

CITY OF GROVES, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2023

**CITY OF GROVES, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

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April 8, 2024

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Groves, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Groves, Texas (the "City"), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (Government Auditing Standards). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As described in Notes 1 and 14 to the financial statements, for the year ended September 30, 2023, the City adopted new accounting guidance, GASB No. 96, *Subscription Based Information Technology Arrangements*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

To the Honorable Mayor and
Members of City Council
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April 8, 2024

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, the budgetary comparison information on page 47, the schedule of changes in net pension liability and related ratios on page 48, and the schedule of employer contributions - pension plan on page 49, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

To the Honorable Mayor and
Members of City Council
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April 8, 2024

We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

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

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Groves (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2023. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The net position of the City at the close of the most recent fiscal year was \$34,455,250. This number must be viewed in the context that the majority of the City's net position of \$32,066,201 (93.1%) is the net investment in capital assets and that most capital assets in a government do not directly generate revenue nor can they be sold to generate liquid capital. The net position restricted for specific purposes totals \$1,896,018 (5.5%). The remaining \$493,031 (1.4%) is the unrestricted net position and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net position decreased by \$911,860 in fiscal year 2023.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,106,862. Within this total \$2,164 is non-spendable for inventory and prepaid items, \$2,391,035 is restricted by specific legal requirements. The remaining \$1,713,663 is unassigned fund balance in the general fund and can be used for any lawful purpose.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public works, public safety, cultural and recreation, and administration and general. The business-type activities of the City include two enterprise activities; water and sewer system and a solid waste system. The government-wide financial statements can be found on pages 10-11 of this report.

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

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Non-financial assets such as governmental buildings, roads, drainage ways, park land and long-term liabilities such as bonds payable or long-term liabilities that will not be paid with current assets are excluded. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City maintains four governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund. Data from the other three funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the supplemental information section. The basic governmental funds financial statements can be found on pages 12-15.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer and Solid Waste operations since they are considered to be major funds of the City. The basic proprietary fund financial statements can be found on pages 16-19 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 20-46 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Groves, assets exceeded liabilities by \$34,455,250 as of September 30, 2023.

The largest portion of the City's net position, \$32,066,201, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Totals	
	2023	2022	2023	2022	2023	2022
Current and Other Assets	\$ 4,978,347	\$ 6,205,682	\$ 2,943,663	\$ 3,594,451	\$ 7,922,010	\$ 9,800,133
Internal Balances	482,923	(860,482)	(482,923)	860,482	-	-
Capital Assets, Net	17,293,346	17,180,370	25,676,306	22,746,035	42,969,652	39,926,405
SBITA Asset, Net	877,902	-	-	-	877,902	-
Net Pension Asset	-	2,316,429	-	769,263	-	3,085,692
Total Assets	23,632,518	24,841,999	28,137,046	27,970,231	51,769,564	52,812,230
Deferred Outflows	2,622,917	519,130	766,586	113,199	3,389,503	632,329
Other Liabilities	2,189,158	2,112,287	3,852,083	5,071,719	6,041,241	7,184,006
Long-term Liabilities	13,901,620	11,459,278	710,248	6,597	14,611,868	11,465,875
Total Liabilities	16,090,778	13,571,565	4,562,331	5,078,316	20,653,109	18,649,881
Deferred Inflows	39,218	2,285,110	11,490	682,762	50,708	2,967,872
Net Position						
Net Investment in						
Capital Assets	6,389,895	5,999,385	25,676,306	22,746,035	32,066,201	28,745,420
Restricted	1,896,018	1,676,495	-	-	1,896,018	1,676,495
Unrestricted	1,839,526	1,828,574	(1,346,495)	(423,683)	493,031	1,404,891
Total Net Position	\$ 10,125,439	\$ 9,504,454	\$ 24,329,811	\$ 22,322,352	\$ 34,455,250	\$ 31,826,806

Governmental activities: Governmental activities increased the City's net position by \$620,985. The increase is due to several factors including increased property tax revenue and sales tax revenue, as well as a transfer in of \$1,219,984 from the Proprietary Funds.

Business type activities. Business-type activities increased the City's net position by \$2,007,459.

The following table provides a summary of the City's operations for year ended September 30, 2023 with comparative totals for year ended September 30, 2022.

Changes in Net Position

For the years ended September 30, 2023 and 2022

	Governmental Activities		Business-Type Activities		Totals	
	2023	2022	2023	2022	2023	2022
Revenues						
Program Revenues						
Charges for Services	\$ 614,665	\$ 753,094	\$ 6,856,321	\$ 6,521,643	\$ 7,470,986	\$ 7,274,737
Grants and Contributions	2,142	114,161	3,335,102	1,188,644	3,337,244	1,302,805
General Revenues						
Property Taxes	6,737,577	6,310,510	-	-	6,737,577	6,310,510
Sales Tax	2,971,110	2,640,770	-	-	2,971,110	2,640,770
Franchise and Local Taxes	895,394	872,597	-	-	895,394	872,597
Investment Income	240,270	54,303	-	-	240,270	54,303
Other Revenues	166,591	32,722	-	-	166,591	32,722
Total Revenues	<u>11,627,749</u>	<u>10,778,157</u>	<u>10,191,423</u>	<u>7,710,287</u>	<u>21,819,172</u>	<u>18,488,444</u>
Expenses						
General Government	1,729,289	1,563,147	-	-	1,729,289	1,563,147
Public Safety	6,556,197	5,357,064	-	-	6,556,197	5,357,064
Public Works	2,886,424	2,344,044	-	-	2,886,424	2,344,044
Culture and Recreation	656,023	546,641	-	-	656,023	546,641
Economic Development	77,552	59,176	-	-	77,552	59,176
Interest and Fiscal Charges	321,263	311,390	-	-	321,263	311,390
Loss on Disposition of Assets	-	38,278	-	-	-	38,278
Water & Sewer	-	-	5,706,255	4,771,031	5,706,255	4,771,031
Solid Waste	-	-	1,257,725	1,150,350	1,257,725	1,150,350
Total Expenses	<u>12,226,748</u>	<u>10,219,740</u>	<u>6,963,980</u>	<u>5,921,381</u>	<u>19,190,728</u>	<u>16,141,121</u>
Increase (Decrease) in Net Position before Transfers	(598,999)	558,417	3,227,443	1,788,906	2,628,444	2,347,323
Transfers	1,219,984	2,000,000	(1,219,984)	(2,000,000)	-	-
Increase (Decrease) in Net Position	620,985	2,558,417	2,007,459	(211,094)	2,628,444	2,347,323
Net Position at Beginning of Year	9,504,454	6,946,037	22,322,352	22,533,446	31,826,806	29,479,483
Net Position at End of Year	<u>\$ 10,125,439</u>	<u>\$ 9,504,454</u>	<u>\$ 24,329,811</u>	<u>\$ 22,322,352</u>	<u>\$ 34,455,250</u>	<u>\$ 31,826,806</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4.1 million, an increase of \$249,232 from the prior year. The increase is mainly attributable to decreases in expenditures in the General Fund including a reduction in overtime as staffing levels stabilized. Unassigned fund balance is \$1,713,663 at September 30, 2023, which is available for spending at the government's discretion. The remainder of fund balance is restricted and committed to indicate that it is not available for new spending because it has already been committed to inventories \$1,672, prepaid items \$492, restricted for payment of debt service \$90,852, restricted for economic development \$1,699,876, restricted for public safety \$41,649, and restricted for construction \$558,658.

