

**CITY OF GROVES, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**



**CITY OF GROVES, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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March 29, 2021

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and 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, 2020, 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

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 of 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.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Groves, Texas as of September 30, 2020 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.

To the Honorable Mayor and  
Members of City Council  
City of Groves, Texas  
Page 2  
March 29, 2021

### **Other Matters**

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, the budgetary comparison information on page 42, the schedule of changes in net pension liability and related ratios on page 43, and the schedule of employer contributions – pension plan on page 44, as listed in the table of contents 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 on pages 3 through 8 and pages 43 through 44 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. The required supplementary information on page 42 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 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, this information is fairly stated in all material respects in relation to the financial statements taken as a whole.

#### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Groves, Texas's basic financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. In addition, 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 schedule of expenditures of federal awards and the combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. This 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 schedule of expenditures of federal awards and the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting required by Governmental Auditing Standards**

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 29, 2021 on our consideration of the City of Groves, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the City of Groves, Texas's internal control over financial reporting and compliance.

*Wathen, DeShong & Juncker, L.L.P.*

**WATHEN, DeSHONG & JUNCKER, L.L.P.**

Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Groves (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2020. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

The net position of the City at the close of the most recent fiscal year was \$27,416,233. This number must be viewed in the context that the majority of the City's net position of \$25,772,192 (94%) is the net investment in capital assets and that most capital assets in a government do not directly generate revenue nor can they be sold to generate liquid capital. The net position restricted for specific purposes totals \$1,180,297 (4.3%). The remaining \$463,744 (1.7%) is the unrestricted net position and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net position increased by \$418,904 in fiscal year 2020.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,652,871. Within this total \$2,846 is non-spendable for inventory and prepaid items, \$1,112,500 is restricted by specific legal requirements. The remaining \$537,525 is unassigned fund balance in the general fund and can be used for any lawful purpose.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of four components: 1) government-wide financial statements, 2) fund financial statements 3) notes to the financial statements and 4) required supplementary information which includes this management's discussion and analysis and multi-year funding progress on the City's pension plan. In addition to the basic financial statements, this report also contains other supplementary information as listed in the Table of Contents.

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

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two 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.

The Statement of Activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from 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 works, public safety, cultural and recreation, and administration and general. The business-type activities of the City include two enterprise activities; water and sewer system and a solid waste system. The government-wide financial statements can be found on pages 9-10 of this report

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

**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 current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Non-financial assets such as governmental buildings, roads, drainage ways, park land and long-term liabilities such as bonds payable or long-term liabilities that will not be paid with current assets are excluded. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds 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 governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund. Data from the other three funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the supplemental information section. The basic governmental funds financial statements can be found on pages 11-14.

**Proprietary Funds** - The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, and solid waste operations.

Proprietary funds 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 operations since they are considered to be major funds of the City. The basic proprietary fund financial statements can be found on pages 15-18 of this report.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-41 of this report.

**Other Information** - In addition to the basic financial statements and accompanying notes, this Report also presents certain required supplementary information including a schedule of budget and actual for the General Fund and schedules concerning the City's progress in funding its obligation to provide pension benefits to its employees

## 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 \$27,416,233 as of September 30, 2020.

The largest portion of the City's net position, \$25,772,192, 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:

	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Current and Other Assets	\$ 3,967,189	\$ 2,250,920	\$ 886,462	\$ 1,220,554	\$ 4,853,651	\$ 3,471,474
Internal Balances	(985,236)	(812,830)	985,236	812,830	-	-
Capital Assets, Net	8,400,212	8,622,492	22,000,598	23,023,722	30,400,810	31,646,214
Total Assets	<u>11,382,165</u>	<u>10,060,582</u>	<u>23,872,296</u>	<u>25,057,106</u>	<u>35,254,461</u>	<u>35,117,688</u>
Deferred Outflows	492,696	2,130,759	87,182	512,938	579,878	2,643,697
Other Liabilities	1,483,781	1,208,702	1,281,442	1,168,235	2,765,223	2,376,937
Long-term Liabilities	4,071,741	7,239,319	12,534	669,219	4,084,275	7,908,538
Total Liabilities	<u>5,555,522</u>	<u>8,448,021</u>	<u>1,293,976</u>	<u>1,837,454</u>	<u>6,849,498</u>	<u>10,285,475</u>
Deferred Inflows	1,241,293	93,108	327,315	22,653	1,568,608	115,761
Net Position						
Net Investment in						
Capital Assets	3,771,594	3,689,976	22,000,598	23,023,722	25,772,192	26,713,698
Restricted	1,180,297	601,611	-	-	1,180,297	601,611
Unrestricted	126,155	(641,375)	337,589	686,215	463,744	44,840
Total Net Position	<u>\$ 5,078,046</u>	<u>\$ 3,650,212</u>	<u>\$ 22,338,187</u>	<u>\$ 23,709,937</u>	<u>\$ 27,416,233</u>	<u>\$ 27,360,149</u>

**Governmental activities:** Governmental activities increased the City's net position by \$1,427,834. The increase is due to several factors including greater than anticipated revenues from the Coronavirus Relief Fund of \$874,885, increased property tax revenue and sales tax revenue.

**Business type activities.** Business-type activities decreased the City's net position by \$1,371,754.

The following table provides a summary of the City's operations for year ended September 30, 2020 with comparative totals for year ended September 30, 2019.

**Changes in Net Position**  
For the years ended September 30, 2020 and 2019

	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Revenues						
Program Revenues						
Charges for Services	\$ 518,954	\$ 683,216	\$ 6,292,108	\$ 5,673,093	\$ 6,811,062	\$ 6,356,309
Grants and Contributions	15,333	13,667	149,636	224,936	164,969	238,603
General Revenues						
Property Taxes	5,953,195	5,537,917	-	-	5,953,195	5,537,917
Sales Tax	2,326,370	2,148,622	-	-	2,326,370	2,148,622
Franchise and Local Taxes	906,364	842,850	-	-	906,364	842,850
Investment Income	23,940	56,354	-	-	23,940	56,354
Grant Income	906,644	-	-	-	906,644	-
Other Revenues	99,959	11,422	-	-	99,959	11,422
Total Revenues	<u>10,750,759</u>	<u>9,294,048</u>	<u>6,441,744</u>	<u>5,898,029</u>	<u>17,192,503</u>	<u>15,192,077</u>
Expenses						
General Government	1,511,806	1,581,530	-	-	1,511,806	1,581,530
Public Safety	5,694,623	5,637,420	-	-	5,694,623	5,637,420
Public Works	3,127,117	3,086,586	-	-	3,127,117	3,086,586
Culture and Recreation	506,096	530,390	-	-	506,096	530,390
Economic Development	65,334	112,275	-	-	65,334	112,275
Interest and Fiscal Charges	114,466	125,433	-	-	114,466	125,433
Water & Sewer	-	-	4,688,206	4,393,334	4,688,206	4,393,334
Solid Waste	-	-	1,216,082	1,170,569	1,216,082	1,170,569
Total Expenses	<u>11,019,442</u>	<u>11,073,634</u>	<u>5,904,288</u>	<u>5,563,903</u>	<u>16,923,730</u>	<u>16,637,537</u>
Increase (Decrease) in Net Position before Transfers	(268,683)	(1,779,586)	537,456	334,126	268,773	(1,445,460)
Transfers	<u>1,909,210</u>	<u>2,013,396</u>	<u>(1,909,210)</u>	<u>(2,013,396)</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	1,640,527	233,810	(1,371,754)	(1,679,270)	268,773	(1,445,460)
Net Position at Beginning of Year	3,650,212	3,416,402	23,709,941	25,389,207	27,360,153	28,805,609
Prior Period Adjustment	<u>(212,693)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(212,693)</u>	<u>-</u>
Net Position at End of Year	<u>\$ 5,078,046</u>	<u>\$ 3,650,212</u>	<u>\$ 22,338,187</u>	<u>\$ 23,709,937</u>	<u>\$ 27,416,233</u>	<u>\$ 27,360,149</u>

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

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

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1.65 million, an increase of \$1,204,205 over the prior year. The increase is mainly attributable to activities in the General Fund and Economic Development Corporation Fund. The General Fund received an \$874,885 Coronavirus Relief Fund grant. Unassigned fund balance is \$537,525 at September 30, 2020, which is available for spending at the government's discretion. The remainder of fund balance is restricted and committed to indicate that it is not available for new spending because it has already been committed to inventories \$1,012, prepaid items \$1,834, restricted for payment of debt service \$73,180, restricted for economic development \$1,012,179, and restricted for public safety \$27,141.

The General Fund is the chief operating fund of the City. At September 30, 2020, the unassigned fund balance of the General Fund was \$537,525 while total fund balance was \$540,371. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures (including transfers out). Unassigned fund balance represents 5.11 percent of total general fund expenditures (including transfers out), while total fund balance represents 5.14 percent of that same amount.

Fund balance of the City's General Fund increased by \$693,316 during 2020. This increase was primarily due to the \$874,885 Coronavirus Relief Fund grant.

