

*ANNUAL FINANCIAL REPORT*

of the

**City of Groves, Texas**

**For the Year Ended  
September 30, 2018**

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# City of Groves, Texas

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## *INDEPENDENT AUDITOR'S REPORT*

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Groves, Texas (the "City"), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2018 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

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

#### *Other Information*

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

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

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Brooks Watson & Co." in a cursive, slightly stylized font.

BrooksWatson & Co., PLLC  
Certified Public Accountants  
Houston, Texas  
April 1, 2019

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

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# City of Groves, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2018

As management of the City of Groves, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information contained in this report.

### Financial Highlights

- The City's total combined net position was \$28,805,609 at September 30, 2018. Of this, \$1,189,706 (unrestricted net position) may be used to meet the City's ongoing obligations to its citizens and creditors.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balance deficit of \$229,761, an increase of \$656,500.
- As of the end of the year, the unassigned fund balance of the general fund was a deficit \$423,042.
- The City had an overall increase in net position of \$826,459, which is primarily a result of the decrease in long-term debt obligations due to principal payments made in the current year.

### Overview of the Financial Statements

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

### Government-Wide Statements

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses

# City of Groves, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2018

are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

### FUND FINANCIAL STATEMENTS

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

#### Governmental Funds

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

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

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

# City of Groves, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2018

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

### **Proprietary Funds**

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

Proprietary financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer and solid waste funds, all of which are considered to be major funds of the City.

### **Component Unit**

The City maintains the accounting and financial statements for one component unit. The Groves Economic Development Corporation, which is a blended component unit, is presented as a special revenue fund within the governmental fund financial statements.

### **Notes to Financial Statements**

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

### **Other Information**

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

**City of Groves, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2018**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Groves, assets exceeded liabilities by \$28,805,609 as of September 30, 2018, in the primary government.

The largest portion of the City's net position, \$27,426,400, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

The following table reflects the condensed Statement of Net Position:

	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and						
other assets	\$ 1,643,190	\$ 2,033,427	\$ 3,676,617	\$ 1,194,577	\$ 943,071	\$ 2,137,648
Internal balances	(931,935)	931,935	-	(1,098,504)	1,098,504	-
Net pension asset	170,922	41,147	212,069	-	-	-
Capital assets, net	9,008,514	23,797,403	32,805,917	9,533,805	25,192,420	34,726,225
<b>Total Assets</b>	<b>9,890,691</b>	<b>26,803,912</b>	<b>36,694,603</b>	<b>9,629,878</b>	<b>27,233,995</b>	<b>36,863,873</b>
<b>Deferred Outflows of Resources</b>	<b>576,152</b>	<b>132,563</b>	<b>708,715</b>	<b>2,066,543</b>	<b>504,424</b>	<b>2,570,967</b>
Other liabilities	1,170,578	1,327,031	2,497,609	2,276,168	1,173,540	3,449,708
Long-term liabilities	4,993,419	6,842	5,000,261	7,261,943	458,396	7,720,339
<b>Total Liabilities</b>	<b>6,163,997</b>	<b>1,333,873</b>	<b>7,497,870</b>	<b>9,538,111</b>	<b>1,631,936</b>	<b>11,170,047</b>
<b>Deferred Inflows of Resources</b>	<b>886,444</b>	<b>213,395</b>	<b>1,099,839</b>	<b>228,972</b>	<b>56,671</b>	<b>285,643</b>
Net Position:						
Net investment						
in capital assets	3,628,997	23,797,403	27,426,400	2,665,786	25,085,599	27,751,385
Restricted	189,503	-	189,503	97,767	-	97,767
Unrestricted	(402,098)	1,591,804	1,189,706	(834,215)	964,213	129,998
<b>Total Net Position</b>	<b>\$ 3,416,402</b>	<b>\$ 25,389,207</b>	<b>\$ 28,805,609</b>	<b>\$ 1,929,338</b>	<b>\$ 26,049,812</b>	<b>\$ 27,979,150</b>

**City of Groves, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2018**

**Statement of Activities:**

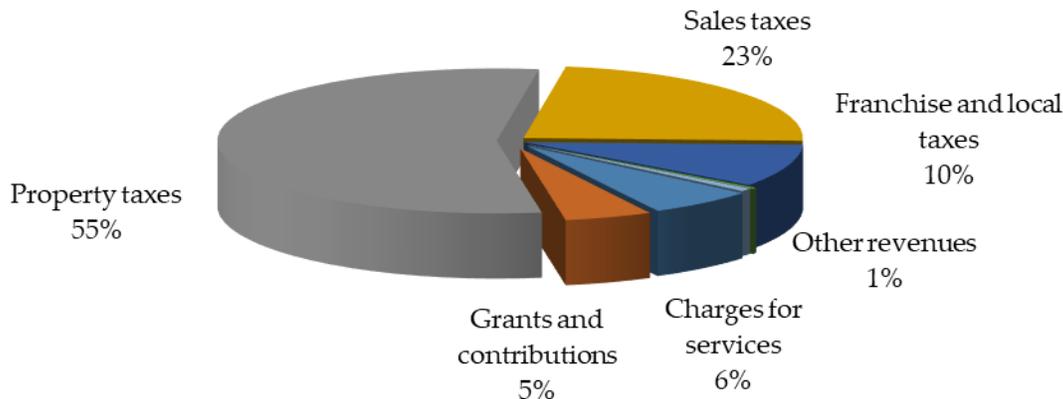
The following table provides a summary of the City's changes in net position:

	For the Year Ended September 30, 2018			For the Year Ended September 30, 2017		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 603,248	\$ 6,476,310	\$ 7,079,558	\$ 478,817	\$ 5,859,624	\$ 6,338,441
Grants and contributions	492,145	1,331,037	1,823,182	54,262	-	54,262
General revenues:						
Property taxes	5,332,651	-	5,332,651	5,116,759	-	5,116,759
Sales taxes	2,245,611	-	2,245,611	1,866,035	-	1,866,035
Franchise and local taxes	918,404	-	918,404	830,192	-	830,192
Investment income	32,273	-	32,273	14,077	-	14,077
Other revenues	67,861	-	67,861	28,992	-	28,992
<b>Total Revenues</b>	<b>9,692,193</b>	<b>7,807,347</b>	<b>17,499,540</b>	<b>8,389,134</b>	<b>5,859,624</b>	<b>14,248,758</b>
<b>Expenses</b>						
General government	1,427,529	-	1,427,529	1,363,492	-	1,363,492
Public safety	5,065,692	-	5,065,692	5,378,914	-	5,378,914
Public works	2,717,677	-	2,717,677	2,758,592	-	2,758,592
Culture and recreation	613,312	-	613,312	597,469	-	597,469
Economic development	24,558	-	24,558	37,004	-	37,004
Interest and fiscal charges	153,361	1,106	154,467	237,371	9,513	246,884
Water & sewer	-	4,224,828	4,224,828	-	4,219,782	4,219,782
Solid waste	-	2,445,018	2,445,018	-	1,066,668	1,066,668
<b>Total Expenses</b>	<b>10,002,129</b>	<b>6,670,952</b>	<b>16,673,081</b>	<b>10,372,842</b>	<b>5,295,963</b>	<b>15,668,805</b>
<b>Change in Net Position</b>						
<b>Before Transfers</b>	(309,936)	1,136,395	826,459	(1,983,708)	563,661	(1,420,047)
Transfers	1,797,000	(1,797,000)	-	1,093,240	(1,093,240)	-
<b>Total</b>	<b>1,797,000</b>	<b>(1,797,000)</b>	<b>-</b>	<b>1,093,240</b>	<b>(1,093,240)</b>	<b>-</b>
<b>Change in Net Position</b>	<b>1,487,064</b>	<b>(660,605)</b>	<b>826,459</b>	<b>(890,468)</b>	<b>(529,579)</b>	<b>(1,420,047)</b>
Beginning Net Position	1,929,338	26,049,812	27,979,150	2,819,806	26,579,391	29,399,197
<b>Ending Net Position</b>	<b>\$ 3,416,402</b>	<b>\$ 25,389,207</b>	<b>\$ 28,805,609</b>	<b>\$ 1,929,338</b>	<b>\$ 26,049,812</b>	<b>\$ 27,979,150</b>