The General Fund is the chief operating fund of the City. At September 30, 2023, the unassigned fund balance of the General Fund was \$1,713,663 while total fund balance was \$2,274,485. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures (including transfers out). Unassigned fund balance represents 15.6 percent of total general fund expenditures (excluding capital outlay).

Fund balance of the City's General Fund increased by \$29,017 during 2023.

The Debt Service Fund has a total fund balance of \$90,852. The net increase in fund balance during the fiscal year 2023 in this fund was \$11,929. The Debt Service Fund is funded with property tax revenue at the level necessary to meet debt service requirements.

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

The unrestricted net position at the end of the year amounted to \$(2,291,402) for the Water and Sewer Fund, and \$944,907 for the Solid Waste Fund. The change in net position for the enterprise funds in 2023 were an increase of \$1,455,957 for the Water & Sewer Fund and an increase of \$551,502 for the Solid Waste Fund.

General Fund Budgetary Highlights

The City made adjustments to the original appropriations approved by the City Council throughout the year.

Major variances between budget and actual occurred in Sales Tax, Franchise and Local Taxes, Investment Income, and Other Revenues.

General Government Expenditures were \$70,249 below budget. Public Safety expenditures were \$334,142 below budget. Public Works were \$79,404 below budget, and Culture and Recreation was under budget by \$74,468. Capital Outlay exceeded budget by \$210,142.

CAPITAL ASSETS

Capital assets. The City's investment in capital assets for governmental and business-type activities as of September 30, 2023, amounted to \$42,969,651 (net of accumulated depreciation). This investment in capital assets includes land, and other capital assets such as buildings, improvements, and equipment. The total increase in capital assets for the current fiscal year was 7.6% (0.7% increase for governmental activities and a 12.9% increase in business-type activities.)

Additional information on the City's capital assets can be found in Note 1 on page 25 and Note 4 on pages 32-33 of this report.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Land	\$ 153,104	\$ 153,104	\$ 677,865	\$ 677,865	\$ 830,969	\$ 830,969
Construction in Progress	46,199	795,884	1,993,883	278,252	2,040,082	1,074,136
Buildings and improvements	16,240,220	16,207,986	39,552,777	37,951,278	55,792,997	54,159,264
Machinery and Equipment	4,577,568	4,488,618	17,883,492	16,830,732	22,461,060	21,319,350
Vehicles	3,936,135	3,910,548	-	-	3,936,135	3,910,548
Infrastructure	17,209,086	15,621,099	-	-	17,209,086	15,621,099
Right to use - Equipment	16,865	-	-	-	16,865	-
	<u>42,179,177</u>	<u>41,177,239</u>	<u>60,108,017</u>	<u>55,738,127</u>	<u>102,287,194</u>	<u>96,915,366</u>
Less: Accumulated Depreciation	<u>(24,885,831)</u>	<u>(23,996,869)</u>	<u>(34,431,711)</u>	<u>(32,992,092)</u>	<u>(59,317,542)</u>	<u>(56,988,961)</u>
Capital Assets, net	<u>\$ 17,293,346</u>	<u>\$17,180,370</u>	<u>\$ 25,676,306</u>	<u>\$ 22,746,035</u>	<u>\$ 42,969,652</u>	<u>\$ 39,926,405</u>

DEBT ADMINISTRATION

Long-Term Debt

Long-term debt. At September 30, 2023 the City had \$11,459,761 of long-term debt.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
General Obligation						
Refunding Bonds	\$ 1,380,000	\$ 1,725,000	\$ -	\$ -	\$ 1,380,000	\$ 1,725,000
Certificates of Obligation	9,680,000	10,155,000	-	-	9,680,000	10,155,000
Premium on Bonds	399,761	440,199	-	-	399,761	440,199
	<u>\$ 11,459,761</u>	<u>\$ 12,320,199</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,459,761</u>	<u>\$ 12,320,199</u>

Total long-term bonds and other liabilities outstanding at September 30, 2023 decreased by \$860,438 from September 30, 2022.

The City’s General Obligation bond rating is AA.

Additional information regarding the City’s long-term debt can be found in Note 6 on pages 34-35 of this report.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

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

The City of Groves’ budget for fiscal year 2024 includes an increase in tax revenue due to increased property tax values, new properties being added to the tax roll, and higher sales tax estimates. The tax rate decreased from 63.59 cents for fiscal year 2023 to 60.9690 cents for fiscal year 2024. General Fund expenditures are budgeted to be \$865,645 less than the prior year budget due primarily to a decrease in budgeted capital outlays. The General Fund has a balanced budget for 2024.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF GROVES, TEXAS