The Debt Service Fund has a total fund balance of \$73,180. The net increase in fund balance during the fiscal year 2020 in this fund was \$1,688. The Debt Service Fund is funded with property tax revenue at the level necessary to meet debt service requirements.

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

The unrestricted net position at the end of the year amounted to \$(719,204) for the Water and Sewer Fund, and \$1,056,793 for the Solid Waste Fund. The change in net position for the enterprise funds in 2020 were a decrease of \$1,660,543 for the Water & Sewer Fund and an increase of \$288,789 for the Solid Waste Fund.

**General Fund Budgetary Highlights**

The City made no revisions to the original appropriations approved by the City Council.

Major variances between budget and actual occurred in grant revenue.

General government expenditures were \$253,942 below budget. Public Safety expenditures were \$99,844 more than budgeted. Public Works were \$246,699 below budget and Capital Outlay exceeded budget by \$316,381.

**CAPITAL ASSETS**

**Capital assets.** The City's investment in capital assets for governmental and business-type activities as of September 30, 2020, amounted to \$30,400,810 (net of accumulated depreciation). This investment in capital assets includes land, and other capital assets such as buildings, improvements, and equipment. The total decrease in capital assets for the current fiscal year was 3.9% (2.6% decrease for governmental activities and 4.4% decrease in business-type activities.)

	Governmental Activities		Business-Type Activities		Totals	
	2020	2019	2020	2019	2020	2019
Land	\$ 153,104	\$ 153,104	\$ 677,865	\$ 677,865	\$ 830,969	\$ 830,969
Construction in Progress	-	-	141,436	-	141,436	-
Buildings and improvements	8,553,848	8,485,311	35,311,800	35,305,537	43,865,648	43,790,848
Machinery and Equipment	4,288,344	4,216,851	16,418,101	16,182,236	20,706,445	20,399,087
Vehicles	3,819,140	3,570,971	-	-	3,819,140	3,570,971
Infrastructure	14,384,183	14,373,803	-	-	14,384,183	14,373,803
	31,198,619	30,800,040	52,549,202	52,165,638	83,747,821	82,965,678
Less: Accumulated Depreciation	(22,798,407)	(22,177,548)	(30,548,604)	(29,141,916)	(53,347,011)	(51,319,464)
Capital Assets, net	\$ 8,400,212	\$ 8,622,492	\$ 22,000,598	\$ 23,023,722	\$ 30,400,810	\$ 31,646,214

Additional information on the City's capital assets can be found in Note 1 on page 24 and Note 4 on pages 30-31 of this report.

## DEBT ADMINISTRATION

### **Long-Term Debt**

**Long-term debt.** At September 30, 2020, the City had \$4,495,000 of long-term debt.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
General Obligation						
Refunding Bonds	\$ 2,385,000	\$ 2,710,000	\$ -	\$ -	\$ 2,385,000	\$ 2,710,000
Certificates of Obligation	<u>2,110,000</u>	<u>2,245,000</u>	<u>-</u>	<u>-</u>	<u>2,110,000</u>	<u>2,245,000</u>
	<u>\$ 4,495,000</u>	<u>\$ 4,955,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,495,000</u>	<u>\$ 4,955,000</u>

Total long-term bonds and other liabilities outstanding at September 30, 2020 decreased by \$460,000 over September 30, 2019. This reduction of bond debt was due to scheduled payments of bond principal.

The City's General Obligation bond rating is AA.

Additional information regarding the City's long-term debt can be found in Note 6 on pages 32-33 of this report.

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

Under ideal conditions, preparing the proposed budget would not require the consideration of an increase in taxes or fees or the reduction of service levels. In prior years, increases in assessed value and other revenue categories have been sufficient to fund City Council supported programs, including aggressive capital improvements. Although economic conditions have improved, Administration continues to evaluate all aspects of City services and apply the most effective and efficient method of program funding and service delivery.

The City of Groves' budget for fiscal year 2021 includes a small increase in property tax revenue due to properties added to the tax roll. The tax rate decreased \$1.25 from fiscal year 2020. General Fund revenues are budgeted to be \$356,300 more than the prior year budget due primarily to increased property tax values. General Fund expenditures are budgeted to be \$356,300 more than the prior year budget due primarily to wage and salary increases. The General Fund has a balanced budget for 2021.

### **Requests for Information**

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

## **BASIC FINANCIAL STATEMENTS**

**CITY OF GROVES, TEXAS**

**STATEMENT OF NET POSITION  
SEPTEMBER 30, 2020**

	Primary Government		Total
	Governmental Activities	Business - Type Activities	
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,953,716	\$ 136,506	\$ 2,090,222
Taxes Receivable, Net	608,733	-	608,733
Accounts Receivables, Net	1,401,894	693,156	2,095,050
Inventories	1,012	56,800	57,812
Prepaid Items	1,834	-	1,834
Internal Balances	(985,236)	985,236	-
Total Current Assets	<u>2,981,953</u>	<u>1,871,698</u>	<u>4,853,651</u>
Capital Assets:			
Construction in Progress	-	141,436	141,436
Non-depreciable	153,104	677,865	830,969
Net Depreciable Capital Assets	<u>8,247,108</u>	<u>21,181,297</u>	<u>29,428,405</u>
Total Capital Assets	<u>8,400,212</u>	<u>22,000,598</u>	<u>30,400,810</u>
Total Assets	<u>11,382,165</u>	<u>23,872,296</u>	<u>35,254,461</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflow Related to Pension Plan	473,210	87,182	560,392
Deferred Charge on Refunding	<u>19,486</u>	<u>-</u>	<u>19,486</u>
Total Deferred Outflows of Resources	<u>492,696</u>	<u>87,182</u>	<u>579,878</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	492,167	422,310	914,477
Due to Other Governments	212,693	-	212,693
Customer Deposits	-	764,890	764,890
Accrued Interest Payable	8,234	-	8,234
Compensated Absences Due in One Year	305,687	94,242	399,929
Long-term Debt Due in One Year	<u>465,000</u>	<u>-</u>	<u>465,000</u>
Total Current Liabilities	<u>1,483,781</u>	<u>1,281,442</u>	<u>2,765,223</u>
Noncurrent Liabilities:			
Compensated Absences	33,965	10,471	44,436
Net Pension Liability	7,776	2,063	9,839
Long-Term Debt-Noncurrent	<u>4,030,000</u>	<u>-</u>	<u>4,030,000</u>
Total Noncurrent Liabilities	<u>4,071,741</u>	<u>12,534</u>	<u>4,084,275</u>
Total Liabilities	<u>5,555,522</u>	<u>1,293,976</u>	<u>6,849,498</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflow Related to Pension Plan	<u>1,241,293</u>	<u>327,315</u>	<u>1,568,608</u>
Total Deferred Inflows of Resources	<u>1,241,293</u>	<u>327,315</u>	<u>1,568,608</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	3,771,594	22,000,598	25,772,192
Restricted for:			
Economic Development	1,012,179	-	1,012,179
Public Safety	27,141	-	27,141
Debt Service	140,977	-	140,977
Unrestricted	<u>126,155</u>	<u>337,589</u>	<u>463,744</u>
Total Net Position	<u>\$ 5,078,046</u>	<u>\$ 22,338,187</u>	<u>\$ 27,416,233</u>

**CITY OF GROVES, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government:</b>			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 1,511,806	\$ 59,907	\$ -
Public Safety	5,694,623	227,234	9,908
Public Works	3,127,117	231,813	5,425
Culture and Recreation	506,096	-	-
Economic Development	65,334	-	-
Interest and Fiscal Charges	114,466	-	-
Total Governmental Activities	11,019,442	518,954	15,333
BUSINESS-TYPE ACTIVITIES:			
Water and Sewer	4,688,206	4,396,237	149,636
Solid Waste	1,216,082	1,895,871	-
Total Business-Type Activities	5,904,288	6,292,108	149,636
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 16,923,730</b>	<b>\$ 6,811,062</b>	<b>\$ 164,969</b>

General Revenues:

Taxes:

Property Taxes

Sales Tax

Franchise and Local Taxes

Investment Income

Insurance Recoveries

Grant Income

Other Revenues

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Prior Period Adjustment

Net Position - Ending

Net (Expense) Revenue and  
Changes in Net Position  
Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (1,451,899)	\$ -	\$ (1,451,899)
(5,457,481)	-	(5,457,481)
(2,889,879)	-	(2,889,879)
(506,096)	-	(506,096)
(65,334)	-	(65,334)
(114,466)	-	(114,466)
<u>(10,485,155)</u>	<u>-</u>	<u>(10,485,155)</u>
-	(142,333)	(142,333)
-	679,789	679,789
-	537,456	537,456
<u>(10,485,155)</u>	<u>537,456</u>	<u>(9,947,699)</u>
5,953,195	-	5,953,195
2,326,370	-	2,326,370
906,364	-	906,364
23,940	-	23,940
80,190	-	80,190
906,644	-	906,644
19,769	-	19,769
<u>1,909,210</u>	<u>(1,909,210)</u>	<u>-</u>
<u>12,125,682</u>	<u>(1,909,210)</u>	<u>10,216,472</u>
1,640,527	(1,371,754)	268,773
3,650,212	23,709,941	27,360,153
<u>(212,693)</u>	<u>-</u>	<u>(212,693)</u>
<u>\$ 5,078,046</u>	<u>\$ 22,338,187</u>	<u>\$ 27,416,233</u>

