

**ANNUAL
FINANCIAL REPORT**

CITY OF GROVES, TEXAS

**For the fiscal year ended
September 30, 2014**



CITY OF GROVES, TEXAS
ANNUAL FINANCIAL REPORT
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Introductory Section

CITY OF GROVES, TEXAS
PRINCIPAL CITY OFFICIALS

CITY COUNCIL

Brad P. Bailey Mayor

Jim Rasa Mayor pro tem, Ward 1

Karen Theis Council Member, Ward 2

Sidney Badon Council Member, Ward 3

Kyle Hollier Council Member, Ward 4

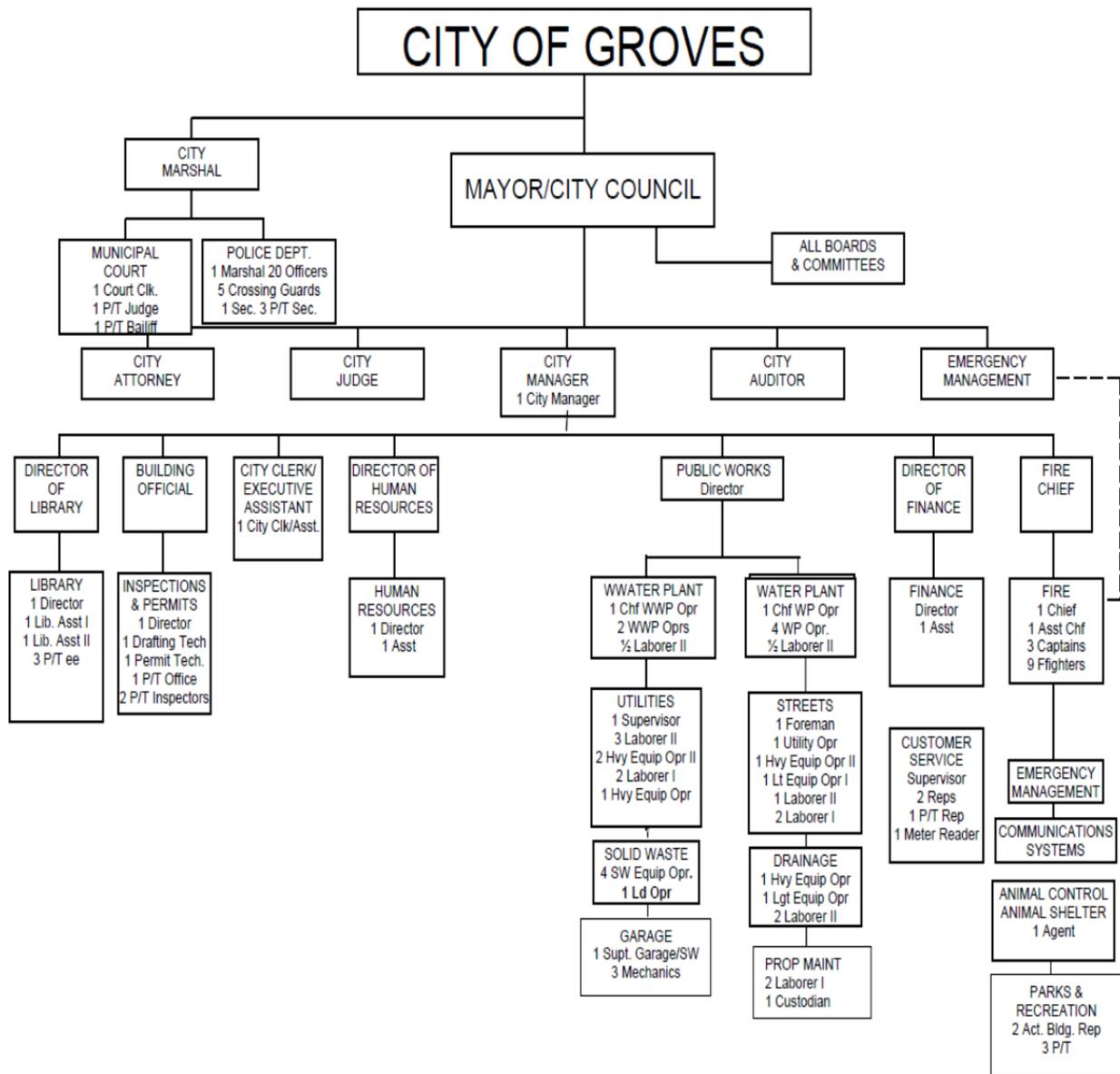
CITY MANAGER

D.E. Sosa

CITY ATTORNEY

James Black

CITY OF GROVES, TEXAS
ORGANIZATIONAL CHART



Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of City of Groves, Texas (the "City"), as of and for the year ended September 30, 2014, 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 from material misstatement.

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City, as of September 30, 2014, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison and schedule of funding progress on Pages 4 through 13 and Pages 48 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual nonmajor fund financial statements and schedules 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Whitley Penn LLP

May 4, 2015

CITY OF GROVES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Groves (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2014.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

The statement of net 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 government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

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

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

Fund Financial Statements

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

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

Governmental Funds

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

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

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General and Debt Service Funds which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

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

The basic governmental fund financial statements can be found on Pages 20 through 23 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an Enterprise Fund to account for its Water and Sewer Fund and Solid Waste Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements, provide separate information for the Water and Sewer and Solid Waste Enterprise Funds since they are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on Pages 24 through 26 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on Pages 27 through 47 of this report.

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents other required supplementary information as well as combining and individual fund statements and schedules that further support the information in the financial statements. This information is presented immediately following the notes to the financial statements beginning on Page 48 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$30.0 million (net position). At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position.

By far, the largest portion of the City's net position (\$28.3 million) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CONDENSED SCHEDULE OF NET POSITION

September 30, 2014 and 2013

Amounts in (000's)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013, as restated</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 3,101	\$ 5,231	\$ 1,073	\$ 1,124	\$ 4,174	\$ 6,355
Internal balances	-	2,722	-	(2,722)		
Capital assets	11,437	8,366	28,598	29,009	40,035	37,375
Total Assets	<u>14,538</u>	<u>16,319</u>	<u>29,671</u>	<u>27,411</u>	<u>44,209</u>	<u>43,730</u>
Other liabilities	883	375	761	672	1,644	1,047
Long-term liabilities	11,643	12,943	948	1,241	12,591	14,184
Total Liabilities	<u>12,526</u>	<u>13,318</u>	<u>1,709</u>	<u>1,913</u>	<u>14,235</u>	<u>15,231</u>
Net Position:						
Net investment in capital assets	607	(1,665)	27,694	27,813	28,301	26,148
Restricted	434	504			434	504
Unrestricted	971	4,162	268	(2,315)	1,239	1,847
Total Net Position	<u>\$ 2,012</u>	<u>\$ 3,001</u>	<u>\$ 27,962</u>	<u>\$ 25,498</u>	<u>\$ 29,974</u>	<u>\$ 28,499</u>

An additional portion of the City's net position (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$1.2 million, may be used to meet the government's ongoing obligations to citizens and creditors.

The City's net position increased by \$1.5 million during the current fiscal year, primarily due to increases capital assets.

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

Government-wide Financial Analysis (continued)

The following table summarizes the changes in net position for the City for the year ended September 30, 2014.

