

# **CITY OF GROVES, TEXAS**

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
SEPTEMBER 30, 2008

**CITY OF GROVES, TEXAS  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

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**INTRODUCTORY  
SECTION**

# **CITY OF GROVES, TEXAS**

## **ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED**

**SEPTEMBER 30, 2008**

### CITY COUNCIL

Brad P. Bailey	Mayor
Joseph P. Arisco	Council Member, Ward 1
Larry Perio	Council Member, Ward 2
Corey Cricchio	Council Member, Ward 3
Kyle Hollier	Council Member, Ward 4

### CITY MANAGER

D.E. Sosa

Jeri Rainey, CPA	Director of Finance
James Black	City Attorney

# CITY OF GROVES

## MAYOR/CITY COUNCIL

ALL BOARDS & COMMITTEES

CITY MARSHAL

MUNICIPAL COURT

POLICE DEPARTMENT

CITY ATTORNEY

CITY JUDGE

CITY MANAGER

CITY AUDITOR

EMERGENCY MANAGEMENT

DIRECTOR OF LIBRARY

LIBRARY

BUILDING OFFICIAL

INSPECTIONS & PERMITS

CITY CLERK/ EXECUTIVE ASSISTANT

DIRECTOR OF HUMAN RESOURCES

HUMAN RESOURCES

DIRECTOR OF PARKS & RECREATION

PARKS & RECREATION

PUBLIC WORKS ADMINISTRATOR

SUPERVISOR

WASTEWATER PLANT

WATER DISTRIBUTION

WASTEWATER COLLECTION

SUPERVISOR

WATER PLANT

GARAGE

SOLID WASTE

STREETS

DRAINAGE

R.O.W. MAINTNANCE

DIRECTOR OF FINANCE

FINANCE

CUSTOMER SERVICE

FIRE CHIEF

FIRE

EMERGENCY MANAGEMENT

COMMUNICATIONS SYSTEMS

ANIMAL CONTROL ANIMAL SHELTER

**FINANCIAL  
SECTION**



Charles E. Reed & Associates, P.C.

Certified Public Accountants & Consultants

Member

American Institute of  
Certified Public Accountants

Texas Society of  
Certified Public Accountants

AICPA Private  
Companies Practice Section

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Groves, Texas, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Groves, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Groves, Texas as of September 30, 2008, and the respective changes in financial position, and where applicable, cash flows thereof and the budgetary comparison for the General Fund and the Sales Tax Fund for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2009, on our consideration of City of Groves, Texas' 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

### Beaumont

6850 Phelan Boulevard  
Beaumont, Texas 77706

(409) 833-8986 • Fax: (409) 833-4486

### Port Arthur

3636 Professional Drive  
Port Arthur, Texas 77642

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### Silsbee

295 Hwy. 327 East  
Silsbee, Texas 77656

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The management's discussion and analysis on pages 3-10 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Groves, Texas' basic financial statements. The introductory section, combining non-major fund financial statements and budgetary comparison for the debt service fund on page 42 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Groves, Texas. The combining non-major fund financial statements and the budgetary comparison for the debt service fund on page 42 and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yours very truly,

*Charles E. Reed & Associates, A.C.*

Charles E. Reed & Associates, P.C.  
Certified Public Accountants

October 9, 2009

## **CITY OF GROVES, TEXAS**

### **Management's Discussion and Analysis**

As management of the City of Groves (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, 2008. We encourage readers to consider the information presented here in conjunction with our letter of transmittal at the front of this report and the City's financial statements, which follow this section.

#### **Financial Highlights**

- The assets of the City exceeded its liabilities at the close of 2008 by \$35,511,158. Of this amount, \$14,213,764 is considered unrestricted. The unrestricted net assets of the City's governmental activities are \$15,214,718 and may be used to meet the government's ongoing obligations. The unrestricted net assets of the City's business-type activities are \$(1,000,954).
- The City's total net assets decreased by \$685,151 in 2008.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$16,361,687. Of this balance, \$14,233,468 is considered unreserved at September 30, 2008.
- The General Fund reported a fund balance of \$3,550,464 at the end of the current fiscal year. The unreserved fund balance for the General Fund was \$3,504,068, or 45% of total general expenditures (including transfers out).
- The City's total debt increased by \$754,545 during the current fiscal year. New debt was incurred in the current fiscal year for capital leases in the amount of \$1,680,000.

#### **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 private-sector business.

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

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

expenses reported in this statement for some items will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused sick 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 or charges (business-type activities). The governmental activities of the City include general government, public works, public safety, cultural and recreation, and administration and general. The business-type activities of the City include two enterprise activities: a water and sewer system, and a solid waste system.

The government-wide financial statements can be found on pages 11 & 12 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.

**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 the *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 nine individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Special Construction Fund, Economic Development Fund, Sales Tax Fund and Debt Service Fund. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. 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 13 - 21 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 enterprise funds to account for its water and sewer, and solid waste operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer, and solid waste operations. The Water and Sewer Fund and the Solid Waste Fund are considered major enterprise funds of the City.

The basic proprietary fund financial statements can be found on pages 19 - 21 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 – 38 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 49 - 62 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the Notes to the Financial Statements. Combining statements can be found on pages 42 & 43 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$35,511,158 at the close of the most recent fiscal year.

The largest portion of the City's net assets \$18,968,459 reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, equipment, and infrastructure), less any related debt used to acquire those assets that remains outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

**Net Assets**

	2008			2007		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
Current and other assets	\$19,051,459	\$1,853,650	\$20,905,109	\$17,865,358	\$1,922,091	\$19,787,449
Capital assets	15,189,251	20,775,737	35,964,988	14,488,668	19,264,294	33,752,962
Total assets	34,240,710	22,629,387	56,870,097	32,354,026	21,186,385	53,540,411
Long-term liabilities	1,344,968	2,854,604	4,199,572	16,241,823	197,518	16,439,341
Other liabilities	15,494,822	1,664,545	17,159,367	300,628	604,133	904,761
Total liabilities	16,839,790	4,519,149	21,358,939	16,542,451	801,651	17,344,102
Net assets:						
Invested in capital assets, net of related debt	(142,733)	19,111,192	18,968,459	3,622,967	19,264,294	22,887,261
Restricted	2,328,935	-	2,328,935	2,464,431	-	2,464,431
Unrestricted	15,214,718	-1,000,954	14,213,764	9,724,177	1,120,440	10,844,617
	<u>\$ 17,400,920</u>	<u>\$18,110,238</u>	<u>\$35,511,158</u>	<u>\$ 15,811,575</u>	<u>\$20,384,734</u>	<u>\$36,196,309</u>

An additional portion of the City's net assets, \$3,328,935 represents resources that are subject to restrictions as to how they may be used. The remaining balance of unrestricted net assets \$14,213,764, may be utilized to meet the government's on-going obligations to citizens and creditors. It is important to note that although the total amount of unrestricted net assets is \$14,213,764, the unrestricted net assets of the City's business-type activities, \$(1,000,954) is deficit and may not be used to fund governmental activities.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate government and business-type activities.

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	2008			2007		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
<b>REVENUES</b>						
Charges for services	\$ 554,682	\$ 5,184,565	\$ 5,739,247	\$ 413,757	\$ 5,291,498	\$ 5,705,255
Operating grants and contributions	1,063,407	-	1,063,407	256,001	-	256,001
General revenues:						
Property taxes	4,440,293	-	4,440,293	4,083,078	-	4,083,078
Sales taxes	2,167,562	-	2,167,562	2,054,749	-	2,054,749
Hotel Tax	214,220	-	214,220	-	-	-
Gross receipts tax	1,316,522	-	1,316,522	1,221,903	-	1,221,903
Interest income	463,180	-	463,180	880,906	41,857	922,763
Other miscellaneous	101,763	-	101,763	191,158	-	191,158
Total Revenues	10,321,629	5,184,565	15,506,194	9,101,552	5,333,355	14,434,907
<b>EXPENSES</b>						
General government	780,175	-	780,175	1,217,389	-	1,217,389
Public safety	4,283,017	-	4,283,017	3,272,499	-	3,272,499
Public works	2,713,657	-	2,713,657	2,108,807	-	2,108,807
Community enrichment	890,124	-	890,124	1,121,809	-	1,121,809
Miscellaneous	360,317	-	360,317	38,067	-	38,067
Interest on long-term debt	577,003	-	577,003	591,403	-	591,403
Water	-	4,967,198	4,967,198	-	4,518,835	4,518,835
Solid Waste	-	1,619,854	1,619,854	-	1,221,911	1,221,911
Total Expenses	9,604,293	6,587,052	16,191,345	8,349,974	5,740,746	14,090,720
Increase (decrease) in net assets before transfers	717,336	(1,402,487)	(685,151)	751,578	(407,391)	344,187
Transfers	872,009	(872,009)	-	756,413	(756,413)	-
Increase (decrease) in net assets	1,589,345	(2,274,496)	(685,151)	1,507,991	(1,163,804)	344,187
Net assets at beginning of year	15,811,575	20,384,734	36,196,309	14,303,584	21,548,538	35,852,122
Prior Period Adjustment	468,442	-	468,442	-	-	-
Net Assets End of Year	\$ 17,869,362	\$ 18,110,238	\$ 35,979,600	\$ 15,811,575	\$ 20,384,734	\$ 36,196,309

The government's total net assets decreased by \$(685,151) during the current fiscal year. While governmental activities increased the City's net assets by \$1,589,345, business-type activities decreased net assets by \$(2,274,496). The City's governmental activities increased net assets due primarily to decreased expenditures.

