

CITY OF GROVES, TEXAS

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2009

**CITY OF GROVES, TEXAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009**

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**INTRODUCTORY
SECTION**

CITY OF GROVES, TEXAS

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED**

SEPTEMBER 30, 2009

CITY COUNCIL

Brad P. Bailey	Mayor
Joseph P. Arisco	Council Member, Ward 1
Karen Theis	Council Member, Ward 2
Sidney Badon	Council Member, Ward 3
Kyle Hollier	Council Member, Ward 4

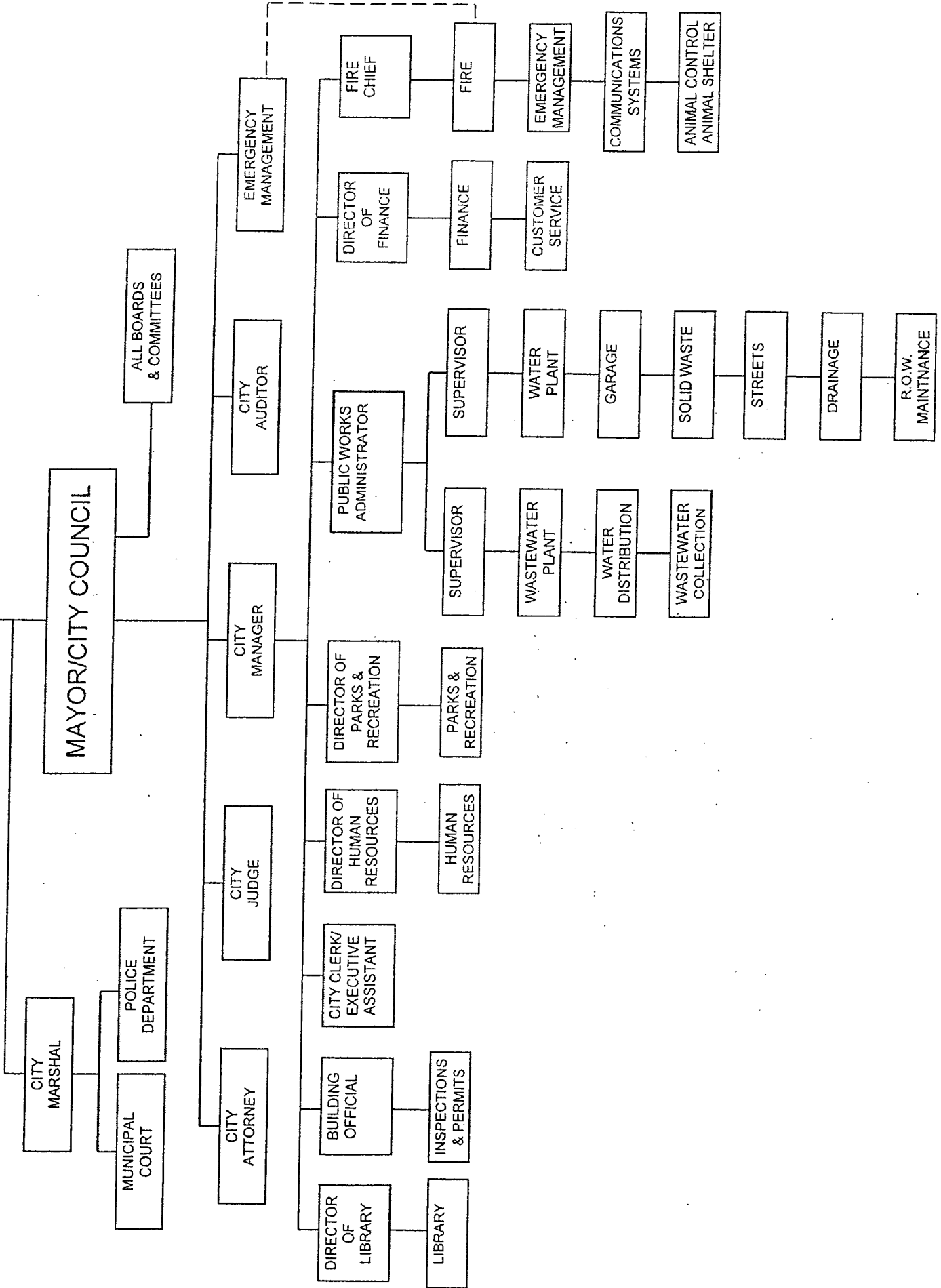
CITY MANAGER

D.E. Sosa

CITY ATTORNEY

James Black

CITY OF GROVES



**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, 2009, 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. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Groves, Texas as of September 30, 2009, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 3-10, 43 and 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the

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

information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Groves, Texas' financial statements as a whole. The introductory section, combining non-major fund financial statements, budgetary comparison for the debt service fund on page 43, and schedule of funding progress on page 47 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section, budgetary comparison for the debt service fund on page 43, and schedule of funding progress on page 47 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Yours very truly,

Charles E. Reed & Associates, A.C.

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

August 12, 2010

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, 2009. 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 2009 by \$32,196,191. Of this amount, \$9,525,424 is considered unrestricted. The unrestricted net assets of the City's governmental activities are \$11,099,848 and may be used to meet the government's ongoing obligations. The unrestricted net assets of the City's business- type activities are \$(1,574,434).
- The City's total net assets decreased by \$2,830,065 in 2009.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$11,755,767. Of this balance, \$10,055,570 is considered unreserved at September 30, 2009.
- The General Fund reported a fund balance of \$2,735,193 at the end of the current fiscal year. The unreserved fund balance for the General Fund was \$2,730,322, or 28% of total general expenditures (including transfers out).
- The City's total debt decreased by \$970,000 during the current fiscal year.

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 – 39 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 non-major 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 \$32,196,191 at the close of the most recent fiscal year.

The largest portion of the City's net assets, \$20,975,451, 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.

Current and prior year net assets are summarized in the table on the following page:

	2009			2008		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 13,972,993	\$ 1,376,035	\$ 15,349,028	\$ 19,051,459	\$ 1,853,650	\$ 20,905,109
Capital assets	14,992,710	21,585,267	36,577,977	15,189,251	20,775,737	35,964,988
Total assets	28,965,703	22,961,302	51,927,005	34,240,710	22,629,387	56,870,097
Long-term liabilities	13,039,451	1,371,554	14,411,005	1,344,968	2,854,604	4,199,572
Other liabilities	2,219,495	3,100,314	5,319,809	15,494,822	1,664,545	17,159,367
Total liabilities	15,258,946	4,471,868	19,730,814	16,839,790	4,519,149	21,358,939
Net assets:						
Invested in capital assets, net of related debt	911,583	20,063,868	20,975,451	(142,733)	19,111,192	18,968,459
Restricted	1,695,326	-	1,695,326	2,328,935	-	2,328,935
Unrestricted	11,099,848	(1,574,434)	9,525,414	15,214,718	(1,000,954)	14,213,764
	13,706,757	18,489,434	32,196,191	17,400,920	18,110,238	35,511,158

An additional portion of the City's net assets, \$1,695,326, represents resources that are subject to restrictions as to how they may be used. The remaining balance of unrestricted net assets \$9,525,414, 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 \$9,525,414, the unrestricted net assets of the City's business-type activities, (\$1,574,434) 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.