CONDENSED SCHEDULE OF CHANGES IN NET POSITION

For the Fiscal Years Ended September 30, 2014 and 2013

Amounts in (000's)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013, as restated	2014	2013
Revenues						
Program revenue:						
Charges for services	\$ 553	\$ 302	\$ 5,224	\$ 5,644	\$ 5,777	\$ 5,946
Operating grants and contributions	1,633	39			1,633	39
Capital grants and contributions	1,186	578			1,186	578
Property taxes	4,660	4,624			4,660	4,624
Sales and use taxes	1,905	1,783			1,905	1,783
Franchise taxes	949	1,591			949	1,591
Unrestricted investment earnings	1	1			1	1
Miscellaneous	73	76	1		74	76
Total Revenues	10,960	8,994	5,225	5,644	16,184	14,638
Expenses						
General government	1,228	1,380			1,228	1,380
Public safety	5,390	4,592			5,390	4,592
Public works	1,402	2,415			1,402	2,415
Culture and recreation	674	590			674	590
Economic development	117	78			117	78
Interest on long-term debt	442	411			442	411
Water and sewer			4,454	5,230	4,454	5,230
Solid Waste			1,003	1,187	1,003	1,187
Total Expenses	9,253	9,466	5,457	6,417	14,710	15,883
Increase (decrease) in net position before transfers	1,707	(472)	(232)	(773)	1,475	(1,245)
Transfers	(2,696)	636	2,696	(636)		
Change in net position	(989)	164	2,464	(1,409)	1,475	(1,245)
Net Position - Beginning	3,001	2,837	25,994	27,403	28,995	30,240
Prior Period Adjustment			(496)	(496)	(496)	(496)
Net Position, Beginning as Restated	3,001	2,837	25,498	26,907	28,499	29,744
Net Position - Ending	\$ 2,012	\$ 3,001	\$ 27,962	\$ 25,498	\$ 29,974	\$ 28,499

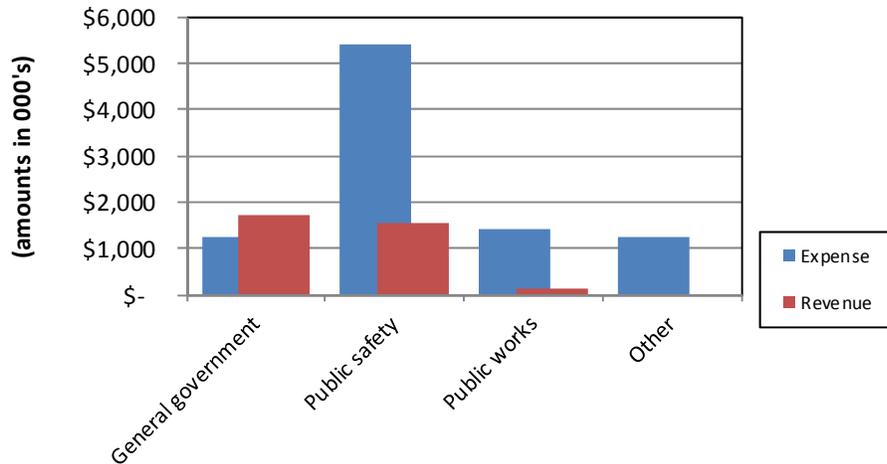
CITY OF GROVES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental Activities

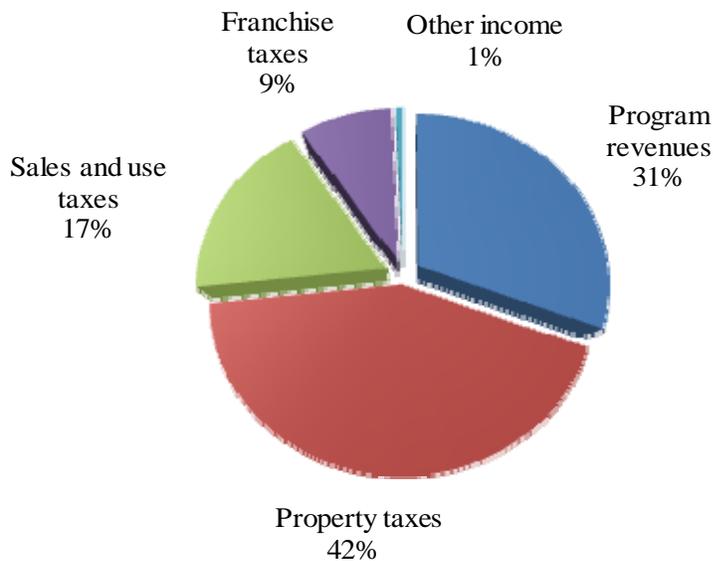
Governmental activities decreased the City's net position by approximately \$1.0 million. The key element of this decrease is the following:

- Increase in net transfers out of \$2.7 million.

A comparison of program expenses to program revenues follows:



Revenue sources for governmental activities were distributed as follows:

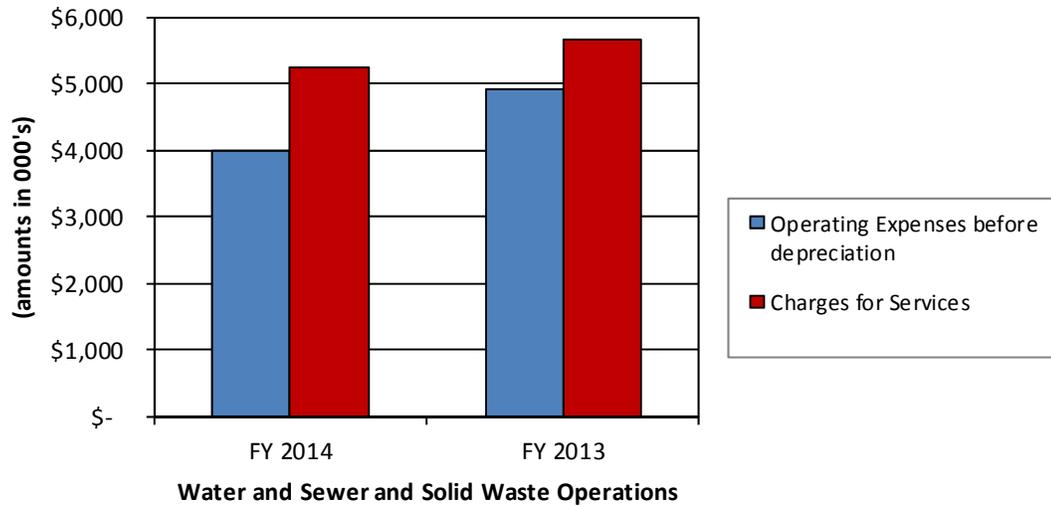


CITY OF GROVES, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Business-type Activities

Business-type activities increased the City's net position by \$2.5 million. The key element of the increase is the following

- Increase was due to net transfers in of \$2.7 from governmental funds



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

Financial Analysis of the Government's Funds

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

Governmental Funds

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

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$1.3 million, an decrease of approximately \$5.7 million from the prior year. The key element of this decrease is as follows:

- Net transfers out to business type activities of \$2.7 million.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$385,635. The unassigned fund balance decreased by \$40,939 from fiscal year 2013.

The General Fund has assigned fund balance amounts of \$460,664 for long-term compensated absences.

The City has General Fund nonspendable fund balance of \$5,992 for prepaid and inventory items as of September 30, 2014.

