims such as salvage or subrogation.

**CITY OF GROVES, TEXAS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 13 - Restatement of Fund Balance and Net Assets**

The City has a restatement of prior year’s fund balance for Government Funds due to combining the sales tax, equipment replacement, library, and sick leave funds into the general fund. Proprietary Funds, Business Activities, and Governmental Activities are restated due to capital assets relating to water and sewer activity that were misclassified as Governmental Activities instead of Business Activities. These items, as well as other adjustments, resulted in the following adjustments to beginning fund balance and net assets:

	<u>General Fund</u>
Ending Fund Balance- Prior Year	\$ 2,735,193
The following funds have been combined into the General Fund to reflect actual City operations	
Sales Tax Fund	3,027,490
Equipment Replacement Fund	960,104
Library Fund	49,309
Employee Compensated Absences Fund	667,238
Adjustment-reclassifying vacation pay liability as long-term	150,314
Prior year receipts for grant fund expenditures deposited into General Fund	<u>(460,940)</u>
Beginning Fund Balance- Current Year	<u><u>\$ 7,128,708</u></u>

	<u>Governmental Activities</u>	<u>Business Activities</u>
Ending Net Assets-Prior Year	\$ 13,706,757	\$ 18,489,434
Adjustment-reclassifying Water & Sewer related capital assets from Governmental Activity to Business Activities	(7,436,375)	7,436,375
Adjustments to the basis of previously unreported capital assets	<u>                    </u>	<u>369,605</u>
Beginning Net Assets- Current Year	<u><u>\$ 6,270,382</u></u>	<u><u>\$ 26,295,414</u></u>

**Required Supplementary Information**

**CITY OF GROVES, TEXAS**

**GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**BUDGET AND ACTUAL (BUDGETARY BASIS) UNAUDITED**

*For the Year Ended September 30, 2010*

	<b>2010</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>Revenues</b>				
Taxes:				
Property taxes	\$ 4,197,000	\$ 4,197,549	\$ 4,113,129	\$ (84,420)
Sales and use taxes	1,055,000	1,255,000	1,105,295	(149,705)
Franchise taxes	1,000,000	1,000,000	992,541	(7,459)
Hotel taxes	125,000	150,000	86,579	(63,421)
Fines and forfeitures	208,500	252,500	326,358	73,858
Licenses and permits	147,950	161,900	145,623	(16,277)
Intergovernmental		835,500	699,667	(135,833)
Investment earnings	140,000	70,050	24,576	(45,474)
Miscellaneous	724,500	(22,500)	118,071	140,571
<b>Total Revenues</b>	<u>7,617,950</u>	<u>7,922,499</u>	<u>7,636,023</u>	<u>(286,476)</u>
<b>Expenditures</b>				
Current:				
General government	1,136,168	1,106,959	1,258,699	(151,740)
Public Safety	3,915,695	3,988,190	3,849,766	138,424
Public Works	2,221,995	2,225,957	2,139,258	86,699
Culture and recreation	672,555	717,893	768,370	(50,477)
Capital Outlay	89,000	327,500	431,886	(104,386)
Debt Service:				
Principal			3,810	(3,810)
Interest and other charges			205	(205)
<b>Total Expenditures</b>	<u>8,035,413</u>	<u>8,366,499</u>	<u>8,451,994</u>	<u>(85,495)</u>
<b>Revenues over (under)     expenditures</b>	(417,463)	(444,000)	(815,971)	(371,971)
<b>Other Financing Sources (Uses)</b>				
Proceeds from long-term debt, net			284,764	284,764
Transfers in	200,000	75,000	144,719	69,719
Transfers out				
<b>Total other financing     sources (uses)</b>	<u>200,000</u>	<u>75,000</u>	<u>429,483</u>	<u>354,483</u>
Changes in fund balance	(217,463)	(369,000)	(386,488)	(17,488)
<b>Fund Balances - Beginning of Year</b>	<u>7,128,708</u>	<u>7,128,708</u>	<u>7,128,708</u>	
<b>Fund Balances - End of Year</b>	<u>\$ 6,911,245</u>	<u>\$ 6,759,708</u>	<u>\$ 6,742,220</u>	<u>\$ (17,488)</u>