**STATEMENT OF NET POSITION
SEPTEMBER 30, 2023**

	Primary Government		
	Governmental Activities	Business - Type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 3,571,946	\$ 1,245,237	\$ 4,817,183
Taxes Receivable, Net	646,745	-	646,745
Accounts Receivables, Net	757,492	765,417	1,522,909
Inventories	1,672	94,958	96,630
Prepaid Items	492	-	492
Restricted Cash - Customer Deposits	-	838,051	838,051
Internal Balances	482,923	(482,923)	-
Total Current Assets	<u>5,461,270</u>	<u>2,460,740</u>	<u>7,922,010</u>
Noncurrent assets:			
Capital Assets:			
Construction in Progress	46,199	1,993,883	2,040,082
Non-Depreciable	153,104	677,865	830,969
Right-to-Use Leased Assets, Net	12,713	-	12,713
Net Depreciable Capital Assets	<u>17,081,330</u>	<u>23,004,558</u>	<u>40,085,888</u>
Total Capital Assets	<u>17,293,346</u>	<u>25,676,306</u>	<u>42,969,652</u>
SBITA Asset, Net	<u>877,902</u>	<u>-</u>	<u>877,902</u>
Total noncurrent assets	<u>18,171,248</u>	<u>25,676,306</u>	<u>43,847,554</u>
Total Assets	<u>23,632,518</u>	<u>28,137,046</u>	<u>51,769,564</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to Pension Plan	2,612,425	766,586	3,379,011
Deferred Charge on Refunding	<u>10,492</u>	<u>-</u>	<u>10,492</u>
Total Deferred Outflows of Resources	<u>2,622,917</u>	<u>766,586</u>	<u>3,389,503</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	699,041	1,021,303	1,720,344
Unearned Revenues	-	1,802,808	1,802,808
Customer Deposits	-	838,051	838,051
Accrued Interest Payable	24,809	-	24,809
Compensated Absences Due in One Year	532,075	189,921	721,996
Right-to-Use Lease Payable - current	4,107	-	4,107
SBITA Liability - current	50,291	-	50,291
Long-term Debt Due in One Year	<u>878,835</u>	<u>-</u>	<u>878,835</u>
Total Current Liabilities	<u>2,189,158</u>	<u>3,852,083</u>	<u>6,041,241</u>
Noncurrent Liabilities:			
Compensated Absences	59,120	12,853	71,973
Net Pension Liability	2,380,253	697,395	3,077,648
Right-to-Use Lease Payable Noncurrent	8,733	-	8,733
SBITA liability - Noncurrent	872,588	-	872,588
Long-Term Debt-Noncurrent	<u>10,580,926</u>	<u>-</u>	<u>10,580,926</u>
Total Noncurrent Liabilities	<u>13,901,620</u>	<u>710,248</u>	<u>14,611,868</u>
Total Liabilities	<u>16,090,778</u>	<u>4,562,331</u>	<u>20,653,109</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to Pension Plan	<u>39,218</u>	<u>11,490</u>	<u>50,708</u>
Total Deferred Inflows of Resources	<u>39,218</u>	<u>11,490</u>	<u>50,708</u>
NET POSITION			
Net Investment in Capital Assets	6,389,895	25,676,306	32,066,201
Restricted for:			
Economic Development	1,699,876	-	1,699,876
Public Safety	41,649	-	41,649
Debt Service	154,493	-	154,493
Unrestricted	<u>1,839,526</u>	<u>(1,346,495)</u>	<u>493,031</u>
Total Net Position	<u>\$ 10,125,439</u>	<u>\$ 24,329,811</u>	<u>\$ 34,455,250</u>

CITY OF GROVES, TEXAS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 1,729,289	\$ 134,216	\$ -	\$ -
Public Safety	6,556,197	251,749	2,142	-
Public Works	2,886,424	228,700	-	-
Culture and Recreation	656,023	-	-	-
Economic Development	77,552	-	-	-
Interest and Fiscal Charges	321,263	-	-	-
Total Governmental Activities	<u>12,226,748</u>	<u>614,665</u>	<u>2,142</u>	<u>-</u>
BUSINESS-TYPE ACTIVITIES:				
Water and Sewer	5,706,255	5,096,110	-	3,335,102
Solid Waste	1,257,725	1,760,211	-	-
Total Business-Type Activities	<u>6,963,980</u>	<u>6,856,321</u>	<u>-</u>	<u>3,335,102</u>
TOTAL PRIMARY GOVERNMENT	<u>\$19,190,728</u>	<u>\$7,470,986</u>	<u>\$ 2,142</u>	<u>\$ 3,335,102</u>

General Revenues:
Taxes:
 Property Taxes
 Sales Tax
 Franchise and Local Taxes
Investment Income
Insurance Recoveries
Other Revenues
Transfers In (Out)
Total General Revenues and Transfers

Change in Net Position
Net Position - Beginning

Net Position - Ending

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

Governmental Activities	Business-Type Activities	Total
\$ (1,595,073)	\$ -	\$ (1,595,073)
(6,302,306)	-	(6,302,306)
(2,657,724)	-	(2,657,724)
(656,023)	-	(656,023)
(77,552)	-	(77,552)
<u>(321,263)</u>	<u>-</u>	<u>(321,263)</u>
<u>(11,609,941)</u>	<u>-</u>	<u>(11,609,941)</u>
-	2,724,957	2,724,957
-	502,486	502,486
-	3,227,443	3,227,443
<u>(11,609,941)</u>	<u>3,227,443</u>	<u>(8,382,498)</u>
6,737,577	-	6,737,577
2,971,110	-	2,971,110
895,394	-	895,394
240,270	-	240,270
26,038	-	26,038
140,553	-	140,553
<u>1,219,984</u>	<u>(1,219,984)</u>	<u>-</u>
<u>12,230,926</u>	<u>(1,219,984)</u>	<u>11,010,942</u>
620,985	2,007,459	2,628,444
<u>9,504,454</u>	<u>22,322,352</u>	<u>31,826,806</u>
<u>\$10,125,439</u>	<u>\$ 24,329,811</u>	<u>\$ 34,455,250</u>

CITY OF GROVES, TEXAS

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2023**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 1,931,554	\$ 1,640,392	\$ 3,571,946
Taxes Receivable	620,322	67,787	688,109
Allowance for Uncollectible Taxes	(37,219)	(4,145)	(41,364)
Receivables, Net	181,734	-	181,734
Due from Other Governments	575,758	-	575,758
Due from Other Funds	1,401,788	191,984	1,593,772
Inventories	1,672	-	1,672
Prepaid Items	492	-	492
Total Assets	<u>\$ 4,676,101</u>	<u>\$ 1,896,018</u>	<u>\$ 6,572,119</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities	\$ 699,044	\$ -	\$ 699,044
Due to Other Funds	1,110,849	-	1,110,849
Total Liabilities	<u>1,809,893</u>	<u>-</u>	<u>1,809,893</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue:			
Property Taxes	583,103	63,641	646,744
Fines and Fees	8,620	-	8,620
Total Deferred Inflows of Resources	<u>591,723</u>	<u>63,641</u>	<u>655,364</u>
FUND BALANCES			
Nonspendable Fund Balance:			
Inventories	1,672	-	1,672
Prepaid Items	492	-	492
Restricted Fund Balance:			
Economic Development	-	1,699,876	1,699,876
Public Safety	-	41,649	41,649
Debt Service	-	90,852	90,852
Construction	558,658	-	558,658
Unassigned Reported in:			
General Fund	1,713,663	-	1,713,663
Total Fund Balances	<u>2,274,485</u>	<u>1,832,377</u>	<u>4,106,862</u>
Total Liabilities and Fund Balances	<u>\$ 4,676,101</u>	<u>\$ 1,896,018</u>	<u>\$ 6,572,119</u>