Changes in net assets are summarized in the table on the following page:

	2009			2008		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
REVENUES						
Charges for services	\$ 414,960	\$ 5,201,012	\$ 5,615,972	\$ 554,682	\$ 5,184,565	\$ 5,739,247
Operating grants and contributions	363,579	-	363,579	1,063,407	-	1,063,407
General revenues:						
Property taxes	4,252,972	-	4,252,972	4,440,293	-	4,440,293
Sales taxes	1,892,867	-	1,892,867	2,167,562	-	2,167,562
Hotel Tax	156,262	-	156,262	214,220	-	214,220
Gross receipts tax	774,697	-	774,697	1,316,522	-	1,316,522
Interest income	49,845	-	49,845	463,180	-	463,180
Other miscellaneous	133,837	-	133,837	101,763	-	101,763
Total Revenues	8,039,019	5,201,012	13,240,031	10,321,629	5,184,565	15,506,194
EXPENSES						
General government	755,570	-	755,570	780,175	-	780,175
Public safety	5,325,818	-	5,325,818	4,283,017	-	4,283,017
Public works	2,848,078	-	2,848,078	2,713,657	-	2,713,657
Community enrichment	698,211	-	698,211	890,124	-	890,124
Miscellaneous	287,462	-	287,462	360,317	-	360,317
Interest on long-term debt	263,122	-	263,122	577,003	-	577,003
Water	-	4,523,347	4,523,347	-	4,967,198	4,967,198
Solid Waste	-	1,368,488	1,368,488	-	1,619,854	1,619,854
Total Expenses	10,178,261	5,891,835	16,070,096	9,604,293	6,587,052	16,191,345
Increase (decrease) in net assets before transfers	(2,139,242)	(690,823)	(2,830,065)	717,336	(1,402,487)	(685,151)
Transfers	(1,616,654)	1,616,654	-	872,009	(872,009)	-
Increase (decrease) in net assets	(3,755,896)	925,831	(2,830,065)	1,589,345	(2,274,496)	(685,151)
Net assets at beginning of year	17,400,920	18,110,238	35,511,158	15,811,575	20,384,734	36,196,309
Prior Period Adjustment	61,733	(546,635)	(484,902)	468,442	-	468,442
Net Assets End of Year	\$ 13,706,757	\$ 18,489,434	\$ 32,196,191	\$ 17,869,362	\$ 18,110,238	\$ 35,979,600

The City's total net assets decreased by \$3,783,409 during the current fiscal year. Governmental activities decreased the City's net assets by \$2,139,242, and business-type activities decreased net assets by \$690,823. The City's governmental activities decreased net assets due primarily to decreased revenues and increased 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, 2009, the City's governmental funds reported combined ending fund balances of \$11,755,767, a decrease of \$4,605,920 in comparison with the prior year. \$10,055,570 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, \$1,567,407, or for a variety of other restricted purposes some of which include drug enforcement, and special library expenditures.

The General Fund is the chief operating fund of the City. At September 30, 2009 the unreserved fund balance of the General Fund was \$2,730,322, while total fund balance was \$2,735,193. 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 33.4% of total General Fund expenditures (including transfers out), while total fund balance represents 33.5% of that same amount.

The fund balance of the General Fund decreased by \$815,271 during 2009. It was budgeted to decrease by \$1,665,500 during this year. Therefore, this decrease was an \$838,828 negative variance.

The Sales Tax Fund was budgeted at no change of fund balance but the fund balance decreased by \$346,619 for a negative variance.

The Debt Service Fund had a total fund balance of (\$11,239) after a prior period adjustment of \$500,467; a decrease of \$264,594 over the 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 \$10,000; therefore the \$264,594 decrease was a negative variance of \$254,594.

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 \$18,289,488 for the Water and Sewer Fund. Net assets in the Water and Sewer Fund decreased by \$1,355,845. Unrestricted net assets at the end of the year amounted to \$199,946, for the Solid Waste Fund. Net assets in the Solid Waste Fund decreased by \$218,589. 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, 2009, amount to \$36,578,173 (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, are summarized in the following table:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ -	\$ 677,865	\$ 677,865
Construction in progress	6,890,655	1,654,866	8,545,521
Other capital assets	8,102,055	19,252,732	27,354,787
	<u>\$ 14,992,710</u>	<u>\$ 21,585,463</u>	<u>\$ 36,578,173</u>

Additional information on the City's capital assets can be found in Note 1 on page 26 and Note 3 on pages 31 – 32.

Long-term Debt

At September 30, 2009, the City had \$14,081,127 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. Long-term debt is summarized in the following table:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Certificates of Obligation	\$ 13,790,000	\$ -	\$ 13,790,000
Capital Leases	154,693	1,664,545	1,819,238
	<u>\$ 13,944,693</u>	<u>\$ 1,664,545</u>	<u>\$ 15,609,238</u>

At year end, total long-term bonds and other liabilities outstanding at decreased by \$932,292, a 5.62% decrease, from September 30, 2008. Compensated absences included in long term debt total \$236,434. Additional information on the City's debt can be found in Note 3F, beginning on page 32.

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 two 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.

Lastly, the City has seen our interest income fall almost in half due to historically low interest rates. Even though these low rates are expected to create a stimulative effect to our economy, it also reduces the amount of interest revenue the City earns on our reserves, which in turn creates increased pressure on our revenue streams. While we believe interest rate will not be sustainable at these unprecedented levels for an extended period, the City will maintain the same amount of reserves we have historically and we have reduced our budgeted expected interest income on those reserves accordingly.