At the close of the current fiscal year, the City's debt service fund reported a fund balance of \$12,832, an increase of \$11,360 from the prior year. Debt service expenditures for the year ending September 30, 2014, totaled \$1,705,689.

Proprietary Funds

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

The deficit in unrestricted net position at the end of the year amounted to \$321,233 for the Water and Sewer Fund. Total net position of the Water and Sewer Fund decreased by \$2.1 million. Unrestricted net position at the end of the year amounted to \$589,217 for the Solid Waste Fund. Net position of the Solid Waste Fund decreased by \$103,875. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

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

General Fund Budgetary Highlights

Actual revenues differed from budgeted revenues by \$699,000, primarily due to intergovernmental revenue being \$1.0 million more than budgeted due to EOC grant progress being behind schedule in prior year and catch up this year. During the budgeting process, the city factored in still maintaining a fund balance amount sufficient to cover over a three-month operating reserve.

Budgeted expenditures exceeded actual expenditures by \$1.9 million, the key element of which is as follows:

- Public Safety with a negative variance of \$1.6 million due to slower than expected progress on construction of the EOC in prior year and catch up this year.

Capital Asset and Debt Administration

The City's capital assets for its governmental and business-type activities as of September 30, 2014, amounted to \$40 million (net of accumulated depreciation). Capital assets include land, buildings, roads, park facilities, water and sewer plants and service lines, machinery and equipment, and construction in progress. Capital asset balances increased by approximately \$2.6 million from the prior year due to capital outlay being greater than the depreciation expense during the year.

The following table shows the balances at September 30, 2014 and 2013 (in 000's):

	<u>2013</u>	<u>2014</u>
Governmental Activities		
Capital Assets not being depreciated:		
Land	\$ 153	153
Construction in progress	1,014	601
Capital Assets, net of depreciation:		
Infrastructure	3,937	3,724
Buildings	867	4,259
Machinery and Equipment	1,743	2,002
Improvements other than buildings	<u>652</u>	<u>697</u>
Total capital assets - Governmental Activities	<u>\$ 8,366</u>	<u>\$ 11,437</u>
Business-Type Activities		
Capital Assets not being depreciated:		
Land	\$ 678	\$ 678
Construction in progress		1,046
Capital Assets, net of depreciation:		
Buildings & System	23,144	22,252
Machinery and Equipment	<u>5,187</u>	<u>4,622</u>
Total capital assets - Business-Type Activities	<u>\$ 29,009</u>	<u>\$ 28,598</u>

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

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

Long-term Liabilities

At the end of the current fiscal year, the City had total long-term debt outstanding of \$12.6 million. This is a decrease from the prior year of \$1.6 million, due to scheduled principal debt payments. The entire amount of bonded debt is backed by the full faith and credit of the City. In addition, the debt agreements allow for the obligations to be paid from certain sales and use tax receipts and water/wastewater revenues. A schedule of long-term debt at September 30, 2013 and 2014 follows (in \$000's):

Governmental Activities

	<u>2013</u>	<u>2014</u>
General obligation bonds	\$ 5,170	\$ 4,220
Certificates of obligation	6,880	6,610
Tax notes	173	129
Compensated absences	721	684
	<u>\$ 12,944</u>	<u>\$ 11,644</u>

Business Activities

	<u>2013</u>	<u>2014</u>
Capital leases	\$ 879	\$ 699
Tax notes	317	206
Compensated absences	45	44
	<u>\$ 1,241</u>	<u>\$ 948</u>

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

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

Economic Factors and Next Year's Budget and Rates

The City of Groves is experiencing an improved economic outlook with the announcement of two important areas of growth and other positive trends. The two planned subdivisions have been planned which will consist of a 22 unit development and a 140 unit gated community development. Additionally, some recently announced refinery expansion projects will attract additional temporary workers to the City which should provide a boost to the local economy. The City monthly sales tax receipts and the number of active utility customer accounts have shown steady year-over-year growth; the City budgeted conservatively but does expect these trends to continue. The growth in population and sales tax revenue should reduce the pressure on the City's ad valorem tax rate.

The City's 2014-2015 budget continues its trend of doing more with less and increased efficiencies. The budget continues to focus on reducing expenses and utilize reductions in the City's workforce through retirements and attrition. Additionally, the City will experience a significant reduction in its scheduled bond payments after 2018 and is in the beginning phases of creating a capital improvements program with that in mind.

The City has greatly benefited from an aggressive pursuit of grants to offset the capital costs of needed new buildings and infrastructure repair, including but not limited to the completed emergency operations center, but anticipates the availability of these grants to become significantly more limited.

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

Interest rates continue to remain at historic lows and the City budgeted accordingly. The City does not anticipate any sharp rises in interest rates for the upcoming year, but does anticipate continuing inflationary pressures.

Requests for Information

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

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Basic Financial Statements

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CITY OF GROVES, TEXAS
STATEMENT OF NET POSITION
September 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,403,871	\$ 531,787	\$ 1,935,658
Accounts receivable, net of allowance for doubtful accounts	1,059,569	376,168	1,435,737
Due from other governments	631,320		631,320
Inventories	5,079	165,268	170,347
Prepaid items	913		913
Capital assets, not subject to depreciation:			
Land	153,104	677,865	830,969
Construction in progress	601,279	1,046,057	1,647,336
Capital assets, net of depreciation:			
Infrastructure	4,421,224	6,035,842	10,457,066
Buildings and improvements	4,259,461	16,215,779	20,475,240
Machinery and equipment	2,001,814	4,622,349	6,624,163
Total Capital Assets	<u>11,436,882</u>	<u>28,597,892</u>	<u>40,034,774</u>
Total Assets	<u>14,537,634</u>	<u>29,671,115</u>	<u>44,208,749</u>
Liabilities			
Accounts payable and accrued expenses	851,472	755,797	1,607,269
Accrued interest	31,017	5,354	36,371
Long-term liabilities:			
Due within one year	1,475,718	109,836	1,585,554
Due in more than one year	10,167,324	838,576	11,005,900
Total Liabilities	<u>12,525,531</u>	<u>1,709,563</u>	<u>14,235,094</u>
Net Position			
Net investment in capital assets	606,882	27,693,568	28,300,450
Restricted for:			
Debt service	25,635		25,635
Economic development	354,916		354,916
Public safety	53,559		53,559
Unrestricted	971,111	267,984	1,239,095
Total Net Position	<u>\$ 2,012,103</u>	<u>\$ 27,961,552</u>	<u>\$ 29,973,655</u>

See Notes To Basic Financial Statements.