**City of Groves, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued**  
**September 30, 2018**

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

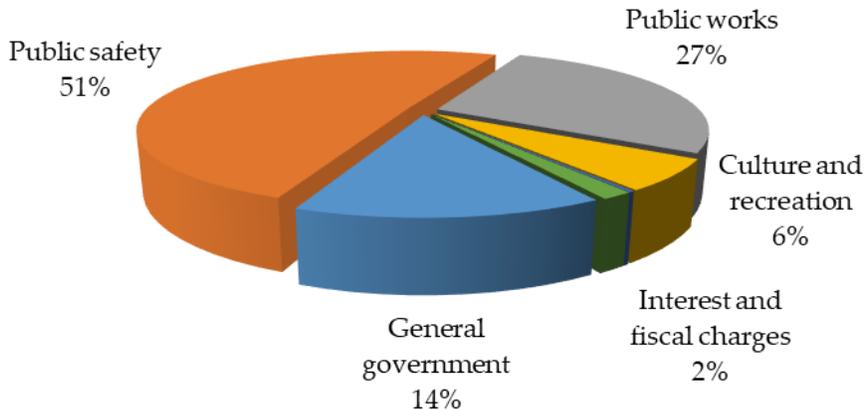
**Governmental Activities - Revenues**



For the year ended September 30, 2018, revenues from governmental activities totaled \$9,692,193. Property tax, sales tax and grants and contributions are the City's largest revenue sources. Grants and contributions increased by \$437,883 primarily due to nonrecurring FEMA grants received in the current year. Charges for services increased by \$124,431 or 26% due to a significant increase in building permits issued in the current year. Sales taxes and franchise taxes increased by \$379,576 and \$88,212, respectively, due to economic growth within the City and the hurricane sales activity. Investment income increased by \$18,196 due to an increase in interest-bearing cash accounts. Other revenues increased \$38,869 or 134% primarily as a result of nonrecurring insurance reimbursements received in the current year. All other revenues remained relatively consistent when compared to the previous year.

This graph shows the governmental function expenses of the City:

**Governmental Activities - Expenses**



For the year ended September 30, 2018, expenses for governmental activities totaled \$10,002,129. This represents a decrease of \$370,713 or 4% from the prior year. The City's largest functional expense is

# City of Groves, Texas

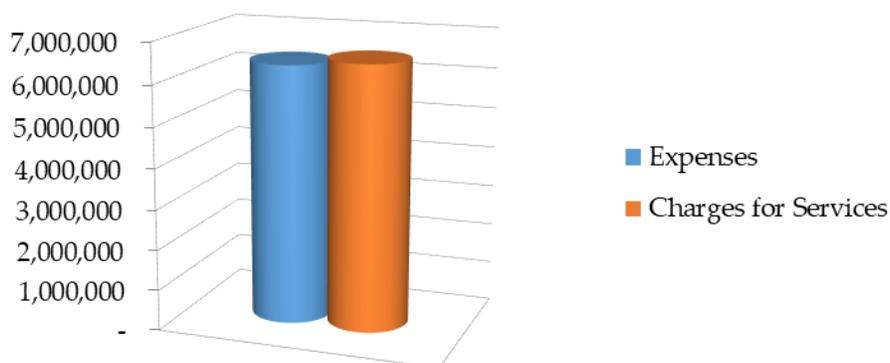
## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2018

public safety of \$5,065,692, which decreased by \$313,222 or 6%. This change is primarily a result of decreased salaries and overtime due to hurricane clean up in the prior year. Economic development expenses decreased by \$12,446 or 34% primarily due to a decline in grant disbursements. Interest and fiscal charges decreased by \$84,010 or 35%, as more outstanding long-term debt approaches maturity dates. All other expenditures remained relatively consistent with the previous year.

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

### Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2018, charges for services by business-type activities totaled \$6,476,310. This is an increase of \$616,686 or 11% from the previous year, which is primarily attributed to overall greater utility consumption by the City's growing customer base.

Total expenses amounted to \$6,670,952, an increase of \$1,374,989 or 26% during the year. This is primarily attributed to greater landfill fees in the current year due to hurricane Harvey cleanup.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

**City of Groves, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued***  
**September 30, 2018**

As of the end of the year the general fund reflected a fund balance of \$419,264. Of this, \$3,778 is considered nonspendable due to inventory and prepaid assets. Unassigned fund balance totaled a deficit of \$423,042 as of year end.

The debt service fund had an ending fund balance of \$54,623 at yearend, an increase of \$23,400 from the prior year. Total principal and interest payments made during the year were \$1,475,000 and \$152,448, respectively.

There was an overall increase in governmental fund balance of \$656,500 from the prior year. The increase was primarily a result of transfers from the City's proprietary funds.

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

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

There was a total positive revenue variance of \$324,432 and a positive expenditure variance of \$303,481 for the year. Other financing uses had an overall negative budget variance of \$95,685. This negative variance was primarily the result of transfers in and out being under budget. No supplemental budget amendments were made during the year.

#### **CAPITAL ASSETS**

As of the end of the year, the City's governmental activities funds had invested \$9,008,514 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested \$23,797,403 in a variety of capital assets and infrastructure, net of accumulated depreciation.

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

- Purchase of two new police vehicles for \$66,218.
- Purchase of fire safety airpack equipment for \$19,875.
- Sewer plant improvements of \$26,825.
- Purchase of new lift pumps and water meters totaling \$48,583.

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

# City of Groves, Texas

## MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2018

### **LONG-TERM DEBT**

At the end of the current year, the City had total bonds, notes, and leases outstanding of \$5,405,000. During the year, the City's payments on the long-term debt totaled of \$1,598,321. No new debt was issued during the year. More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Groves and improving services provided to their public citizens. The City is budgeting for growth in the upcoming year.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City of Groves' finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Finance Director, 3947 Lincoln Avenue, Groves, Texas 77619.