CITY OF GROVES, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2023

Total Fund Balances - Governmental Funds	\$ 4,106,862
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	17,293,346
Deferred outflow of resources are not reported in the governmental funds:	2,622,917
Deferred outflows related to pension	\$ 2,612,425
Deferred amounts on refunding bonds	10,492
Long-term liabilities, including bonds and lease payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(11,472,598)
The net pension liability related to TMRS is not a current financial resource and is not included in the governmental funds.	(2,380,253)
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(591,195)
Property taxes receivable are not available to pay for current period expenditures and, therefore, are deferred in the funds.	646,744
Accrued interest on bonds is not reported in the funds.	(24,809)
Deferred inflow of resources are not reported in the governmental funds.	(39,218)
Subscription-based information technology arrangements used in governmental activities are not financial resources and, therefore, are not reported in the funds.	(44,977)
Fines and forfeitures outstanding are not recorded as revenue in the governmental funds because they are not considered measurable and available. However, in the Statement of Net Position, they are considered accounts receivable and recorded.	8,620
Net Position of Governmental Activities	<u><u>\$ 10,125,439</u></u>

CITY OF GROVES, TEXAS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Property Tax	\$ 6,148,659	\$ 569,392	\$ 6,718,051
Sales Tax	1,982,923	988,186	2,971,109
Franchise and Local Taxes	895,394	-	895,394
Intergovernmental	14,285	-	14,285
Charges for Services	134,226	-	134,226
License and Permits	228,700	-	228,700
Fines and Forfeitures	292,870	933	293,803
Investment Income	223,712	16,559	240,271
Other Revenue	128,401	-	128,401
Total Revenues	<u>10,049,170</u>	<u>1,575,070</u>	<u>11,624,240</u>
EXPENDITURES:			
Current:			
General Government	1,746,164	-	1,746,164
Public Safety	5,617,752	-	5,617,752
Public Works	2,675,278	-	2,675,278
Culture and Recreation	591,543	-	591,543
Economic Development	-	77,552	77,552
Debt Service:			
Principal on Debt	-	820,000	820,000
Interest and Fiscal Charges	296	332,303	332,599
Capital Outlay:			
Capital Outlay	760,142	-	760,142
Total Expenditures	<u>11,391,175</u>	<u>1,229,855</u>	<u>12,621,030</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,342,005)</u>	<u>345,215</u>	<u>(996,790)</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	1,725,000	579,750	2,304,750
Transfers Out (Use)	(380,016)	(704,750)	(1,084,766)
Insurance Recoveries	26,038	-	26,038
Total Other Financing Sources (Uses)	<u>1,371,022</u>	<u>(125,000)</u>	<u>1,246,022</u>
Net Change in Fund Balances	29,017	220,215	249,232
Fund Balance - Beginning	2,245,468	1,612,162	3,857,630
Fund Balance - Ending	<u><u>\$ 2,274,485</u></u>	<u><u>\$ 1,832,377</u></u>	<u><u>\$ 4,106,862</u></u>

CITY OF GROVES, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

Total Net Change in Fund Balances - Governmental Funds	\$	249,232
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(22,528)
Prior year deferred property taxes	\$ (627,218)	
Current year deferred property taxes	646,744	
Prior year fines and fees	(50,675)	
Current year fines and fees	8,621	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation.		83,347
Capital Outlays	\$ 1,096,688	
Depreciation and Amortization	(1,013,341)	
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds; however, neither transaction has an effect on net position.		820,000
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. Conversely, certain items reported as expenditures in the governmental funds are considered assets in the government-wide statements.		(509,066)
Decrease in deferred outflow related to pension	\$ 2,106,785	
Change in net pension liability/asset	(4,696,682)	
Increase in deferred inflow related to pension	2,245,892	
Decrease in compensated absences	(176,101)	
Bond premium amortization	40,438	
Decrease in deferred charge on refunding	(2,998)	
Decrease in interest payable	(26,400)	
Change in Net Position of Governmental Activities	\$	<u>620,985</u>

CITY OF GROVES, TEXAS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2023**

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,245,237	\$ -	\$ 1,245,237
Receivables, Net	639,997	125,420	765,417
Due from Other Funds	-	918,865	918,865
Inventories	94,958	-	94,958
Restricted Cash - Customer Deposits	838,051	-	838,051
Total Current Assets	<u>2,818,243</u>	<u>1,044,285</u>	<u>3,862,528</u>
Noncurrent Assets:			
Capital Assets:			
Construction in Progress	1,993,883	-	1,993,883
Non-Depreciable	677,865	-	677,865
Net Depreciable Capital Assets	<u>21,850,983</u>	<u>1,153,575</u>	<u>23,004,558</u>
Total Noncurrent Assets	<u>24,522,731</u>	<u>1,153,575</u>	<u>25,676,306</u>
Total Assets	<u>27,340,974</u>	<u>2,197,860</u>	<u>29,538,834</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Contributions	<u>626,150</u>	<u>140,436</u>	<u>766,586</u>
Total Deferred Outflows of Resources	<u>626,150</u>	<u>140,436</u>	<u>766,586</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	933,753	87,550	1,021,303
Due to Other Funds	1,401,788	-	1,401,788
Unearned Revenues	1,802,808	-	1,802,808
Customer Deposits	838,051	-	838,051
Compensated Absences Due in One Year	172,542	17,379	189,921
Total Current Liabilities	<u>5,148,942</u>	<u>104,929</u>	<u>5,253,871</u>
Noncurrent Liabilities:			
Compensated Absences	10,923	1,930	12,853
Net Pension Liability	<u>566,595</u>	<u>130,800</u>	<u>697,395</u>
Total Noncurrent Liabilities	<u>577,518</u>	<u>132,730</u>	<u>710,248</u>
Total Liabilities	<u>5,726,460</u>	<u>237,659</u>	<u>5,964,119</u>
DEFERRED INFLOWS OF RESOURCES			
Pension (Gains) Losses	<u>9,335</u>	<u>2,155</u>	<u>11,490</u>
Total Deferred Inflows of Resources	<u>9,335</u>	<u>2,155</u>	<u>11,490</u>
NET POSITION			
Net Investment in Capital Assets	24,522,731	1,153,575	25,676,306
Unrestricted	<u>(2,291,402)</u>	<u>944,907</u>	<u>(1,346,495)</u>
Total Net Position	<u>\$ 22,231,329</u>	<u>\$ 2,098,482</u>	<u>\$ 24,329,811</u>