CITY OF GROVES, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental Activities:				
General government	\$ 1,228,444	\$ 75,383	\$ 1,630,536	-
Public safety	5,389,604	370,279	1,937	1,186,157
Public works	1,402,005	107,253	977	-
Culture and recreation	673,556	-	-	-
Economic development	116,930	-	-	-
Interest on long-term debt	442,289	-	-	-
Total governmental activities	<u>9,252,828</u>	<u>552,915</u>	<u>1,633,450</u>	<u>1,186,157</u>
Business-type activities:				
Water and sewer	4,454,203	4,034,088	-	-
Solid Waste	1,003,034	1,189,159	-	-
Total business-type activities	<u>5,457,237</u>	<u>5,223,247</u>		
Total primary government	<u>\$ 14,710,065</u>	<u>\$ 5,776,162</u>	<u>\$ 1,633,450</u>	<u>\$ 1,186,157</u>

General revenues:

Taxes:

- Property taxes
- Sales and use taxes
- Franchise taxes
- Unrestricted investment earnings
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net Position - Beginning

Prior Period Adjustment

Net Position, Beginning as Restated

Net Position - Ending

Net (Expense) Revenue and Changes in Net Position

Primary Government

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ 477,475	\$ -	\$ 477,475
(3,831,231)	-	(3,831,231)
(1,293,775)	-	(1,293,775)
(673,556)	-	(673,556)
(116,930)	-	(116,930)
(442,289)	-	(442,289)
<u>(5,880,306)</u>		<u>(5,880,306)</u>
-	(420,115)	(420,115)
-	186,125	186,125
	<u>(233,990)</u>	<u>(233,990)</u>
<u>(5,880,306)</u>	<u>(233,990)</u>	<u>(6,114,296)</u>
4,660,359	-	4,660,359
1,904,855	-	1,904,855
948,858	-	948,858
804	-	804
73,200	933	74,133
<u>(2,696,436)</u>	<u>2,696,436</u>	<u>-</u>
<u>4,891,640</u>	<u>2,697,369</u>	<u>7,589,009</u>
(988,666)	2,463,379	1,474,713
3,000,769	25,994,050	28,994,819
	<u>(495,877)</u>	<u>(495,877)</u>
<u>3,000,769</u>	<u>25,498,173</u>	<u>28,498,942</u>
<u>\$ 2,012,103</u>	<u>\$ 27,961,552</u>	<u>\$ 30,469,532</u>

CITY OF GROVES, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2014

	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 982,564	\$ 12,832	\$ 408,475	\$ 1,403,871
Taxes receivable, net	511,151	43,820	-	554,971
Other receivables	504,598	-	-	504,598
Receivable from other governments	631,320	-	-	631,320
Inventories	5,079	-	-	5,079
Prepaid items	913	-	-	913
Total Assets	<u>\$ 2,635,625</u>	<u>\$ 56,652</u>	<u>\$ 408,475</u>	<u>\$ 3,100,752</u>
Liabilities				
Accounts payable	\$ 514,892	\$ -	\$ -	\$ 514,892
Other accrued expenditures	336,580	-	-	336,580
Total Liabilities	<u>851,472</u>	<u>-</u>	<u>-</u>	<u>851,472</u>
Deferred Inflows of Resources				
Unavailable revenue - property taxes	511,152	43,820	-	554,972
Unavailable revenue - municipal court	420,710	-	-	420,710
Total Deferred Inflows of Resources	<u>931,862</u>	<u>43,820</u>	<u>-</u>	<u>975,682</u>
Fund balances				
Nonspendable				
Inventories	5,079			5,079
Prepaid items	913			913
Restricted				
Debt service		12,832		12,832
Public safety			53,559	53,559
Economic development			354,916	354,916
Assigned				
Long-term compensated absences	460,664			460,664
Unassigned	385,635			385,635
Total Fund Balances	<u>852,291</u>	<u>12,832</u>	<u>408,475</u>	<u>1,273,598</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,635,625</u>	<u>\$ 56,652</u>	<u>\$ 408,475</u>	<u>\$ 3,100,752</u>

See Notes to Basic Financial Statements

CITY OF GROVES, TEXAS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS

TO THE STATEMENT OF NET POSITION

September 30, 2014

Total fund balance, governmental funds \$ 1,273,598

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 11,436,882

Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 975,682

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

Bonds and capital leases (10,959,364)
Accrued interest (31,017)
Accrued compensated absences (683,678)

Net Position of Governmental Activities \$ 2,012,103

See Notes to Basic Financial Statements.

CITY OF GROVES, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2014

	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes:				
Property taxes	\$ 4,129,325	\$ 459,356	\$	\$ 4,588,681
Sales and use taxes	1,228,362		612,119	1,840,481
Franchise taxes	948,858			948,858
Hotel taxes	64,374			64,374
Fines and forfeitures	150,984		963	151,947
Licenses and permits	97,433			97,433
Intergovernmental	2,823,481			2,823,481
Charges for services	129,804			129,804
Investment earnings	766	22	15	803
Other	23,007			23,007
Total Revenues	<u>9,596,394</u>	<u>459,378</u>	<u>613,097</u>	<u>10,668,869</u>
Expenditures				
Current:				
General government	1,142,303			1,142,303
Public safety	7,598,083			7,598,083
Public works	2,415,754			2,415,754
Culture and recreation	579,865			579,865
Economic development			116,930	116,930
Capital Outlay	48,313		16,113	64,426
Debt Service:				
Principal		1,263,400		1,263,400
Interest and other charges		442,289		442,289
Total Expenditures	<u>11,784,318</u>	<u>1,705,689</u>	<u>133,043</u>	<u>13,623,050</u>
Excess (deficiency) of revenues over expenditures	<u>(2,187,924)</u>	<u>(1,246,311)</u>	<u>480,054</u>	<u>(2,954,181)</u>
Other Financing Sources (Uses)				
Issuance of debt				
Transfers in	1,505,785	1,380,000		2,885,785
Transfers out	<u>(4,384,107)</u>	<u>(122,329)</u>	<u>(1,075,785)</u>	<u>(5,582,221)</u>
Total other financing sources (uses)	<u>(2,878,322)</u>	<u>1,257,671</u>	<u>(1,075,785)</u>	<u>(2,696,436)</u>
Net Changes in Fund Balances	<u>(5,066,246)</u>	<u>11,360</u>	<u>(595,731)</u>	<u>(5,650,617)</u>
Fund Balances - Beginning	<u>5,918,537</u>	<u>1,472</u>	<u>1,004,206</u>	<u>6,924,215</u>
Fund Balances - End of Year	<u>\$ 852,291</u>	<u>\$ 12,832</u>	<u>\$ 408,475</u>	<u>\$ 1,273,598</u>

See Notes to Basic Financial Statements.

CITY OF GROVES, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2014

Net change in fund balances - total governmental funds: \$ (5,650,617)

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

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

This is the amount by which depreciation of \$787,118 is less than capital outlay of \$3,857,607 in the current period. 3,070,489

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 290,975

Governmental funds report repayment of bond principal and capital leases as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of payments made on long-term debt. 1,263,400

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

Accrued interest not reflected in Governmental funds
 Compensated absences 37,087

Change in net position of governmental activities \$ (988,666)

See Notes to Basic Financial Statements.

CITY OF GROVES, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2014

	Business-type Activities		
	Water and Sewer	Solid Waste	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 450	\$ 531,337	\$ 531,787
Accounts receivable, net	254,747	121,421	376,168
Inventories	165,268		165,268
Total Current Assets	420,465	652,758	1,073,223
Non-current assets:			
Capital assets not being depreciated:			
Land and improvements	677,865		677,865
Construction in progress	1,046,057		1,046,057
Other capital assets, net of depreciation:			
Infrastructure	6,035,842		6,035,842
Buildings	16,215,779		16,215,779
Equipment and furniture	4,276,830	345,519	4,622,349
Total Non-Current Assets	28,252,373	345,519	28,597,892
Total Assets	28,672,838	998,277	29,671,115
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	87,041	49,801	136,842
Deposits	577,815		577,815
Accrued interest payable	5,354		5,354
Salaries payable	34,560	6,580	41,140
Total Current Liabilities	704,770	56,381	761,151
Non-current liabilities:			
Compensated absences	36,928	7,160	44,088
Capital lease obligation	698,688		698,688
Bonds, notes and loans payable	205,636		205,636
Total Non-Current Liabilities	941,252	7,160	948,412
Total Liabilities	1,646,022	63,541	1,709,563
NET POSITION			
Net investment in capital assets	27,348,049	345,519	27,693,568
Unrestricted	(321,233)	589,217	267,984
Total Net Position	\$ 27,026,816	\$ 934,736	\$ 27,961,552

See Notes to Basic Financial Statements.