**CITY OF GROVES, TEXAS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2020**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,575,075	\$ 378,641	\$ 1,953,716
Taxes Receivable	575,463	72,125	647,588
Allowance for Uncollectible Taxes	(34,527)	(4,328)	(38,855)
Receivables, Net	1,000,745	-	1,000,745
Due from Other Governments	401,149	-	401,149
Due from Other Funds	17,462	733,859	751,321
Inventories	1,012	-	1,012
Prepaid Items	1,834	-	1,834
Total Assets	<u>\$ 3,538,213</u>	<u>\$ 1,180,297</u>	<u>\$ 4,718,510</u>
<b>LIABILITIES</b>			
Accounts Payable and Accrued Liabilities	\$ 492,167	\$ -	\$ 492,167
Due to Other Funds	1,736,557	-	1,736,557
Due to Other Governments	212,693	-	212,693
Total Liabilities	<u>2,441,417</u>	<u>-</u>	<u>2,441,417</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue:			
Property Taxes	540,936	67,797	608,733
Fines and Fees	15,489	-	15,489
Total Deferred Inflows of Resources	<u>556,425</u>	<u>67,797</u>	<u>624,222</u>
<b>FUND BALANCES</b>			
Nonspendable Fund Balance:			
Inventories	1,012	-	1,012
Prepaid Items	1,834	-	1,834
Restricted Fund Balance:			
Economic Development	-	1,012,179	1,012,179
Public Safety	-	27,141	27,141
Debt Service	-	73,180	73,180
Unassigned Reported in:			
General Fund	537,525	-	537,525
Total Fund Balances	<u>540,371</u>	<u>1,112,500</u>	<u>1,652,871</u>
Total Liabilities and Fund Balances	<u>\$ 3,538,213</u>	<u>\$ 1,180,297</u>	<u>\$ 4,718,510</u>

CITY OF GROVES, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2020

<b>Total Fund Balances - Governmental Funds</b>	\$ 1,652,871
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,400,212
Deferred outflow of resources are not reported in the governmental funds:	492,696
Deferred outflows related to pension	\$ 473,210
Deferred amounts on refunding bonds	19,486
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(4,495,000)
The net pension asset related to TMRS is not a current financial resource and is not included in the governmental funds.	(7,776)
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(339,652)
Property taxes receivable are not available to pay for current period expenditures and, therefore, are deferred in the funds.	608,733
Accrued interest on bonds is not reported in the funds	(8,234)
Deferred inflow of resources are not reported in the governmental funds.	(1,241,293)
Fines and forfeitures outstanding are not recorded as revenue in the governmental funds because they are not considered measurable and available. However, in the Statement of Net Position, they are considered accounts receivable and recorded.	15,489
<b>Net Position of Governmental Activities</b>	<u>\$ 5,078,046</u>

**CITY OF GROVES, TEXAS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Property Tax	\$ 5,316,710	\$ 572,001	\$ 5,888,711
Sales Tax	1,551,418	774,952	2,326,370
Franchise and Local Taxes	906,364	-	906,364
Intergovernmental	23,441	-	23,441
Charges for Services	59,907	-	59,907
License and Permits	231,813	-	231,813
Fines and Forfeitures	242,213	689	242,902
Investment Income	21,105	2,836	23,941
Other Revenue	918,303	-	918,303
<b>Total Revenues</b>	<u>9,271,274</u>	<u>1,350,478</u>	<u>10,621,752</u>
<b>EXPENDITURES:</b>			
Current:			
General Government:	1,397,139	-	1,397,139
Public Safety	5,358,414	-	5,358,414
Public Works	2,875,918	-	2,875,918
Culture and Recreation	424,090	-	424,090
Economic Development	-	103,671	103,671
Debt Service:			
Principal on Debt	-	460,000	460,000
Interest and Fiscal Charges	-	112,841	112,841
Capital Outlay:			
Capital Outlay	462,181	-	462,181
<b>Total Expenditures</b>	<u>10,517,742</u>	<u>676,512</u>	<u>11,194,254</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,246,468)</u>	<u>673,966</u>	<u>(572,502)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers In	2,084,210	11,923	2,096,133
Transfers Out (Use)	(11,923)	(175,000)	(186,923)
Insurance Recoveries	80,190	-	80,190
<b>Total Other Financing     Sources (Uses)</b>	<u>2,152,477</u>	<u>(163,077)</u>	<u>1,989,400</u>
Net Change in Fund Balances	906,009	510,889	1,416,898
Fund Balance - Beginning	(152,945)	601,611	448,666
Prior Period Adjustment	(212,693)	-	(212,693)
<b>Fund Balance - Ending</b>	<u>\$ 540,371</u>	<u>\$ 1,112,500</u>	<u>\$ 1,652,871</u>

**CITY OF GROVES, TEXAS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>1,416,898</b>
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
		48,816
Prior year deferred property taxes	\$ (544,249)	
Current year deferred property taxes	608,733	
Prior year fines and fees	(31,157)	
Current year fines and fees	15,489	
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.		
		(222,280)
Capital Outlays	\$ 398,579	
Depreciation	(620,859)	
The issuance of long-term debt 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; however, neither transaction has an effect on net position.		
		460,000
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 the governmental funds. Conversely, certain items reported as expenditures in the governmental funds are considered assets in the government-wide statements.		
		(62,907)
Decrease in deferred outflow related to pension	\$ (1,635,065)	
Decrease in net pension liability	2,700,424	
Increase in deferred inflow related to pension	(1,148,185)	
Decrease in compensated absences	21,543	
Decrease in deferred charge on refunding	(2,998)	
Decrease in interest payable	1,374	
<b>Change in Net Position of Governmental Activities</b>		<b><u><u>\$ 1,640,527</u></u></b>

**CITY OF GROVES, TEXAS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2020**

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 136,506	\$ -	\$ 136,506
Receivables, Net	459,708	233,448	693,156
Due from Other Funds	-	1,002,698	1,002,698
Inventories	56,800	-	56,800
Total Current Assets	<u>653,014</u>	<u>1,236,146</u>	<u>1,889,160</u>
Noncurrent Assets:			
Capital Assets:			
Construction in Progress	141,436	-	141,436
Non-Depreciable	677,865	-	677,865
Net Depreciable Capital Assets	<u>20,906,008</u>	<u>275,289</u>	<u>21,181,297</u>
Total Noncurrent Assets	<u>21,725,309</u>	<u>275,289</u>	<u>22,000,598</u>
Total Assets	<u>22,378,323</u>	<u>1,511,435</u>	<u>23,889,758</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Contributions	<u>57,082</u>	<u>30,100</u>	<u>87,182</u>
Total Deferred Outflows of Resources	<u>57,082</u>	<u>30,100</u>	<u>87,182</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	276,833	145,477	422,310
Due to Other Funds	17,462	-	17,462
Customer Deposits	764,890	-	764,890
Compensated Absences Due in One Year	<u>87,447</u>	<u>6,795</u>	<u>94,242</u>
Total Current Liabilities	<u>1,146,632</u>	<u>152,272</u>	<u>1,298,904</u>
Noncurrent Liabilities:			
Net Pension Liability	1,715	348	2,063
Compensated Absences	<u>9,716</u>	<u>755</u>	<u>10,471</u>
Total Noncurrent Liabilities	<u>11,431</u>	<u>1,103</u>	<u>12,534</u>
Total Liabilities	<u>1,158,063</u>	<u>153,375</u>	<u>1,311,438</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension (Gains) Losses	<u>271,237</u>	<u>56,078</u>	<u>327,315</u>
Total Deferred Inflows of Resources	<u>271,237</u>	<u>56,078</u>	<u>327,315</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	21,725,309	275,289	22,000,598
Unrestricted	<u>(719,204)</u>	<u>1,056,793</u>	<u>337,589</u>
Total Net Position	<u>\$ 21,006,105</u>	<u>\$ 1,332,082</u>	<u>\$ 22,338,187</u>

**CITY OF GROVES, TEXAS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
<b>OPERATING REVENUES:</b>			
Charges for Services	\$ 4,396,237	\$ 1,895,871	\$ 6,292,108
Grant Income	149,636	-	149,636
Total Operating Revenues	<u>4,545,873</u>	<u>1,895,871</u>	<u>6,441,744</u>
<b>OPERATING EXPENSES:</b>			
Personal Services	1,770,540	381,540	2,152,080
Supplies	651,926	118,536	770,462
Contractual Services	268,812	541,404	810,216
Repairs and Maintenance	388,723	98,876	487,599
Utilities	256,671	20,569	277,240
Depreciation	1,351,534	55,157	1,406,691
Total Operating Expense	<u>4,688,206</u>	<u>1,216,082</u>	<u>5,904,288</u>
Operating Income	<u>(142,333)</u>	<u>679,789</u>	<u>537,456</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Transfers (out)	<u>(1,518,210)</u>	<u>(391,000)</u>	<u>(1,909,210)</u>
Change in Net Position	<u>(1,660,543)</u>	<u>288,789</u>	<u>(1,371,754)</u>
Total Net Position - Beginning	<u>22,666,648</u>	<u>1,043,293</u>	<u>23,709,941</u>
Total Net Position - Ending	<u>\$21,006,105</u>	<u>\$ 1,332,082</u>	<u>\$ 22,338,187</u>