CITY OF GROVES, TEXAS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Services	\$ 5,096,110	\$ 1,760,211	\$ 6,856,321
Total Operating Revenues	<u>5,096,110</u>	<u>1,760,211</u>	<u>6,856,321</u>
OPERATING EXPENSES:			
Personnel	2,036,532	491,942	2,528,474
Supplies	1,073,140	168,870	1,242,010
Contractual Services	198,655	355,502	554,157
Repairs and Maintenance	719,992	139,600	859,592
Utilities	324,995	15,133	340,128
Depreciation	1,352,941	86,678	1,439,619
Total Operating Expense	<u>5,706,255</u>	<u>1,257,725</u>	<u>6,963,980</u>
Operating Income	<u>(610,145)</u>	<u>502,486</u>	<u>(107,659)</u>
NONOPERATING REVENUES (EXPENSES):			
Grant Income	3,335,102	-	3,335,102
Transfers (in)	-	380,016	380,016
Transfers (out)	<u>(1,269,000)</u>	<u>(331,000)</u>	<u>(1,600,000)</u>
Total Nonoperating Revenues (Expenses)	<u>2,066,102</u>	<u>49,016</u>	<u>2,115,118</u>
Change in Net Position	1,455,957	551,502	2,007,459
Total Net Position - Beginning	<u>20,775,372</u>	<u>1,546,980</u>	<u>22,322,352</u>
Total Net Position - Ending	<u>\$22,231,329</u>	<u>\$ 2,098,482</u>	<u>\$ 24,329,811</u>

CITY OF GROVES, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$ 5,126,919	\$ 1,823,524	\$ 6,950,443
Cash Payments to Employees for Services	(1,984,004)	(491,942)	(2,475,946)
Cash Payments for Goods and Services	<u>(1,819,046)</u>	<u>(636,773)</u>	<u>(2,455,819)</u>
Net Cash Provided by Operating Activities	<u>1,323,869</u>	<u>694,809</u>	<u>2,018,678</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Transfers In (Out)	<u>115,326</u>	<u>49,016</u>	<u>164,342</u>
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>115,326</u>	<u>49,016</u>	<u>164,342</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Capital Grants	1,570,238	-	1,570,238
Acquisition of Capital Assets	<u>(3,626,065)</u>	<u>(743,825)</u>	<u>(4,369,890)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(2,055,827)</u>	<u>(743,825)</u>	<u>(2,799,652)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(616,632)	-	(616,632)
Cash and Cash Equivalents at the Beginning of the Year	<u>2,699,920</u>	<u>-</u>	<u>2,699,920</u>
Cash and Cash Equivalents at the End of the Year	2,083,288	-	2,083,288
Cash and Cash Equivalents End of Year, Restricted	<u>(838,051)</u>	<u>-</u>	<u>(838,051)</u>
Cash and Cash Equivalents at the End of the Year	<u>\$ 1,245,237</u>	<u>\$ -</u>	<u>\$ 1,245,237</u>

CITY OF GROVES, TEXAS

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	Business-Type Activities - Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Total Enterprise Funds
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u> Provided By Operating Activities:</u>			
Operating Income (Loss)	\$ (610,145)	\$ 502,486	\$ (107,659)
Adjustments to Reconcile Operating Income (Loss) To Net Cash Provided by Operating Activities:			
Depreciation	1,352,941	86,678	1,439,619
Effect of Increases and Decreases in Operating Assets and Liabilities:			
Decrease (Increase) in Accounts Receivable	(2,541)	63,313	60,772
Decrease (Increase) in Inventories	(26,616)	-	(26,616)
Decrease (Increase) in Due from Other Funds	-	(40,921)	(40,921)
Decrease (Increase) in Net Pension Asset	568,693	200,570	769,263
Decrease (Increase) in Deferred Outflows of Resources	(553,720)	(99,667)	(653,387)
Increase (Decrease) in Accounts Payable	462,764	(10,571)	452,193
Increase (Decrease) in Customer Deposits	33,350	-	33,350
Increase (Decrease) in Compensated Absences	52,528	13,413	65,941
Increase (Decrease) in Net Pension Liability	566,595	130,800	697,395
Increase (Decrease) in Deferred Inflows of Resources	(519,980)	(151,292)	(671,272)
Net Cash Provided by Operating activities	<u>\$ 1,323,869</u>	<u>\$ 694,809</u>	<u>\$ 2,018,678</u>

NOTES TO THE FINANCIAL STATEMENTS

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The City of Groves, Texas, was incorporated in December 1952. The City operates under a “Council-Manager” government. Pursuant to its provisions and subject only to its limitations imposed by the State Constitution and by the City’s charter, all powers of the City shall be vested in an elective Council composed of four Council Members and a Mayor, collectively known as the City Council. The City Council enacts local legislation, adopts budgets, determines policies, and appoints the City Manager, who in turn is responsible to the City Council for the execution of laws and the administration of the government of the City. The City Marshal is elected at-large by the citizens in Groves to manage the municipal court and police department. Departments and agencies of the City submit budget requirements to the Mayor. The Mayor is the presiding officer of the City Council. The City provides the following services as authorized by its charter: public safety, public works, parks and recreation, library, water and sewer and general administrative services.

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

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

B. Blended Component Unit

The Groves Economic Development Corporation (GEDC) is governed by a board of seven directors, all of whom are appointed by the City Council at its will. The board of directors consists of four or more City Council members which gives the City control over voting matters.