CITY OF GROVES, TEXAS

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION**

PROPRIETARY FUNDS

For the Year Ended September 30, 2014

	Business-type Activities		
	Water and Sewer	Solid Waste	Total
Operating Revenues			
Charges for services	\$ 4,035,021	\$ 1,189,159	\$ 5,224,180
Total Operating Revenues	<u>4,035,021</u>	<u>1,189,159</u>	<u>5,224,180</u>
Operating Expenses			
Personnel services	1,690,080	323,544	2,013,624
Supplies	655,037	134,836	789,873
Contracted services	199,940	384,781	584,721
Utilities	233,972	1,880	235,852
Repairs and maintenance	267,589	61,996	329,585
Depreciation	1,360,974	95,997	1,456,971
Total Operating Expenses	<u>4,407,592</u>	<u>1,003,034</u>	<u>5,410,626</u>
Operating income (loss)	<u>(372,571)</u>	<u>186,125</u>	<u>(186,446)</u>
Non-Operating Revenues (Expenses)			
Interest expense	(46,611)	-	(46,611)
Income (loss) before Transfers	(419,182)	186,125	(233,057)
Transfers in	3,526,436		3,526,436
Transfers out	(540,000)	(290,000)	(830,000)
Change in Net Position	2,567,254	(103,875)	2,463,379
Total Net Position - Beginning of Year	24,955,439	1,038,611	25,994,050
Prior Period Adjustment	(495,877)	-	(495,877)
Total Net Position - Beginning of Year as Restated	24,459,562	1,038,611	25,498,173
Total Net Position - End of Year	<u>\$ 27,026,816</u>	<u>\$ 934,736</u>	<u>\$ 27,961,552</u>

See Notes to Basic Financial Statements.

CITY OF GROVES, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2014

	Business-type Activities - Enterprise Funds		
	Sewer	Solid Waste	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 4,254,788	\$ 1,275,003	\$ 5,529,791
Disbursed for personnel services	(1,707,609)	(323,666)	(2,031,275)
Disbursed for goods and services	(1,425,742)	(576,716)	(2,002,458)
Net cash provided by operating activities	1,121,437	374,621	1,496,058
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	3,526,436		3,526,436
Transfers (to) other funds	(540,000)	(290,000)	(830,000)
Loans from other funds	(2,722,217)	-	(2,722,217)
Net cash used by noncapital financing activities	264,219	(290,000)	(25,781)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal payments on debt	(291,527)		(291,527)
Acquisition and construction of capital assets	(1,046,057)		(1,046,057)
Cash used by capital and related financing activities	(1,337,584)		(1,337,584)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest paid	(48,072)	-	(48,072)
Net cash used by investing activities	(48,072)	-	(48,072)
Net increase in cash and cash equivalents		84,621	84,621
Cash and cash equivalents - beginning of year	450	446,716	447,166
Cash and cash equivalents - end of year	\$ 450	\$ 531,337	\$ 531,787
Unrestricted cash and cash equivalents	\$ 450	\$ 531,337	\$ 531,787
Restricted cash and cash equivalents	-	-	-
	\$ 450	\$ 531,337	\$ 531,787
Reconciliation of operating income to net cash provided by operating activities			
Operating Income (loss)	\$ (372,571)	\$ 186,125	\$ (186,446)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,360,974	95,997	1,456,971
Increase in accounts receivable	137,829	85,844	223,673
(Increase) decrease in inventories	(87,580)	-	(87,580)
Increase in compensated absences	(2,585)	1,953	(632)
Increase (decrease) in accounts payable	18,376	6,777	25,153
Decrease in salaries payable	(14,944)	(2,075)	(17,019)
Increase in customer deposits	81,938	-	81,938
Net cash provided by operating activities	\$ 1,121,437	\$ 374,621	\$ 1,496,058

See Notes to Basic Financial Statements.

CITY OF GROVES, TEXAS
NOTES TO THE BASIC FINANCIAL STATEMENTS

Note 1 - Organization

The City of Groves, Texas, was incorporated in December 1952. The City operates under a Council-Manager form of government.

Pursuant to its provisions and subject only to its limitations imposed by the State Constitution and by the City's charter, all powers of the City shall be vested in an elective Council composed of four Council Members and a Mayor, collectively known as the City Council. The City Council enacts local legislation, adopts budgets, determines policies, and appoints the City Manager, who in turn is responsible to the City Council for the execution of laws and the administration of the government of the City. The City Marshal is elected at-large by the citizens in Groves to manage the municipal court and police department. Departments and agencies of the City submit budget requirements to the Mayor. The Mayor is the presiding officer of the City Council.

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

Note 2 - Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

CITY OF GROVES, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

CITY OF GROVES, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

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

Property taxes collected within 60 days subsequent to September 30, 2014, have not been recorded as revenue as the amount is not considered material. Franchise taxes and sales taxes relating to underlying transactions that occurred prior to September 30, 2014, have been recorded as receivables and revenue. Licenses and permits and fines are not susceptible to accrual since they are not measurable until received. Revenue on federal and state cost-reimbursement grants is accrued when the related expenditures are incurred. Interest is recorded when earned.

The City has the following major governmental funds:

- General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.
- Debt Service Fund - The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major proprietary funds:

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

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

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

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

CITY OF GROVES, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

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

Net position is categorized into three components – Net investment in Capital assets; restricted; and unrestricted. These classifications are as follows:

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

D. Cash and Cash Equivalents

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

E. Receivables

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

F. Due to and from Other Funds

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

G. Inventories and Prepaid Items

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

CITY OF GROVES, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

H. Capital Assets

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

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

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

I. Compensated Absences

Employees earn vacation based on years of service with the City. In accordance with GAAP, the liability for accumulated vacation at September 30, 2014, has been recorded as a liability in the Government-Wide Statement of Net Position.

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

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

CITY OF GROVES, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

I. Compensated Absences (continued)

J. General Property Taxes

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

K. Debt Service

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

L. Use of Estimate

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

M. Deferred outflows/inflows of resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and municipal court fines and fees. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF GROVES, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

N. Fund Equity/Net Position

Governmental fund equity is classified according to the relative strength of the spending constraints as follows:

Non-spendable fund balance – amounts that are not in spendable form or are legally or contractually required to be maintained intact.

Restricted fund balance – amounts that are subject to external restrictions from creditors, grantors, contributors, or laws of other governments.

Committed fund balance – amounts constrained for specific purposes as determined by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purposes unless the City takes the same highest level of action to remove or change the constraint. The City establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. City Council will approve obligations of funds, such as multiyear contracts, prior to the end of the fiscal year.

Assigned fund balance – amounts the City intends to use for a specific purpose that is neither restricted or committed and includes the remaining positive fund balance of all governmental funds except for the General Fund. Intent can be established by City Council or delegated to the City Manager.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

The City has no formal minimum fund balance policy in place at this time.