**CITY OF GROVES, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$ 4,612,652	\$ 1,719,440	\$ 6,332,092
Cash Payments to Employees for Services	(1,769,053)	(381,540)	(2,150,593)
Cash Payments for Goods and Services	(1,432,124)	(928,085)	(2,360,209)
Other Operating Cash Receipts	149,636	-	149,636
Net Cash Provided by Operating Activities	1,561,111	409,815	1,970,926
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Transfers (Out)	(1,518,210)	(391,000)	(1,909,210)
Net Cash Provided by (Used for) Non-Capital Financing Activities	(1,518,210)	(391,000)	(1,909,210)
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition of Capital Assets	(364,747)	(18,815)	(383,562)
Net Cash (Used) by Capital and Related Financing Activities	(364,747)	(18,815)	(383,562)
Net Increase (Decrease) in Cash and Cash Equivalents	(321,846)	-	(321,846)
Cash and Cash Equivalents at the Beginning of the Year	458,352	-	458,352
Cash and Cash Equivalents at the End of the Year	\$ 136,506	\$ -	\$ 136,506

**CITY OF GROVES, TEXAS**

**STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS (CONTINUED)  
 FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u>    Provided By Operating Activities:</u>			
Operating Income (Loss)	\$ (142,333)	\$ 679,789	\$ 537,456
Adjustments to Reconcile Operating Income (Loss) To Net Cash Provided by Operating Activities:			
Depreciation	1,351,534	55,157	1,406,691
Effect of Increases and Decreases in Operating Assets and Liabilities:			
Decrease (Increase) in Accounts Receivable	200,607	(176,431)	24,176
Decrease (Increase) in Inventories	(11,930)	-	(11,930)
Decrease (Increase) in Due from Other Funds	-	(172,406)	(172,406)
Decrease (Increase) in Deferred Outflows of Resources	350,640	75,116	425,756
Increase (Decrease) in Accounts Payable	64,095	31,934	96,029
Increase (Decrease) in Customer Deposits	15,808	-	15,808
Increase (Decrease) in Compensated Absences	1,487	34	1,521
Increase (Decrease) in Net Pension Liability	(522,028)	(134,809)	(656,837)
Increase (Decrease) in Deferred Inflows of Resources	253,231	51,431	304,662
Net Cash Provided by Operating activities	<u>\$ 1,561,111</u>	<u>\$ 409,815</u>	<u>\$ 1,970,926</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Groves, Texas (the “City”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following represents the significant accounting policies used by the City.

**A. 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 (“GEDC”) 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 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.

**B. Blended Component Unit**

The Groves Economic Development Corporation (GEDC) 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.

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Blended Component Unit (Continued)**

The GEDC is also obligated to pay a portion of the City's debt through sales tax revenue. The GEDC 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 GEDC is to promote economic and community development within the City of Groves. Separately audited financial statements are not issued.

**C. Joint Venture**

The City participates in a joint venture, as follows:

Mid-County Dispatch

The City of Groves and two neighboring cities, Nederland and Port Neches, have a contractual agreement to pool resources and share the costs, risks, and rewards of providing a central radio dispatching service and information technology services for the participating cities in compliance with the "Interlocal Cooperation Act". Each of the participating cities has an ongoing financial interest in, and responsibility for the Mid-County Dispatch. Funds shall be provided by each City for dispatch operations based on their population and evenly split for information technology services. Based on the agreement, there is no explicit, measurable equity interest for any of entities in the joint ventures resources.

**D. Government-wide and Fund Financial Statements**

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

The statement of activities demonstrates the degree to which the direct expenses of a given structure or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

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

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

CITY OF GROVES, TEXAS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus, Basis of Accounting and Financial Statement Presentation, (Continued)

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

Property taxes, franchise taxes, sales taxes, industrial payments, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *water and sewer fund* accounts for the activities of the water and sewer utility of the City. This fund operates the water treatment and distribution functions, along with the wastewater collection and treatment and the related revenue collection activity.

The *solid waste fund* accounts for the City's operation of garbage and brush removal services.

Additionally, the City reports the following non-major governmental funds:

The *special revenue funds* account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. These funds consist of the economic development fund and police forfeitures fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, interfund services provided and used are not eliminated in the process of consolidation.

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

CITY OF GROVES, TEXAS

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**E. Measurement Focus, Basis of Accounting and Financial Statement Presentation, (Continued)**

Proprietary funds distinguish operating revenue and expense from non-operating 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 revenue of the water fund, of the solid waste fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

**F. Budgetary Data**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The operating budget includes proposed expenditures and the means of financing them. Funds with legally adopted annual budgets are listed as follows: general fund, debt service fund, EDC fund, water and sewer fund, and solid waste fund. 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. Expenditures exceeded appropriations at the legal level of control as follows:

General Fund:	
Public Safety	\$ 99,844
Capital Outlay	316,381

**G. Encumbrance Accounting**

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at September 30<sup>th</sup>, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

**H. Cash and Investments**

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

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

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

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

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Property Taxes Receivable**

Property appraisal within the City is the responsibility of the Jefferson County Appraisal District (Appraisal District). The Appraisal District is required under the Property Tax Code to appraise all property within the County on the basis of 100% of its market value. The value of real property within the Appraisal District must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the Appraisal District through various appeals and legal action. Under the Property Tax Code legislation, the City establishes tax rates for property within the City's corporate limits. However, if the new tax rate exceeds the effective tax rate after certain adjustments for the previous year by more than eight percent (8%), qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than eight percent (8%) above the effective tax rate.

The City's property taxes are levied annually in October on the basis of the Appraisal District's assessed values as of January 1 of that calendar year. Taxes are applicable to the fiscal year in which they are levied. They become delinquent, with an enforceable lien on property, on February 1 of the subsequent calendar year. The City has contracted with the Jefferson County Tax Assessor-Collector to bill and collect its taxes.

In the governmental fund financial statements, property taxes that are measurable and available (receivable within the current period and collected within the current period or within 60 days thereafter to be used to pay liabilities of the current period) are recognized as revenue in the year of levy. Property taxes that are measurable, but not available, are recorded, net of estimated uncollectible amounts, as deferred outflow in the year of levy. Such deferred outflows are recognized as revenue in the fiscal year in which they become available.

**J. Tax Abatements**

During the fiscal year ending September 30, 2020, the City did not participate in a tax abatement agreement relating to the property taxes levied for the 2019 tax year levy.

**K. Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated revenues from the water and sewer fund are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

**L. Short-Term Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due to/from other funds" on the balance sheet.

**M. Inventories and Prepaid Items**

Inventories are valued at cost using the first in/first out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The reserve for the inventory is equal to the amount of inventory to indicate that a portion of the fund balance is not available for future expenditure. Inventories in the Enterprise Fund consist of repair materials, spare parts and water meters, and water treatment and wastewater treatment chemicals. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**N. Capital Assets**

Capital assets which include property, plant, equipment and infrastructure assets (e.g. streets and waterlines, 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 \$5,000 or more 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 reported at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Property, plant and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
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

**O. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

**P. Fund Equity**

The City of Groves, Texas has implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable Fund Balance - includes the portion of net resources that cannot be spent because of their form or because they must remain in-tact. As such, the inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet.

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**P. Fund Equity (Continued)**

Restricted Fund Balance - includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include grant awards and bond proceeds.

Committed Fund Balance - includes the portion of net resources upon which the City Council has imposed limitations on use. Amounts that can be used only for the specific purposes determined by a formal action of the City Council, commitments may be changed or lifted only by the Council taking the same formal action that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements. The amount subject to the constraint may be determined in the subsequent period (i.e. the Council may approve the calculation or formula for determining the amount to be committed). The City establishes (and modifies or rescinds) fund balance commitments by passage of a resolution.

Assigned Fund Balance - includes the portion of net resources for which an intended use has been established by the City Council or the City Official authorized to do so by the City Council. The City Council by resolution has authorized the Finance Director as the City Official responsible for the assignment of fund balance to a specific purpose. Assignments generally only exist temporarily. Additional action does not normally have to be taken for the removal of an assignment.

Unassigned Fund Balance - includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund can include all amounts not contained in other classifications.

Order of Expenditure of Funds - When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

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

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has the following items that qualify for reporting in this category:

- a. 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.
- b. Pension contributions made after the measurement date. These contributions are deferred and recognized in the following fiscal year.
- c. Difference in projected and actual earnings on pension assets. This is the difference deferred and amortized over a closed five-year period.

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Q. Deferred Outflows/Inflows of Resources (Continued)**

In addition to liabilities, the statement of financial position and/or balance sheet 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has the following items that qualify for reporting in this category:

- a. A deferred inflow which arises under the accrual basis of accounting and reported in the statement of financial position. The deferred inflow is the difference in the expected and actual pension and is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- b. A deferred inflow 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 fees. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**R. 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 be reported as restricted – net position and unrestricted – net position in the government-wide and proprietary 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 – net position to have been depleted before unrestricted – net position is applied.