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## ***FINANCIAL STATEMENTS***

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**City of Groves, Texas**  
**STATEMENT OF NET POSITION**  
September 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b><u>Assets</u></b>			
Current assets:			
Cash and cash equivalents	\$ 353,247	\$ 659,693	\$ 1,012,940
Receivables, net	1,286,165	1,321,246	2,607,411
Inventories	2,675	52,488	55,163
Prepays	1,103	-	1,103
Internal balances	(931,935)	931,935	-
<b>Total Current Assets</b>	<b>711,255</b>	<b>2,965,362</b>	<b>3,676,617</b>
Net pension asset	170,922	41,147	212,069
Capital assets:			
Non-depreciable	153,104	704,691	857,795
Net depreciable capital assets	8,855,410	23,092,712	31,948,122
<b>Total Capital Assets</b>	<b>9,008,514</b>	<b>23,797,403</b>	<b>32,805,917</b>
<b>Total Assets</b>	<b>9,890,691</b>	<b>26,803,912</b>	<b>36,694,603</b>
<b><u>Deferred Outflows of Resources</u></b>			
Pension contributions	316,599	76,215	392,814
Pension assumption changes	234,071	56,348	290,419
Deferred charges on refunding	25,482	-	25,482
<b>Total Deferred Outflows of Resources</b>	<b>576,152</b>	<b>132,563</b>	<b>708,715</b>
<b><u>Liabilities</u></b>			
Current liabilities:			
Accounts payable and accrued liabilities	364,983	549,031	914,014
Customer deposits	-	716,422	716,422
Accrued interest payable	9,826	-	9,826
Long-term debt due in one year	795,769	61,578	857,347
	<b>1,170,578</b>	<b>1,327,031</b>	<b>2,497,609</b>
Noncurrent liabilities:			
Long-term debt due in more than one year	4,993,419	6,842	5,000,261
	<b>4,993,419</b>	<b>6,842</b>	<b>5,000,261</b>
<b>Total Liabilities</b>	<b>6,163,997</b>	<b>1,333,873</b>	<b>7,497,870</b>
<b><u>Deferred Inflows of Resources</u></b>			
Pension investment earnings	780,741	187,949	968,690
Pension (gains) losses	105,703	25,446	131,149
<b>Total Deferred Inflows of Resources</b>	<b>886,444</b>	<b>213,395</b>	<b>1,099,839</b>
<b><u>Net Position</u></b>			
Net investment in capital assets	3,628,997	23,797,403	27,426,400
Restricted for:			
Economic development	62,700	-	62,700
Enabling legislation	72,180	-	72,180
Debt service	54,623	-	54,623
Unrestricted	(402,098)	1,591,804	1,189,706
<b>Total Net Position</b>	<b>\$ 3,416,402</b>	<b>\$ 25,389,207</b>	<b>\$ 28,805,609</b>

See Notes to Financial Statements.

# City of Groves, Texas

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities</b>			
General government	\$ 1,427,529	\$ 83,457	\$ 442,297
Public safety	5,065,692	301,014	27,966
Public works	2,717,677	218,777	-
Culture and recreation	613,312	-	21,882
Economic development	24,558	-	-
Interest and fiscal charges	153,361	-	-
<b>Total Governmental Activities</b>	<b>10,002,129</b>	<b>603,248</b>	<b>492,145</b>
<b>Business-Type Activities</b>			
Water & Sewer	4,225,934	4,889,481	40,547
Solid Waste	2,445,018	1,586,829	1,290,490
<b>Total Business-Type Activities</b>	<b>6,670,952</b>	<b>6,476,310</b>	<b>1,331,037</b>
<b>Total Primary Government</b>	<b>\$ 16,673,081</b>	<b>\$ 7,079,558</b>	<b>\$ 1,823,182</b>

**General Revenues:**

- Taxes
  - Property taxes
  - Sales taxes
  - Franchise and local taxes
- Investment income
- Insurance recoveries
- Other revenues

**Transfers**

**Total General Revenues and Transfers**

**Change in Net Position**

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

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

<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (901,775)	\$ -	\$ (901,775)
(4,736,712)	-	(4,736,712)
(2,498,900)	-	(2,498,900)
(591,430)	-	(591,430)
(24,558)	-	(24,558)
(153,361)	-	(153,361)
<u>(8,906,736)</u>	<u>-</u>	<u>(8,906,736)</u>
-	704,094	704,094
-	432,301	432,301
-	1,136,395	1,136,395
<u>(8,906,736)</u>	<u>1,136,395</u>	<u>(7,770,341)</u>
5,332,651	-	5,332,651
2,245,611	-	2,245,611
918,404	-	918,404
32,273	-	32,273
47,189	-	47,189
20,672	-	20,672
1,797,000	(1,797,000)	-
<u>10,393,800</u>	<u>(1,797,000)</u>	<u>8,596,800</u>
1,487,064	(660,605)	826,459
1,929,338	26,049,812	27,979,150
<u>\$ 3,416,402</u>	<u>\$ 25,389,207</u>	<u>\$ 28,805,609</u>

# City of Groves, Texas

## BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2018

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 152,184	\$ 54,623	\$ 146,440	\$ 353,247
Receivables, net	843,191	66,145	-	909,336
Due from other governments	376,829	-	-	376,829
Due from other funds	29,022	-	-	29,022
Inventories	2,675	-	-	2,675
Prepays	1,103	-	-	1,103
<b>Total Assets</b>	<b>\$ 1,405,004</b>	<b>\$ 120,768</b>	<b>\$ 146,440</b>	<b>\$ 1,672,212</b>
 <b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 364,983	\$ -	\$ -	\$ 364,983
Due to other funds	949,397	-	11,560	960,957
<b>Total Liabilities</b>	<b>1,314,380</b>	<b>-</b>	<b>11,560</b>	<b>1,325,940</b>
 <b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue:				
Property tax	467,351	66,145	-	533,496
Fines and fees	20,740	-	-	20,740
Grants	21,797	-	-	21,797
<b>Total Deferred Inflows of Resources</b>	<b>509,888</b>	<b>66,145</b>	<b>-</b>	<b>576,033</b>
 <b><u>Fund Balances</u></b>				
Nonspendable:				
Inventories	2,675	-	-	2,675
Prepays	1,103	-	-	1,103
Restricted for:				
Economic development	-	-	62,700	62,700
Enabling legislation	-	-	72,180	72,180
Debt service	-	54,623	-	54,623
Unassigned reported in:				
General fund	(423,042)	-	-	(423,042)
<b>Total Fund Balances</b>	<b>(419,264)</b>	<b>54,623</b>	<b>134,880</b>	<b>(229,761)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 895,116</b>	<b>\$ 54,623</b>	<b>\$ 146,440</b>	<b>\$ 1,096,179</b>

See Notes to Financial Statements.

# City of Groves, Texas

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

September 30, 2018

<b>Fund Balances - Total Governmental Funds</b>	\$	(229,761)
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**Adjustments for the Statement of Net Position:**

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

Capital assets - non-depreciable		153,104
Capital assets - net depreciable		8,855,410

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

Net pension asset		170,922
Property tax receivable		533,496
Fines and fees receivable		20,740
Grants receivable		21,797

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

Pension contributions		316,599
Pension investment earnings		(780,741)
Pension (gains) losses		(105,703)
Pension assumption changes		234,071
Deferred charge on refunding		25,482

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

Accrued interest		(9,826)
Compensated absences		(384,188)
Bonds, notes, and capital leases		(5,405,000)

<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>3,416,402</u></b>
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See Notes to Financial Statements.