**CITY OF GROVES, TEXAS**  
**GROVES ECONOMIC DEVELOPMENT CORPORATION FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL (BUDGETARY BASIS) UNAUDITED**  
*For the Year Ended September 30, 2010*

	<b>2010</b>			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues</b>				
Taxes:				
Sales and use taxes	\$ 650,000	\$ 650,000	\$ 550,740	\$ (99,260)
Investment earnings	60,000	10,000	4,943	(5,057)
<b>Total Revenues</b>	<u>710,000</u>	<u>660,000</u>	<u>555,683</u>	<u>(104,317)</u>
<b>Expenditures</b>				
Current:				
Economic development	181,150	181,500	468,681	(287,181)
<b>Total Expenditures</b>	<u>181,150</u>	<u>181,500</u>	<u>468,681</u>	<u>(287,181)</u>
<b>Revenues over (under)     expenditures</b>	528,850	478,500	87,002	(391,498)
<b>Other Financing Sources (Uses)</b>				
Transfers out	<u>(478,500)</u>	<u>(478,500)</u>	<u>(487,590)</u>	<u>(9,090)</u>
<b>Revenues and other financing     sources over/(under) expenditures</b>	50,350		(400,588)	(400,588)
<b>Fund Balances - Beginning of Year</b>	<u>1,567,407</u>	<u>1,567,407</u>	<u>1,567,407</u>	
<b>Fund Balances - End of Year</b>	<u>\$ 1,617,757</u>	<u>\$ 1,567,407</u>	<u>\$ 1,166,819</u>	<u>\$ (400,588)</u>

## **CITY OF GROVES, TEXAS**

### ***NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION***

*Year ended September 30, 2010*

#### **General Budget Policies**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the following governmental funds: the General Fund, Groves Economic Development Fund, and Debt Service Fund. All other governmental funds are unbudgeted. All annual appropriations lapse at fiscal year-end. Budget amounts and comparisons presented in the financial statements are unaudited.

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. On or before the first day of August each year, the Mayor or the City Manager shall submit to the City Council a budget estimate of the revenues of the City and the expenditures or expenses of conducting the affairs thereof for the ensuing year.
2. On receipt of the estimate, the City Council shall at once prepare an appropriation ordinance, using the estimate as a basis. Provisions shall be made for public hearings upon the appropriation ordinance before a committee of the City Council, or before the entire City Council sitting as a committee as a whole.
3. Following the public hearing, and before the second reading and final passage, the appropriation ordinance shall be published in the official newspaper of the City.
4. The City Council shall not pass the appropriation ordinance until at least ten days after its publication, but shall pass the appropriation ordinance no later than September 30 of each year.
5. The legal level of control is by fund level where the City Council's approval is required. The City Council may transfer unencumbered appropriations for the use of a department, division or purpose or any other department, division or purpose without public notice and public hearing except when such transfer shall be made of revenue or earnings of any non-tax supported public utility to any other purpose. No amendment is necessary if department expenditures exceed budget, as long as fund expenditures do not exceed the fund budget.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles.

The City has not complied with budgetary spending rules for the year ended September 30, 2010, as expenditures exceeded appropriations at the fund level for the General Fund and GEDC. Supplemental budget appropriations were made for the year ended September 30, 2010.

**CITY OF GROVES, TEXAS**  
**REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION**  
*September 30, 2010*

**TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)**

**Schedule of Funding Progress**

<b>Actuarial Valuation Date December 31,</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Annual Covered Payroll (c)</b>	<b>(UAAL) as a Percentage of Covered Payroll ((b-a)/c)</b>
2007	\$ 15,380,890	\$ 19,823,700	\$4,442,810	77.6%	\$ 4,999,894	88.9%
2008	16,258,949	22,100,719	5,841,770	73.6%	6,233,597	93.7%
2009	17,244,164	21,987,964	4,743,800	78.4%	6,158,168	77.0%

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**Combining and Individual Fund  
Statements and Schedules**

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## **Non-Major Governmental Funds**

### **Special Revenue Funds**

To account for the proceeds and specific revenue sources that are legally restricted to expenditures for specific purposes.