**S. 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.

**T. 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 by 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.

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**T. Compensated absences (Continued)**

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.

**U. Interfund Transactions**

Interfund transactions that would be treated as revenues, expenditures, or expenses if they involved organizations external to the city are accounted for as revenues, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from it which are properly applicable to another fund are recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of expenditures or expenses in the fund that is reimbursed. These transfers are reported in the "Other Financing Sources (Uses)" section in the Statement of Revenues, Expenditures, and Changes in Fund Balances (governmental funds) and in the "Transfers" section in the Statement of Revenues, Expenses, and Changes in Fund Net Position (proprietary fund).

**V. Grants from Other Governmental Agencies**

Federal and State governmental agencies represent an important source of supplementary funding to finance activities beneficial to the community. These funds, primarily in the form of grants, are recorded in the General, Special Revenue and Enterprise Funds. A grant receivable is recorded when the City has a right to reimbursement under the related grant. The grants normally specify the purpose for which the funds may be used and are subject to audit by the granting agency or its representative.

**W. Pensions**

For purposes of measuring the net pension liability, 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.

**X. Date of Management's Review**

In preparing the financial statements, the City has evaluated events and transactions for potential recognition for disclosure through March 29, 2020, the date that the financial statements were available to be issued.

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 2: CASH AND INVESTMENTS**

Cash Deposits

Cash includes amounts in demand and time deposit accounts. Investments are reported at fair value. Short-term investments, such as certificates of deposit and debt securities with a maturity date of less than one year, are reported at cost, which approximates fair value.

At year-end, the City's carrying amount of deposits was \$2,087,644 and the bank balance was \$2,318,334. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining bank balance was collateralized by securities held by the City or by the City's agent in name of the City.

As of September 30, 2020, the City 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, 2020, the market values of pledged securities and FDIC exceeded bank balances.

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

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 3: RECEIVABLES**

In the fund financial statements, property taxes that are measurable and available (receivable within the current period and collected within the current period or within 60 days thereafter to be used to pay liabilities of the current period) are recognized as revenue in the year of levy. Property taxes that are measurable, but not available, are recorded, net of estimated uncollectible amounts, as unavailable revenues in the year of levy. Such unavailable revenues are recognized as revenue in the fiscal year in which they become available.

The balance of property taxes receivable and property tax assessments included in unavailable revenues as of September 30, 2020 are as follows:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total</u>
Property Taxes Receivable:			
Gross Receivables	\$ 575,463	\$ 72,125	\$ 647,588
Less: Allowance for Doubtful Accounts	<u>(34,527)</u>	<u>(4,328)</u>	<u>(38,855)</u>
Net Property Taxes Receivable	<u>\$ 540,936</u>	<u>\$ 67,797</u>	<u>\$ 608,733</u>
Unavailable Property Taxes	<u>\$ 540,936</u>	<u>\$ 67,797</u>	<u>\$ 608,733</u>

Other Receivables as of September 30, 2020 for the City are as follows:

	<u>General Fund</u>	<u>Water &amp; Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
Service accounts receivable	\$ -	\$ 1,056,280	\$ 333,467	\$ 1,389,747
Due From Others				-
Franchise and hotel occupancy taxes	76,433	-	-	76,433
Fines and forfeitures	382,541	-	-	382,541
Grants	874,885	50,640	-	925,525
Other	18,448	-	-	18,448
Due From Other				
Governments	401,149	-	-	401,149
Gross Receivables	<u>1,753,456</u>	<u>1,106,920</u>	<u>333,467</u>	<u>3,193,843</u>
Less: Allowance for Uncollectibles	<u>(351,562)</u>	<u>(647,212)</u>	<u>(100,019)</u>	<u>(1,098,793)</u>
Net Total Receivables	<u>\$ 1,401,894</u>	<u>\$ 459,708</u>	<u>\$ 233,448</u>	<u>\$ 2,095,050</u>

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the governmental activities for the year ended September 30, 2020 is described in the table below.

**Governmental Activities:**

	Beginning Balance	Current Year		Ending Balance
		Increases	Decreases	
<b>Capital assets not being depreciated:</b>				
Land	\$ 153,104	\$ -	\$ -	\$ 153,104
Total capital assets not being depreciated	<u>153,104</u>	<u>-</u>	<u>-</u>	<u>153,104</u>
<b>Capital assets being depreciated:</b>				
Buildings and improvements	8,485,311	68,537		8,553,848
Machinery and equipment	4,216,851	71,493		4,288,344
Vehicles	3,570,971	248,169		3,819,140
Infrastructure	<u>14,373,803</u>	<u>10,380</u>		<u>14,384,183</u>
Total capital assets being depreciated	<u>30,646,936</u>	<u>398,579</u>	<u>-</u>	<u>31,045,515</u>
<b>Less accumulated depreciation:</b>				
Buildings and improvements	(4,213,277)	(158,460)		(4,371,737)
Machinery and equipment	(3,395,058)	(123,825)		(3,518,883)
Vehicles	(2,600,820)	(150,257)		(2,751,077)
Infrastructure	<u>(11,968,393)</u>	<u>(188,317)</u>		<u>(12,156,710)</u>
Total capital assets being depreciated	<u>(22,177,548)</u>	<u>(620,859)</u>	<u>-</u>	<u>(22,798,407)</u>
Total capital assets being depreciated, net	<u>8,469,388</u>	<u>(222,280)</u>	<u>-</u>	<u>8,247,108</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 8,622,492</u>	<u>\$ (222,280)</u>	<u>\$ -</u>	<u>\$ 8,400,212</u>

Depreciation expense of the governmental activities was charged to functions/programs as follows:

General Government	\$ 6,640
Public Safety	296,897
Public Works	237,176
Culture & Recreation	<u>80,146</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 620,859</u>

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 4: CAPITAL ASSETS, (CONTINUED)**

**Business-type Activities:**

	Beginning Balance	Current Year		Ending Balance
		Increases	Decreases	
<b>Capital assets not being depreciated:</b>				
Land	\$ 677,865	\$ -	\$ -	\$ 677,865
Construction in progress	-	141,436	-	141,436
Total capital assets not being depreciated	<u>677,865</u>	<u>141,436</u>	<u>-</u>	<u>819,301</u>
<b>Capital assets being depreciated:</b>				
Buildings and systems	35,305,537	6,263	-	35,311,800
Machinery and equipment	16,182,236	235,865	-	16,418,101
Total capital assets being depreciated	<u>51,487,773</u>	<u>242,128</u>	<u>-</u>	<u>51,729,901</u>
<b>Less accumulated depreciation:</b>				
Buildings and systems	(16,227,704)	(930,226)		(17,157,930)
Machinery and equipment	(12,914,212)	(476,462)		(13,390,674)
Total capital assets being depreciated	<u>(29,141,916)</u>	<u>(1,406,688)</u>	<u>-</u>	<u>(30,548,604)</u>
Total capital assets being depreciated, net	<u>22,345,857</u>	<u>(1,164,560)</u>	<u>-</u>	<u>21,181,297</u>
<b>Business-type capital assets, net</b>	<u><u>\$ 23,023,722</u></u>	<u><u>\$ (1,023,124)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 22,000,598</u></u>

Depreciation expense of the business-type activities was charged to functions/programs as follows:

Water & Sewer	\$ 1,351,531
Solid Waste	55,157
Total Depreciation Expense - Governmental Activities	<u><u>\$ 1,406,688</u></u>

Construction in progress consisted of water and wastewater infrastructure revitalization.

**NOTE 5: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of September 30, 2020, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water & Sewer Fund	\$ 17,462
Economic Development Fund	General Fund	733,859
Solid Waste Fund	General Fund	1,002,698
		<u><u>\$ 1,754,019</u></u>

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 5: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS, (CONTINUED)**

The outstanding balances between funds resulted mainly from a time lag between the dates (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.

Certain transfers occur among funds to allocate appropriate costs related to the operations of the funds as follows:

	Transfers In		
	General Fund	Police Forfeitures	Total
<u>Transfers out</u>			
General Fund	\$ -	\$ 11,923	\$ 11,923
EDC Fund	175,000	-	175,000
Water & Sewer Fund	1,518,210	-	1,518,210
Solid Waste Fund	391,000	-	391,000
	<u>\$ 2,084,210</u>	<u>\$ 11,923</u>	<u>\$ 2,096,133</u>

Transfers are used to (1) move revenues from the fund with collection authorization to the Debt Service Fund as debt service principal and interest payments become due; (2) move unrestricted water and sewer revenues and solid waste revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs; (3) to move monies into the appropriate capital projects fund; and (4) transfer capital assets between departments.

**NOTE 6: LONG-TERM DEBT**

The City issues general obligation bonds and certificates of obligation to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and certificates of obligation are direct obligations and pledge the full faith and credit of the government.