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 multiple potential retirements in the coming years, 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, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 12,999,260	\$ 450	\$ 12,999,710
Investments	100,000	-	100,000
Receivables - net of allowances for uncollectibles			
Taxes	372,169	-	372,169
Accounts receivable	-	845,663	845,663
Other receivables	208,286	-	208,286
Inventories	4,871	63,495	68,366
Prepaid items	697	-	697
Due from Other Funds	-	-	-
Due from State	287,710	-	287,710
Restricted assets			
Capital projects	-	-	-
Refundable customer deposits	-	466,427	466,427
Capital assets (Note 3E)			
Land, construction in process	6,890,655	2,332,731	9,223,386
Depreciable buildings, property, and equipment, net	8,102,055	19,252,536	27,354,591
Total Assets	<u>28,965,703</u>	<u>22,961,302</u>	<u>51,927,005</u>
LIABILITIES			
Accounts payable	749,916	2,410,560	3,160,476
Accrued expenses and other liabilities	265,065	-	265,065
Benefits payable current	162,838	73,482	236,320
Refundable customer deposits	-	466,427	466,427
Non-current liabilities			
Due within one year	1,041,676	149,845	1,191,521
Due in more than one year	13,039,451	1,371,554	14,411,005
Total Liabilities	<u>15,258,946</u>	<u>4,471,868</u>	<u>19,730,814</u>
NET ASSETS			
Invested in capital assets, net of related debt	911,583	20,063,868	20,975,451
Restricted for			
Debt service	-	-	-
Economic development	1,567,407	-	1,567,407
Special library expenditures	49,309	-	49,309
Drug enforcement	78,610	-	78,610
Unrestricted	11,099,848	(1,574,434)	9,525,414
Total Net Assets	<u>\$ 13,706,757</u>	<u>\$ 18,489,434</u>	<u>\$ 32,196,191</u>

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

CITY OF GROVES, TEXAS
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

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
Governmental activities						
General government	\$ 755,570	\$ -	\$ -	\$ (755,570)	\$ -	\$ (755,570)
Public safety	5,325,818	162,334	-	(5,163,484)	-	(5,163,484)
Public works	2,848,078	209,853	363,579	(2,274,646)	-	(2,274,646)
Community enrichment	698,211	6,544	-	(691,667)	-	(691,667)
Miscellaneous	287,462	36,229	-	(251,233)	-	(251,233)
Interest on long-term debt	263,122	-	-	(263,122)	-	(263,122)
Total governmental activities	10,178,261	414,960	363,579	(9,399,722)	-	(9,399,722)
Business-type activities						
Water and sewer	4,523,347	3,909,101	-	-	(614,246)	(614,246)
Solid waste	1,368,488	1,291,911	-	-	(76,577)	(76,577)
Total business-type activities	\$ 5,891,835	\$5,201,012	\$ -	\$ -	\$ (690,823)	\$ (690,823)
General revenues						
Property taxes, penalties and interest				\$ 4,252,972		\$ 4,252,972
Sales tax				1,892,867		1,892,867
Hotel tax				156,262		156,262
Gross receipts tax				774,697		774,697
Interest				49,845		49,845
Other miscellaneous				133,837		133,837
Total general revenues and transfers				(1,616,654)	1,616,654	-
Change in net assets				5,643,826	1,616,654	7,260,480
				(3,755,896)	925,831	(2,830,065)
Transfers						
Beginning net assets as originally stated				17,400,920	18,110,238	35,511,158
Prior period adjustment - See Note 5				61,733	(546,635)	(484,902)
Beginning net assets restated				17,462,653	17,563,603	35,026,256
Ending net assets				\$ 13,706,757	\$ 18,489,434	\$ 32,196,191

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

CITY OF GROVES, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	01	50	35	21	30	Total	Other	Total
	General	Special	Debt	Sales Tax	Economic	Major	Governmental	Governmental
ASSETS	Fund	Construction	Service	Fund	Development	Funds	Funds	Funds
Cash and cash equivalents	\$ 3,023,851	\$ 3,942,987	\$ 9,238	\$ 2,770,843	\$ 1,436,344	\$ 11,183,263	\$ 1,148,759	\$ 12,332,022
Investments	-	-	-	100,000	-	100,000	-	100,000
Receivables - net of allowances for uncollectibles								
Taxes receivable	338,989	-	33,180	-	-	372,169	-	372,169
Other receivables	208,286	-	-	-	-	208,286	-	208,286
Inventories	4,871	-	-	-	-	4,871	-	4,871
Due from state	-	-	-	192,082	95,628	287,710	-	287,710
Prepaid items	697	-	-	-	-	697	-	697
Due from Other Funds	-	-	-	-	35,435	35,435	-	35,435
Total Assets	\$ 3,576,694	\$ 3,942,987	\$ 42,418	\$ 3,062,925	\$ 1,567,407	\$ 12,192,431	\$ 1,148,759	\$ 13,341,190
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	\$ 95,086	\$ 125,108	\$ -	\$ -	\$ -	\$ 220,194	\$ 529,722	\$ 749,916
Accrued expenditures and other liabilities	244,588	-	20,477	-	-	265,065	-	265,065
Due to Other Funds	-	-	-	35,435	-	35,435	-	35,435
Deferred tax revenue	338,989	-	33,180	-	-	372,169	-	372,169
Benefits payable - current	162,838	-	-	-	-	162,838	-	162,838
Total Liabilities	841,501	125,108	53,657	35,435	-	1,055,701	529,722	1,585,423
Fund Balances								
Reserved for								
Debt service	-	-	-	-	-	-	-	-
Inventory	4,871	-	-	-	-	4,871	-	4,871
Economic development	-	-	-	-	1,567,407	1,567,407	-	1,567,407
Drug Enforcement	-	-	-	-	-	-	78,610	78,610
Special library expenditures	-	-	-	-	-	-	49,309	49,309
Court Security & Technology	-	-	-	-	-	-	-	-
Unreserved reported in								
General fund	2,730,322	-	-	-	-	2,730,322	-	2,730,322
Special revenue fund	-	-	(11,239)	3,027,490	-	3,016,251	(468,986)	2,547,265
Capital projects fund	-	3,817,879	-	-	-	3,817,879	960,104	4,777,983
Total Fund Balances	2,735,193	3,817,879	(11,239)	3,027,490	1,567,407	11,136,730	619,037	11,755,767
Total Liabilities and Fund Balances	\$ 3,576,694	\$ 3,942,987	\$ 42,418	\$ 3,062,925	\$ 1,567,407	\$ 12,192,431	\$ 1,148,759	\$ 13,341,190

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, 2009**

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

Total governmental fund balances in the Balance Sheet (Exhibit C)		\$ 11,755,767
Capital assets used in governmental activities are not financial resources; therefore, capital assets are not reported in the funds.		14,992,710
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.		667,238
Deferred Revenue		372,169
Long-term liabilities are not due and payable in the current period; therefore, long-term liabilities are not reported in the funds. Long-term liabilities include:		
Bonded Debt	\$ 13,790,000	
Capital Leases	54,693	
Employee Benefits	236,434	
	(14,081,127)	
Total net assets of governmental activities (Exhibit A)		<u>\$ 13,706,757</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, 2009**