#### **Police Special Fund**

This special revenue fund is used to account for the receipt of state and federal narcotics seizure revenue and the expenditures of such funds for law enforcement drug-related areas.

#### **Grant Fund**

This special revenue fund is used to account for the activity relating to federal and state programs.

**CITY OF GROVES, TEXAS**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
*September 30, 2010*

	<b>Police Special Fund</b>	<b>Grant Fund</b>	<b>Total Non- Major Governmental Funds</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 77,409	\$	\$ 77,409
Taxes receivable, net			
<b>Total Assets</b>	<u>\$ 77,409</u>	<u>\$</u>	<u>\$ 77,409</u>
 Fund balances:			
Reserved for:			
Public safety	77,409		77,409
Community projects			
<b>Total Fund Balances</b>	<u>77,409</u>		<u>77,409</u>
 <b>Total Liabilities and Fund Balances</b>	<u>\$ 77,409</u>	<u>\$</u>	<u>\$ 77,409</u>

**CITY OF GROVES, TEXAS**  
**COMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2010**

	<b>Police Special Fund</b>	<b>Grant Fund</b>	<b>Total Non- Major Governmental Funds</b>
<b>Revenues</b>			
Taxes:			
Fines and forfeitures	\$ 9,979	\$	\$ 9,979
Intergovernmental		21,804	21,804
Investment earnings	64		64
<b>Total Revenues</b>	<u>10,043</u>	<u>21,804</u>	<u>31,847</u>
<b>Expenditures</b>			
Current:			
General government	3,248		3,248
Public safety		4,767	4,767
Capital Outlay	7,996	8,991	16,987
<b>Total Expenditures</b>	<u>11,244</u>	<u>13,758</u>	<u>25,002</u>
<b>Revenues over (under) expenditures</b>	<u>(1,201)</u>	<u>8,046</u>	<u>6,845</u>
<b>Fund Balances - Beginning of Year Restated</b>	<u>78,610</u>	<u>(8,046)</u>	<u>70,564</u>
<b>Fund Balances - End of Year</b>	<u>\$ 77,409</u>	<u>\$</u>	<u>\$ 77,409</u>

**CITY OF GROVES, TEXAS**

**DEBT SERVICE FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**

**BUDGET AND ACTUAL (BUDGETARY BASIS)**

*For the Year Ended September 30, 2010*

*With comparative actual amounts for the year ended September 30, 2009*

	2010		Variance Positive (Negative)	2009
	Final Budget	Actual		Actual
<b>Revenues</b>				
Taxes:				
Property taxes	\$ 563,450	\$ 551,347	\$ (12,103)	\$ 1,593,042
Investment earnings		330	330	9,065
<b>Total Revenues</b>	<u>563,450</u>	<u>551,677</u>	<u>(11,773)</u>	<u>1,602,107</u>
<b>Expenditures</b>				
Current:				
Debt Service:				
Principal	990,000	990,000		1,065,000
Interest and other charges	516,950	496,782	20,168	579,654
<b>Total Expenditures</b>	<u>1,506,950</u>	<u>1,486,782</u>	<u>20,168</u>	<u>1,644,654</u>
<b>Revenues over (under)     expenditures</b>	(943,500)	(935,105)	8,395	(42,547)
<b>Other Financing Sources (Uses)</b>				
Transfers in	943,500	952,590	9,090	107
<b>Revenues and other financing     sources over/(under) expenditures</b>		17,485	17,485	(42,440)
<b>Fund Balances - Beginning of Year</b>	(11,240)	(11,240)		31,200
<b>Fund Balances - End of Year</b>	<u>\$ (11,240)</u>	<u>\$ 6,245</u>	<u>\$ 17,485</u>	<u>\$ (11,240)</u>