General obligation bonds and certificates of obligation payable at September 30, 2020, are summarized as follows:

Date of Issue	Original issue	Final Maturity	Annual Installments	% Rate	Outstanding Debt
2013	\$ 2,500,000	2033	\$25,000 to \$190,000	2.60%	\$ 2,110,000
2016	5,915,000	2027	\$315,000 to \$1,435,000	2.01%	2,385,000
					<u>\$ 4,495,000</u>

Annual debt service requirements to maturity for the bonds are as follows:

Fiscal Year	General Obligation Refunding Bonds			Certificates of Obligation		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 325,000	\$ 47,939	\$ 372,939	\$ 140,000	\$ 54,860	\$ 194,860
2022	335,000	41,406	376,406	140,000	51,220	191,220
2023	345,000	34,673	379,673	145,000	47,580	192,580
2024	350,000	27,738	377,738	150,000	43,810	193,810
2025	355,000	20,703	375,703	155,000	39,910	194,910
2026-2030	675,000	19,900	694,900	825,000	137,800	962,800
2031-2033	-	-	-	555,000	29,120	584,120
	<u>\$ 2,385,000</u>	<u>\$ 192,359</u>	<u>\$ 2,577,359</u>	<u>\$ 2,110,000</u>	<u>\$ 404,300</u>	<u>\$ 2,514,300</u>

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 6: LONG-TERM DEBT (CONTINUED)**

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
General obligation					
refunding bonds	\$ 2,710,000	\$ -	\$ 325,000	\$ 2,385,000	\$ 325,000
Certificates of obligation	2,245,000	-	135,000	2,110,000	140,000
Total governmental					
long-term debt	<u>\$ 4,955,000</u>	<u>\$ -</u>	<u>\$ 460,000</u>	<u>\$ 4,495,000</u>	<u>\$ 465,000</u>

Arbitrage Rebate Liability

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The Treasury requires payment for each issue every five years. The City had no arbitrage liability as of September 30, 2020.

Deferred Charges on 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 \$19,486. Current year amortization expense for governmental activities totaled \$2,998.

**NOTE 7: OTHER LONG-TERM LIABILITIES**

The following is a summary of changes in the City's total other long-term liabilities for the year ended September 30, 2020. In general, the City uses the general fund to liquidate governmental compensated absences.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Other liabilities:					
Compensated absences	\$ 361,195	\$ 528,049	\$ 549,592	\$ 339,652	\$ 305,687
Total governmental					
long-term liabilities	<u>\$ 361,195</u>	<u>\$ 528,049</u>	<u>\$ 549,592</u>	<u>\$ 339,652</u>	<u>\$ 305,687</u>
<b>Business-Type Activities:</b>					
Other liabilities:					
Compensated absences	\$ 103,190	\$ 114,068	\$ 112,545	\$ 104,713	\$ 94,242
Total business-type					
long-term liabilities	<u>\$ 103,190</u>	<u>\$ 114,068</u>	<u>\$ 112,545</u>	<u>\$ 104,713</u>	<u>\$ 94,242</u>

**NOTE 8: CUSTOMER DEPOSITS**

The City had customer deposits of \$764,890 in the water and sewer fund as of September 30, 2020. The City requires a refundable deposit for all new utility customers. This amount will be returned to the customer when utility service is discontinued, and all outstanding utility expenses are paid.

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 9: 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.

**B. Contingent Liabilities**

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

From time to time the City is a defendant in legal proceedings relating to its operations. Although the outcome of the legal proceedings is not presently determinable, in the opinion of the City's counsel, the legal proceedings are without merit. Counsel believes there is little, if any, adverse exposure to the City.

**NOTE 10: DEFINED BENEFIT PENSION PLAN**

Plan Description

The City participates as one of 888 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) that administers the Pension Trust Fund, 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 includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarially methods and assumptions used by the system. This report may be obtained from TMRS' website 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 THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

NOTE 10: DEFINED BENEFIT PENSION PLAN, (CONTINUED)

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 as annuity. Members may choose to receive their retirement benefit in one of seven payment 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.

A summary of plan provisions for the City are as follows:

Employee deposit rate	6%
Matching ratio (City to employee)	2 to 1
Years required for vesting	10
Service retirement eligibility	20 years at any age, 10 years at age 60 and above
Updated service credit	Last adopted 2005 – Auto Readoption- 100%
Cost of living adjustment (COLA) for retirees	Last adopted 1987 – 70%
Military service credit	Yes, adopted 10-1986
Restricted prior service credit	Yes, adopted 1-2001
Buy back last adopted	9-1986
SDB for employees	Not elected
SDB for Retirees	Not elected

Employees covered by benefit terms –

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	97
Inactive employees entitled to but not yet receiving benefits	46
Active employees	<u>103</u>
	<u>246</u>

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 10: DEFINED BENEFIT PENSION PLAN, (CONTINUED)**

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.

Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. Funds are budgeted in the General Fund, Water/Sewer Fund and the Sanitation Fund to provide funding for the pension obligation on an annual basis.

Employees for The City were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City were 9.32% and 9.13% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were \$623,739 and were equal to the required contributions.

Net Pension Asset

The City's Net Pension Asset (NPA) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Asset was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.55% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 10: DEFINED BENEFIT PENSION PLAN, (CONTINUED)**

Actuarial assumptions, Continued

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on a mortality study performed in 2013, with the factors phasing into being based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. 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.

Effective December 31, 2015, the long-term expected rate of return on TMRS pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation and 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 of 2.5%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	30.00%	5.30%
Core-Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%
Total	<u>100.00%</u>	

**Discount Rate**

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

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 10: DEFINED BENEFIT PENSION PLAN, (CONTINUED)**

Changes in the Net Pension Asset

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at 12/31/2018	<u>\$ 40,588,918</u>	<u>\$ 37,221,818</u>	<u>\$ 3,367,100</u>
Changes for year:			
Service cost	830,548		830,548
Interest	2,693,270		2,693,270
Difference between expected and actual experience	(250,811)		(250,811)
Changes in assumptions	75,201		75,201
Contributions - employer		602,957	(602,957)
Contributions - employee		387,202	(387,202)
Net investment income		5,748,802	(5,748,802)
Benefit payments, including refunds of employee contributions	(2,207,784)	(2,207,784)	-
Administrative expense		(32,515)	32,515
Other changes		(977)	977
Net change	<u>1,140,424</u>	<u>4,497,685</u>	<u>(3,357,261)</u>
Balance at 12/31/2019	<u>\$ 41,729,342</u>	<u>\$ 41,719,503</u>	<u>\$ 9,839</u>
 Plan fiduciary net position as a percentage of the total pension liability			99.98%
 Covered-employee payroll			\$ 6,453,364
 Net pension liability/(asset) as a percentage of covered employee payroll			0.15%
 <b>Presented in Statement of Net Position as follows:</b>			
Governmental Activities			\$ 7,776
Business-Type Activities			2,063
			<u>\$ 9,839</u>

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

	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
Primary government's net pension liability (asset)	\$ 5,062,163	\$ 9,839	\$ (4,227,844)

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 10: DEFINED BENEFIT PENSION PLAN, (CONTINUED)**

Pension Plan Fiduciary Net Position

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

For the year ended September 30, 2020, the City recognized pension expense of \$782,517.

At September 30, 2020, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 22,794	\$ 272,010
Changes in actuarial assumptions	57,913	-
Difference between projected and actual investment earnings	-	1,296,598
Contributions subsequent to the measurement date	479,685	-
Total	\$ 560,392	\$ 1,568,608
 <b>Presented in Statement of Net Position as follows:</b>		
Governmental Activities	\$ 473,210	\$ 1,241,293
Business-Type Activities	87,182	327,315
	\$ 560,392	\$ 1,568,608

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$479,685 will be recognized as a reduction of the net pension asset for the year ending September 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending December 31,	Net Deferred Outflows/ (Inflows) of Resources
2020	\$ (460,496)
2021	(438,697)
2022	72,688
2023	(661,396)
2024	-
Thereafter	-
	\$ (1,487,901)

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 11: EMPLOYEE BENEFIT PLANS**

Section 457 Plan

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

Prior to the passage of a City ordinance on December 16, 1996, all amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts or rights were (until paid or made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provision of benefits under the plan). As a result of these terms, the City considered itself as an agent of the plan acting in a fiduciary capacity and reflected this status in previous years' financial statements. However, as mentioned above, the City of Groves, Texas passed an ordinance on December 16, 1996, whereby the City amended and restated the deferred compensation plan (the "Plan") in the form of the ICMA Retirement Corporation Deferred Compensation Plan and Trust. The assets of the Plan shall be held in trust for the exclusive benefit of the Plan participants and their beneficiaries, and the assets shall not be diverted to any other purpose. The beneficial ownership of Plan assets held in the ICMA Retirement Trust shall be held for the participants and their beneficiaries, and not subject to the claims of the City's general creditors.

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.

(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.

	<u>Current Year</u>
<b>401 Money Purchase Plan:</b>	
Employee Contributions	\$ 157,535
Employer Contributions	<u>78,767</u>
	<u>\$ 236,302</u>
<b>401 Profit Sharing Plan:</b>	
Employee Contributions	\$ 187,983
Employer Contributions	<u>93,991</u>
	<u>\$ 281,974</u>

**CITY OF GROVES, TEXAS**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 12: PRIOR PERIOD ADJUSTMENT**

During the year ended September 30, 2020 management determined that a prior period adjustment was necessary to record a general fund liability of \$212,693 to FEMA for advances owed back related to Hurricane Ike.