	01	50	35	21	30	Total	Other	Total
	Fund	Special Construction Fund	Debt Service Fund	Sales Tax Fund	Economic Development Fund	Major Funds	Governmental Funds	Governmental Funds
REVENUES								
Property taxes, penalties and interest	\$ 3,994,855	-	\$ 364,130	-	-	\$ 4,358,985	-	\$ 4,358,985
Sales tax	-	-	-	1,271,644	621,223	1,892,867	-	1,892,867
Hotel tax	156,262	-	-	-	-	156,262	-	156,262
Gross receipts tax	774,697	-	-	-	-	774,697	-	774,697
Permits, licenses and fees	209,853	-	-	-	-	209,853	-	209,853
Fines	154,993	-	-	-	-	154,993	7,341	162,334
Interest	3,515	1,158	1,414	22,092	11,954	40,133	9,712	49,845
Grant revenue	264,480	87,249	-	-	-	351,729	11,850	363,579
Private contributions	-	-	-	-	-	-	6,544	6,544
Other miscellaneous	112,412	15,800	37	5,588	-	133,837	-	133,837
Total Revenue	<u>5,671,067</u>	<u>104,207</u>	<u>365,581</u>	<u>1,299,324</u>	<u>633,177</u>	<u>8,073,356</u>	<u>35,447</u>	<u>8,108,803</u>
EXPENDITURES								
Current								
General government	743,304	-	-	-	-	743,304	-	743,304
Public safety	3,789,894	-	-	-	-	3,789,894	117,464	3,907,358
Public works	2,793,835	-	-	-	21,222	2,815,057	-	2,815,057
Community enrichment	683,191	-	-	-	-	683,191	15,020	698,211
Miscellaneous	-	-	-	-	228,183	228,183	-	228,183
Capital outlay	165,171	979,411	-	-	59,279	1,203,861	123,589	1,327,450
Debt service	-	-	945,000	-	-	945,000	-	945,000
Principal retirement	-	-	568,979	-	-	568,979	-	568,979
Interest and fiscal charges	-	-	-	-	-	-	-	-
Issuance costs	-	-	-	-	-	-	-	-
Total Expenditures	<u>8,175,395</u>	<u>979,411</u>	<u>1,513,979</u>	<u>-</u>	<u>308,684</u>	<u>10,977,469</u>	<u>256,073</u>	<u>11,233,542</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,504,328)</u>	<u>(875,204)</u>	<u>(1,148,398)</u>	<u>1,299,324</u>	<u>324,493</u>	<u>(2,904,113)</u>	<u>(220,626)</u>	<u>(3,124,739)</u>
OTHER FINANCING SOURCES (USES)								
Issuance of Debt	-	-	-	-	-	-	-	-
Transfers in	1,719,683	30,626	883,804	-	-	2,634,113	-	2,634,113
Transfers out	(30,626)	(1,721,397)	-	(1,645,943)	(719,703)	(4,117,669)	(59,358)	(4,177,027)
Total Other Financing Sources and Uses	<u>1,689,057</u>	<u>(1,690,771)</u>	<u>883,804</u>	<u>(1,645,943)</u>	<u>(719,703)</u>	<u>(1,483,556)</u>	<u>(59,358)</u>	<u>(1,542,914)</u>
NET CHANGE IN FUND BALANCES	<u>(815,271)</u>	<u>(2,565,975)</u>	<u>(264,594)</u>	<u>(346,619)</u>	<u>(395,210)</u>	<u>(4,387,669)</u>	<u>(279,984)</u>	<u>(4,667,653)</u>
Beginning Fund balances as originally stated	3,550,464	6,383,854	(247,112)	3,566,749	2,208,711	15,462,666	899,021	16,361,687
Prior period adjustment - See Note 5	-	-	500,467	(192,640)	(246,094)	61,733	-	61,733
Beginning Fund balances restated	<u>3,550,464</u>	<u>6,383,854</u>	<u>253,355</u>	<u>3,374,109</u>	<u>1,962,617</u>	<u>15,524,399</u>	<u>899,021</u>	<u>16,423,420</u>
FUND BALANCES AT END OF YEAR	<u>\$ 2,735,193</u>	<u>\$ 3,817,879</u>	<u>\$ (11,239)</u>	<u>\$ 3,027,490</u>	<u>\$ 1,567,407</u>	<u>\$ 11,136,730</u>	<u>\$ 619,037</u>	<u>\$ 11,755,767</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
SEPTEMBER 30, 2009

Amounts reported for governmental activities in the statement of activities differ because:

Net change in fund balances in the Governmental Funds (Exhibit D)	\$ (4,667,653)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over the useful lives of the assets and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.

Capital Outlay	\$ 1,327,450	
Depreciation	(782,178)	
Capital Asset transfer to Water & Sewer Fund	<u>(741,822)</u>	(196,550)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(105,996)
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The net revenue of certain activities of internal service funds is reported with governmental activities.	(36,546)
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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.

Bond Repayment	\$ 970,000	
Decrease in Compensated Absences	183,566	
Capital lease payments	<u>97,283</u>	<u>1,250,849</u>

Change in net assets of governmental activities (Exhibit B)	<u>\$ (3,755,896)</u>
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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, 2009

	(Unaudited) Budgeted Amounts Original & Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Property taxes, penalties and interest	\$ 4,042,000	\$ 3,994,855	\$ (47,145)
Gross receipts tax	781,995	774,697	(7,298)
Hotel tax	130,000	156,262	26,262
Permits, licenses and fees	144,500	209,853	65,353
Fines	249,000	154,993	(94,007)
Interest	134,000	3,515	(130,485)
Grant Revenue	20,000	264,480	244,480
Other miscellaneous	54,900	112,412	57,512
Total Revenue	<u>5,556,395</u>	<u>5,671,067</u>	<u>114,672</u>
EXPENDITURES			
Current			
General government	754,783	755,570	(787)
Public safety	3,761,440	3,909,778	(148,338)
Public works	1,891,767	2,826,856	(935,089)
Community enrichment	600,705	683,191	(82,486)
Miscellaneous	213,200	-	213,200
Capital outlay	-	-	-
Total Expenditures	<u>7,221,895</u>	<u>8,175,395</u>	<u>(953,500)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,665,500)</u>	<u>(2,504,328)</u>	<u>(838,828)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	1,919,000	1,719,683	(199,317)
Transfers out	(253,500)	(30,626)	222,874
Total Other Financing Sources and Uses	<u>1,665,500</u>	<u>1,689,057</u>	<u>23,557</u>
NET CHANGE IN FUND BALANCES	-	(815,271)	(815,271)
FUND BALANCES AT BEGINNING OF YEAR	<u>3,550,464</u>	<u>3,550,464</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 3,550,464</u>	<u>\$ 2,735,193</u>	<u>\$ (815,271)</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 - SALES TAX FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	(Unaudited) Budgeted Amounts		Variance with Final Budget - Positive (Negative)
	<u>Original & Final</u>	<u>Actual Amounts</u>	<u> </u>
REVENUES			
Sales tax	\$ 1,150,000	\$ 1,271,644	\$ 121,644
Interest	100,000	22,092	(77,908)
Miscellaneous	5,000	5,588	588
Total Revenue	<u>1,255,000</u>	<u>1,299,324</u>	<u>44,324</u>
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,255,000</u>	<u>1,299,324</u>	<u>44,324</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers (out)	(1,255,000)	(1,645,943)	(390,943)
Total Other Financing Sources and Uses	<u>(1,255,000)</u>	<u>(1,645,943)</u>	<u>(390,943)</u>
NET CHANGE IN FUND BALANCES	-	(346,619)	(346,619)
FUND BALANCES AT BEGINNING OF YEAR	<u>3,566,749</u>	<u>3,566,749</u>	<u>-</u>
FUND BALANCE AT END OF YEAR	<u>\$ 3,566,749</u>	<u>\$ 3,220,130</u>	<u>\$ (346,619)</u>