### Financial Analysis of the Government's Funds

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

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

As of September 30, 2008 the City's governmental funds reported combined ending fund balances of \$16,361,687 a decrease of \$399,100 in comparison with the prior year. \$14,233,468 of this amount constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to Economic Development, \$2,208,711, or for a variety of other restricted purposes.

The General Fund is the chief operating fund of the City. At September 30, 2008 the unreserved fund balance of the General Fund was \$3,504,068, while total fund balance was \$3,550,464. As a measure of liquidity of the General Fund, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures (including transfers out). Unreserved fund balance represents 44.8% of total General Fund expenditures (including transfers out), while total fund balance represents 45.4% of that same amount.

The fund balance of the General Fund decreased by \$835,311 during 2008. It was budgeted to decrease by of \$(35,000) during this year. Therefore, this decrease was a \$(800,311) negative variance.

Sales Tax Fund was budgeted at no change of fund balance but the fund balance decreased by \$(404,308) for a negative variance.

The Debt Service Fund had a total fund balance of \$(247,112) a decrease of \$(404,379) over prior year. The Debt Service Fund is funded with property tax revenue and Economic Development Corporation sales tax. The Debt Service Fund was budgeted at a decrease of \$(1,500); therefore the \$404,379 decrease was a negative variance of \$(402,879).

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

Unrestricted net assets at the end of the year amounted to \$(2,389,164) for the Water and Sewer Fund. Net assets in the Water and Sewer Fund decreased by \$(1,878,840). Unrestricted net assets at the end of the year amounted to \$(276,336), for the Solid Waste Fund. Net assets in the Solid Waste Fund decreased by \$(395,656). Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for governmental and business-type activities as of September 30, 2008, amount to \$35,964,988 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, and other capital assets such as buildings, improvements, and equipment.

**CAPITAL ASSETS**  
(net of depreciation)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ -	\$ 677,865	\$ 677,865
Construction in progress	8,180,286	748,493	8,928,779
Other capital assets	7,008,965	19,349,379	26,358,344
	<u>\$ 15,189,251</u>	<u>\$ 20,775,737</u>	<u>\$ 35,964,988</u>

Additional information on the City's capital assets can be found in Note 1 on page 26 and Note 4 on pages 30 – 31.

**Long-term debt.** At September 30, 2008, the City had \$1,821,290 of long-term bonds and other liabilities outstanding. Of this amount, 1% is comprised of bonds backed by the City's Economic Development Corporation sales tax revenue and by the full faith and credit of the City.

**GENERAL OBLIGATION BONDS AND CAPITAL LEASES OUTSTANDING**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Certificates of Obligation	\$ 14,760,000	\$ -	\$ 14,760,000
Capital Leases	141,985	1,664,545	1,806,530
	<u>\$ 14,901,985</u>	<u>\$ 1,664,545</u>	<u>\$ 16,566,530</u>

Total long-term bonds and other liabilities outstanding at September 30, 2008 increased by \$754,545, a 5% increase, from September 30, 2007. Compensated absences included in long term debt total \$162. Additional information on the City's debt can be found in Note 3F, beginning on page 31.

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

The City is facing several factors that will be taken into account in the upcoming budgets. The first of these factors is the flattening out of sales tax as a revenue stream. This may be the result of the current recession or that we have reached a stage of saturation. Either way the upcoming 2010 budget anticipates a sales tax increase of only \$20,000. This is of concern as in the previous 4 years the sales tax has increased at an average of \$155,000 per year. This does not mean that we will give up on economic development programs and projects. If anything we will work harder to keep the economic development moving forward. However, we cannot ignore this major impact to a very important revenue stream.

Secondly, we have seen housing starts begin to slow. Once again it may be due to the recession or the fact that we are dealing with limited available space for new structures, both residential and commercial. We will continue with the housing infill residential



programs as well as the aggressive economic development for new and expanding businesses. Fewer homes built means less new value and fewer new utility customers, another potential impact to the city revenue stream.

Thirdly, the Bechtel Motiva warehouse will remain on the tax rolls for at least another 2 years. There may even be a good chance that it will become permanent. Again, the future is unclear and this is another revenue stream that is not dependable at this time. It would be prudent to prepare for the worst but hope for the best. We are dealing here with a third potential impact to the revenue stream.

Therefore, in order to continue operating as we have over the last 5 years we will need to shrink the size of the city's workforce. We will be looking at as multiple potential retirements in the coming year, and intend to use these retirements as an opportunity to shrink the workforce and look for new efficiencies. This means we will not automatically replace anyone who retires. We have the time and ability to make adjustments, when appropriate, that will allow the elimination certain positions and allow the work program to continue. If we prepare now we can accomplish this through attrition and good planning. Keep in mind that an average city employee costs \$55,000 to \$60,000 to keep on the payroll.

By continuing to do what has worked in the past and begin the process of shrinking the workforce we can mitigate these future challenges to the City's revenue stream.

### **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.

**BASIC  
FINANCIAL  
STATEMENTS**

**CITY OF GROVES, TEXAS**  
**STATEMENT OF NET ASSETS**  
**September 30, 2008**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 16,769,060	\$ 450	\$ 16,769,510
Investments	100,000	-	100,000
Receivables - net of allowances for uncollectibles			
Taxes	478,182	-	478,182
Accounts receivable	-	1,230,388	1,230,388
Other receivables	881,505	-	881,505
Inventories	6,017	87,378	93,395
Prepaid items	223,320	100,542	323,862
Due from Other Funds	15,455	(15,455)	-
Due from State	577,920	-	577,920
Restricted assets			
Capital projects	-	-	-
Refundable customer deposits	-	450,347	450,347
Capital assets (Note 3E)			
Land, construction in process	8,180,286	1,426,358	9,606,644
Depreciable buildings, property, and equipment, net	7,008,965	19,349,379	26,358,344
Total Assets	<u>34,240,710</u>	<u>22,629,387</u>	<u>56,870,097</u>
<b>LIABILITIES</b>			
Accounts payable	1,148,066	2,854,604	4,002,670
Accrued expenses and other liabilities	196,902	-	196,902
Benefits payable current	-	-	-
Refundable customer deposits	-	-	-
Non-current liabilities			
Due within one year	162,838	108,635	271,473
Due in more than one year	15,331,984	1,555,910	16,887,894
Total Liabilities	<u>16,839,790</u>	<u>4,519,149</u>	<u>21,358,939</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	(142,733)	19,111,192	18,968,459
Restricted for			
Debt service	-	-	-
Economic development	2,208,711	-	2,208,711
Special library expenditures	45,561	-	45,561
Drug enforcement	74,663	-	74,663
Unrestricted	15,214,718	(1,000,954)	14,213,764
Total Net Assets	<u>\$ 17,400,920</u>	<u>\$ 18,110,238</u>	<u>\$ 35,511,158</u>

The accompanying notes are an integral part of this financial statement.

EXHIBIT B

CITY OF GROVES, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities</b>						
General government	\$ 780,175	\$ -	\$ -	\$ (780,175)	\$ -	\$ (780,175)
Public safety	4,283,017	264,028	-	(4,018,989)	-	(4,018,989)
Public works	2,713,657	290,654	1,039,350	(1,383,653)	-	(1,383,653)
Community enrichment	890,124	-	24,057	(866,067)	-	(866,067)
Miscellaneous	360,317	-	-	(360,317)	-	(360,317)
Interest on long-term debt	577,003	-	-	(577,003)	-	(577,003)
<b>Total governmental activities</b>	<b>9,604,293</b>	<b>554,682</b>	<b>1,063,407</b>	<b>(7,986,204)</b>	<b>-</b>	<b>(7,986,204)</b>
<b>Business-type activities</b>						
Water and sewer	4,967,198	3,894,867	-	-	(1,072,331)	(1,072,331)
Solid waste	1,619,854	1,289,698	-	-	(330,156)	(330,156)
<b>Total business-type activities</b>	<b>\$ 6,587,052</b>	<b>\$ 5,184,565</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,402,487)</b>	<b>\$ (1,402,487)</b>
<b>General revenues</b>						
Property taxes, penalties and interest				\$ 4,440,293	\$ -	\$ 4,440,293
Sales tax				2,167,562	-	2,167,562
Hotel tax				214,220	-	214,220
Gross receipts tax				1,316,522	-	1,316,522
Interest				463,180	-	463,180
Other miscellaneous				101,763	-	101,763
<b>Transfers</b>						
Total general revenues and transfers				872,009	(872,009)	-
Change in net assets				9,575,549	(872,009)	8,703,540
				1,589,345	(2,274,496)	(685,151)
Net assets at beginning of year				15,811,575	20,384,734	36,196,309
Net assets at ending of year				\$ 17,400,920	\$ 18,110,238	\$ 35,511,158

The accompanying notes are an integral part of this financial statement.