CITY OF GROVES, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Blended Component Unit (Continued)

The GEDC is also obligated to pay a portion of the City's debt through sales tax revenue. The GEDC fund was incorporated in the state of Texas as a nonprofit industrial development corporation under Section 4B of the Development Corporation Act of 1979. The purpose of the GEDC is to promote economic and community development within the City of Groves. Separately audited financial statements are not issued.

C. Joint Venture

The City participates in a joint venture, as follows:

Mid-County Dispatch

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

D. Government-wide and Fund Financial Statements

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

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

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

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

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

CITY OF GROVES, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary funds:

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

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

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

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

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

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

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

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

F. Budgetary Data

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The operating budget includes proposed expenditures and the means of financing them. Funds with legally adopted annual budgets are listed as follows: general fund, debt service fund, EDC fund, water and sewer fund, and solid waste fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the fund level. No funds can be transferred or added to a budgeted fund without Council approval. Appropriations lapse at the end of the year. Expenditures exceeded appropriations at the legal level of control as follows:

General Fund:	
Interest and Fiscal Charges	\$ 296
Capital Outlay	210,142
Debt Service Fund:	
Interest on Debt	20,905

G. Encumbrance Accounting

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

H. Cash and Investments

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

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

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

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

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes Receivable

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

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

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

J. Tax Abatements

During the fiscal year ended September 30, 2023, the City did not participate in a tax abatement agreement relating to the property taxes levied for the 2022 tax year levy.

K. Receivables

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

L. Short-Term Interfund Receivables and Payables

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

M. Inventories and Prepaid Items

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

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Capital Assets

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

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

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

<u>Assets</u>	<u>Years</u>
Vehicles	5 to 10 years
Machinery and equipment	5 to 10 years
Water & sewer system	15 to 40 years
Buildings and improvements	15 to 40 years
Roads	15 to 40 years

O. Long-term Obligations

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

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

P. Fund Equity

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

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

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Equity (Continued)

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

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

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

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

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

Q. Deferred Outflows/Inflows of Resources

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

- a. A deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- b. Pension contributions made after the measurement date. These contributions are deferred and recognized in the following fiscal year.
- c. Difference in projected and actual earnings on pension assets. This is the difference deferred and amortized over a closed five-year period.

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has the following items that qualify for reporting in this category:

- a. A deferred inflow which arises under the accrual basis of accounting and reported in the statement of financial position. The deferred inflow is the difference in the expected and actual pension and is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- b. A deferred inflow which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and fines and fees. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

R. Net Position flow assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to be reported as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

S. Fund balance flow assumptions

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

T. Compensated absences

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

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

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Compensated absences (Continued)

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

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

U. Interfund Transactions

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

V. Grants from Other Governmental Agencies

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

W. Pensions

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

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

X. Leases

Leases are recognized in accordance with GASB Statement No. 87 Leases.

A lessor is required to recognize a lease receivable and a deferred inflow of resources. A lease receivable is recognized at the net present value of the leased asset at a borrowing rate either explicitly described in the agreement or implicitly determined by the City, and is reduced by principal payments received. The deferred inflow of resources is recognized in an amount equal to the sum of the lease receivable and any payments relating to a future period which were received prior to the lease commencement. The deferred inflow of resources is amortized equal to the amount of the annual payments.

A lessee is required to recognize a lease payable and a right-to-use leased asset. A lease payable is recognized at the net present value of future lease payments, and is adjusted over time by interest and payments. Future lease payments include fixed payments, variable payments based on index or rate, and reasonable certain residual guarantees. The right-to-use leased asset is initially recorded at the amount of the lease liability plus prepayments less any lease incentives received prior to lease commencement, and is subsequently amortized over the life of the lease.

In the government-wide and proprietary fund financial statements, deferred inflows related to leases and any respective right-to-use assets are reported in the Statement of Net Position. In the governmental fund financial statements, the present value of lease payments is reported as other financing sources. Under modified accrual accounting, lease payments are considered capital outlay and proceeds of lease contracts, and thereafter are recorded as principal and interest payments.

Y. Subscription-Based Information Technology Arrangements (SBITA)

The City entered into contracts that conveys control of the right to use another party's information technology (IT) software. The City recognizes a SBITA liability and an intangible right-to-use SBITA asset in the government-wide financial statements. The SBITA liability is initially measured at the present value of payments expected to be made during the lease term. Subsequently, the SBITA liability is reduced by the principal portion of payments made. The SBITA asset is measured as the initial amount of the SBITA liability, adjusted for payments made at or before the subscription term, plus capitalizable implementation costs, less any incentives received. The SBITA asset is amortized on a straight-line basis over its useful life.

The City used its estimated incremental borrowing rate as the discount rate. The SBITA term includes the noncancellable period of the lease. Lease payments included in the measurement of the SBITA liability are the fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its SBITAs and will remeasure the SBITA assets and liabilities if certain changes occur that are expected to significantly affect the amount of the SBITA liabilities. SBITA assets are reported with non-current assets and SBITA liabilities are reported with long-term liabilities on the statement of net position.

CITY OF GROVES, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Z. Change in Accounting Principle

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* was adopted effective October 1, 2022. GASB Statement No. 96 establishes uniform accounting and financial reporting requirement for SBITAs; improves the comparability of government's financial statements; and enhances the understandability, reliability, relevance, and consistency of information about SBITAs.

AA. Date of Management's Review

In preparing the financial statements, the City has evaluated events and transactions for potential recognition for disclosure through April 8, 2024, the date that the financial statements were available to be issued.

NOTE 2: CASH AND INVESTMENTS

Cash Deposits

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

At year-end, the City's carrying amount of deposits was \$5,655,234 and the bank balance was \$6,508,862. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining bank balance was collateralized by securities held by the City or by the City's agent in name of the City.

As of September 30, 2023, the City did not hold any investments.

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

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

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City’s investment policy requires funds on bank deposit at the depository bank to be collateralized by securities with a collective market value (market value of the principal and accrued interest) of at least 102%. As of September 30, 2023, the market values of pledged securities and FDIC exceeded bank balances.