# City of Groves, Texas

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

For the Year Ended September 30, 2018

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
<b><u>Revenues</u></b>				
Property tax	\$ 4,624,709	\$ 723,410	\$ -	\$ 5,348,119
Sales tax	1,498,344	-	747,267	2,245,611
Franchise and local taxes	918,404	-	-	918,404
Intergovernmental	470,348	-	-	470,348
Charges for services	83,457	-	-	83,457
License and permits	218,777	-	-	218,777
Fines and forfeitures	299,065	-	4,706	303,771
Investment income	18,378	12,868	1,027	32,273
Other revenue	18,546	-	-	18,546
<b>Total Revenues</b>	<b>8,150,028</b>	<b>736,278</b>	<b>753,000</b>	<b>9,639,306</b>
<b><u>Expenditures</u></b>				
Current:				
General government	1,353,623	-	-	1,353,623
Public safety	4,701,881	-	-	4,701,881
Public works	2,416,104	-	-	2,416,104
Culture and recreation	528,772	-	-	528,772
Economic development	-	-	24,558	24,558
Debt Service:				
Principal	16,499	1,475,000	-	1,491,499
Interest and fiscal charges	982	152,448	-	153,430
Capital outlay	159,254	-	-	159,254
<b>Total Expenditures</b>	<b>9,177,115</b>	<b>1,627,448</b>	<b>24,558</b>	<b>10,829,121</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(1,027,087)</b>	<b>(891,170)</b>	<b>728,442</b>	<b>(1,189,815)</b>
<b><u>Other Financing Sources (Uses)</u></b>				
Proceeds from sale of assets	2,126	-	-	2,126
Transfers in	1,510,000	914,570	-	2,424,570
Transfers (out)	-	-	(627,570)	(627,570)
Insurance recoveries	47,189	-	-	47,189
<b>Total</b>	<b>1,559,315</b>	<b>914,570</b>	<b>(627,570)</b>	<b>1,846,315</b>
<b>Net Change in Fund Balances</b>	<b>532,228</b>	<b>23,400</b>	<b>100,872</b>	<b>656,500</b>
Beginning fund balances	(951,492)	31,223	34,008	(886,261)
<b>Ending Fund Balances</b>	<b>\$ (419,264)</b>	<b>\$ 54,623</b>	<b>\$ 134,880</b>	<b>\$ (229,761)</b>

See Notes to Financial Statements.

# 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, 2018

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

Net changes in fund balances - total governmental funds	\$ 656,500
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	111,790
Depreciation expense	(637,081)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	3,572
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	17,926
Accrued interest	3,067
Pension expense	(157,211)

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

Amortization of deferred charges on refunding	(2,998)
Principal payments	1,491,499

<b>Change in Net Position of Governmental Activities</b>	<b>\$ 1,487,064</b>
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See Notes to Financial Statements.

**City of Groves, Texas**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**September 30, 2018**

	<u>Water &amp; Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
<b><u>Assets</u></b>			
<b><u>Current Assets</u></b>			
Cash and cash equivalents	\$ 659,693	\$ -	\$ 659,693
Receivables, net	900,398	420,848	1,321,246
Due from other funds	100,776	949,397	1,050,173
Inventories	52,488	-	52,488
<b>Total Current Assets</b>	<b>1,713,355</b>	<b>1,370,245</b>	<b>3,083,600</b>
<b><u>Noncurrent Assets</u></b>			
Net pension asset	32,053	9,094	41,147
Capital assets:			
Non-depreciable	704,691	-	704,691
Net depreciable capital assets	22,994,462	98,250	23,092,712
<b>Total Noncurrent Assets</b>	<b>23,731,206</b>	<b>107,344</b>	<b>23,838,550</b>
<b>Total Assets</b>	<b>25,444,561</b>	<b>1,477,589</b>	<b>26,922,150</b>
<b><u>Deferred Outflows of Resources</u></b>			
Pension contributions	59,371	16,844	76,215
Pension assumption changes	43,895	12,453	56,348
<b>Total Deferred Outflows of Resources</b>	<b>103,266</b>	<b>29,297</b>	<b>132,563</b>
<b><u>Liabilities</u></b>			
<b><u>Current Liabilities</u></b>			
Accounts payable and accrued liabilities	182,776	366,255	549,031
Due to other funds	17,462	100,776	118,238
Customer deposits	716,422	-	716,422
Long-term debt due within one year	53,313	8,265	61,578
<b>Total Current Liabilities</b>	<b>969,973</b>	<b>475,296</b>	<b>1,445,269</b>
<b><u>Noncurrent Liabilities</u></b>			
Long-term debt due in more than one year	5,924	918	6,842
<b>Total Liabilities</b>	<b>975,897</b>	<b>476,214</b>	<b>1,452,111</b>
<b><u>Deferred Inflows of Resources</u></b>			
Pension investment earnings	146,411	41,538	187,949
Pension (gains) losses	19,822	5,624	25,446
<b>Total Deferred Inflows of Resources</b>	<b>166,233</b>	<b>47,162</b>	<b>213,395</b>
<b><u>Net Position</u></b>			
Net investment in capital assets	23,699,153	98,250	23,797,403
Unrestricted	706,544	885,260	1,591,804
<b>Total Net Position (Deficit)</b>	<b>\$ 24,405,697</b>	<b>\$ 983,510</b>	<b>\$ 25,389,207</b>

See Notes to Financial Statements.

# City of Groves, Texas

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

For the Year Ended September 30, 2018

	Water & Sewer	Solid Waste	Total
<b><u>Operating Revenues</u></b>			
Charges for services	\$ 4,889,481	\$ 1,586,829	\$ 6,476,310
Grant income	40,547	1,290,490	1,331,037
<b>Total Operating Revenues</b>	4,930,028	2,877,319	7,807,347
<b><u>Operating Expenses</u></b>			
Personal services	1,341,692	362,237	1,703,929
Supplies	611,019	125,962	736,981
Contractual services	214,943	1,807,236	2,022,179
Repairs and maintenance	316,213	90,710	406,923
Utilities	252,476	5,179	257,655
Grant expenditures	55,914	-	55,914
Depreciation	1,432,571	53,694	1,486,265
<b>Total Operating Expenses</b>	4,224,828	2,445,018	6,669,846
<b>Operating Income (Loss)</b>	705,200	432,301	1,137,501
<b><u>Nonoperating Revenues (Expenses)</u></b>			
Interest expense	(1,106)	-	(1,106)
<b>Total Nonoperating Revenues (Expenses)</b>	(1,106)	-	(1,106)
<b>Income (Loss) Before Transfers</b>	704,094	432,301	1,136,395
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers (out)	(1,387,000)	(410,000)	(1,797,000)
<b>Change in Net Position</b>	(682,906)	22,301	(660,605)
Beginning net position	25,088,603	961,209	26,049,812
<b>Ending Net Position (Deficit)</b>	\$ 24,405,697	\$ 983,510	\$ 25,389,207

See Notes to Financial Statements.

**City of Groves, Texas**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (Page 1 of 2)**  
**For the Year Ended September 30, 2018**

	<u>Water &amp; Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
<b><u>Cash Flows from Operating Activities</u></b>			
Receipts from customers	\$ 4,711,973	\$ 2,511,697	\$ 7,223,670
Payments to suppliers	(1,130,091)	(1,876,622)	(3,006,713)
Payments to employees	(1,335,756)	(349,481)	(1,685,237)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>2,246,126</u>	<u>285,594</u>	<u>2,531,720</u>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>			
Transfer (out)	(1,387,000)	(410,000)	(1,797,000)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<u>(1,387,000)</u>	<u>(410,000)</u>	<u>(1,797,000)</u>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>			
Capital purchases	(91,248)	-	(91,248)
Principal paid on debt	(106,822)	-	(106,822)
Interest paid on debt	(1,813)	-	(1,813)
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<u>(199,883)</u>	<u>-</u>	<u>(199,883)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	659,243	(124,406)	534,837
Beginning cash and cash equivalents	450	124,406	124,856
<b>Ending Cash and Cash Equivalents</b>	<u>\$ 659,693</u>	<u>\$ -</u>	<u>\$ 659,693</u>

See Notes to Financial Statements.