CITY OF GROVES, TEXAS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2008

	01	50	35	21	30	Total	Other	Total
	General	Special	Debt	Sales Tax	Economic	Major	Governmental	Governmental
	Fund	Construction	Service	Fund	Development	Funds	Funds	Funds
		Fund	Fund		Fund			
<b>ASSETS</b>								
Cash and cash equivalents	\$ 2,892,682	\$ 6,498,050	\$ 253,355	\$ 3,081,469	\$ 2,016,071	\$ 14,741,627	\$ 1,323,649	\$ 16,065,276
Investments	-	-	-	100,000	-	100,000	-	100,000
Receivables - net of allowances for uncollectibles								
Taxes receivable	437,440	-	40,742	-	-	478,182	-	478,182
Other receivables	881,505	-	-	-	-	881,505	-	881,505
Inventories	6,017	-	-	-	-	6,017	-	6,017
Due from state	-	-	-	385,280	192,640	577,920	-	577,920
Prepaid items	222,670	-	-	-	-	222,670	650	223,320
Due from Other Funds	-	15,455	-	-	-	15,455	-	15,455
Total Assets	\$ 4,440,314	\$ 6,513,505	\$ 294,097	\$ 3,566,749	\$ 2,208,711	\$ 17,023,376	\$ 1,324,299	\$ 18,347,675
<b>LIABILITIES AND FUND BALANCES</b>								
<b>LIABILITIES</b>								
Accounts payable	\$ 92,670	\$ 129,651	\$ 500,467	\$ -	\$ -	\$ 722,788	\$ 425,278	\$ 1,148,066
Accrued expenditures and other liabilities	196,902	-	-	-	-	196,902	-	196,902
Deferred tax revenue	437,440	-	40,742	-	-	478,182	-	478,182
Benefits payable - current	162,838	-	-	-	-	162,838	-	162,838
Total Liabilities	\$ 889,850	\$ 129,651	\$ 541,209	\$ -	\$ -	\$ 1,560,710	\$ 425,278	\$ 1,985,988
<b>Fund Balances</b>								
Reserved for								
Debt service	-	-	(247,112)	-	-	(247,112)	-	(247,112)
Inventory	6,017	-	-	-	-	6,017	-	6,017
Economic development	-	-	-	-	2,208,711	2,208,711	-	2,208,711
Drug Enforcement	-	-	-	-	-	-	74,663	74,663
Special library expenditures	-	-	-	-	-	-	45,561	45,561
Court Security & Technology	40,379	-	-	-	-	40,379	-	40,379
Unreserved reported in								
General fund	3,504,068	-	-	-	-	3,504,068	-	3,504,068
Special revenue fund	-	-	-	3,566,749	-	3,566,749	(359,808)	3,206,941
Capital projects fund	-	6,383,854	-	-	-	6,383,854	1,138,605	7,522,459
Total Fund Balances	\$ 3,550,464	\$ 6,383,854	\$ (247,112)	\$ 3,566,749	\$ 2,208,711	\$ 15,462,666	\$ 899,021	\$ 16,361,687
Total Liabilities and Fund Balances	\$ 4,440,314	\$ 6,513,505	\$ 294,097	\$ 3,566,749	\$ 2,208,711	\$ 17,023,376	\$ 1,324,299	\$ 18,347,675

The accompanying notes are an integral part of this financial statement.

**CITY OF GROVES, TEXAS  
RECONCILIATION OF THE BALANCE SHEET  
OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2008**

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

Total governmental fund balances in the Balance Sheet (Exhibit C)	\$ 16,361,687
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	15,189,251
An Internal Service Fund is used by management to charge certain costs to individual funds. The assets and liabilities of the Internal Service fund are included in the governmental activities in the Statement of Net Assets.	703,784
Deferred Revenue	478,182
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonded Debt	\$ 14,760,000
Capital Leases	141,984
Employee Benefits	430,000
	<u>(15,331,984)</u>
Total net assets of governmental activities (Exhibit A)	<u>\$ 17,400,920</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF GROVES, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	01	50	35	21	30	Total	Other	Total
	General	Special	Debt	Sales Tax	Economic	Major	Governmental	Governmental
	Fund	Construction	Service	Fund	Development	Funds	Funds	Funds
<b>REVENUES</b>								
Property taxes, penalties and interest	\$ 3,708,216	\$ -	\$ 353,895	\$ -	\$ -	\$ 4,062,111	\$ -	\$ 4,062,111
Sales tax	-	-	-	1,445,041	722,321	2,167,562	-	2,167,562
Hotel tax	214,220	-	-	-	-	214,220	-	214,220
Gross receipts tax	1,316,522	-	-	-	-	1,316,522	-	1,316,522
Permits, licenses and fees	290,654	-	-	-	-	290,654	-	290,654
Fines	264,028	-	-	-	-	264,028	-	264,028
Interest	34,426	222,314	13,729	100,988	71,402	442,859	20,321	463,180
Grant revenue	581,743	412,751	-	-	-	994,494	44,856	1,039,350
Private contributions	-	-	-	-	-	-	24,057	24,057
Other miscellaneous	66,400	10,434	-	45,713	-	122,547	-	122,547
Total Revenue	<u>6,476,209</u>	<u>645,499</u>	<u>367,624</u>	<u>1,591,742</u>	<u>793,923</u>	<u>9,874,997</u>	<u>89,234</u>	<u>9,964,231</u>
<b>EXPENDITURES</b>								
Current								
General government	765,875	-	-	-	-	765,875	-	765,875
Public safety	4,021,022	-	-	-	-	4,021,022	72,040	4,093,062
Public works	2,052,336	5,962	-	-	-	2,058,298	-	2,058,298
Community enrichment	628,138	-	-	-	133,256	761,394	27,480	788,874
Miscellaneous	354,108	-	-	6,050	-	360,158	-	360,158
Capital outlay	-	1,039,112	-	-	-	1,039,112	642,958	1,682,070
Debt service	-	-	910,000	-	-	910,000	-	910,000
Principal retirement	-	-	577,003	-	-	577,003	-	577,003
Interest and fiscal charges	-	-	-	-	-	-	-	-
Issuance costs	-	-	-	-	-	-	-	-
Total Expenditures	<u>7,821,479</u>	<u>1,045,074</u>	<u>1,487,003</u>	<u>6,050</u>	<u>133,256</u>	<u>10,492,862</u>	<u>742,478</u>	<u>11,235,340</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,345,270)</u>	<u>(399,575)</u>	<u>(1,119,379)</u>	<u>1,585,692</u>	<u>660,667</u>	<u>(617,865)</u>	<u>(653,244)</u>	<u>(1,271,109)</u>
<b>OTHER FINANCING SOURCES (USES)</b>								
Issuance of Debt	-	-	-	-	-	-	-	-
Transfers in	990,000	1,759,509	715,000	-	-	3,464,509	507,541	3,972,050
Transfers out	(480,041)	-	-	(1,990,000)	(630,000)	(3,100,041)	-	(3,100,041)
Total Other Financing Sources and Uses	<u>509,959</u>	<u>1,759,509</u>	<u>715,000</u>	<u>(1,990,000)</u>	<u>(630,000)</u>	<u>364,468</u>	<u>507,541</u>	<u>872,009</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(835,311)</u>	<u>1,359,934</u>	<u>(404,379)</u>	<u>(404,308)</u>	<u>30,667</u>	<u>(253,397)</u>	<u>(145,703)</u>	<u>(399,100)</u>
Fund balance at beginning of year	4,385,775	5,023,920	157,267	3,971,057	2,178,044	15,716,063	1,044,724	16,760,787
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 3,550,464</u>	<u>\$ 6,383,854</u>	<u>\$ (247,112)</u>	<u>\$ 3,566,749</u>	<u>\$ 2,208,711</u>	<u>\$ 15,462,666</u>	<u>\$ 899,021</u>	<u>\$ 16,361,687</u>

The accompanying notes are an integral part of this financial statement.

**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, 2008**

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

Net change in fund balances - total governmental funds (Exhibit D)		\$ (399,100)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.</p>		
	Capital Outlay	\$1,682,070
	Depreciation	(960,864)
	Disposal Correction	(20,622)
		<u>700,584</u>
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		<u>378,182</u>
The net revenue of certain activities of internal service funds is reported with governmental activities.		<u>(159)</u>
<p>The issuance of long-term debt (e.g., general obligation bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, the governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
	Bond Repayment	\$910,000
	Increase in Compensated Absences	(162)
		<u>909,838</u>
Change in net assets of governmental activities (Exhibit B)		<u>\$ 1,589,345</u>

The accompanying notes are an integral part of this financial statement.



**CITY OF GROVES, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budgeted Amounts Original &amp; Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>REVENUES</b>			
Property taxes, penalties and interest	\$ 3,798,000	\$ 3,708,216	\$ (89,784)
Gross receipts tax	1,220,000	1,316,522	96,522
Hotel tax	120,000	214,220	94,220
Permits, licenses and fees	73,000	290,654	217,654
Fines	189,000	264,028	75,028
Interest	134,000	34,426	(99,574)
Grant Revenue	4,000	581,743	577,743
Other miscellaneous	186,431	66,400	(120,031)
Total Revenue	<u>5,724,431</u>	<u>6,476,209</u>	<u>751,778</u>
<b>EXPENDITURES</b>			
Current			
General government	899,487	765,875	133,612
Public safety	3,237,280	4,021,022	(783,742)
Public works	1,420,740	2,052,336	(631,596)
Community enrichment	518,524	628,138	(109,614)
Miscellaneous	194,000	354,108	(160,108)
Capital outlay	65,400	-	65,400
Total Expenditures	<u>6,335,431</u>	<u>7,821,479</u>	<u>(1,486,048)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(611,000)</u>	<u>(1,345,270)</u>	<u>(734,270)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	990,000	990,000	-
Transfers out	(414,000)	(480,041)	(66,041)
Total Other Financing Sources and Uses	<u>576,000</u>	<u>509,959</u>	<u>(66,041)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(35,000)	(835,311)	(800,311)
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<u>4,385,775</u>	<u>4,385,775</u>	<u>-</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 4,350,775</u>	<u>\$ 3,550,464</u>	<u>\$ (800,311)</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF GROVES, TEXAS**  
**SALES TAX FUND**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original &amp; Final</u>	<u>Actual Amounts</u>	
<b>REVENUES</b>			
Sales tax	\$ 950,000	\$ 1,445,041	\$ 495,041
Interest	36,000	100,988	64,988
Miscellaneous	4,000	45,713	41,713
Total Revenue	<u>990,000</u>	<u>1,591,742</u>	<u>601,742</u>
<b>EXPENDITURES</b>	<u>-</u>	<u>6,050</u>	<u>6,050</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>990,000</u>	<u>1,585,692</u>	<u>595,692</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	-
Transfers (out)	<u>(990,000)</u>	<u>(1,990,000)</u>	<u>(1,000,000)</u>
Total Other Financing Sources and Uses	<u>(990,000)</u>	<u>(1,990,000)</u>	<u>(1,000,000)</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	(404,308)	(404,308)
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<u>3,971,057</u>	<u>3,971,057</u>	<u>-</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 3,971,057</u>	<u>\$ 3,566,749</u>	<u>\$ (404,308)</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF GROVES, TEXAS**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**September 30, 2008**