Unrestricted net position for proprietary funds represents the net position available for future operations or distribution. Restricted net position for proprietary funds represents the net position that has been legally identified for specific purposes.

CITY OF GROVES, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

O. Revenues and Expenditures/Expenses

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

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

P. Post-employment Healthcare Benefits

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

Note 3 - Deposits (Cash) and Investments

Authorization for Deposits and Investments

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

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

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

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

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

Authorization for Deposits and Investments (continued)

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

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

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

Deposits

The City's cash and investments consist of cash on hand, deposits with financial institutions, and non-negotiable certificates of deposit.

The following schedule shows the City's deposits at year-end:

	<u>Fair Value</u>
Primary Government	
Cash Deposits	\$ 1,835,658
Certificates of Deposit	<u>100,000</u>
Total	<u>\$ 1,935,658</u>

Custodial Risk

At September 30, 2014, the entire amount of the city's deposits was covered by federal depository insurance or by collateral held by the City's agent in the City's name.

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

Note 4 - Receivables

Amounts recorded as receivables as of September 30, 2014, for the government's individual major and non-major funds, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
Receivables:					
Fines and Forfeitures	\$ 420,710				\$ 420,710
Property taxes	543,778	\$ 46,617			590,395
Customer accounts	83,888		\$ 833,020	171,473	1,088,381
Due from other governments	<u>631,320</u>				<u>631,320</u>
Gross Receivables	1,679,696	46,617	833,020	171,473	2,730,806
Less: allowance for uncollectibles	<u>(32,627)</u>	<u>(2,797)</u>	<u>(578,273)</u>	<u>(50,052)</u>	<u>(663,749)</u>
Net Total Receivables	<u>\$ 1,647,069</u>	<u>\$ 43,820</u>	<u>\$ 254,747</u>	<u>\$ 121,421</u>	<u>\$ 2,067,057</u>

Revenue from delinquent property taxes and outstanding warrants receivable at September 30, 2014, has been reported as deferred inflows of financial resources in the fund financial statements until collected. Delinquent tax collections during the first sixty days subsequent to September 30, 2014, have not been recorded as revenue as of September 30, 2014, as the amount is not considered material.

Note 5 - Capital Assets

A summary of activity for capital assets capitalized by the City for the year ended September 30, 2014, follows:

Governmental Activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets not being depreciated:				
Land	\$ 153,104	\$ -	\$ -	\$ 153,104
Construction in Progress	<u>1,013,572</u>	<u>3,857,607</u>	<u>(4,269,900)</u>	<u>601,279</u>
Total	<u>1,166,676</u>	<u>3,857,607</u>	<u>(4,269,900)</u>	<u>754,383</u>
Capital Assets being depreciated:				
Buildings	3,876,602	3,533,651	-	7,410,253
Improvements other than Buildings	2,161,672	130,016	-	2,291,688
Machinery & Equipment	3,910,132	606,234	-	4,516,366
Public domain infrastructure	<u>15,230,068</u>	<u>-</u>	<u>-</u>	<u>15,230,068</u>
Total Capital Assets being depreciated	25,178,474	4,269,901		29,448,375
Less Accumulated Depreciation for:				
Buildings	3,009,173	141,619	-	3,150,792
Improvements other than Buildings	1,509,579	84,990	-	1,594,569
Machinery & Equipment	2,166,788	347,764	-	2,514,552
Public domain infrastructure	<u>11,293,218</u>	<u>212,745</u>	<u>-</u>	<u>11,505,963</u>
Total	<u>17,978,758</u>	<u>787,118</u>		<u>18,765,876</u>
Total Capital Assets being depreciated, Net	<u>7,199,716</u>	<u>3,482,783</u>	<u>-</u>	<u>10,682,499</u>
Total Government Activities Capital Assets, Net	<u>\$ 8,366,392</u>	<u>\$ 7,340,390</u>	<u>\$ (4,269,900)</u>	<u>\$ 11,436,882</u>

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

Note 5 - Capital Assets (continued)

Business-Type Activities:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not being depreciated:				
Land	\$ 677,865	\$ -	\$ -	\$ 677,865
Construction in Progress	-	1,046,057	-	1,046,057
Total	<u>677,865</u>	<u>1,046,057</u>	<u>-</u>	<u>1,723,922</u>
Capital Assets being depreciated:				
Buildings & System	33,791,531	-	-	33,791,531
Machinery & Equipment	14,919,115	-	-	14,919,115
Total Capital Assets being depreciated	<u>48,710,646</u>	<u>-</u>	<u>-</u>	<u>48,710,646</u>
Less Accumulated Depreciation for:				
Buildings & System	10,647,815	892,096	-	11,539,910
Machinery & Equipment	9,731,889	564,875	-	10,296,766
Total	<u>20,379,704</u>	<u>1,456,971</u>	<u>-</u>	<u>21,836,676</u>
Total Capital Assets being depreciated, Net	<u>28,330,942</u>	<u>(1,456,971)</u>	<u>-</u>	<u>26,873,970</u>
Total Business Type Activities Capital Assets, Net	<u>\$ 29,008,807</u>	<u>\$ (410,914)</u>	<u>\$ -</u>	<u>\$ 28,597,892</u>

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

Governmental Activities

General	\$ 13,569
Public safety	402,003
Public works	280,966
Culture and recreation	90,580
	<u>\$ 787,118</u>

Business-type Activities

Water and sewer	\$ 1,360,974
Solid waste	95,997
	<u>\$ 1,456,971</u>

CITY OF GROVES, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 6 - Long-Term Debt

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

During the year ended September 30, 2014, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 5,170,000	\$	\$ (950,000)	\$ 4,220,000	\$ 990,000
Certificates of obligation	6,880,000		(270,000)	6,610,000	285,000
Tax notes	172,764		(43,400)	129,364	63,982
Compensated absences	720,765	32,340	(69,427)	683,678	136,736
Governmental Activities Long-term Liabilities	<u>\$ 12,943,529</u>	<u>\$ 64,680</u>	<u>\$ (1,332,827)</u>	<u>\$ 11,643,042</u>	<u>\$ 1,475,718</u>
Business Activities:					
Capital leases	\$ 878,615	\$	\$ (179,927)	\$ 698,688	
Tax notes	317,236		(111,600)	205,636	101,018
Compensated absences	44,720	1,397	(2,029)	44,088	8,818
Business-type Activities Long-term Liabilities	<u>\$ 1,240,571</u>	<u>\$ 1,397</u>	<u>\$ (293,556)</u>	<u>\$ 948,412</u>	<u>\$ 109,836</u>

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

Note 6 - Long-Term Debt (continued)

The following is a summary of the terms of obligations of general obligation bonds outstanding as of September 30, 2014:

Governmental Activities:				Maturity	Debt
Series	Interest Rate	Original Issue	Date	Outstanding	
General Obligation Bonds					
Series 2005	3.25%-4.00%	\$ 10,855,000.00	2018	\$ 4,220,000	
Total General Obligation Bonds				<u>4,220,000</u>	
Certificates of Obligations					
Series 2004	1.85%-4.25%	\$ 715,000	2026	\$ 495,000	
Series 2006	3.65%	5,000,000	2027	3,640,000	
Series 2013	2.60%	2,500,000	2033	2,475,000	
Total Certificates of Obligations				<u>6,610,000</u>	
Tax Notes					
Series 2010	1.70%-4.00%	\$ 284,764	2016	\$ 129,364	
Total Tax Notes				<u>129,364</u>	
Total Governmental Activities				<u>\$ 10,959,364</u>	
Business Activities:				Debt	
Series	Interest Rate	Original Issue		Outstanding	
Tax Notes					
Series 2010	1.70%-4.00%	\$ 605,236	2016	\$ 205,636	
Total Business Activities				<u>\$ 205,636</u>	