**City of Groves, Texas**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS (Page 2 of 2)**  
**For the Year Ended September 30, 2018**

	<u>Water &amp; Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
<b><u>Reconciliation of Operating Income (Loss)</u></b>			
<b><u>to Net Cash Provided by Operating Activities</u></b>			
Operating Income (Loss)	\$ 705,200	\$ 432,301	\$ 1,137,501
Adjustments to reconcile operating income (loss) to net cash provided:			
Depreciation	1,432,571	53,694	1,486,265
<b>Changes in Operating Assets and Liabilities:</b>			
<b>(Increase) Decrease in:</b>			
Accounts receivable	(239,790)	(365,622)	(605,412)
Inventory	49,893	-	49,893
Net pension liability	(381,877)	(108,914)	(490,791)
Due from other funds	258,918	(92,349)	166,569
Deferred Outflows of Resources:			
Pension contributions	11,607	3,409	15,016
Pension assumption changes	26,258	7,565	33,823
<b>Increase (Decrease) in:</b>			
Accounts payable and accrued liabilities	11,663	244,814	256,477
Customer deposits	21,735	-	21,735
Compensated absences	(23,507)	4,405	(19,102)
Deferred Inflows of Resources:			
Investment experience	397,723	113,248	510,971
Actual experience vs. assumption	(24,268)	(6,957)	(31,225)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>\$ 2,246,126</u></b>	<b><u>\$ 285,594</u></b>	<b><u>\$ 2,531,720</u></b>

See Notes to Financial Statements.

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**City of Groves, Texas**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Government-Wide Financial Statements**

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

**B. Reporting Entity**

The City of Groves, Texas, was incorporated in December 1952. The City operates under a "Council-Manager" government. Pursuant to its provisions and subject only to its limitations imposed by the State Constitution and by the City's charter, all powers of the City shall be vested in an elective Council composed of 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 as authorized by its charter: public safety, public works, parks and recreation, library, water and sewer and general administrative services.

The City is an independent political subdivision of the State of Texas governed by an elected council and is considered a primary government for financial reporting purposes as its activities are not considered a part of any other governmental or other type of reporting entity. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Groves Economic Development Corporation ("EDC") although legally separate, is considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting

# City of Groves, Texas

## NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2018

entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

### **Blended Component Unit**

#### Groves Economic Development Corporation

The Groves Economic Development Corporation is governed by a board of seven directors, all of whom are appointed by the City Council at its will. The board of directors consists of four or more City Council members which gives the City control over voting matters. The GEDC is also obligated to pay a portion of the City's debt through sales tax revenue. The EDC fund was incorporated in the state of Texas as a nonprofit industrial development corporation under Section 4B of the Development Corporation Act of 1979. The purpose of the EDC is to promote economic and community development within the City of Groves. Separately audited financial statements are not issued.

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

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

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

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

**City of Groves, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2018

The government reports the following major governmental funds:

**General Fund**

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

**Debt Service Fund**

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

**Proprietary Fund Types**

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

The government reports the following major enterprise fund:

**Water and Sewer Fund**

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

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**Solid Waste Fund**

This fund is used to account for the provision of garbage and brush removal services to the residents of the City. Activities of the fund include administration, operations and maintenance and contract garbage services. The fund also accounts for the accumulation of resources for and the payment of long-term debt. All costs are financed through charges to utility customers.

Additionally, the government reports the following fund types:

**Special Revenue Funds**

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

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

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

**D. Measurement Focus and Basis of Accounting**

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

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

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

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

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

**E. Estimates**

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

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

**1. Deposits and Investments**

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

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consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

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

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

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

**2. Fair Value**

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

**3. Receivables and Interfund Transactions**

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

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

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

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**4. Property Taxes**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Penalties are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 at the rate of 1% per month up to the date collected by the government. Under state law, property taxes levied on real property constitute a lien on the real property which cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes levied on personal property can be deemed uncollectible by the City.

**5. Inventories and Prepaid Items**

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

**6. Capital Assets**

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

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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<b>Asset Description</b>	<b>Estimated Useful Life</b>
Vehicles	5 to 10 years
Machinery and equipment	5 to 10 years
Water & sewer system	15 to 40 years
Buildings and improvements	15 to 40 years
Roads	15 to 40 years

**7. Deferred Outflows/Inflows of Resources**

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

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and fines and forfeitures. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred inflows of resources can also occur at the government wide level due to differences between investment gains and losses realized on pension investments compared to assumption used within the pension actuarial valuation model.

**8. Net Position Flow Assumption**

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

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

**9. Fund Balance Flow Assumptions**

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

**10. Fund Balance Policies**

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

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

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

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

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**11. Compensated Absences**

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

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

Sick leave accrues to eligible employees to specified maximums, including the maximum number of hours that can be carried over from the previous year. Upon retirement or death, 50% of unused sick leave is paid to the employee. In addition, employees who are in good standing and continuously employed with the City since 1984 can have up to 960 hours of accrued sick leave compensated upon separation with the City.

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

**12. Long-Term Obligations**

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

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective

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interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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

**13. Pensions**

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

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

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

**2. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

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

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

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**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

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

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

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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

**A. Expenditures in Excess of Appropriations**

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

Economic development fund:	
Transfers (out)	\$ 27,570

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**B. Deficit Fund Equity**

The solid waste fund had a deficit fund balance of \$13,576 as of September 30, 2018 due to current year expenditures and transfers out exceeding revenues. This deficit will be replenished through the interfund transfers, as well as future operating surpluses.

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of September 30, 2018, the primary government did not hold any investments.

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

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

*Custodial credit risk – deposits* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City's investment policy requires funds on bank deposit at the depository bank to be collateralized by securities with a collective market value (market value of the principal and accrued interest) of at least 102%. As of September 30, 2018, the market values of pledged securities and FDIC exceeded bank balances.

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*Custodial credit risk – investments* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

**B. Receivables**

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

	<u>General</u>	<u>Debt Service</u>	<u>Water &amp; Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
Property taxes	\$ 497,182	\$ 70,367	\$ -	\$ -	\$ 567,549
Sales tax	376,829	-	-	-	376,829
Franchise and other taxes	115,035	-	-	-	115,035
Fines and forfeitures	370,760	-	-	-	370,760
Grant	209,175	-	-	341,092	550,267
Other	11,886	-	-	-	11,886
Accounts	-	-	1,480,324	143,837	1,624,161
Allowance	(360,847)	(4,222)	(579,926)	(64,081)	(1,009,076)
	<u>\$ 1,220,020</u>	<u>\$ 66,145</u>	<u>\$ 900,398</u>	<u>\$ 420,848</u>	<u>\$ 2,607,411</u>

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**C. Capital Assets**

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 153,104	\$ -	\$ -	\$ 153,104
Total capital assets not being depreciated	<u>153,104</u>	<u>-</u>	<u>-</u>	<u>153,104</u>
Capital assets, being depreciated:				
Buildings and improvements	8,480,129	5,182	-	8,485,311
Machinery & equipment	4,104,075	19,875	-	4,123,950
Vehicles	3,415,519	86,733	-	3,502,252
Infrastructure	14,292,127	-	-	14,292,127
Total capital assets being depreciated	<u>30,291,850</u>	<u>111,790</u>	<u>-</u>	<u>30,403,640</u>
Less accumulated depreciation				
Buildings and improvements	(3,899,230)	(157,829)	-	(4,057,059)
Machinery & equipment	(3,106,271)	(152,017)	-	(3,258,288)
Vehicles	(2,306,996)	(142,823)	-	(2,449,819)
Infrastructure	(11,598,652)	(184,412)	-	(11,783,064)
Total accumulated depreciation	<u>(20,911,149)</u>	<u>(637,081)</u>	<u>-</u>	<u>(21,548,230)</u>
Net capital assets being depreciated	<u>9,380,701</u>	<u>(525,291)</u>	<u>-</u>	<u>8,855,410</u>
<b>Total Net Capital Assets</b>	<u>\$ 9,533,805</u>	<u>\$ (525,291)</u>	<u>\$ -</u>	<u>\$ 9,008,514</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 8,383
Public safety	284,713
Public works	265,105
Culture and recreation	78,880
<b>Total Governmental Activities Depreciation Expense</b>	<u>\$ 637,081</u>