	Business-type Activities - Enterprise Funds			Governmental
	11 Water and Sewer	5 Solid Waste	Total	Internal Service Funds
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$ 450	\$ -	\$ 450	\$ 703,784
Investments	-	-	-	-
Accounts receivables - net of allowances for uncollectibles	1,230,388	-	1,230,388	-
Due from other funds	-	66,359	66,359	-
Prepaid Insurance	77,244	23,298	100,542	-
Inventories	87,378	-	87,378	-
<b>Total Current Assets</b>	<u>1,395,460</u>	<u>89,657</u>	<u>1,485,117</u>	<u>703,784</u>
Non-current assets				
Restricted cash and investments				
Refundable customer deposits	450,347	-	450,347	-
Capital assets				
Land, construction in progress	1,426,358	-	1,426,358	-
Depreciable buildings, property, and equipment, net	18,855,878	493,501	19,349,379	-
<b>Total Non-current Assets</b>	<u>20,732,583</u>	<u>493,501</u>	<u>21,226,084</u>	<u>-</u>
<b>Total Assets</b>	<u>22,128,043</u>	<u>583,158</u>	<u>22,711,201</u>	<u>703,784</u>
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable	2,488,611	365,993	2,854,604	-
Benefits payable - current portion	-	-	-	-
Due to other funds	81,814	-	81,814	-
Payable from restricted assets				
Refundable customer deposits	-	-	-	-
<b>Total Current Liabilities</b>	<u>2,570,425</u>	<u>365,993</u>	<u>2,936,418</u>	<u>-</u>
Long-Term Liabilities				
Benefits payable - noncurrent portion	-	-	-	-
Radio Read	1,664,545	-	1,664,545	-
<b>Total Long-term Liabilities</b>	<u>1,664,545</u>	<u>-</u>	<u>1,664,545</u>	<u>-</u>
<b>Total Liabilities</b>	<u>4,234,970</u>	<u>365,993</u>	<u>4,600,963</u>	<u>-</u>
<b>NET ASSETS</b>				
Invested in capital assets	20,282,237	493,501	20,775,738	-
Unrestricted	(2,389,164)	(276,336)	(2,665,500)	703,784
<b>Total Net Assets</b>	<u>\$ 17,893,073</u>	<u>\$ 217,165</u>	<u>\$ 18,110,238</u>	<u>\$ 703,784</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF GROVES, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended September 30, 2008**

	11		5		Governmental Activities Internal Service Funds
	Business-type Activities - Enterprise Funds				
	Water and Sewer	Solid Waste	Total		
<b>OPERATING REVENUES</b>					
Water sales	\$ 1,565,402	\$ -	\$ 1,565,402		\$ -
Sewer charges	1,510,099	-	1,510,099		-
Tap fees	27,645	-	27,645		-
Garbage pickup	-	1,273,702	1,273,702		-
Other	791,721	15,996	807,717		-
<b>Total Operating Revenues</b>	<u>3,894,867</u>	<u>1,289,698</u>	<u>5,184,565</u>		<u>-</u>
<b>OPERATING EXPENSES</b>					
Water and sewer	4,004,857	-	4,004,857		-
Solid Waste	-	1,496,327	1,496,327		-
Depreciation	962,341	123,527	1,085,868		-
Sick leave charges	-	-	-		-
Other	-	-	-		159
<b>Total Operating Expenses</b>	<u>4,967,198</u>	<u>1,619,854</u>	<u>6,587,052</u>		<u>159</u>
<b>Operating Income (Loss)</b>	<u>(1,072,331)</u>	<u>(330,156)</u>	<u>(1,402,487)</u>		<u>(159)</u>
<b>Nonoperating Revenues (Expenditures)</b>					
Interest income	-	-	-		-
Miscellaneous income (expenses)	-	-	-		-
<b>Total Nonoperating Revenues (Expenses)</b>	<u>-</u>	<u>-</u>	<u>-</u>		<u>-</u>
<b>Income (Loss) Before Transfers</b>	<u>(1,072,331)</u>	<u>(330,156)</u>	<u>(1,402,487)</u>		<u>(159)</u>
<b>Transfers In</b>	-	-	-		-
<b>Transfers Out</b>	<u>(806,509)</u>	<u>(65,500)</u>	<u>(872,009)</u>		<u>-</u>
	<u>(806,509)</u>	<u>(65,500)</u>	<u>(872,009)</u>		<u>-</u>
<b>Change in Net Assets</b>	<u>(1,878,840)</u>	<u>(395,656)</u>	<u>(2,274,496)</u>		<u>(159)</u>
<b>Total Net Assets at Beginning of Year</b>	<u>19,771,913</u>	<u>612,821</u>	<u>20,384,734</u>		<u>703,943</u>
<b>Total Net Assets at End of Year</b>	<u>\$ 17,893,073</u>	<u>\$ 217,165</u>	<u>\$ 18,110,238</u>		<u>\$ 703,784</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF GROVES, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended Spetember 30, 2008

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Total</u>	<u>Internal Service Funds</u>
<b>Cash Flows From Operating Activities</b>				
Receipts from customers	\$ 3,546,954	\$ 1,223,339	\$ 4,770,293	\$ -
Payment for interfund services provided	-	-	-	-
Payment for goods and services	(76,039)	(702,387)	(778,426)	-
Payment to employees	(1,967,984)	(533,069)	(2,501,053)	-
Net cash provided (used) by operating activities	<u>1,502,931</u>	<u>(12,117)</u>	<u>1,490,814</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Acquisition of capital assets	(1,037,274)	(93,010)	(1,130,284)	-
<b>Cash Flows from Non-Capital Financing Activities</b>				
Transfers to capital projects	(806,509)	(65,500)	(872,009)	-
<b>Cash Flows from Investing Activities</b>				
Sale of investments (Purchase)	-	-	-	-
Interest income	-	-	-	-
Purchase of investments	-	-	-	-
<b>Net Increase(Decrease) in Cash and Cash Equivalents</b>	<u>(340,852)</u>	<u>(170,627)</u>	<u>(511,479)</u>	<u>-</u>
<b>Cash and Cash Equivalents at Beginning of Year</b>				
Unrestricted cash and cash equivalents	-	170,627	170,627	-
Restricted cash	-	-	-	-
	<u>-</u>	<u>170,627</u>	<u>170,627</u>	<u>-</u>
<b>Cash and Cash Equivalents at End of year</b>				
Unrestricted cash and cash equivalents	\$ -	\$ -	\$ (340,852)	\$ -
Restricted cash	-	-	-	-
	<u>-</u>	<u>-</u>	<u>(340,852)</u>	<u>-</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>				
Operating income (loss) adjustments	\$ (1,072,331)	\$ (330,156)	\$ (1,402,487)	\$ -
Depreciation	962,341	123,527	1,085,868	-
Increase (decrease) in payables	2,048,116	284,169	2,332,285	-
(Increase) decrease in receivable	(364,690)	(66,359)	(431,049)	-
(Increase) decrease in inventory	6,739	-	6,739	-
(Increase) decrease in property insurance	(77,244)	(23,298)	(100,542)	-
	<u>\$ 1,502,931</u>	<u>\$ (12,117)</u>	<u>\$ 1,490,814</u>	<u>\$ -</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF GROVES, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2008**

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

The accounting policies adopted by the City of Groves, Texas (the City) conform to generally accepted accounting principles as applicable to governments. The following notes are an integral part of the City's basic financial statements.

**(A) Financial Reporting Entity**

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

These financial statements present all the activity of the City and its component units. In evaluating how to define the City, for financial reporting purposes, City management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14. The basic criteria for inclusion of a potential component unit within the reporting entity as follows:

1. Legal status of the potential component unit including the right to incur its own debt, levy its own taxes and charges, expropriate property in its own name, sue and be sued, and the right to buy, sell and lease property in its own name.
2. Whether the City governing authority appoints a majority of board members of the potential component units.
3. Fiscal interdependency between the City and the potential component unit.
4. Imposition of will by the City on the potential component unit.
5. Financial benefit/burden relationship between the City and the potential component unit.

Based upon these criteria, City management has determined that the Economic Development Corporation of Groves is a component unit. The fund is reported as a governmental fund type.

**Blended component unit.** Based on the criteria described above, there is one such component unit for the City: the Economic Development Corporation. The financial statements are on a blended presentation. The Economic Development Corporation (EDC) board of directors includes a majority of the City Council and this majority constitutes a voting majority on the EDC board of directors; the EDC revenues (from sales tax) are required to be used to pay debt for the City's debt obligations authorized by the EDC board. The EDC is reported as a governmental fund. Separately issued financial statements are not available for this entity.

The following entities are excluded from the reporting entity:

- 1) Groves Senior Citizens Association, Inc.
- 2) Port Neches-Groves Independent School District

The City participates in a interlocal agreement, the Mid-County Dispatch, with two neighboring cities, Nederland and Port Neches. The three cities have a contractual agreement to pool resources and share the costs, risks and rewards of providing a central dispatch service for the participating cities in compliance with the "Interlocal Cooperation Act". Each of the participating cities has an ongoing financial interest in, and responsibility for the Mid-County Dispatch. Cost of operations are based on each City's percentage of combined population of the three cities.