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

Year Ending	Governmental Activities					
	General Obligation Bonds		Certificates of Obligation		Tax Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
9/30						
2015	\$ 990,000	\$ 167,506	\$ 285,000	\$ 217,188	\$ 63,982	\$ 2,713
2016	1,035,000	127,906	290,000	207,810	65,382	952
2017	1,075,000	87,800	300,000	198,133		
2018	1,120,000	44,800	310,000	187,840		
2019			430,000	177,038		
2020			445,000	162,818		
2021			455,000	147,933		
2022			470,000	132,715		
2023			490,000	116,775		
2024			505,000	99,955		
2025			525,000	82,430		
2026			535,000	64,165		
2027			505,000	45,305		
2028			165,000	27,690		
2029			170,000	23,400		
2030			175,000	18,980		
2031			180,000	14,430		
2032			185,000	9,750		
2033			190,000	4,940		
2034						
	<u>\$ 4,220,000</u>	<u>\$ 428,012</u>	<u>\$ 6,610,000</u>	<u>\$ 1,939,295</u>	<u>\$ 129,364</u>	<u>\$ 3,665</u>

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

Note 6 - Long-Term Debt (continued)

Year Ending	Business Activities	
	Tax Notes	
9/30	Principal	Interest
2015	\$ 101,018	\$ 6,975
2016	104,618	2,448
	<u>\$ 205,636</u>	<u>\$ 9,423</u>

Capital Leases

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

Amortization of leased vehicles under capital assets is included with depreciation expense. Annual debt service requirements to retire the capital lease is as follows:

Year Ending	Business Activities	
	Capital Leases	
9/30	Total	
2015	\$	217,269
2016		217,269
2017		217,269
2018		108,050
		<u>759,857</u>
Less: Interest Portion		<u>(61,169)</u>
	\$	<u>698,688</u>

Legal Compliance

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

CITY OF GROVES, TEXAS**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)****Note 7 - Interfund Transactions**

A summary of interfund transfers, the purpose of which is to cover operational expenses/expenditures, for the year ended September 30, 2014, is as follows:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amounts</u>	<u>Purpose</u>
Capital Projects	General	513,741	Close out of locally funded capital project fund after completion of projects.
Grant Fund	General	37,044	Close out of grants fund for cash previously borrowed from general fund
General	Water and Sewer	3,404,107	Transfer to recognize forgiveness of operating loans from general to water and sewer fund over the years.
Debt Service Economic Development	Water and Sewer	122,329	Utilized fund balance to pay down debt
General	Debt Service	400,000	Budgeted payment for Economic Development Corporation debt service
Economic Development	Debt Service	980,000	Transfer of cash to pay debt service payment
Water and Sewer	General	125,000	City Admin Fee
Solid Waste	General	540,000	City Admin Fee
		290,000	City Admin Fee
		<u>\$ 6,412,221</u>	

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

Note 8 - Employee Retirement System

Plan Description

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

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

Benefits

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

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

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

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

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

Note 8 - Employee Retirement System (continued)

Contributions

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2011, valuation is effective for rates beginning in January 2013).

The City's total payroll in fiscal year 2014 was \$5.7 million and the City's contributions were based on a payroll of \$5.8 million. Contributions made by employees totaled \$342 thousand, and the City made contributions of \$552 thousand during the fiscal year ended September 30, 2014.

Annual Pension Cost

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

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent Contributed</u>
2012	\$ 644,508	100%
2013	599,092	100%
2014	587,878	100%

Funding Policy

Cities are required to contribute at an actuarially determined rate; these rates are provided to the City on an annual basis, following the completion of actuarial valuation. As explained above, there is a time delay in the valuation and when the rate becomes effective. For example, the January 1, 2013, contribution rate is based on the December 31, 2011, valuation results. If a change in plan provisions is elected by the City, this rate can change. The actuary determines contribution rates on a calendar-year basis; the City discloses the annual pension costs (which equal the required contributions) based on the calculated rate(s) for the City's fiscal year.

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

Note 8 - Employee Retirement System (continued)

Funding Policy (continued)

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012, valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation date	December 31, 2011	December 31, 2012	December 31, 2013
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	24.6 years; closed period	21.8 years; closed period	24.3 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	Amortized cost	Amortized cost	Amortized cost
Actuarial Assumptions:			
Investment return	7.0%	7.0%	7.0%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service
Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living adjustments	0.0%	0.0%	0.0%

The funded status of the plan as of December 31, 2013, the most recent actuarial valuation date, is as follows:

Actuarial valuation date	December 31, 2013
Actuarial value of plan assets (a)	32,635,985
Actuarial accrued liability (AAL) (b)	34,171,034
Unfunded/(Overfunded) actuarial accrued liability (UAAL or OAAL) (b-a)	\$1,535,049
Funded Ratio (a/b)	95.5%
Projected Annual Covered Payroll (c)	5,696,426
UAAL or OAAL as % of covered payroll ((b-a)/c)	26.9%

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

Note 9 - Employee Section 457 Plan

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

CITY OF GROVES, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 9 - Employee Section 457 Plan (continued)

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

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

Note 10 - Employee Section 401 Plans

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

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

	<u>Current Year</u>
401 Money Purchase Plan	
Employee Contributions	\$ 106,555
Employer Contributions	53,277
Total	<u>\$ 159,832</u>
401 Profit Sharing	
Employee Contributions	\$ 144,569
Employer Contributions	72,285
Total	<u>\$ 216,854</u>

CITY OF GROVES, TEXAS

NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

Note 11 - Commitments and Contingencies

Litigation and Other Contingencies

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

Note 12 - Risk Management

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

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

Note 13 – Prior Period Adjustment

The City has made a prior period adjustment to restate beginning Net Position by \$495,877 for restricted cash absorbed by operational and construction expenses.

Required Supplementary Information

CITY OF GROVES, TEXAS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (UNAUDITED)