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 677,865	\$ -	\$ -	\$ 677,865
Construction in progress	-	26,826	-	26,826
Total capital assets not being depreciated	<u>677,865</u>	<u>26,826</u>	<u>-</u>	<u>704,691</u>
Capital assets, being depreciated:				
Buildings and systems	35,042,879	-	-	35,042,879
Machinery and equipment	15,650,717	64,422	-	15,715,139
Total capital assets being depreciated	<u>50,693,596</u>	<u>64,422</u>	<u>-</u>	<u>50,758,018</u>
Less accumulated depreciation				
Buildings and systems	(14,346,863)	(943,047)	-	(15,289,910)
Machinery and equipment	(11,832,178)	(543,218)	-	(12,375,396)
Total accumulated depreciation	<u>(26,179,041)</u>	<u>(1,486,265)</u>	<u>-</u>	<u>(27,665,306)</u>
Net capital assets being depreciated	<u>24,514,555</u>	<u>(1,421,843)</u>	<u>-</u>	<u>23,092,712</u>
<b>Total Net Capital Assets</b>	<u>\$ 25,192,420</u>	<u>\$ (1,395,017)</u>	<u>\$ -</u>	<u>\$ 23,797,403</u>

Depreciation was charged to business-type functions as follows:

Water and sewer	\$ 1,432,571
Solid waste	53,694
<b>Total Business-type Activities Depreciation Expense</b>	<u>\$ 1,486,265</u>

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**D. Long-term Debt**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
<b>Governmental Activities:</b>					
Bonds and other payables:					
Certificates of Obligation	\$ 2,400,000	\$ -	\$ (25,000)	\$ 2,375,000	\$ 130,000
General Obligation Refunding	4,480,000	-	(1,450,000)	3,030,000	320,000
Capital Leases	16,499	-	(16,499)	-	-
Other liabilities:					
Compensated Absences	402,114	181,746	(199,672)	384,188	345,769
<b>Total Governmental Activities</b>	<u>\$ 7,298,613</u>	<u>\$ 181,746</u>	<u>\$ (1,691,171)</u>	<u>\$ 5,789,188</u>	<u>\$ 795,769</u>
<b>Long-term liabilities due in more than one year</b>				<u>\$ 4,993,419</u>	
<b>Business-Type Activities:</b>					
Bonds, leases, and other payables:					
Capital Leases	\$ 106,822	\$ -	\$ (106,822)	\$ -	\$ -
Other liabilities:					
Compensated Absences	87,522	38,942	(58,044)	68,420	61,578
<b>Total Business-Type Activities</b>	<u>\$ 194,344</u>	<u>\$ 38,942</u>	<u>\$ (164,866)</u>	<u>\$ 68,420</u>	<u>\$ 61,578</u>
<b>Long-term liabilities due in more than one year</b>				<u>\$ 6,842</u>	

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

**City of Groves, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2018**

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

	<b>Governmental Activities</b>	<b>Business - Type Activities</b>	<b>Total</b>
<b>General Obligation Refunding Bonds:</b>			
\$5,915,000 General Obligation Bonds, Series 2016, due in annual installments through 2027, interest at 2.010%	\$ 3,030,000	\$ -	\$ 3,030,000
<b>Total General Obligation bonds</b>	<b>\$ 3,030,000</b>	<b>\$ -</b>	<b>\$ 3,030,000</b>
<b>Certificates of Obligation:</b>			
\$2,500,000 Certificates of Obligation, Series 2013, due in annual installments through 2033, interest at 2.60%	2,375,000	-	2,375,000
<b>Total Certificates of Obligation</b>	<b>\$ 2,375,000</b>	<b>\$ -</b>	<b>\$ 2,375,000</b>
<b>Compensated Absences</b>	384,188	68,420	452,608
<b>Total Debt</b>	<b>\$ 5,789,188</b>	<b>\$ 68,420</b>	<b>\$ 5,857,608</b>

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

<u>Year ending September 30,</u>	<b>General Obligation Refunding Bonds</b>		<b>Certificates of Obligation</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2019	\$ 320,000	\$ 60,902	\$ 130,000	\$ 61,750
2020	325,000	54,472	135,000	58,370
2021	325,000	47,938	140,000	54,860
2022	335,000	41,406	140,000	51,220
2023	345,000	34,672	145,000	47,580
2024	350,000	27,738	150,000	43,810
2025	355,000	20,704	155,000	39,910
2026	360,000	13,568	155,000	35,880
2027	315,000	6,332	160,000	31,850
2028	-	-	165,000	27,690
2029	-	-	170,000	23,400
2030	-	-	175,000	18,980
2031	-	-	180,000	14,430
2032	-	-	185,000	9,750
2033	-	-	190,000	4,940
<b>Total</b>	<b>\$ 3,030,000</b>	<b>\$ 307,732</b>	<b>\$ 2,375,000</b>	<b>\$ 524,420</b>

**City of Groves, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2018**

The asset within governmental activities under capital lease had an original book value of \$63,828 and a current book value of \$16,489, net of depreciation.

The asset within business-type activities under capital lease had an original book value of \$1,680,000 and a current book value of \$233,087, net of depreciation.

**E. Customer Deposits**

The City had customer deposits of \$716,422 in the water and sewer fund as of year end. The City requires a refundable deposit for all new utility customers. This amount will be returned to the customer when utility service is discontinued and all outstanding utility expenses are paid.

**F. Interfund Transactions**

The compositions of interfund due to/from balances as of the year ended September 30, 2018 were as follows:

<u>Receivable Fund:</u>	<u>Payable Fund:</u>				
	<u>Water &amp; Sewer</u>	<u>Solid Waste</u>	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
General	\$ 17,462	\$ -	\$ -	\$ 11,560	\$ 29,022
Water and Sewer	-	100,776	-	-	100,776
Solid Waste	-	-	949,397	-	949,397
<b>Total</b>	<u>\$ 17,462</u>	<u>\$ 100,776</u>	<u>\$ 949,397</u>	<u>\$ 11,560</u>	<u>\$ 1,079,195</u>

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

Transfers between the primary government funds during the 2018 year were as follows:

<u>Transfer in:</u>	<u>Transfer out:</u>			
	<u>Nonmajor Governmental</u>	<u>Water &amp; Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
General	\$ 125,000	\$ 975,000	\$ 410,000	\$ 1,510,000
Debt service	502,570	412,000	-	914,570
<b>Total</b>	<u>\$ 627,570</u>	<u>\$ 1,387,000</u>	<u>\$ 410,000</u>	<u>\$ 2,424,570</u>

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

**City of Groves, Texas**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
September 30, 2018

**G. Deferred Charges of Refunding**

A deferred charge resulting from the issuance of the 2016 General Obligation Refunding Bonds has been recorded as a deferred outflow of resources and is being amortized to interest expense over the term of the refunded debt. Current year balances for governmental activities totaled \$25,482. Current year amortization expense for governmental activities totaled \$2,998.