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

NOTE 3: RECEIVABLES

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

The balance of property taxes receivable and property tax assessments included in unavailable revenues as of September 30, 2023 are as follows:

	General Fund	Debt Service	Total
Property Taxes Receivable:			
Gross Receivables	\$ 620,322	\$ 67,787	\$ 688,109
Less: Allowance for Uncollectible Taxes	(37,219)	(4,145)	(41,364)
Net Property Taxes Receivable	\$ 583,103	\$ 63,642	\$ 646,745
Unavailable Property Taxes	\$ 583,103	\$ 63,642	\$ 646,745

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 3: RECEIVABLES (CONTINUED)

Other Receivables as of September 30, 2023 for the City are as follows:

	General Fund	Water & Sewer	Solid Waste	Total
Service accounts receivable	\$ -	\$ 1,027,117	\$ 243,350	\$ 1,270,467
Franchise and hotel occupancy taxes	123,278	-	-	123,278
Fines and forfeitures	430,043	-	-	430,043
Grants	-	291,852	-	291,852
Other	41,215	-	-	41,215
Due From Other Governments	<u>575,758</u>	-	-	<u>575,758</u>
Gross Receivables	1,170,294	1,318,969	243,350	2,732,613
Less: Allowance for Uncollectibles	<u>(412,802)</u>	<u>(678,972)</u>	<u>(117,930)</u>	<u>(1,209,704)</u>
Net Total Receivables	<u>\$ 757,492</u>	<u>\$ 639,997</u>	<u>\$ 125,420</u>	<u>\$ 1,522,909</u>

NOTE 4: CAPITAL ASSETS

Capital asset activity for the governmental activities for the year ended September 30, 2023 is described in the table below.

Governmental Activities:

	Beginning Balance	Current Year		Ending Balance
		Increases	Decreases	
Capital assets not being depreciated:				
Land	\$ 153,104	\$ -	\$ -	\$ 153,104
Construction in progress	795,884	109,465	(859,150)	46,199
Total capital assets not being depreciated	<u>948,988</u>	<u>109,465</u>	<u>(859,150)</u>	<u>199,303</u>
Capital assets being depreciated:				
Buildings and improvements	16,207,986	32,234	-	16,240,220
Machinery and equipment	4,488,618	88,950	-	4,577,568
Vehicles	3,910,548	133,177	(107,590)	3,936,135
Infrastructure	15,621,099	1,587,987	-	17,209,086
Right to use - Equipment	-	16,865	-	16,865
Total capital assets being depreciated	<u>40,228,251</u>	<u>1,859,213</u>	<u>(107,590)</u>	<u>41,979,874</u>
Less accumulated depreciation:				
Buildings and improvements	(4,770,930)	(352,769)	-	(5,123,699)
Machinery and equipment	(3,578,554)	(152,782)	-	(3,731,336)
Vehicles	(3,044,540)	(191,052)	107,590	(3,128,002)
Infrastructure	(12,602,845)	(295,797)	-	(12,898,642)
Right to use - Equipment	-	(4,152)	-	(4,152)
Total capital assets being depreciated	<u>(23,996,869)</u>	<u>(996,552)</u>	<u>107,590</u>	<u>(24,885,831)</u>
Total capital assets being depreciated, net	<u>16,231,382</u>	<u>862,661</u>	<u>-</u>	<u>17,094,043</u>
Governmental activities capital assets, net	<u>\$17,180,370</u>	<u>\$ 972,126</u>	<u>\$ (859,150)</u>	<u>\$17,293,346</u>

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 4: CAPITAL ASSETS (CONTINUED)

Construction in progress was street improvements.

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

General Government	\$ 5,636
Public Safety	575,080
Public Works	322,516
Culture & Recreation	93,320
Total Depreciation Expense - Governmental Activities	\$ 996,552

Business-type Activities:

	Beginning Balance	Current Year		Ending Balance
		Increases	Decreases	
Capital assets not being depreciated:				
Land	\$ 677,865	\$ -	\$ -	\$ 677,865
Construction in progress	278,252	3,317,130	(1,601,499)	1,993,883
Total capital assets not being depreciated	956,117	3,317,130	(1,601,499)	2,671,748
Capital assets being depreciated:				
Buildings and systems	37,951,278	1,601,499	-	39,552,777
Machinery and equipment	16,830,732	1,052,760	-	17,883,492
Total capital assets being depreciated	54,782,010	2,654,259	-	57,436,269
Less accumulated depreciation:				
Buildings and systems	(19,067,123)	(999,896)	-	(20,067,019)
Machinery and equipment	(13,924,969)	(439,723)	-	(14,364,692)
Total capital assets being depreciated	(32,992,092)	(1,439,619)	-	(34,431,711)
Total capital assets being depreciated, net	21,789,918	1,214,640	-	23,004,558
Business-type capital assets, net				
	\$ 22,746,035	\$ 4,531,770	\$ (1,601,499)	\$ 25,676,306

Construction in progress consisted of water and wastewater infrastructure revitalization.

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

Water & Sewer	\$ 1,352,941
Solid Waste	86,678
Total Depreciation Expense - Business-Type Activities	\$ 1,439,619

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 5: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of September 30, 2023, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water & Sewer Fund	\$ 1,401,788
Economic Development Fund	General Fund	191,984
Solid Waste Fund	General Fund	918,865
		<u>\$ 2,512,637</u>

The outstanding balances between funds resulted mainly from a time lag between the dates (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

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

	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Debt Service</u>	<u>Solid Waste Fund</u>	
<u>Transfers out</u>				
General Fund	\$ -	\$ -	\$ 380,016	\$ 380,016
EDC Fund	125,000	579,750	-	704,750
Water & Sewer Fund	1,269,000	-	-	1,269,000
Solid Waste Fund	331,000	-	-	331,000
	<u>\$ 1,725,000</u>	<u>\$ 579,750</u>	<u>\$ 380,016</u>	<u>\$ 2,684,766</u>

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

NOTE 6: LONG-TERM DEBT

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

General obligation bonds and certificates of obligation payable at September 30, 2023, are summarized as follows:

<u>Date of Issue</u>	<u>Original issue</u>	<u>Final Maturity</u>	<u>Annual Installments</u>	<u>% Rate</u>	<u>Outstanding Debt</u>
2013	\$ 2,500,000	2033	\$25,000 to \$190,000	2.60%	\$ 1,685,000
2016	5,915,000	2027	315,000 to 1,435,000	2.01%	1,380,000
2020	8,645,000	2041	320,000 to 565,000	3.00%	7,995,000
					<u>\$ 11,060,000</u>

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 6: LONG-TERM DEBT (CONTINUED)