For the Year Ended September 30, 2014

	2014			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Taxes:				
Property taxes	\$ 4,252,247	\$ 4,252,247	\$ 4,129,325	\$ (122,922)
Sales and use taxes	1,254,000	1,254,000	1,228,362	(25,638)
Franchise taxes	1,100,000	1,100,000	948,858	(151,142)
Hotel taxes	80,000	80,000	64,374	(15,626)
Fines and forfeitures	159,000	159,000	150,984	(8,016)
Licenses and permits	93,300	93,300	97,433	4,133
Intergovernmental	1,801,500	1,801,500	2,823,481	1,021,981
Charges for services	103,700	103,700	129,804	26,104
Investment earnings	3,500	3,500	766	(2,734)
Miscellaneous	50,000	50,000	23,007	(26,993)
Total Revenues	<u>8,897,247</u>	<u>8,897,247</u>	<u>9,596,394</u>	<u>699,147</u>
Expenditures				
Current:				
General government	1,179,557	1,179,557	1,142,303	37,254
Public Safety	5,915,033	5,915,033	7,598,083	(1,683,050)
Public Works	2,160,729	2,160,729	2,415,754	(255,025)
Culture and recreation	573,428	573,428	579,865	(6,437)
Capital Outlay	33,000	33,000	48,313	(15,313)
Total Expenditures	<u>9,861,747</u>	<u>9,861,747</u>	<u>11,784,318</u>	<u>(1,922,571)</u>
Revenues under expenditures	(964,500)	(964,500)	(2,187,924)	(1,223,424)
Other Financing Sources (Uses)				
Transfers in	1,455,000	1,455,000	1,505,785	50,785
Transfers out	(400,000)	(400,000)	(4,384,107)	(3,984,107)
Total other financing sources (uses)	<u>1,055,000</u>	<u>1,055,000</u>	<u>(2,878,322)</u>	<u>(3,933,322)</u>
Changes in fund balance	90,500	90,500	(5,066,246)	(5,156,746)
Fund Balances - Beginning of Year	<u>5,918,537</u>	<u>5,918,537</u>	<u>5,918,537</u>	
Fund Balances - End of Year	<u>\$ 6,009,037</u>	<u>\$ 6,009,037</u>	<u>\$ 852,291</u>	<u>\$ (5,156,746)</u>

CITY OF GROVES, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION

Year ended September 30, 2014

General Budget Policies

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

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

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

The City has not complied with budgetary spending rules for the year ended September 30, 2014, as expenditures exceeded appropriations at the fund level for the General Fund and Groves Economic Development Corporation Fund.

CITY OF GROVES, TEXAS

REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION

September 30, 2014

TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	(UAAL) as a Percentage of Covered Payroll ((b-a)/c)
December 31, 2011	\$ 29,038,587	\$ 29,911,098	\$ 872,511	97.1%	6,034,863	14.5%
2012	30,716,536	31,119,967	403,431	98.7%	6,007,820	6.7%
2013	32,635,985	34,171,034	1,535,049	95.5%	5,696,426	26.9%

**Combining and Individual Fund
Statements and Schedules**

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Non-Major Governmental Funds

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

GEDC

This special revenue fund is used to account for the Groves Economic Development Corporation.

Police Special Fund

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

Grant Fund

This special revenue fund is used to account for the activity relating to federal and state programs. The grant fund was closed out at the end of fiscal year 2014 and the balance of cash previously borrowed was transferred back to the general fund.

Capital Projects Fund

This fund is used to account for the activity relating to capital projects funded from local revenues. Upon completion of the planned projects, the cash balances in the fund have been transferred back to the general fund.

CITY OF GROVES, TEXAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2014

	<u>GEDC</u>	<u>Police Forfeiture Fund</u>	<u>Grant Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>
Assets					
Cash and cash equivalents	\$ 354,916	\$ 53,559	\$ -	\$ -	\$ 408,475
Total Assets	<u>\$ 354,916</u>	<u>\$ 53,559</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 408,475</u>
Liabilities and Fund Balances					
Liabilities:					
Due to other funds	\$ -	-	-	-	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Restricted for:					
Public safety	-	53,559	-	-	53,559
Economic development	354,916	-	-	-	354,916
Total Fund Balances	<u>354,916</u>	<u>53,559</u>	<u>-</u>	<u>-</u>	<u>408,475</u>
Total Liabilities and Fund Balances	<u>\$ 354,916</u>	<u>\$ 53,559</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 408,475</u>

CITY OF GROVES, TEXAS
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2014

	<u>GEDC</u>	<u>Police Forfeiture Fund</u>	<u>Grant Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>
Revenues					
Taxes:					
Sales taxes	\$ 612,119	\$ -	\$ -	\$ -	\$ 612,119
Fines and forfeitures	-	963	-	-	963
Investment earnings	<u>8</u>	<u>7</u>	<u>-</u>	<u>-</u>	<u>15</u>
Total Revenues	<u>612,127</u>	<u>970</u>	<u>-</u>	<u>-</u>	<u>613,097</u>
Expenditures					
Current:					
Economic development	116,930	-	-	-	116,930
Capital Outlay	<u>-</u>	<u>16,113</u>	<u>-</u>	<u>-</u>	<u>16,113</u>
Total Expenditures	<u>116,930</u>	<u>16,113</u>	<u>-</u>	<u>-</u>	<u>133,043</u>
Revenues over expenditures	<u>495,197</u>	<u>(15,143)</u>	<u>-</u>	<u>-</u>	<u>480,054</u>
Other Financing Sources (Uses)					
Transfers out	<u>(525,000)</u>	<u>-</u>	<u>(37,044)</u>	<u>(513,741)</u>	<u>(1,075,785)</u>
Total other financing sources (uses)	<u>(525,000)</u>	<u>-</u>	<u>(37,044)</u>	<u>(513,741)</u>	<u>(1,075,785)</u>
Changes in Fund Balance	(29,803)	(15,143)	(37,044)	(513,741)	(595,731)
Fund Balances - Beginning of Year	<u>384,719</u>	<u>68,702</u>	<u>37,044</u>	<u>513,741</u>	<u>1,004,206</u>
Fund Balances - End of Year	<u>\$ 354,916</u>	<u>\$ 53,559</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 408,475</u>

CITY OF GROVES, TEXAS

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL

For the Year Ended September 30, 2014

	2014		Variance Positive (Negative)
	Final Budget	Actual	
Revenues			
Taxes:			
Property taxes	\$ 468,021	\$ 459,356	\$ (8,665)
Investment earnings		22	22
Total Revenues	<u>468,021</u>	<u>459,378</u>	<u>(8,643)</u>
Expenditures			
Current:			
Debt Service:			
Principal	1,375,000	1,263,400	111,600
Interest and other charges	453,021	442,289	10,732
Total Expenditures	<u>1,828,021</u>	<u>1,705,689</u>	<u>122,332</u>
Revenues over (under) expenditures	(1,360,000)	(1,246,311)	113,689
Other Financing Sources			
Transfers in	1,360,000	1,380,000	20,000
Transfers out		(122,329)	(122,329)
Total other financing sources (uses)	<u>1,360,000</u>	<u>1,257,671</u>	<u>(102,329)</u>
Revenues and other financing sources over expenditures		11,360	11,360
Fund Balances - Beginning of Year	<u>1,472</u>	<u>1,472</u>	
Fund Balances - End of Year	<u>\$ 1,472</u>	<u>\$ 12,832</u>	<u>\$ 11,360</u>

CITY OF GROVES, TEXAS

GROVES ECONOMIC DEVELOPMENT CORPORATION FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL

For the Year Ended September 30, 2014

	2014		
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Taxes:			
Sales and use taxes	\$ 625,000	\$ 612,119	\$ (12,881)
Investment earnings		8	8
Total Revenues	<u>625,000</u>	<u>612,127</u>	<u>(12,873)</u>
Expenditures			
Current:			
Economic development	100,000	116,930	(16,930)
Total Expenditures	<u>100,000</u>	<u>116,930</u>	<u>(16,930)</u>
Revenues over (under) expenditures	525,000	495,197	(29,803)
Other Financing Uses			
Transfers out	<u>(525,000)</u>	<u>(525,000)</u>	
Revenues and other financing sources over under expenditures		(29,803)	(29,803)
Fund Balances - Beginning of Year	<u>384,719</u>	<u>384,719</u>	
Fund Balances - End of Year	<u>\$ 384,719</u>	<u>\$ 354,916</u>	<u>\$ (29,803)</u>