**(B) Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-like 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 revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

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. The City has no fiduciary funds.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes 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*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City 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.

Special Construction Fund - The Special Construction Fund accounts for the financial resources to be used for the construction or acquisition of major capital facilities (other than those financed by proprietary funds or trust funds).

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.

Sales Tax Fund - The Sales Tax Fund is used to account for sales tax proceeds and reimbursement grants for expenditures made from this fund.

Economic Development Corporation Fund - The Economic Development Corporation Fund is used to account for the ½ cent sales tax received for Economic Development.

The City reports the following major proprietary funds:

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

Solid Waste - The Solid Waste Fund accounts for solid waste disposal services for residents and commercial businesses in the City.

Additionally, the City reports the following fund types:

Special Revenue Funds - Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Internal Service Funds - Self-insurance Fund accounts for the financing of capital expenditures not covered by any of the City's insurance policies. Sick Leave fund accounts for accumulation of assets to defray costs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of the following subsequent private-sector guidance for their business-like activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund services provided and used are not eliminated in the process of consolidation.



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

Proprietary funds distinguish operating revenue and expenses from nonoperating items.

Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenue of the Water and Sewer Fund, of the Solid Waste Fund, and of the City's Internal Service Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds and Internal Service Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **(D) Assets, Liabilities and Net Assets or Equity**

##### Deposits and Investments

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

State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments are stated at fair value.

##### Receivables and Payables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to /from other funds."

Property taxes are levied as of October 1 on property values assessed on January 1. On February 1, billings are considered past due and property taxes begin to accrue interest. On July 1 of the following year liens, penalties and interest are assessed.

##### Inventories and Prepaid Items

Inventories are valued at cost using the first in/first out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Restricted Assets

Enterprise Funds, based on certain bond covenants, are required to establish and maintain prescribed amounts of resources (consisting of cash and investments) that can be used only to service outstanding debt. Advance customer deposits are also accounted for as restricted assets.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, sidewalks and similar items) are recorded in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and a useful life of two or more years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation. Interest incurred during construction is not capitalized on capital assets.

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

Property, plant and equipment are depreciated in the proprietary and similar trust funds of the government using the straight-line method over the following estimated useful lives:

Assets	Years
Building	40
Building Improvements	15-40
System Improvements	15-40
Vehicles	5-10
Office Equipment	5-10
Computer Equipment	3-5

Compensated Absences

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.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### Fund Equity

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the following governmental funds: the General Fund, Sales Tax Fund, and Debt Service Fund. All other governmental funds are unbudgeted. All annual appropriations lapse at fiscal year end.

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 except that depreciation is not budgeted in the business-type funds and capital outlays are recorded at cost in the year of acquisition.

7. Expenditures of the Police Special Fund, the Library Fund, the Grant Fund, the Special Construction Fund, the Equipment Replacement Fund and the Self-Insurance Fund are not budgeted and therefore not presented with budget comparisons. The Economic Development Corporation budget is not adopted by the City Council although the Corporation has established a budget.

**NOTE 3 - DETAILED NOTES ON ALL FUNDS**

**(A) Deposits & Investments**

The carrying amount of the City's deposits as of September 30, 2008, were \$9,117,664, and the bank balances were \$10,026,334. In addition the City had certificates of deposit in the amount of \$100,000 for a total of \$9,217,664 in deposits. Of the bank balance, \$250,000 was covered by FDIC insurance and up to \$13,838,234 was covered by collateral held in the City's name by the agent of Wachovia, which is the City's depository bank.

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. It is both policy and legally required that the City's deposits be collateralized.

In accordance with GASB Statement No. 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of less than one year of less at time of purchase. The term "non-participating" means that the investment's value does not vary with market interest rate changes.

At September 30, 2008, the City had investments of \$4,829,463 in the Capital Projects Fund these investments consist of municipal bonds that are federally insured and are collateralized.

**(B) Receivables**

Receivables and related allowances for uncollectible accounts were as follows as of September 30, 2008:

	<u>General</u>	<u>Sales Tax</u>	<u>EDC</u>	<u>Enterprise</u>	<u>Total</u>
Property taxes	\$ 657,440	\$ -	\$ -	\$1,240,388	\$ 1,897,828
Accounts	-	-	-	-	-
Other	881,505	385,280	192,640	-	1,459,425
	<u>1,538,945</u>	<u>385,280</u>	<u>192,640</u>	<u>1,240,388</u>	<u>3,357,253</u>
Allowance for					
Uncollectibles	<u>(220,000)</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>(210,000)</u>
	<u>\$ 1,318,945</u>	<u>\$ 385,280</u>	<u>\$ 192,640</u>	<u>\$1,250,388</u>	<u>\$ 3,147,253</u>

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NOTES TO THE FINANCIAL STATEMENTS

Accounts receivable from the business-type funds are recognized when earned with no allowance for uncollectibles since customer deposits are held against uncollectible amounts.

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

Property Tax Calendar - Below is an analysis of dates and their relationship to the property tax revenues:

City Calendar	September 30
Tax Calendar	As of January 1
Levy Date	October 1
Due Date	On or before January 31
Delinquent Date	February 1
Lien Date	January 1 of each year

Beginning October 1, 1993 the City contracted with the Jefferson County office of Tax Assessor-Collector for the billing and collection of property taxes.

Valuation of Delinquent Property Taxes Receivables - The State of Texas prohibits the City from forgiving an Ad Valorem property tax debt. Adjustments to delinquent taxes receivable are made only on discovery of errors or omissions, judgment orders of a court of law, or upon specific acts of the State Legislature.

The accompanying financial statements include the City's estimate of delinquent taxes that may have doubtful collectibility. This estimate is included in this report for "best knowledge" valuation purposes only and does not in any way indicate a write-off of delinquent taxes.

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

Property Tax Levy - the City's maximum legal rate is \$1.50 per \$100.00 valuation. The 2007-2008 tax rate was \$.6918 per \$100.00 valuation assessed at 100% of market value. Of this \$.6918 rate, \$.0587 is allocated to Debt Service.

**(C) Restricted Assets**

Funds set aside for payment of Enterprise Fund customer deposits, and certain improvements to the water and sewer systems are classified as restricted assets since their use is limited by applicable bond indentures and by applicable City Council action.

**(D) Fund Balance**

Reserved Fund Balance indicates that portion of fund equity, which has been legally segregated for specific purposes. The City has established the following reserves:

- Reserves for Inventory: Reserve of a prepaid expenditure that will be recognized when consumed,
- Reserve for Prepaid Expenditures: This reserve was created to restrict a portion of fund balance that corresponds to the asset of prepaid expenditures.
- Reserve for Debt Service: Reserve for payment of long-term debt.
- Reserve for Drug Enforcement Expenditures: Reserve of proceeds received from shared asset forfeitures resulting from drug enforcement activities participated in by the City of Groves Police Department.
- Reserve for Economic Development: Reserve was created to restrict use of all resources of the Economic Development Corporation at the direction of the Corporation's Board.
- Reserve for Special Library Expenditures: Reserve was created to account for funds the use of which was restricted by donations and grants to the Library.
- Reserve for Municipal Court Technology: This reserve represents amounts collected by the court which are restricted for technology improvements in the court system.
- Unreserved Fund Balance: Indicates that portion of fund equity which is available for budgeting in future periods.

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NOTES TO THE FINANCIAL STATEMENTS

**(E) Capital Assets**

Capital asset activity for the year ended September 30, 2008 was as follows:

**Government Activities:**

	Beginning Balance	Additions	Correction	Deletions	Ending Balance
Capital Assets not being depreciated:					
Construction in Progress	\$ 7,800,858	\$ 544,509	\$ -	\$ (165,081)	\$ 8,180,286
Total	7,800,858	544,509	-	165,081	8,180,286
Capital Assets being depreciated:					
Buildings	3,281,549	-	283,494	(3,959)	3,561,084
Improvements other than Buildings	3,064,787	354,269	(1,165,864)	(110,313)	2,142,879
Machinery & Equipment	3,458,103	288,689	(2,106,940)	(72,380)	1,567,472
Public domain infrastructure	10,373,051	494,603	2,747,098	-	13,614,752
Total Capital Assets being depreciated	20,177,490	1,137,561	(242,212)	(186,652)	20,886,187
Less Accumulated Depreciation for:					
Buildings	2,793,182	59,867	(118,690)	-	2,734,359
Improvements other than Buildings	237,118	97,544	754,667	-	1,089,329
Machinery & Equipment	1,900,192	66,475	(964,738)	43,876	958,053
Public domain infrastructure	8,559,188	736,978	(128,274)	72,421	9,095,471
Total	13,489,680	960,864	(457,035)	116,297	13,877,212
Total Capital Assets being depreciated, Net	6,687,810	176,697	214,823	(70,355)	7,008,975
Total Government Activities Capital Assets, Net	\$ 14,488,668	\$ 721,206	\$ 214,823	\$ 235,436	\$ 15,189,261

**Business Type Activities:**

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not being depreciated:				
Land	\$ 677,865	\$ -	\$ -	\$ 677,865
Construction in Progress	-	748,493	-	748,493
Total	677,865	748,493	-	1,426,358
Capital Assets being depreciated:				
Buildings & System	19,398,967	-	-	19,398,967
Machinery & Equipment	11,889,959	1,863,091	181,376	13,571,674
Total Capital Assets being depreciated	31,288,926	1,863,091	181,376	32,970,641
Less Accumulated Depreciation for:				
Buildings & System	6,483,969	588,048	-	7,072,017
Machinery & Equipment	6,218,529	497,820	167,104	6,549,245
Total	12,702,498	1,085,868	167,104	13,621,262

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Total Capital Assets being depreciated, Net	18,586,428	777,223	14,272	19,349,379
Total Business Type Activities Capital Assets, Net	\$ 19,264,293	\$ 1,525,716	\$ (14,272)	\$ 20,775,737

Depreciation Expense was charged to functions/programs as follows:

Government Activities:		
General Government	\$	14,300
Public Safety		189,955
Public Works		655,359
Community Enrichment		101,250
Total Depreciation Expense - Government Activities		<u>960,864</u>
Business Type Activities		
Water		962,341
Solid Waste		123,527
Total Depreciation Expense - Business Type Activities		<u>\$ 1,085,868</u>

**(F) Long-term Debt**

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities in the past.