**IV. OTHER INFORMATION**

**A. Risk Management**

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

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

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

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

**B. Contingent Liabilities**

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

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

**City of Groves, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2018**

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City had not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired.

During the year, the City received a franchise payment in the amount of \$239,639 from Entergy in which the underlying exchange transactions took place from June 1, 2016 through June 30, 2017. Although three months of this franchise payment took place in the prior year, the amount is not estimable from year to year and therefore not accrued and recognized in revenue until the date it is received.

**C. Arbitrage**

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

**D. Defined Benefit Pension Plans**

**Texas Municipal Retirement System**

**1. Plan Description**

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com). All eligible employees of the city are required to participate in TMRS.

**City of Groves, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2018**

**2. Benefits Provided**

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

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

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

	<u>Plan Year 2017</u>	<u>Plan Year 2016</u>
Employee deposit rate	6%	6%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	10	10
Service retirement eligibility (expressed as age / years of service)	60/10, 0/20	60/10, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

**Employees covered by benefit terms**

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	90
Inactive employees entitled to but not yet receiving benefits	35
Active employees	<u>97</u>
<b>Total</b>	<b><u>222</u></b>

**City of Groves, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2018**

**3. Contributions**

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

Employees for the City of Groves, Texas were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Groves, Texas were 9.70% and 9.57% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were \$529,166, and were \$351 more than the required contributions.

**4. Net Pension Liability (Asset)**

The City's Net Pension Liability (Asset) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability (Asset) was determined by an actuarial valuation as of that date.

**Actuarial assumptions**

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5% per year, including inflation
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

**City of Groves, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2018**

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

**Discount Rate**

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

**City of Groves, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2018**

return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

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

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 4,543,214	\$ (212,069)	\$ (4,198,220)

**Changes in the Net Pension Liability (Asset):**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
<b>Balance at 12/31/16</b>	\$ 37,889,157	\$ 35,622,781	\$ 2,266,376
Changes for the year:			
Service cost	823,620	-	823,620
Interest	2,515,223	-	2,515,223
Difference between expected and actual experience	66,072	-	66,072
Contributions – employer	-	602,529	(602,529)
Contributions – employee	-	372,679	(372,679)
Net investment income	-	4,935,035	(4,935,035)
Benefit payments, including refunds of emp. contributions	(2,076,815)	(2,076,815)	-
Administrative expense	-	(25,587)	25,587
Other changes	-	(1,296)	1,296
Net changes	1,328,100	3,806,545	(2,478,445)
<b>Balance at 12/31/17</b>	\$ 39,217,257	\$ 39,429,326	\$ (212,069)

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at [www.tmrs.com](http://www.tmrs.com).

**City of Groves, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2018**

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

For the year ended September 30, 2018, the City recognized pension expense of \$730,511.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>
Difference between projected and investment earnings	\$ -	\$ (968,690)
Differences between expected and actual economic experience	-	(131,149)
Pension assumption changes	290,419	-
Contributions subsequent to the measurement date	392,814	-
<b>Total</b>	<b>\$ 683,233</b>	<b>\$ (1,099,839)</b>

The City reported \$392,814 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended December 31:</b>	
2018	\$ 141,999
2019	65,846
2020	(519,532)
2021	(497,733)
2022	-
Thereafter	-
	<b>\$ (809,420)</b>

**E. Employee Benefit Plans**

**1. 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.

**City of Groves, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2018**

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.

**2. Section 401 Plan**

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.

**City of Groves, Texas**  
**NOTES TO FINANCIAL STATEMENTS, Continued**  
**September 30, 2018**

(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.

	<b>Current Year</b>
401 Money Purchase Plan	
Employee Contributions	\$ 152,127
Employer Contributions	76,064
<b>Total</b>	<b>\$ 228,191</b>
401 Profit Sharing	
Employee Contributions	\$ 169,516
Employer Contributions	84,758
<b>Total</b>	<b>\$ 254,274</b>

**F. Subsequent Events**

There were no material subsequent events through April 1, 2019, the date the financial statements were issued.

***REQUIRED SUPPLEMENTARY INFORMATION***

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# City of Groves, Texas

## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Year Ended September 30, 2018

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b><u>Revenues</u></b>			
Property tax	\$ 4,624,296	\$ 4,624,709	\$ 413
Sales tax	1,403,500	1,498,344	94,844
Franchise and local taxes	1,160,000	918,404	(241,596)
Intergovernmental	20,000	470,348	450,348
Charges for services	25,500	83,457	57,957
License and permits	180,700	218,777	38,077
Fines and forfeitures	334,100	299,065	(35,035)
Investment income	1,500	18,378	16,878
Other revenue	76,000	18,546	(57,454)
<b>Total Revenues</b>	7,825,596	8,150,028	324,432
<b><u>Expenditures</u></b>			
Current:			
General government	1,238,658	1,353,623	(114,965)
Public safety	4,908,460	4,701,881	206,579
Public works	2,563,766	2,416,104	147,662
Culture and recreation	560,912	528,772	32,140
Debt Service:			
Principal	-	16,499	(16,499)
Interest and fiscal charges	-	982	(982)
Capital outlay	208,800	159,254	49,546
<b>Total Expenditures</b>	9,480,596	9,177,115	303,481
<b>Revenues Over (Under) Expenditures</b>	(1,655,000)	(1,027,087)	627,913
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers in	3,049,500	1,510,000	(1,539,500)
Transfers (out)	(1,404,500)	-	1,404,500
Proceeds from sale of assets	10,000	2,126	(7,874)
Insurance recoveries	-	47,189	47,189
<b>Total Other Financing Sources (Uses)</b>	1,655,000	1,559,315	(95,685)
<b>Net Change in Fund Balance</b>	\$ -	532,228	\$ 532,228
Beginning fund balance		(951,492)	
<b>Ending Fund Balance</b>		\$ (419,264)	

Notes to Required Supplementary Information

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- \* Expenditures exceeded appropriations at the legal level of control.

# City of Groves, Texas

## SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS

Years Ended:

	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Total pension liability				<sup>1</sup>
Service cost	\$ 823,620	\$ 787,773	\$ 743,764	\$ 748,448
Interest	2,515,223	2,440,216	2,390,243	2,339,469
Differences between expected and actual experience	66,072	(202,070)	(49,009)	(245,549)
Changes of assumptions	-	-	782,654	-
Benefit payments, including refunds of participant contributions	(2,076,815)	(1,788,454)	(1,980,822)	(2,248,540)
<b>Net change in total pension liability</b>	<u>1,328,100</u>	<u>1,237,465</u>	<u>1,886,830</u>	<u>593,828</u>
<b>Total pension liability - beginning</b>	<u>37,889,157</u>	<u>36,651,692</u>	<u>34,764,862</u>	<u>34,171,034</u>
<b>Total pension liability - ending (a)</b>	<u>39,217,257</u>	<u>37,889,157</u>	<u>36,651,692</u>	<u>34,764,862</u>
<b>Plan fiduciary net position</b>				
Contributions - employer	\$ 602,529	\$ 530,967	\$ 544,328	\$ 557,430
Contributions - members	372,679	356,458	340,915	344,865
Net investment income	4,935,035	2,312,915	52,105	1,984,850
Benefit payments, including refunds of participant contributions	(2,076,815)	(1,788,454)	(1,980,822)	(2,248,540)
Administrative expenses	(25,587)	(26,133)	(31,740)	(20,724)
Other	(1,296)	(1,407)	(1,568)	(1,704)
<b>Net change in plan fiduciary net position</b>	<u>3,806,545</u>	<u>1,384,346</u>	<u>(1,076,782)</u>	<u>616,177</u>
<b>Plan fiduciary net position - beginning</b>	<u>35,622,781</u>	<u>34,238,435</u>	<u>35,315,217</u>	<u>34,699,040</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 39,429,326</u>	<u>\$ 35,622,781</u>	<u>\$ 34,238,435</u>	<u>\$ 35,315,217</u>
<b>Fund's net pension liability (asset) - ending (a) - (b)</b>	<u>\$ (212,069)</u>	<u>\$ 2,266,376</u>	<u>\$ 2,413,257</u>	<u>\$ (550,355)</u>
 <b>Plan fiduciary net position as a percentage of the total pension liability</b>	 101%	 94%	 93%	 102%
<b>Covered payroll</b>	\$ 6,211,309	\$ 5,940,973	\$ 5,681,923	\$ 5,747,747
<b>Fund's net pension liability as a percentage of covered payroll</b>	-3%	38%	42%	-10%