**NOTE 13: SUBSEQUENT EVENTS**

On December 17, 2020, the City issued a Tax and Revenue Certificate of Obligation in the amount of \$8,645,000 for the purpose of paying contractual obligations to be incurred for construction of a Public Safety Building (Fire Station).

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF GROVES, TEXAS**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Budgeted Amounts		Actual GAAP BASIS	Variance With Final Budget Positive of (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property Tax	\$ 5,505,000	\$ 5,505,000	\$ 5,316,710	\$ (188,290)
Sales Tax	1,445,000	1,445,000	1,551,418	106,418
Franchise and Local Taxes	875,000	875,000	906,364	31,364
Intergovernmental	12,000	12,000	23,441	11,441
Charges for Services	81,500	81,500	59,907	(21,593)
License and Permits	201,500	201,500	231,813	30,313
Fines and Forfeitures	335,200	335,200	242,213	(92,987)
Investment Income	32,500	32,500	21,105	(11,395)
Other Revenue	116,000	116,000	918,303	802,303
Total Revenues	<u>8,603,700</u>	<u>8,603,700</u>	<u>9,271,274</u>	<u>667,574</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	1,651,081	1,651,081	1,397,139	253,942
Public Safety	5,258,570	5,258,570	5,358,414	(99,844)
Public Works	3,122,617	3,122,617	2,875,918	246,699
Culture and Recreation	518,342	518,342	424,090	94,252
Capital Outlay	145,800	145,800	462,181	(316,381)
Total Expenditures	<u>10,696,410</u>	<u>10,696,410</u>	<u>10,517,742</u>	<u>178,668</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,092,710)</u>	<u>(2,092,710)</u>	<u>(1,246,468)</u>	<u>(4,185,420)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	2,084,210	2,084,210	2,084,210	-
Transfers Out	-	-	(11,923)	(11,923)
Insurance Recoveries	10,000	10,000	80,190	70,190
Total Other Financing Sources (Uses)	<u>2,094,210</u>	<u>2,094,210</u>	<u>2,152,477</u>	<u>58,267</u>
Change in Fund Balance	1,500	1,500	906,009	904,509
Fund Balance -Beginning	(152,945)	(152,945)	(152,945)	-
Prior Period Adjustment	-	-	(212,693)	(212,693)
Fund Balance - Ending	<u>\$ (151,445)</u>	<u>\$ (151,445)</u>	<u>\$ 540,371</u>	<u>\$ 691,816</u>

**CITY OF GROVES, TEXAS**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
<b>A. Total Pension Liability</b>			
Service Cost	\$ 830,548	\$ 800,622	\$ 823,620
Interest (on the Total Pension Liability)	2,693,270	2,608,614	2,515,223
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(250,811)	(94,707)	66,072
Changes of Assumptions	75,201	-	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(2,207,784)</u>	<u>(1,942,868)</u>	<u>(2,076,815)</u>
Net Change in Total Pension Liability	1,140,424	1,371,661	1,328,100
Total Pension Liability - Beginning	<u>40,588,918</u>	<u>39,217,257</u>	<u>37,889,157</u>
Total Pension Liability - Ending	<u><u>\$ 41,729,342</u></u>	<u><u>\$ 40,588,918</u></u>	<u><u>\$ 39,217,257</u></u>
<b>B. Total Fiduciary Net Position</b>			
Contributions - Employer	\$ 602,957	\$ 577,892	\$ 602,529
Contributions - Employee	387,202	361,727	372,679
Net Investment Income	5,748,802	(1,180,239)	4,935,035
Benefit Payments, Including Refunds of Employee Contributions	(2,207,784)	(1,942,868)	(2,076,815)
Administrative Expenses	(32,515)	(22,827)	(25,587)
Other	<u>(977)</u>	<u>(1,193)</u>	<u>(1,296)</u>
Net Change in Plan Fiduciary Net Position	4,497,685	(2,207,508)	3,806,545
Plan Fiduciary Net Position - Beginning	<u>37,221,818</u>	<u>39,429,326</u>	<u>35,622,781</u>
Plan Fiduciary Net Position - Ending	<u><u>\$ 41,719,503</u></u>	<u><u>\$ 37,221,818</u></u>	<u><u>\$ 39,429,326</u></u>
<b>C. Net Pension Liability (Asset)</b>	<u><u>\$ 9,839</u></u>	<u><u>\$ 3,367,100</u></u>	<u><u>\$ (212,069)</u></u>
<b>D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	99.98%	91.70%	100.54%
<b>E. Covered Payroll</b>	\$ 6,453,364	\$ 6,028,783	\$ 6,211,309
<b>F. Net Pension Liability (Asset) as a Percentage of Covered Payroll</b>	0.15%	55.85%	-3.41%

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only six years of data are presented in accordance with GASB 68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement.

FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
\$ 787,773	\$ 743,764	\$ 748,448
2,440,216	2,390,243	2,339,469
-	-	-
(202,070)	(49,009)	(245,549)
-	782,654	-
<u>(1,788,454)</u>	<u>(1,980,822)</u>	<u>(2,248,540)</u>
1,237,465	1,886,830	593,828
<u>36,651,692</u>	<u>34,764,862</u>	<u>34,171,034</u>
<u>\$ 37,889,157</u>	<u>\$ 36,651,692</u>	<u>\$ 34,764,862</u>

\$ 530,967	\$ 544,328	\$ 557,430
356,458	340,915	344,865
2,312,915	52,105	1,984,850
(1,788,454)	(1,980,822)	(2,248,540)
(26,133)	(31,740)	(20,724)
<u>(1,407)</u>	<u>(1,568)</u>	<u>(1,704)</u>
1,384,346	(1,076,782)	616,177
<u>34,238,435</u>	<u>35,315,217</u>	<u>34,699,040</u>
<u>\$ 35,622,781</u>	<u>\$ 34,238,435</u>	<u>\$ 35,315,217</u>

<u>\$ 2,266,376</u>	<u>\$ 2,413,257</u>	<u>\$ (550,355)</u>
---------------------	---------------------	---------------------

94.02%	93.42%	101.58%
--------	--------	---------

\$ 5,940,973	\$ 5,681,923	\$ 5,747,757
--------------	--------------	--------------

38.15%	42.47%	-9.58%
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**CITY OF GROVES, TEXAS  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
TEXAS MUNICIPAL RETIREMENT SYSTEM**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially Determined Contributions	\$ 623,739	\$ 592,999	\$ 528,815
Contributions in Relation to the			
Actuarially Determined Contributions	<u>623,739</u>	<u>592,999</u>	<u>529,166</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (351)</u>
Covered Payroll	\$ 6,799,590	\$ 6,324,397	\$ 6,009,030
Contributions as a Percentage of			
Covered Payroll	9.17%	9.38%	8.81%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the City's respective fiscal years as opposed to the time periods covered by the measurement dates ending.

Note: In accordance with GASB 68, Paragraph 138, only six years of data are presented this reporting period. "This information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

**NOTES TO SCHEDULE OF CONTRIBUTIONS**

**Valuation Date:** 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:**

Actual Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	N/A
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 11.5% 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 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a full generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

**Other Information:**

Notes: There were no benefit changes during the year.

<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 588,767	\$ 545,248	\$ 555,555
<u>584,754</u>	<u>548,657</u>	<u>555,555</u>
<u>\$ 4,013</u>	<u>\$ (3,409)</u>	<u>\$ -</u>
\$6,188,678	\$ 6,021,200	\$ 5,780,649
9.45%	9.11%	9.61%

**COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES**

**CITY OF GROVES, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2020**

	Economic Development Corporation	Police Forfeitures	Debt Service	Total Nonmajor Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 278,320	\$ 27,141	\$ 73,180	\$ 378,641
Taxes Receivable	-	-	72,125	72,125
Allowance for Uncollectible Taxes	-	-	(4,328)	(4,328)
Due from Other Funds	733,859	-	-	733,859
Total Assets	<u>\$ 1,012,179</u>	<u>\$ 27,141</u>	<u>\$ 140,977</u>	<u>\$ 1,180,297</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue:				
Property Taxes	\$ -	\$ -	\$ 67,797	\$ 67,797
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>67,797</u>	<u>67,797</u>
<b>FUND BALANCES</b>				
Restricted for:				
Economic Development	1,012,179	-	-	1,012,179
Public Safety	-	27,141	-	27,141
Debt Service	-	-	73,180	73,180
Total Fund Balances	<u>1,012,179</u>	<u>27,141</u>	<u>73,180</u>	<u>1,112,500</u>
Total Liabilities and Fund Balances	<u>\$ 1,012,179</u>	<u>\$ 27,141</u>	<u>\$ 140,977</u>	<u>\$ 1,180,297</u>