General obligation bonds are direct obligations and pledged by the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds. The debt will be repaid using property tax collections. General Obligation Bonds currently outstanding, which were issued for governmental activities, are as follows:

	Interest Rates	Issued	Matures	Amount Issued	Amount Outstanding
Series 2004	1.85 – 4.25%	9/30/2005	2026	715,000	665,000
Series 2005	3.25 – 4.0%	8/11/2005	2018	10,855,000	9,270,000
Series 2006	3.65%	11/30/2006	2027	5,000,000	4,825,000

A summary of long-term debt bond and payable transactions for the year ended September 30, 2006, is shown in the following table:

Description	Balance 9/30/2007	Additions	Retirements	Balance 9/30/2008	Due Within One Year
General Obligation Bonds					
Series 2004	\$ 690,000	\$ -	\$ 25,000	\$ 665,000	\$ 25,000
Series 2005	9,980,000	-	710,000	9,270,000	710,000
Series 2006	5,000,000	-	175,000	4,825,000	175,000
	<u>\$15,670,000</u>	<u>\$ -</u>	<u>\$ 910,000</u>	<u>\$ 14,760,000</u>	<u>\$ 910,000</u>
Capital Leases					
Kamatsu Equipment CK30-1	39,574	-	-	39,574	11,892
Kamatsu Equipment USLC-2	102,411	-	-	102,411	30,774
Radio Read Meters	-	1,680,000	15,455	1,664,545	108,635
	<u>\$ 141,985</u>	<u>\$ 1,680,000</u>	<u>\$ 15,455</u>	<u>\$ 1,806,530</u>	<u>\$ 151,301</u>



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NOTES TO THE FINANCIAL STATEMENTS

Capital leases are paid over 48 months at 4.5% interest rate. These capital leases were used to acquire heavy equipment for public works.

The annual requirements to maturity for general obligation bonds for governmental activities are as follows:

Year	G. O. BONDS			CAPITAL LEASES		
	Principal	Interest	Total	Principal	Interest	Total
2009	945,000	553,370	1,498,370	498,089	205,515	703,604
2010	990,000	520,288	1,510,288	565,290	138,314	703,604
2011	1,040,000	485,573	1,525,573	601,142	62,310	663,452
2012	1,085,000	448,056	1,533,056	106,828	1,845	108,673
2013	1,150,000	407,793	1,557,793	-	-	-
2014-2018	6,500,000	1,343,326	7,843,326	-	-	-
2019-2023	1,600,000	449,219	2,049,219	-	-	-
2024-2027	1,450,000	133,551	1,583,551	-	-	-
TOTAL	14,760,000	4,341,176	19,101,176	1,771,349	407,984	2,179,333

The City of Groves entered into capital leases for equipment in the amount of \$1,680,000 at interest rate of 4.60% with maturity in November 2017.

The City has refunded debt in prior year that met requirements for in-substance defeasement. The amount of outstanding in substance defeased debt is \$9,600,000.

Summaries of bond and capital lease activity for the year are as follows:

The City also has as part of long-term debt compensated absences.

	Beginning	Increase (Decrease)	Ending Balance
Governmental Activities	\$ 429,838	\$ 162	\$ 430,000
Business-Type Activities	197,518	-	197,518
	<u>\$ 627,356</u>	<u>\$ 162</u>	<u>\$ 627,518</u>

**(G) Individual Interfund Transactions**

Transfers are as follows:

Fund	Transfers In	Transfers Out
General	\$ 990,000	\$ 480,041
Special Construction	1,759,509	-
Debt Service	715,000	-
Sales Tax	-	1,990,000
Economic Development	-	630,000
Enterprise Funds	-	872,009
Equipment Replacement Fund	507,541	-
	<u>\$ 3,972,050</u>	<u>\$ 3,972,050</u>

Interfund transfers are utilized to accumulate funds for various purposes such as capital outlay and capital improvements. Transfers from Enterprise Funds to Equipment Repair Fund are made to accumulate funds to purchase equipment. Transfers from Sales Tax Fund to General Fund, is to assist in operations in road repairs and infrastructure of the City.

**NOTE 4 - Other Information**

**(A) Risk Management and Litigation**

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.

In addition the City has established a self-insurance fund to assume certain risks of repair and replacement of capital assets not covered by insurance. 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.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material effect on the financial condition of the government.

**(B) Commitments and Contingencies**

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

In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**(C) Long-term Debt**

It is the intention of the City to maintain adequate rate structures to sustain the future operations of its Enterprise Funds.

**(D) Pension Plans**

**Plan Description**

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), eligible 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 state 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 the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

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

	Plan Year 2008	Plan Year 2009
Employee deposit rate	6.0%	6.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	10	10
Services retirement eligibility (expressed as age/years/ of service)	60/10,0/20	60/10,0/20
Updates Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	0% of CPI	0% of CPI

### CONTRIBUTIONS

Under the state law governing TMRS, the contributions 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 prior service contribution rate, both of which are 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 Updates 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. The annual pension cost and net pension obligation/(asset) are as follows:

**City of Groves  
Schedule of Actuarial Liabilities and Funding Progress**

Actuarial Valuation Date		12/31/2008
Actuarial Value of Assets (A)	\$	16,258,949
Actuarial Accrued Liability (B)	\$	22,100,719
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL) (D) = (B)-(A)	\$	5,841,770
Percentage Funded (C) = (A)/(B)		73.60%
Annual Covered Payroll (E)	\$	6,233,597
UAAL as a Percentage of Covered Payroll (D)/(E)		93.7%

EXHIBIT I  
NOTES TO THE FINANCIAL STATEMENTS

Net Pension Obligation (NPO) at the Beginning of Period	\$	-
Annual Pension Cost:		
Annual Required Contribution (ARC) (F)	\$	854,787
Contributions Made (F)	\$	854,787
NPO at the end of the period	\$	-

Actuarial Assumptions

Actuarial Cost Method		Projected Unit Credit
Amortization Method		Level Percent of Payroll
Remaining Amortization Period		29 Years - Closed Period
Asset Valuation Method		Amortized Cost
(to accurately reflect the requirements of GASB statement, No. 25, paragraphs 36e and 138)		
Investment Rate of Return		7.5%
Projected Salary Increases	Varies	
Includes Inflation At		3.0%
Cost-of-Living Adjustments	None	

The City of Groves is one 821 municipalities having the benefit plan administered by TMRS. Each of the 821 Municipalities has an annual, individual actuarial valuation performed. All assumptions for the 12-31-06 valuations are contained in the 2006 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas, 78714-9153.

Trend Information

Additional required information is provided as follows:

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)	Amortization Factor*	Annual required Contribution Rate
2006	713,664	713,664	100%	-	n/a	13.99%
2007	692,236	692,236	100%	-	n/a	13.71%
2008	854,787	854,787	100%	-	n/a	14.05%

Analysis of Funding Progress - Last Ten Years

Valuation Date December 31	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability	(3) Percent Funded (1) / (2)	(4) Unfunded Actuarial Accrued Liability (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4) / (5)
1997	9,667,729	11,805,741	81.9%	2,138,012	3,705,929	57.7%
1998	10,838,870	12,808,177	84.6%	1,969,307	3,617,592	54.4%
1999	11,325,665	13,301,510	85.1%	1,975,845	3,746,369	52.7%
2000	11,379,915	13,616,881	83.6%	2,236,966	3,846,039	58.2%
2001	12,387,857	14,628,506	84.7%	2,240,649	3,972,463	56.4%
2002	12,591,174	15,003,837	83.9%	2,412,660	3,916,428	61.6%
2003	13,072,050	16,135,925	79.8%	3,011,650	4,070,928	70.1%
2004	14,014,996	17,678,038	79.3%	3,663,042	4,246,791	86.3%
2005	15,080,364	18,962,888	79.5%	3,882,524	4,766,090	81.5%
2006	15,458,110	19,611,334	78.8%	4,153,224	4,722,204	88.0%
2008	16,258,949	22,100,719	73.6%	5,841,770	6,233,597	93.7%

**(E) Employee Section 457 Plan**

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

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

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

**(F) 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.

	<u>Current</u>	<u>Total</u>	
Employer Contributions	\$ 39,921	\$	500
Employee Contributions	<u>79,842</u>	<u>1,004,807</u>	
Total	<u>\$119,763</u>	<u>\$1,504,911</u>	

**EXHIBIT I**  
**NOTES TO THE FINANCIAL STATEMENTS**

(2) Section 401 Profit Sharing Plan -- Each participant has a plan account to which he/she may contribute up to 8 ½% 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</u>	<u>Total</u>
Employer Contributions	\$ 65,178	\$1,286,270
Employee Contributions	<u>130,355</u>	<u>2,087,846</u>
Total	<u>\$ 195,533</u>	<u>\$ 3,374,116</u>

**NONMAJOR GOVERNMENTAL  
FUND DEFINITIONS**

**CITY OF GROVES, TEXAS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FUND DEFINITIONS**

**SPECIAL REVENUE FUNDS**

**Library Fund** – This fund is used to account for donations and any other financing sources of the public library.

**Grant Fund** – This fund is used to account for intergovernmental grant revenues and expenditures.

**Police Special Fund** – This fund is used to account for amounts received principally from Police forfeiture revenues. The proceeds are to be used for Police expenditures.