**Notes to schedule:**

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

# City of Groves, Texas

## SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

Fiscal Years Ended:

	9/30/2018	9/30/2017	9/30/2016	9/30/2015 <sup>1</sup>
Actuarially determined employer contributions	528,815 \$	588,767 \$	545,248 \$	555,555 \$
Contributions in relation to the actuarially determined contribution	529,166 \$	584,754 \$	548,657 \$	555,555 \$
Contribution deficiency (excess)	\$ (351)	\$ 4,013	\$ (3,409)	\$ -
Annual covered payroll	\$ 5,506,707	\$ 6,188,678	\$ 6,021,200	\$ 5,780,649
Employer contributions as a percentage of covered payroll	9.61%	9.45%	9.11%	9.61%

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

### NOTES TO SCHEDULE OF EMPLOYER CONTRIBUTIONS TO PENSION PLAN

**Valuation Date:**

Notes

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

**Methods and Assumptions Used to Determine Contribution Rates:**

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

**Other Information:**

Notes

There were no benefit changes during the year.

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

**City of Groves, Texas**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**September 30, 2018**

	<b>Economic Development Corporation</b>	<b>Police Forfeitures</b>	<b>Total</b>
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 74,260	\$ 72,180	\$ 146,440
<b>Total Assets</b>	<b>\$ 74,260</b>	<b>\$ 72,180</b>	<b>\$ 146,440</b>
<b><u>Liabilities</u></b>			
Due to other funds	\$ 11,560	\$ -	\$ 11,560
<b>Total Liabilities</b>	<b>11,560</b>	<b>-</b>	<b>11,560</b>
<b><u>Fund Balances</u></b>			
Restricted for:			
Economic development	62,700	-	62,700
Public safety	-	72,180	72,180
<b>Total Fund Balances</b>	<b>62,700</b>	<b>72,180</b>	<b>134,880</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 74,260</b>	<b>\$ 72,180</b>	<b>\$ 146,440</b>

**City of Groves, Texas**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2018**

	<b>Economic Development Corporation</b>	<b>Police Forfeitures</b>	<b>Total</b>
<b><u>Revenues</u></b>			
Sales tax	\$ 747,267	\$ -	\$ 747,267
Fines and forfeitures	-	4,706	4,706
Investment income	97	930	1,027
<b>Total Revenues</b>	<b>747,364</b>	<b>5,636</b>	<b>753,000</b>
<b><u>Expenditures</u></b>			
Economic development	24,558	-	24,558
<b>Total Expenditures</b>	<b>24,558</b>	<b>-</b>	<b>24,558</b>
<b>Revenues Over Expenditures</b>	<b>722,806</b>	<b>5,636</b>	<b>728,442</b>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers (out)	(627,570)	-	(627,570)
<b>Total Other Financing (Uses)</b>	<b>(627,570)</b>	<b>-</b>	<b>(627,570)</b>
<b>Net Change in Fund Balances</b>	<b>95,236</b>	<b>5,636</b>	<b>100,872</b>
Beginning fund balances	(32,536)	66,544	34,008
<b>Ending Fund Balances</b>	<b>\$ 62,700</b>	<b>\$ 72,180</b>	<b>\$ 134,880</b>

**City of Groves, Texas**  
**SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**  
**For the Year Ended September 30, 2018**

	<b>Original &amp; Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>			
Property tax	\$ 740,448	\$ 723,410	\$ (17,038)
Investment income	-	12,868	12,868
<b>Total Revenues</b>	740,448	736,278	(4,170)
 <b><u>Expenditures</u></b>			
Debt service:			
Principal	1,475,000	1,475,000	-
Interest	152,448	152,448	-
<b>Total Expenditures</b>	1,627,448	1,627,448	-
<b>Revenues Over (Under) Expenditures</b>	(887,000)	(891,170)	(4,170)
 <b><u>Other Financing Sources (Uses)</u></b>			
Transfers in	887,000	914,570	27,570
<b>Total Other Financing Sources (Uses)</b>	887,000	914,570	27,570
<b>Net Change in Fund Balance</b>	\$ -	23,400	\$ 23,400
Beginning fund balances		31,223	
<b>Ending Fund Balance</b>		\$ 54,623	

**Notes to Schedule:**

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

**City of Groves, Texas**  
**SCHEDULE OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**ECONOMIC DEVELOPMENT FUND**  
**For the Year Ended September 30, 2018**

	<b>Original &amp; Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b><u>Revenues</u></b>			
Sales tax	\$ 700,000	\$ 747,267	\$ 47,267
Investment income	-	97	97
<b>Total Revenues</b>	700,000	747,364	47,364
 <b><u>Expenditures</u></b>			
Economic development	100,000	24,558	75,442
<b>Total Expenditures</b>	100,000	24,558	75,442
<b>Revenues Over (Under) Expenditures</b>	600,000	722,806	122,806
 <b><u>Other Financing Sources (Uses)</u></b>			
Transfers (out)	(600,000)	(627,570)	(27,570) *
<b>Total Other Financing Sources (Uses)</b>	(600,000)	(627,570)	(27,570)
<b>Net Change in Fund Balance</b>	\$ -	95,236	\$ 95,236
Beginning fund balances		(32,536)	
<b>Ending Fund Balance</b>		<b>\$ 62,700</b>	

**Notes to Schedule:**

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- \* Expenditures exceeded appropriations at the legal level of control.

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***OVERALL COMPLIANCE AND INTERNAL CONTROL  
SECTION***

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**BROOKSWATSON & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Groves, Texas (the "City") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 1, 2019.

***Internal Control over Financial Reporting***

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

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

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

financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### *Compliance and Other Matters*

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

We noted certain matters that we have reported to management of the City in a separate letter dated April 1, 2019.

### *Purpose of this Report*

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



BrooksWatson & Co., PLLC  
Certified Public Accountants  
Houston, Texas  
April 1, 2019

**City of Groves, Texas**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**For the Year Ended September 30, 2018**

**I. SUMMARY OF AUDITOR'S RESULTS:**

*Financial Statements*

Type of auditor's report issued:

The auditor's report on the basic financial statements of the City expresses an unmodified opinion.

Internal control over financial reporting:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**II. FINANCIAL STATEMENT FINDINGS:**

**None.**

**City of Groves, Texas**  
***SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS***  
**For the Year Ended September 30, 2018**

**I. SUMMARY OF PRIOR YEAR AUDIT FINDINGS:**

**None.**

**City of Groves, Texas**  
***CORRECTIVE ACTION PLAN***  
**For the Year Ended September 30, 2018**

**I. CORRECTIVE ACTION PLAN:**

**Not applicable.**