**CITY OF GROVES, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Economic Development Corporation	Police Forfeitures	Debt Service	Total Nonmajor Governmental Funds
<b>REVENUES:</b>				
Property Tax	\$ -	\$ -	\$ 572,001	\$ 572,001
Sales Tax	774,952	-	-	774,952
Fines and Forfeitures	-	689	-	689
Investment Income	100	208	2,528	2,836
Total Revenues	<u>775,052</u>	<u>897</u>	<u>574,529</u>	<u>1,350,478</u>
<b>EXPENDITURES:</b>				
Current:				
Economic Development	103,671	-	-	103,671
Debt Service:				
Principal on Debt	-	-	460,000	460,000
Interest and Fiscal Charges	-	-	112,841	112,841
Total Expenditures	<u>103,671</u>	<u>-</u>	<u>572,841</u>	<u>676,512</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>671,381</u>	<u>897</u>	<u>1,688</u>	<u>673,966</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	-	11,923	-	11,923
Transfers Out (Use)	<u>(175,000)</u>	<u>-</u>	<u>-</u>	<u>(175,000)</u>
Total Other Financing Sources (Uses)	<u>(175,000)</u>	<u>11,923</u>	<u>-</u>	<u>(163,077)</u>
Net Change in Fund Balance	496,381	12,820	1,688	510,889
Fund Balance - Beginning	<u>515,798</u>	<u>14,321</u>	<u>71,492</u>	<u>601,611</u>
Fund Balance - Ending	<u>\$ 1,012,179</u>	<u>\$ 27,141</u>	<u>\$ 73,180</u>	<u>\$ 1,112,500</u>

**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, 2020**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>GAAP BASIS</u>	<u>Final Budget</u>
				<u>Positive or</u>
				<u>(Negative)</u>
<b>REVENUES:</b>				
Sales Tax	\$ 720,500	\$ 720,500	\$ 774,952	\$ 54,452
Investment Income	200	200	100	(100)
Total Revenues	<u>720,700</u>	<u>720,700</u>	<u>775,052</u>	<u>54,352</u>
<b>EXPENDITURES:</b>				
Economic Development	<u>117,000</u>	<u>117,000</u>	<u>103,671</u>	<u>13,329</u>
Total Expenditures	<u>117,000</u>	<u>117,000</u>	<u>103,671</u>	<u>13,329</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	603,700	603,700	671,381	67,681
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	50,000	50,000	-	50,000
Transfers Out (Use)	<u>(175,000)</u>	<u>(175,000)</u>	<u>(175,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(125,000)</u>	<u>(125,000)</u>	<u>(175,000)</u>	<u>50,000</u>
Net Change in Fund Balance	478,700	478,700	496,381	17,681
Fund Balance - Beginning	<u>515,798</u>	<u>515,798</u>	<u>515,798</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 994,498</u>	<u>\$ 994,498</u>	<u>\$ 1,012,179</u>	<u>\$ 17,681</u>

**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, 2020**

	<u>Budgeted Amounts</u>		<u>Actual GAAP BASIS</u>	<u>Variance With Final Budget Positive or (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Property Tax	\$ 578,900	\$ 578,900	\$ 572,001	\$ (6,899)
Investment Income	3,000	3,000	2,528	(472)
Total Revenues	<u>581,900</u>	<u>581,900</u>	<u>574,529</u>	<u>(7,371)</u>
<b>EXPENDITURES:</b>				
Debt Service:				
Principal on Debt	460,000	460,000	460,000	-
Interest on Debt	<u>121,900</u>	<u>121,900</u>	<u>112,841</u>	<u>9,059</u>
Total Expenditures	<u>581,900</u>	<u>581,900</u>	<u>572,841</u>	<u>9,059</u>
Change in Fund Balance	-	-	1,688	1,688
Fund Balance - Beginning	<u>71,492</u>	<u>71,492</u>	<u>71,492</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 71,492</u>	<u>\$ 71,492</u>	<u>\$ 73,180</u>	<u>\$ 1,688</u>

**FEDERAL AWARDS SECTION**

J. Pat O'Neill, III, CPA  
Michael W. Kiefer, CPA  
Troy W. Domingue, CPA



Stanley (Chip) Majors, Jr., CPA, CITP, CGMA  
Jane P. Burns, CPA, CDFA  
Jeremy R. Triska, CPA

March 29, 2021

## INDEPENDENT AUDITOR'S REPORT

### 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

The Honorable Mayor and City Council  
City of Groves, Texas

Members of the Council:

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 as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City of Groves, Texas, and have issued our report thereon dated March 29, 2021.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Groves, Texas's internal control over financial reporting (internal control) as a basis for designing 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 of Groves, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Groves, Texas's internal control.

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

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

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the City of Groves, Texas'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of This Report**

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

*Wathen, DeShong & Juncker, L.L.P.*

**WATHEN, DeSHONG & JUNCKER, L.L.P.**  
Certified Public Accountants

J. Pat O'Neill, III, CPA  
Michael W. Kiefer, CPA  
Troy W. Domingue, CPA



Stanley (Chip) Majors, Jr., CPA.CITP, CGMA  
Jane P. Burns, CPA, CDFA  
Jeremy R. Triska, CPA

March 29, 2021

## INDEPENDENT AUDITOR'S REPORT

### REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Honorable Mayor and City Council  
City of Groves, Texas

Members of the Council:

#### **Report on Compliance for Each Major Federal Program**

We have audited the City of Groves, Texas's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City of Groves, Texas's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Groves, Texas's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Groves, Texas's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the City of Groves, Texas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

**Report of Internal Control Over Compliance**

The management of the City of Groves, Texas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Groves, Texas's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Wathen, DeShong & Juncker, L.L.P.*

**WATHEN, DeSHONG & JUNCKER, L.L.P.**  
Certified Public Accountants

CITY OF GROVES, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2020

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Section I – Summary of Auditor’s Results

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**Financial Statements**

Type of auditor’s report issued: unmodified

Internal control over financial reporting:

- Material weakness identified? \_\_\_\_\_ yes  no
- Significant deficiency identified? \_\_\_\_\_ yes  none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes  no

**Federal Awards**

Internal control over major programs:

- Material weakness identified? \_\_\_\_\_ yes  no
- Significant deficiency identified? \_\_\_\_\_ yes  none reported

Type of auditor’s report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR)200.516(a)? \_\_\_\_\_ yes  no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
21.019	Coronavirus Relief Fund

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes  no

**CITY OF GROVES, TEXAS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED SEPTEMBER 30, 2020**

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**Section II - Financial Statement Findings**

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-- NONE NOTED --

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**Section III - Federal Award Findings**

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-- NONE NOTED --

**CITY OF GROVES, TEXAS**

**STATUS OF PRIOR YEAR'S FINDINGS  
YEAR ENDED SEPTEMBER 30, 2020**

**-- NOT APPLICABLE --**

**CITY OF GROVES, TEXAS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	(02)	(2A)	(03)
	Federal	Pass-through	
	CFDA	Entity	
	Number	Identifying	Federal
	<u>Number</u>	<u>Number</u>	<u>Expenditures</u>
<b>UNITED STATES DEPARTMENT OF HOMELAND SECURITY</b>			
Passed Through Texas Homeland Security Grants Division:	97.067	3830101	\$ 8,941
Total Passed Through Texas Homeland Security Grants Division			<u>8,941</u>
Total United States Department of Homeland Security			<u>8,941</u>
<b>UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Passed Through Texas Department of Agriculture:			
Community Development Block Grant	14.228	7217169	8,199
Community Development Block Grant	14.228	7219179	<u>50,640</u>
Total Passed Through Texas Department of Agriculture			<u>58,839</u>
Passed Through Texas General Land Office:			
Community Development Block Grant	14.228	20-065-039-C120	<u>90,796</u>
Total Passed Through Texas General Land Office			<u>90,796</u>
Total United States Department of Housing and Urban Development			<u>149,635</u>
<b>UNITED STATES DEPARTMENT OF JUSTICE</b>			
Passed Through Texas Bureau of Justice Assistance:			
Edward Byrne Memorial Justice Assistance Program	16.738	99404077	<u>13,711</u>
Total Passed Through Texas Bureau of Justice Assistance			<u>13,711</u>
Total United States Department of Justice			<u>13,711</u>
<b>UNITED STATES DEPARTMENT OF THE TREASURY</b>			
Passed Through State Dept. of Public Safety (TDEM)			
Coronavirus Relief Fund	21.019	769	<u>874,885</u>
Total Passed Through State Dept. of Public Safety (TDEM)			<u>874,885</u>
Total United States Department of the Treasury			<u>874,885</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 1,047,172</u></u>

**CITY OF GROVES, TEXAS**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED SEPTEMBER 30, 2020**

1. The accompanying Schedule Of Expenditures Of Federal Awards (Schedule) includes the federal grant activity of the City of Groves, Texas under programs of the Federal government for the year ended September 30, 2020. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.
2. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.
3. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All federal grant funds were accounted for in the General Fund, a component of the Governmental Fund type. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of this fund present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund Types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned.

4. The City of Groves, Texas does not record indirect costs for any of its Federal Programs.
5. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date or as specified in a program regulation, in accordance with provisions in Office of Management and Budget (OMB) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* – Section 200.343 Closeout.