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

CITY OF GROVES, TEXAS
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
September 30, 2009

EXHIBIT F

	Business-type Activities - Enterprise Funds			Governmental
	11	5	Total	Activities
	Water and Sewer	Solid Waste		Internal Service Funds
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 450	\$ -	\$ 450	\$ 667,238
Investments	-	-	-	-
Accounts receivables - net of allowances for uncollectibles	845,663	-	845,663	-
Due from other funds	-	60,852	60,852	-
Prepaid Insurance	-	-	-	-
Inventories	63,495	-	63,495	-
Total Current Assets	<u>909,608</u>	<u>60,852</u>	<u>970,460</u>	<u>667,238</u>
Non-current assets				
Restricted cash and investments				
Refundable customer deposits	466,427	-	466,427	-
Capital assets				
Land, construction in progress	2,332,731	-	2,332,731	-
Depreciable buildings, property, and equipment, net	18,834,001	418,535	19,252,536	-
Total Non-current Assets	<u>21,633,159</u>	<u>418,535</u>	<u>22,051,694</u>	<u>-</u>
Total Assets	<u>22,542,767</u>	<u>479,387</u>	<u>23,022,154</u>	<u>667,238</u>
LIABILITIES				
Current Liabilities				
Accounts payable	2,135,082	275,478	2,410,560	-
Benefits payable - current portion	69,519	3,963	73,482	-
Due to other funds	60,852	-	60,852	-
Payable from restricted assets				
Refundable customer deposits	466,427	-	466,427	-
Total Current Liabilities	<u>2,731,880</u>	<u>279,441</u>	<u>3,011,321</u>	<u>-</u>
Long-Term Liabilities				
Benefits payable - noncurrent portion	-	-	-	-
Radio Read	1,521,399	-	1,521,399	-
Total Long-term Liabilities	<u>1,521,399</u>	<u>-</u>	<u>1,521,399</u>	<u>-</u>
Total Liabilities	<u>4,253,279</u>	<u>279,441</u>	<u>4,532,720</u>	<u>-</u>
NET ASSETS				
Invested in capital assets	19,645,333	418,535	20,063,868	-
Unrestricted	(1,355,845)	(218,589)	(1,574,434)	667,238
Total Net Assets	<u>\$ 18,289,488</u>	<u>\$ 199,946</u>	<u>\$ 18,489,434</u>	<u>\$ 667,238</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, 2009

	Business-type Activities - Enterprise Funds			Governmental Activities
	11	5	Total	Internal Service Funds
	Water and Sewer	Solid Waste		
OPERATING REVENUES				
Water sales	\$ 1,522,048	\$ -	\$ 1,522,048	\$ -
Sewer charges	1,510,801	-	1,510,801	-
Tap fees	22,890	-	22,890	-
Garbage pickup	-	1,276,403	1,276,403	-
Other	853,362	15,508	868,870	37,194
Total Operating Revenues	<u>3,909,101</u>	<u>1,291,911</u>	<u>5,201,012</u>	<u>37,194</u>
OPERATING EXPENSES				
Water and sewer	3,671,276	-	3,671,276	-
Solid Waste	-	1,234,361	1,234,361	-
Depreciation	852,071	134,127	986,198	-
Sick leave charges	-	-	-	-
Other	-	-	-	-
Total Operating Expenses	<u>4,523,347</u>	<u>1,368,488</u>	<u>5,891,835</u>	<u>-</u>
Operating Income (Loss)	<u>(614,246)</u>	<u>(76,577)</u>	<u>(690,823)</u>	<u>37,194</u>
Nonoperating Revenues (Expenditures)				
Interest income	-	-	-	-
Miscellaneous income (expenses)	-	-	-	-
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (Loss) Before Transfers	<u>(614,246)</u>	<u>(76,577)</u>	<u>(690,823)</u>	<u>37,194</u>
Transfers In	1,721,397	59,358	1,780,755	-
Transfers Out	<u>(164,101)</u>	<u>-</u>	<u>(164,101)</u>	<u>(73,740)</u>
	<u>1,557,296</u>	<u>59,358</u>	<u>1,616,654</u>	<u>(73,740)</u>
Change in Net Assets	943,050	(17,219)	925,831	(36,546)
Prior period adjustment	(224,662)	-	(224,662)	-
Prior period adjustment	(321,973)	-	(321,973)	-
Total Net Assets at Beginning of Year	<u>17,893,073</u>	<u>217,165</u>	<u>18,110,238</u>	<u>703,784</u>
Total Net Assets at End of Year	<u>\$ 18,289,488</u>	<u>\$ 199,946</u>	<u>\$ 18,489,434</u>	<u>\$ 667,238</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 September 30, 2009

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer	Solid Waste	Total	Internal Service Funds
Cash Flows From Operating Activities				
Receipts from customers	\$ 4,293,826	\$ 1,291,911	\$ 5,585,737	\$ -
Payment for interfund services provided	-	-	-	-
Payment for goods and services	(1,417,406)	(963,469)	(2,380,875)	-
Payment to employees	(1,991,288)	(328,639)	(2,319,927)	-
Net cash provided (used) by operating activities	<u>885,132</u>	<u>(197)</u>	<u>884,935</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	(1,736,567)	(59,161)	(1,795,728)	-
Payments of Principal	(143,146)	-	(143,146)	-
Net cash provided (used) by capital and related financing activities	<u>(1,879,713)</u>	<u>(59,161)</u>	<u>(1,938,874)</u>	<u>-</u>
Cash Flows from Non-Capital Financing Activities				
Transfers in	1,721,397	-	1,721,397	-
Transfers out	(164,101)	-	(164,101)	-
Net cash provided (used) by non-capital financing activities	<u>1,557,296</u>	<u>-</u>	<u>1,557,296</u>	<u>-</u>
Cash Flows from Investing Activities				
Sale of investments (Purchase)	-	-	-	-
Interest income	-	-	-	-
Net cash provided (used) by investing	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>562,715</u>	<u>(59,358)</u>	<u>(1,074,894)</u>	<u>-</u>
Cash and Cash Equivalents at Beginning of Year				
Unrestricted cash and cash equivalents	450	-	450	-
Restricted cash	450,347	-	450,347	-
	<u>450,797</u>	<u>-</u>	<u>450,797</u>	<u>-</u>
Cash and Cash Equivalents at End of year				
Unrestricted cash and cash equivalents	\$ 450	\$ -	\$ (1,074,444)	\$ -
Restricted cash	466,427	-	450,347	-
	<u>466,877</u>	<u>-</u>	<u>(624,097)</u>	<u>-</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss) adjustments	\$ (614,246)	\$ (76,577)	\$ (690,823)	\$ -
Depreciation	852,071	134,127	986,198	-
Increase (decrease) in payables	161,455	(86,552)	74,903	-
(Increase) decrease in receivable	384,725	-	384,725	-
(Increase) decrease in due from	77,244	5,507	82,751	-
(Increase) decrease in prepaid inventory	23,883	23,298	47,181	-
	<u>\$ 885,132</u>	<u>\$ (197)</u>	<u>\$ 884,935</u>	<u>\$ -</u>

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

CITY OF GROVES, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2009

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 the Mid-County Dispatch, an interlocal agreement 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. The cost of operations is 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 non-fiduciary 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 Fund - 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.