**CAPITAL PROJECT FUNDS**

**Equipment Replacement Fund** – This fund was established to account for monies set aside for the future acquisition of capital assets.



CITY OF GROVES, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2008

	55	22	24	23	
	Capital		Special Revenue		Total
	Projects	Library	Grant	Police	Other
	Equipment	Fund	Fund	Special	Governmental
	Replacement			Fund	Funds
	Fund				
Cash and cash equivalents	\$ 1,141,970	\$ 107,016	\$ -	\$ 74,663	\$ 1,323,649
Due from Investments	-	-	-	-	-
Prepaid expenditure Receivable - grant	650	-	-	-	650
Total Assets	<u>\$ 1,142,620</u>	<u>\$ 107,016</u>	<u>\$ -</u>	<u>\$ 74,663</u>	<u>\$ 1,324,299</u>

ASSETS

LIABILITIES AND FUND BALANCES

Liabilities					
Due to Accounts payable	\$ 4,015	\$ 61,455	\$ 359,808	\$ -	\$ 425,278
Due to other funds	-	-	-	-	-
Total Liabilities	<u>4,015</u>	<u>61,455</u>	<u>359,808</u>	<u>-</u>	<u>425,278</u>
Fund Balances					
Reserved for Special library expenditures	-	45,561	-	-	45,561
Drug enforcement Unreserved	1,138,605	-	(359,808)	74,663	74,663
Total Fund Balances	<u>1,138,605</u>	<u>45,561</u>	<u>(359,808)</u>	<u>74,663</u>	<u>778,797</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,142,620</u>	<u>\$ 107,016</u>	<u>\$ -</u>	<u>\$ 74,663</u>	<u>\$ 1,324,299</u>

**CITY OF GROVES, TEXAS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	55	22	24	23	
	Special Revenue				Total
	Capital Projects Equipment Replacement Fund	Library Fund	Grant Fund	Police Special Fund	Other Governmental Funds
<b>REVENUES</b>					
Fines and forfeitures	\$ -	-	-	-	-
Interest	18,937	237	-	1,147	20,321
Grant revenue	-	-	44,856	-	44,856
Private contributions	-	24,057	-	-	24,057
Total Revenue	<u>18,937</u>	<u>24,294</u>	<u>44,856</u>	<u>1,147</u>	<u>89,234</u>
<b>EXPENDITURES</b>					
Current					
Community enrichment	-	27,480	-	-	27,480
Public safety	7,460	-	57,723	6,857	72,040
Miscellaneous	-	-	-	-	-
Capital outlay	288,689	-	354,269	-	642,958
Total Expenditures	<u>296,149</u>	<u>27,480</u>	<u>411,992</u>	<u>6,857</u>	<u>742,478</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(277,212)</u>	<u>(3,186)</u>	<u>(367,136)</u>	<u>(5,710)</u>	<u>(653,244)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of debt	-	-	-	-	-
Transfers in	507,541	-	-	-	507,541
Transfers (out)	-	-	-	-	-
Total other financing sources and uses	<u>507,541</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>507,541</u>
<b>NET CHANGE IN FUND BALANCES</b>	230,329	(3,186)	(367,136)	(5,710)	(145,703)
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	908,276	48,747	7,328	80,373	1,044,724
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 1,138,605</u>	<u>\$ 45,561</u>	<u>\$ (359,808)</u>	<u>\$ 74,663</u>	<u>\$ 899,021</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, 2008**

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original &amp; Final</u>	<u>Actual Amounts</u>	
<b>REVENUES</b>			
Property taxes, penalties and interest	\$ 355,500	\$ 353,895	\$ (1,605)
Interest	49,500	13,729	(35,771)
Sales tax	-	-	-
Total Revenue	<u>405,000</u>	<u>367,624</u>	<u>(37,376)</u>
<b>EXPENDITURES</b>			
Debt service:			
Principal retirement	910,000	910,000	-
Interest and fiscal charges	585,000	577,003	7,997
Fiscal Agent Fee	1,500	-	1,500
Advance refunding escrow	-	-	-
Total Expenditures	<u>1,496,500</u>	<u>1,487,003</u>	<u>9,497</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,091,500)</u>	<u>(1,119,379)</u>	<u>(27,879)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond proceeds	-	-	-
Payment to refunded bond escrow	-	-	-
Transfers in	1,090,000	715,000	(375,000)
Transfers out	-	-	-
Total Other Financing Sources and Uses	<u>1,090,000</u>	<u>715,000</u>	<u>(375,000)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(1,500)	(404,379)	(402,879)
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<u>157,267</u>	<u>157,267</u>	<u>-</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 155,767</u>	<u>\$ (247,112)</u>	<u>\$ (402,879)</u>

# INTERNAL SERVICE FUNDS

## Self-Insurance Fund -

Accounts for the financing of capital expenditures not covered by any of the City's insurance policies.

## Sick Leave Fund -

Accounts for accounts for accumulation of assets to defray costs.

**CITY OF GROVES, TEXAS  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

65

60

	<b>Employee Sick Leave Fund</b>	<b>Self Insurance Fund</b>	<b>Total</b>
--	-------------------------------------	--------------------------------	--------------

**ASSETS**

Cash	\$ 631,009	\$ 72,775	\$ 703,784
Due from other funds	-	-	-
Investments	-	-	-
	\$ 631,009	\$ 72,775	\$ 703,784
Total Assets	\$ 631,009	\$ 72,775	\$ 703,784

**LIABILITIES**

Due to other funds	\$ -	\$ -	\$ -
Total Liabilities	\$ -	\$ -	\$ -

**NET ASSETS**

Unrestricted	\$ 631,009	\$ 72,775	\$ 703,784
	\$ 631,009	\$ 72,775	\$ 703,784

**CITY OF GROVES, TEXAS  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	65	60	
	<b>Employee Sick Leave Fund</b>	<b>Self Insurance Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ -	\$ -	\$ -
Other	-	-	-
<b>Total Operating Revenues</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>OPERATING EXPENSES</b>			
Other	\$ -	\$ 159	\$ 159
<b>Total Operating Expenses</b>	<b>\$ -</b>	<b>\$ 159</b>	<b>\$ 159</b>
<b>Operating Income (Loss)</b>	<b>\$ -</b>	<b>\$ (159)</b>	<b>\$ (159)</b>
<b>NONOPERATING REVENUES (EXPENDITURES)</b>			
Interest Income	\$ -	\$ -	\$ -
<b>Total nonoperating revenues</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Change in Net Assets</b>	<b>-</b>	<b>(159)</b>	<b>(159)</b>
<b>Total Net Assets at Beginning of Year</b>	<b>631,009</b>	<b>72,934</b>	<b>703,943</b>
<b>Total Net Assets at End of Year</b>	<b>631,009</b>	<b>72,775</b>	<b>703,784</b>

**CITY OF GROVES, TEXAS  
INTERNAL SERVICE FUND  
COMBINING STATEMENT OF CASH FLOWS  
For the Year Ended Spetember 30, 2008**

	Employee Sick Leave Fund	Self Insurance Fund	Total
<b>Cash Flows From Operating Activities</b>			
Receipts from customers	\$ -	\$ -	\$ -
Payment for interfund services provided	-	-	-
Payment for goods and services	-	159	159
Payment to employees	-	-	-
Net cash provided (used) by operating activities	-	159	159
<b>Cash Flows From Capital and Related Financing Activities</b>			
Acquisition of fixed assets	-	-	-
Principal payments	-	-	-
Transfers to Capital Projects	-	-	-
<b>Cash Flows from Investing Activities</b>			
Sale of investments (Purchase)	-	-	-
Interest income	-	-	-
Purchase of Investments	-	-	-
<b>Net Increase(Decrease) in Cash and Cash Equivalents</b>	<b>-</b>	<b>159</b>	<b>159</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>			
Unrestricted cash and Cash Equivalents	-	-	-
Restricted cash	631,009	72,934	703,943
	<u>631,009</u>	<u>72,934</u>	<u>703,943</u>
<b>Cash and Cash Equivalents at End of year</b>			
Unrestricted cash and Cash Equivalents	\$ -	\$ -	\$ 159
Restricted cash	631,009	72,995	703,943
	<u>631,009</u>	<u>72,995</u>	<u>704,102</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>			
Operating income (loss)	\$ -	\$ -	\$ -
Depreciation	-	-	-
Increase (decrease) in payables	-	-	-
(Increase) decrease in receivable	-	-	-
(Increase) decrease in inventory	-	-	-
Increase in fixed assets	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

# **SINGLE AUDIT SECTION**





# Charles E. Reed & Associates, P.C.

Certified Public Accountants & Consultants

Member

American Institute of  
Certified Public Accountants

Texas Society of  
Certified Public Accountants

AICPA Private  
Companies Practice Section

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

### Compliance

We have audited the compliance of City of Groves, Texas, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the State of Texas Single Audit Circular issued by the Office of the Governor of the State that are applicable to each of its major federal programs for the year ended September 30, 2008. The City of Groves, Texas' major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of The City of Groves, Texas' management. Our responsibility is to express an opinion on The City of Groves, Texas' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas Single Audit Circular issued by the Office of the Governor of the State. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about The City of Groves, Texas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of The City of Groves, Texas' compliance with those requirements.

In our opinion, The City of Groves, Texas complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with these requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items: 2008-01 and 2008-02.