EXHIBIT I
NOTES TO THE FINANCIAL STATEMENTS

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 non-operating 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 non-operating 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. Budget amounts and comparisons presented in the financial statements are unaudited.

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

1. On or before the first day of August each year, the Mayor or the City Manager shall submit to the City Council a budget estimate of the revenues of the City and the expenditures or expenses of conducting the affairs thereof for the ensuing year.
2. On receipt of the estimate the City Council shall at once prepare an appropriation ordinance, using the estimate as a basis. Provisions shall be made for public hearings upon the appropriation ordinance before a committee of the City Council, or before the entire City Council sitting as a committee as a whole.
3. Following the public hearing, and before the second reading and final passage, the appropriation ordinance shall be published in the official newspaper of the City.
4. The City Council shall not pass the appropriation ordinance until at least ten days after its publication, but shall pass the appropriation ordinance no later than September 30 of each year.
5. The legal level of control is by fund level where the City Council's approval is required. The City Council may transfer unencumbered appropriations for the use of a department, division or purpose or any other department, division or purpose without public notice and public hearing except when such transfer shall be made of revenue or earnings of any non-tax supported public utility to any other purpose. No amendment is necessary if department expenditures exceed budget, as long as fund expenditures do not exceed the fund budget.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles 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, 2009, was \$7,122,534, and the bank balances were \$7,415,787. In addition the City had certificates of deposit in the amount of \$100,000 for a total of \$7,222,534 in deposits. Of the bank balance, \$250,000 was covered by FDIC insurance and up to \$10,894,000 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, 2009, the City had investments of \$960,104 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, 2009:

	<u>General</u>	<u>Sales Tax</u>	<u>EDC</u>	<u>Enterprise</u>	<u>Total</u>
Property taxes	\$ 338,989	\$ -	\$ -	\$ 929,988	\$ 1,268,977
Accounts	-	-	-	-	-
Other	208,286	192,082	95,628	-	495,996
	<u>547,275</u>	<u>192,082</u>	<u>95,628</u>	<u>929,988</u>	<u>1,764,973</u>
Allowance for Uncollectibles	-	-	-	84,325	84,325
	<u>\$ 547,275</u>	<u>\$ 192,082</u>	<u>\$ 95,628</u>	<u>\$ 1,014,313</u>	<u>\$ 1,849,298</u>

EXHIBIT I
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 2008-2009 tax rate was \$.6412 per \$100.00 valuation assessed at 100% of market value. Of this \$.6412 rate, \$.0524 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. The City has deficit of (\$11,239) in debt service fund.

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.

EXHIBIT I
NOTES TO THE FINANCIAL STATEMENTS

(E) Capital Assets

Capital asset activity for the year ended September 30, 2009 was as follows:

Government Activities:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not being depreciated:				
Construction in Progress	\$ 8,180,286	\$ 1,173,589	\$ (2,463,220)	\$ 6,890,655
Total	8,180,286	1,173,589	(2,463,220)	6,890,655
Capital Assets being depreciated:				
Buildings	3,561,084	-	-	3,561,084
Improvements other than Buildings	2,142,879	-	-	2,142,879
Machinery & Equipment	1,567,472	348,039	-	1,915,511
Public domain infrastructure	13,614,752	1,527,219	-	15,141,971
Total Capital Assets being depreciated	20,886,187	1,875,258	-	22,761,445
Less Accumulated Depreciation for:				
Buildings	2,734,359	54,220	-	2,788,579
Improvements other than Buildings	1,089,329	84,050	-	1,173,379
Machinery & Equipment	958,053	48,555	-	1,006,608
Public domain infrastructure	9,095,471	595,353	-	9,690,824
Total	13,877,212	782,178	-	14,659,390
Total Capital Assets being depreciated, Net	7,008,975	1,093,080	-	8,102,055
Total Government Activities Capital Assets, Net	\$ 15,189,261	\$ 2,266,669	\$ (2,463,220)	\$ 14,992,710

Business Type Activities:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not being depreciated:				
Land	\$ 677,865	\$ -	\$ -	\$ 677,865
Construction in Progress	748,493	906,373	-	1,654,866
Total	1,426,358	906,373	-	2,332,731
Capital Assets being depreciated:				
Buildings & System	19,398,967	-	-	19,398,967
Machinery & Equipment	13,571,674	889,355	-	14,461,029
Total Capital Assets being depreciated	32,970,641	889,355	-	33,859,996
Less Accumulated Depreciation for:				
Buildings & System	7,072,017	528,420	-	7,600,437
Machinery & Equipment	6,549,245	457,778	-	7,007,023

EXHIBIT I
NOTES TO THE FINANCIAL STATEMENTS

	Total	13,621,262	986,198	-	14,607,460
Total Capital Assets being depreciated, Net		19,349,379	(96,647)	-	19,252,536
Total Business Type Activities Capital Assets, Net		\$ 20,775,737	\$ 809,726	\$ -	\$ 21,585,267

Depreciation Expense was charged to functions/programs as follows:

Government Activities:	
General Government	\$ 11,654
Public Safety	154,636
Public Works	533,524
Community Enrichment	82,364
Total Depreciation Expense - Government Activities	782,178
Business Type Activities	
Water	852,071
Solid Waste	134,127
Total Depreciation Expense - Business Type Activities	\$ 986,198

(F) Long-term Debt

The City includes compensated absences as a part of total 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	640,000
Series 2005	3.25 – 4.0%	8/11/2005	2018	10,855,000	8,530,000
Series 2006	3.65%	11/30/2006	2027	5,000,000	4,645,000

A summary of long-term debt bond and payable transactions for the year ended September 30, 2009, is shown in the following table:

EXHIBIT I
NOTES TO THE FINANCIAL STATEMENTS

Description	Balance 9/30/2008	Additions	Retirements	Balance 9/30/2009	Due Within One Year
<u>General Obligation Bonds</u>					
Series 2004	\$ 665,000	\$ -	\$ 25,000	\$ 640,000	\$ 25,000
Series 2005	9,270,000	-	740,000	8,530,000	710,000
Series 2006	4,825,000	-	180,000	4,645,000	175,000
	<u>14,760,000</u>	-	<u>945,000</u>	<u>13,815,000</u>	<u>910,000</u>
<u>General Fund</u>					
<u>Capital Leases</u>					
Kamatsu Equipment CK30-1	39,574	-	11,892	27,682	13,010
Kamatsu Equipment USLC-2	70,323	-	30,774	39,549	33,666
	<u>109,897</u>	-	<u>42,666</u>	<u>67,231</u>	<u>46,676</u>
<u>Enterprise Fund</u>					
Radio Read Meters	1,672,029	-	108,635	1,563,394	149,845
	<u>\$ 1,672,029</u>	<u>\$ -</u>	<u>\$ 108,635</u>	<u>\$ 1,563,394</u>	<u>\$ 149,845</u>

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 City entered into a capital lease for equipment in the amount of \$1,680,000 at interest rate of 4.60% with maturity in November, 2017. This capital lease is accounted for in the Enterprise Fund – Water and Sewer Fund.

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

Year	G. O. BONDS		
	Principal	Interest	Total
2010	990,000	520,288	1,510,288
2011	1,040,000	485,573	1,525,573
2012	1,085,000	448,056	1,533,056
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	<u>1,450,000</u>	<u>133,551</u>	<u>1,583,551</u>
TOTAL	13,815,000	3,787,806	17,602,806

The City had refunded debt in prior years that met requirements for in-substance defeasance. The amount of outstanding in-substance defeasance of debt is \$9,600,000.

Bond and capital lease activity for the year are summarized as follows:

	Beginning	Increase (Decrease)	Ending Balance
Governmental Activities	\$430,000	\$15,051	\$445,051
Business-Type Activities	197,518	24,669	222,187
	<u>\$627,518</u>	<u>\$39,720</u>	<u>\$667,238</u>

(G) Individual Interfund Transactions

Transfers are as follows:

Fund	Transfers In	Transfers Out
General Fund	\$ 1,719,683	\$ 30,626
Solid Waste Fund	59,358	-
Systems Fund	1,721,397	164,101
Sales Tax Fund	-	1,645,943
Economic Development	-	719,703
Interest & Sinking Fund	883,804	-
Capital Projects Fund	30,626	1,721,397
Equipment Replacement	-	59,358
Self Insurance Fund	-	73,740
Totals	\$ 4,414,868	\$ 4,414,868

Interfund transfers are utilized to accumulate funds for various purposes such as capital outlay and capital improvements. Transfers from Enterprise Funds to Equipment Replacement 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 collectability 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 eligible 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.

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 for Plan Year 2009 were as follows:

Employee deposit rate	6%
Matching ratio (City to employee)	2 to 1
Years required for vesting	10
Service retirement eligibility (expressed as age / years of service)	60/10, 0/20
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to retirees)	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:

Annual Required Contribution (ARC)	\$785,506
Interest on Net Pension Obligation	-
Adjustment to the ARC	-
Annual Pension Cost (APC)	<u>785,506</u>
Contributions Made	<u>785,506</u>
Increase (decrease) in net pension	-
Net Pension Obligation/(Asset), beginning of year	-
Net Pension Obligation/(Asset), end of year	-

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

EXHIBIT I
NOTES TO THE FINANCIAL STATEMENTS

Valuation Date	12/31/2007	12/31/2008	12/31/2009
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	30 years; closed period	29 years; closed period	28 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	Amortized Cost	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.00%	7.50%	7.50%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0.00%	0.00%	0.00%

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ration	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2009	\$17,244,164	\$21,987,964	78.4%	\$4,743,800	\$5,559,126	85.3%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by Prudential known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The death benefit for active employees provides a lump-sum payment approximately equal to the employees annual salary (calculated base on the employee's actual earnings for the 12-month period preceding the month of death); retired

employees are insured for \$10,000; this coverage is an “other postemployment benefit,” or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing on-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees’ entire careers.

The City’s contributions to the Prudential SDBF for the years ended 2009, 2008 and 2007 were \$3,475 annually.

(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	\$ 52,636	\$ 552,636
Employee Contributions	<u>105,271</u>	<u>1,110,078</u>
Total	<u>\$ 157,907</u>	<u>\$ 1,662,714</u>

- (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	\$ 68,250	\$ 1,354,520
Employee Contributions	<u>136,500</u>	<u>2,224,346</u>
Total	<u>\$ 204,750</u>	<u>\$ 3,578,866</u>

NOTE 5 – Prior Period Adjustments

Prior period adjustments were made to correct the beginning balances in certain Fund Balances as follows:

In the Sales Tax Fund, prior year receivable was overstated by \$192,640.

In the Economic Development Fund, prior year receivable was overstated by \$96,320, and Claim on Pooled Cash was overstated by \$149,774.

In the Debt Service Fund, prior year Claim on Pooled Cash was understated by \$500,467.

In the Water and Sewer Fund, prior year Claim on Pooled Cash was overstated by \$224,662, and Capital Assets were overstated by \$321,973.

NOTE 6 – Subsequent Events

Events occurring subsequent to September 30, 2009 were evaluated by management and reviewed through August 12, 2010, the date of report issuance, with no significant items reported.

**NONMAJOR GOVERNMENTAL
FUND DEFINITIONS**

CITY OF GROVES, TEXAS
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2009

	55 Capital Projects Equipment Replacement Fund	22 Library Fund	24 Special Revenue Grant Fund	23 Police Special Fund	Total Other Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 960,104	\$ 110,045	\$ -	\$ 78,610	\$ 1,148,759
Due from	-	-	-	-	-
Investments	-	-	-	-	-
Prepaid expenditure	-	-	-	-	-
Receivable - grant	-	-	-	-	-
Total Assets	<u>\$ 960,104</u>	<u>\$ 110,045</u>	<u>\$ -</u>	<u>\$ 78,610</u>	<u>\$ 1,148,759</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Due to	\$ -	\$ 60,736	\$ 468,986	\$ -	\$ 529,722
Accounts payable	-	-	-	-	-
Due to other funds	-	-	-	-	-
Total Liabilities	<u>-</u>	<u>60,736</u>	<u>468,986</u>	<u>-</u>	<u>529,722</u>
Fund Balances					
Reserved for					
Special library expenditures	-	49,309	-	-	49,309
Drug enforcement	-	-	-	78,610	78,610
Unreserved	960,104	-	(468,986)	-	491,118
Total Fund Balances	<u>960,104</u>	<u>49,309</u>	<u>(468,986)</u>	<u>78,610</u>	<u>619,037</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 960,104</u>	<u>\$ 110,045</u>	<u>\$ -</u>	<u>\$ 78,610</u>	<u>\$ 1,148,759</u>

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

CITY OF GROVES, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	55 Capital Projects Equipment Replacement Fund	22 Library Fund	24 Special Revenue Grant Fund	23 Police Special Fund	Total Other Governmental Funds
REVENUES					
Fines and forfeitures	\$ -	\$ -	\$ -	\$ 7,341	\$ 7,341
Interest	4,446	4,986	-	280	9,712
Grant revenue	-	7,238	4,612	-	11,850
Private contributions	-	6,544	-	-	6,544
Total Revenue	<u>4,446</u>	<u>18,768</u>	<u>4,612</u>	<u>7,621</u>	<u>35,447</u>
EXPENDITURES					
Current					
Community enrichment	-	15,020	-	-	15,020
Public safety	-	-	113,790	3,674	117,464
Miscellaneous	-	-	-	-	-
Capital outlay	123,589	-	-	-	123,589
Total Expenditures	<u>123,589</u>	<u>15,020</u>	<u>113,790</u>	<u>3,674</u>	<u>256,073</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(119,143)</u>	<u>3,748</u>	<u>(109,178)</u>	<u>3,947</u>	<u>(220,626)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of debt	-	-	-	-	-
Transfers in	-	-	-	-	-
Transfers (out)	(59,358)	-	-	-	(59,358)
Total other financing sources and uses	<u>(59,358)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(59,358)</u>
NET CHANGE IN FUND BALANCES	(178,501)	3,748	(109,178)	3,947	(279,984)
FUND BALANCES AT BEGINNING OF YEAR	<u>1,138,605</u>	<u>45,561</u>	<u>(359,808)</u>	<u>74,663</u>	<u>899,021</u>
FUND BALANCES AT END OF YEAR	<u>\$ 960,104</u>	<u>\$ 49,309</u>	<u>\$ (468,986)</u>	<u>\$ 78,610</u>	<u>\$ 619,037</u>

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

CITY OF GROVES, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	(Unaudited) Budgeted Amounts <u>Original & Final</u>	Actual Amounts <u> </u>	Variance with Final Budget - Positive (Negative) <u> </u>
REVENUES			
Property taxes, penalties and interest	\$ 346,000	\$ 364,130	\$ 18,130
Interest	50,000	1,414	(48,586)
Sales tax	-	37	37
Total Revenue	<u>396,000</u>	<u>365,581</u>	<u>(30,419)</u>
EXPENDITURES			
Debt service:			
Principal retirement	945,000	945,000	-
Interest and fiscal charges	549,500	568,979	(19,479)
Fiscal Agent Fee	-	-	-
Advance refunding escrow	-	-	-
Total Expenditures	<u>1,494,500</u>	<u>1,513,979</u>	<u>(19,479)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,098,500)</u>	<u>(1,148,398)</u>	<u>(49,898)</u>
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	-
Payment to refunded bond escrow	-	-	-
Economic Development	560,000	-	(560,000)
Transfers in	528,500	883,804	355,304
Transfers out	-	-	-
Total Other Financing Sources and Uses	<u>1,088,500</u>	<u>883,804</u>	<u>(204,696)</u>
NET CHANGE IN FUND BALANCES	(10,000)	(264,594)	(254,594)
FUND BALANCES AT BEGINNING OF YEAR	<u>(247,112)</u>	<u>253,355</u>	<u>500,467</u>
FUND BALANCE AT END OF YEAR	<u>\$ (257,112)</u>	<u>\$ (11,239)</u>	<u>\$ 245,873</u>

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

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
COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	65	60	
	Employee Sick Leave Fund	Self Insurance Fund	Total
ASSETS			
Cash	\$ 667,238	\$ -	\$ 667,238
Due from other funds	-	-	-
Investments	-	-	-
	<u>667,238</u>	<u>-</u>	<u>667,238</u>
Total Assets	<u>667,238</u>	<u>-</u>	<u>667,238</u>
LIABILITIES			
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS			
Unrestricted	<u>667,238</u>	<u>-</u>	<u>667,238</u>
Total Net Assets at End of Year	<u>\$ 667,238</u>	<u>\$ -</u>	<u>\$ 667,238</u>

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

CITY OF GROVES, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND ASSETS - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	65 Employee Sick Leave Fund	60 Self Insurance Fund	Total
OPERATING REVENUES			
Charges for services	\$ -	\$ -	\$ -
Other	36,229	965	37,194
Total Operating Revenues	<u>36,229</u>	<u>965</u>	<u>37,194</u>
OPERATING EXPENSES			
Other	-	-	-
Total Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>
Operating Income (Loss)	36,229	965	37,194
NONOPERATING REVENUES (EXPENDITURES)			
Interest Income	-	-	-
Total nonoperating revenues	<u>-</u>	<u>-</u>	<u>-</u>
Transfers		(73,740)	
Change in Net Assets	36,229	(72,775)	(36,546)
Total Net Assets at Beginning of Year	<u>631,009</u>	<u>72,775</u>	<u>703,784</u>
Total Net Assets at End of Year	<u>\$ 667,238</u>	<u>\$ -</u>	<u>\$ 667,238</u>

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

CITY OF GROVES, TEXAS
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
For the Year Ended Spetember 30, 2009

	Employee Sick Leave Fund	Self Insurance Fund	Total
Cash Flows From Operating Activities			
Receipts from customers	\$ -	\$ -	\$ -
Payment for interfund services provided	36,229	965	37,194
Payment for goods and services	-	-	-
Payment to employees	-	-	-
	-	-	-
Net cash provided (used) by Operating Activities	36,229	965	37,194
Cash Flows From Non-Capital Financing Activities			
Transfers to General Fund	-	(73,740)	(73,740)
	-	(73,740)	(73,740)
Cash Flows from Investing Activities			
Sale of investments (Purchase)	-	-	-
Interest income	-	-	-
Purchase of Investments	-	-	-
	-	-	-
Net Increase(Decrease) in Cash and Cash Equivalents	36,229	(72,775)	(36,546)
Cash and Cash Equivalents at Beginning of Year			
Unrestricted cash and Cash Equivalents	-	-	-
Restricted cash	631,009	72,775	703,784
	631,009	72,775	703,784
Cash and Cash Equivalents at End of year			
Unrestricted cash and Cash Equivalents	-	-	-
Restricted cash	667,238	-	667,238
	667,238	-	667,238
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	-	-	-
Depreciation	-	-	-
Increase (decrease) in payables	-	-	-
(Increase) decrease in receivable	-	-	-
(Increase) decrease in inventory	-	-	-
Increase in fixed assets	-	-	-
	\$ -	\$ -	\$ -

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

Required Supplementary Information

Texas Municipal Retirement System

Schedule of Funding Progress:

(unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ration	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2007	\$ 15,380,890	\$ 19,823,700	77.6%	\$ 4,442,810	\$ 4,999,894	88.9%
12/31/2008	16,258,949	22,100,719	73.6%	5,841,770	6,233,597	93.7%
12/31/2009	17,244,164	21,987,964	78.4%	4,743,800	5,559,126	85.3%