#### Beaumont

6850 Phelan Boulevard  
Beaumont, Texas 77706

(409) 833-8986 • Fax: (409) 833-4486

#### Port Arthur

3636 Professional Drive  
Port Arthur, Texas 77642

(409) 983-3277 • Fax: (409) 983-3270

#### Silsbee

295 Hwy. 327 East  
Silsbee, Texas 77656

(409) 385-2806 • Fax: (409) 385-4338

## Internal Control Over Compliance

The management of The City of Groves, Texas is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered The City of Groves, Texas' internal control over compliance with requirements that could have a direct and material effect on a major federal and state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The City of Groves, Texas' internal control over compliance.

*A control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

*A material weakness* is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Groves, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit The City of Groves, Texas' response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Mayor and City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Charles E. Reed & Associates, P.C.*

**Charles E. Reed & Associates, P.C.**  
Certified Public Accountants  
Port Arthur, Texas, U.S.A.  
October 9, 2009



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AICPA Private  
Companies Practice Section

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

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

We have audited the financial statements of the governmental activities the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The City of Groves, Texas as of and for the year ended September 30, 2008, which collectively comprise The City of Groves, Texas', basic financial statements and have issued our report thereon dated October 9, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider those items as indicated in the accompanying schedule of findings and questioned costs to be material weaknesses.

#### Compliance and other matters

As part of obtaining reasonable assurance about whether The City of Groves, Texas' financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items

We noted certain matters that we reported to management of The City of Groves, Texas, in a separate letter dated October 9, 2009.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor and City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yours very truly,

*Charles E. Reed & Associates, P.C.*

**Charles E. Reed & Associates, P.C.**

Certified Public Accountants

Port Arthur, Texas, U.S.A.

October 9, 2009

City of Groves  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended September 30, 2008

Exhibit Q

<u>Federal Grantor/Pass-Through Grantor(s)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Expended</u>
U.S. Department of Justice Anti-Gang Initiative	16.774	\$ 42,856
Department of Homeland Security Assistance to firefighters Program for Fire Operation and Firefighter Safety	97.044	41,463
Public Assistance Grant For Disaster Relief	97.036	973,940
Department of Housing and Urban Development CDBG Disaster recovery Supplemental Project	14.228	85,184
	Total Federal Mt \$	<u>1,143,443</u>

As prepared by City Staff with Auditor Assistance

Note A - BASIS OF PRESENTATION - The schedule of expenditures of federal awards includes the federal grant activity of City of Groves on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, our used in the preparation of, the basic financial statements.

CITY OF GROVES, TEXAS  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 SEPTEMBER 30, 2008

Section I-Summary of Auditor's Results

Financial Statements

Type if auditor's report issued:

Unqualified

Internal Control over financial reporting:

Material weakness identified?

Yes     No

Significant deficiency that is not considered  
 to be a material weakness?

Yes     No

Noncompliance material to financial statements noted?

Yes     No

Federal Awards

Material weakness identified?

Yes     No

Significant deficiency identified that is  
 not considered to be a material weakness?

Yes     No

Type auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in  
 accordance with section 510(a) of Circular A-133

Yes     No

Identification of major programs:

CFDA Number  
 97.044

Name of Federal Program or Cluster  
 Department of Homeland Security  
 Public Assistance Grant for Disaster Relief

The threshold used to distinguish the type of federal program was \$ 300,000.

Auditee qualified as low-risk auditee?

Yes     No

## Section II-Financial Statements Findings

Criteria: In accordance with OMB A-133, the organization should have procedures in place to prevent control deficiencies over financial reporting.

*A control deficiency* exist when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

*A significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a material misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

*A material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

### MATERIAL WEAKNESSES

Finding #2008-01

#### OVERALL ACCURACY OF FINANCIAL REPORTS

We noted that during the year ended September 30, 2008 several of the balance sheet and income statement accounts, including, but not limited to, cash, accounts receivable, payables, debt and other accounts were not being reconciled on a timely basis. This resulted in the City's general ledger being out of balance and misstated during the year and at year-end. In addition, we noted that no transactions had been posted to one cash account. We also noted that several Funds were out of balance. Management engaged the assistance of a Certified Public Accounting Firm to assist the City in reconciling its general ledger.

Finding #2008-02

#### GRANT ADMINISTRATION AND MANAGEMENT

During our examination of grant revenues and expenditures, we found that City staff responsible for the administration of grants was not familiar with OMB Circular A-133 nor OMB Circular A-87 which sets forth the compliance requirements as well as cost principles associated with federal grants. It was noted that the City depends on external grant administrators to perform reconciliations and compile documentation regarding specific grants. However, some grants such as Hurricane recovery grants are administered without the assistance of external grant

administrators and are not being monitored for compliance requirements. Further, those charged with the responsibility for grant administration were not capable of producing a complete and reconciled Schedule of Expenditures of Federal Awards. Subsequent to year-end, the City's Finance Director was able to compile a complete and reconciled Schedule of Expenditures of Federal Awards and perform a reconciliation of those grants not being administered by external

SIGNIFICANT DEFICENCIES

Finding #2008-03

FINANCIAL REPORTING

The City was not able to issue, without auditor assistance, completed financial statements with all of the related footnotes, in accordance with generally accepted accounting principles and free of material misstatement. This inability is a symptom of significant deficiencies in internal control.

Section III - Federal Award Findings and Questioned Costs

During our examination of Federal Awards, we detected several instances whereby wages and other expenditures were paid in excess of guidelines prescribed by the FEMA Recovery Policy and the FEMA Disaster Assistance Policy. Questioned cost identified is approximately \$220,395 which consist of \$180,227 of labor and \$40,168 of fuel.

Section IV-Status of Prior Year Findings

MATERIAL WEAKNESSES

#2007-1

COMPONENT UNIT – GROVES ECONOMIC DEVELOPMENT CORPORATION

It was noted in the prior year management letter that the Groves Economic Development was mentioned as a reportable condition in that management had not received the required training nor did the corporation have written formal policies and procedures regarding the operation of the Groves Economic Development Corporation. In current year, it was noted that the Groves Economic Development Corporation began granting economic development grants in violation of the Development Corporation Act of 1979. Specifically, the Corporation failed to post the required a 60 day public notice of its intentions to fund a project, develop a schedule of economic return of investment and enter into a written performance agreement with the grantee stating the required minimum elements stated in the Development Corporation Act of 1979.

Status of Finding: The City has taken appropriate action and put in place a monitoring process whereby required training is identified and track on an ongoing basis. Further, the County adopted policies and procedures regarding to the funding of projects by the Groves Economic Development Corporation.



#2007-2

### PETTY CASH

It was noted in the prior year management letter that those staff members responsible for the reconciliation of some petty cash and postage funds did not have the training or understanding as to how or what they were to be reconciling to. In current year we noted that no improvements had been made in reconciling the petty cash or postage funds that were previously identified. Proper physical safeguards over the City's cash decreases the City's susceptibility to misappropriation. Adequate physical counts should exist over cash and postage at all times, with access limited only to those with authorization.

Status of Finding: The City has developed and implemented policies and procedures that subjects all reconciliations of cash to the Internal Control Systems. However, the City continues to monitor this area as more improvements are required.

### SIGNIFICANT DEFICIENCIES

#2007-3

### RECONCILIATION OF GENERAL LEDGER ACCOUNTS

During our examination, we noted several general ledger accounts, across all funds, that were not being reconciled in a timely manner. It is noted that the City has experienced an increase in the number of transactions being processed through its general ledger such as transactions in water/sewer customers, municipal court, payroll and property tax. It is also noted that City staff has operated one employee short due to a catastrophic illness and additionally is staffed by only one person who possesses the technical training and skill to support the accounting functions of the City.

Status of Finding: During the period of October 2008 through June 2009, the City continued to have problems in reconciling its general ledger on a timely basis. The City hired a Finance Director in June of 2009 that appears to be skilled in all aspects of governmental accounting matters.

### Section IV - Corrective Action Plan

#### Material Weaknesses:

#### Finding #2008-01: OVERALL ACCURACY OF FINANCIAL REPORTS

A new purchase order system has been implemented and staff has been trained on the system's operation. The system contains various control procedures to minimize the risk of human error and improves the documentation of the transactions. Further, a new finance director has been hired which filled the vacancy in the City that was created when the previous finance director resigned in November of 2008. With this critical position filled and staff receiving additional supervision and training, the City will be able to create accurate and timely financial reports.

The City's Finance Director, Lamar Ozley, is responsible for this corrective action plan.

Finding #2008-05: GRANT ADMINISTRATION AND MANAGEMENT

The department that applied for the various grants has been responsible for the management of each awarded grant and coordinating with the finance department to ensure proper recording and reporting of each grant. Some departments utilize a third-party grant management firm while others directly manage each grant. Specifically, due to the resignation of the previous finance director shortly after the Hurricane Ike event in September of 2008, the management coordination regarding the Hurricane recovery grant was lacking a core component in the finance department. A new finance director has since been hired by the City and additional processes are being developed to identify, capture, document and monitor each grant within the finance department in addition to the other department charged with the management of their respective grants. The departments will meet on a regular basis to reconcile the transactions to ensure all activities are documented and captured within the financial system.

The City's Finance Director, Lamar Ozley, is responsible for this corrective action plan.

Significant Deficiencies:

Finding #2008-03: FINANCIAL REPORTING

A new purchase order system has been implemented and staff has been trained on the system's operation. The system contains various control procedures to minimize the risk of human error and improves the documentation of the transactions. Further, a new finance director has been hired which filled the vacancy in the City that was created when the previous finance director resigned in November of 2008. With this critical position filled and staff receiving additional supervision and training, the City will be able to create accurate and timely financial reports.

The City's Finance Director, Lamar Ozley, is responsible for this corrective action plan.

The above correction action plan was approved and adopted by management of the City of Groves. We agree with the actions taken.