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

Fiscal Year	General Obligation Refunding Bonds			Certificates of Obligation		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 350,000	\$ 27,738	\$ 377,738	\$ 490,000	\$ 283,660	\$ 773,660
2025	355,000	20,703	375,703	505,000	269,560	774,560
2026	360,000	13,568	373,568	515,000	255,030	770,030
2027	315,000	6,332	321,332	535,000	240,200	775,200
2028	-	-	-	550,000	224,790	774,790
2029-2033	-	-	-	3,005,000	876,700	3,881,700
2034-2038	-	-	-	2,435,000	469,950	2,904,950
2039-2041	-	-	-	1,645,000	164,550	1,809,550
	<u>\$ 1,380,000</u>	<u>\$ 68,341</u>	<u>\$ 1,448,341</u>	<u>\$ 9,680,000</u>	<u>\$ 2,784,440</u>	<u>\$ 12,464,440</u>

Changes in long-term liabilities

Long-term liability activity for the year ended September 30, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation					
refunding bonds	\$ 1,725,000	\$ -	\$ 345,000	\$ 1,380,000	\$ 350,000
Certificates of obligation	10,155,000	-	475,000	9,680,000	490,000
Premium on bonds	440,199	-	40,438	399,761	38,835
Total governmental long-term debt	<u>\$12,320,199</u>	<u>\$ -</u>	<u>\$ 860,438</u>	<u>\$ 11,459,761</u>	<u>\$ 878,835</u>

Arbitrage Rebate Liability

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The Treasury requires payment for each issue every five years. The City had no arbitrage liability as of September 30, 2023.

Deferred Charges on Refunding

A deferred charge resulting from the issuance of the 2016 General Obligation Refunding Bonds has been recorded as a deferred outflow of resources and is being amortized to interest expense over the term of the refunded debt. Current year balances for governmental activities totaled \$10,492. Current year amortization expense for governmental activities totaled \$2,998.

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 7: OTHER LONG-TERM LIABILITIES

The following is a summary of changes in the City’s total other long-term liabilities for the year ended September 30, 2023. In general, the City uses the general fund to liquidate governmental compensated absences.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Other liabilities:					
Compensated absences	\$ 415,094	\$ 701,727	\$ 525,626	\$ 591,195	\$ 532,075
Total governmental long-term liabilities	<u>\$ 415,094</u>	<u>\$ 701,727</u>	<u>\$ 525,626</u>	<u>\$ 591,195</u>	<u>\$ 532,075</u>
Business-Type Activities:					
Other liabilities:					
Compensated absences	\$ 136,833	\$ 192,253	\$ 126,312	\$ 202,774	\$ 189,921
Total business-type long-term liabilities	<u>\$ 136,833</u>	<u>\$ 192,253</u>	<u>\$ 126,312</u>	<u>\$ 202,774</u>	<u>\$ 189,921</u>

NOTE 8: CUSTOMER DEPOSITS

The City had customer deposits of \$838,051 in the water and sewer fund as of September 30, 2023. The City requires a refundable deposit for all new utility customers. This amount will be returned to the customer when utility service is discontinued, and all outstanding utility expenses are paid.

NOTE 9: OTHER INFORMATION

A. Risk Management

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

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

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

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 9: OTHER INFORMATION (CONTINUED)

B. Contingent Liabilities

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

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

Starlake EPA Claim - the EPA has threatened litigation currently covered by a trolling agreement and made a demand in the amount of \$1,486,905 as a joint and several demand of several entities that the EPA claims are responsible parties. The City of Groves is one of the entities. No range on the City's possible exposure can be set at this time. The City is attempting to settle this matter with the EPA.

NOTE 10: DEFINED BENEFIT PENSION PLAN

Plan Description

The City participates as one of 919 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at www.tmr.com.

All eligible employees of the city are required to participate in TMRS.

Benefits Provided

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

At retirement, the Member's benefit is calculated based on the sum of the Member's contributions with interest, the city-financed monetary credits with interest. The retiring Member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the total Member contributions and interest.

CITY OF GROVES, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Benefits Provided (Continued)

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

Employee deposit rate	6%
City match	2 - 1
Vested requirement	10 years
Eligible for retirement	20 years
Updated service credit	Last adopted 2005 – Auto Readoption- 100%
Cost of living adjustment (COLA) for retirees	No
Military service credit	Yes, adopted 10-1986
Restricted prior service credit	Yes, adopted 01-2001
SDB for employees	Not elected
SDB for Retirees	Not elected

Employees covered by benefit terms –

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	106
Inactive employees entitled to but not yet receiving benefits	66
Active employees	<u>98</u>
	<u>270</u>

Contributions

Member contribution rates in TMRS are either 5%, 6%, or 7% of the Member’s total compensation, and the city matching ratios are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The City’s contribution rate is based on the liabilities created from the benefit plan options selected by the City and any changes in benefits or actual experience over time.

Employees for The City of Groves were required to contribute 6% of their annual compensation during the fiscal year. The contribution rates for the City were 7.64% and 9.21% in calendar years 2023 and 2022, respectively. The City’s contributions to TMRS for the year ended September 30, 2023, were \$575,668, and were equal to the required contributions.

Net Pension Asset (Liability)

The City’s Net Pension Asset(Liability) (NPA/NPL) was measured as of December 31, 2022, and the Total Pension Liability (TPL) used to calculate the Net Pension Asset(Liability) was determined by an actuarial valuation as of that date.

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial assumptions:

The Total Pension Liability in the December 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. The assumptions were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2023 are summarized in the following table:

CITY OF GROVES, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial assumptions: (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	35.00%	7.70%
Core-Fixed Income	6.00%	4.90%
Non-Core Fixed Income	20.00%	8.70%
Other Public and Private Markets	12.00%	8.10%
Real Estate	12.00%	5.80%
Hedge Funds	5.00%	6.90%
Private Equity	<u>10.00%</u>	11.80%
Total	<u>100.00%</u>	

Discount Rate

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

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Changes in the Net Pension Asset

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
Balance at 12/31/2021	\$ 43,866,820	\$ 46,952,512	\$ (3,085,692)
Changes for year:			
Service cost	898,444	-	898,444
Interest	2,911,430	-	2,911,430
Difference between expected and actual experience	11,891	-	11,891
Changes in assumptions	-	-	-
Contributions - employer	-	649,762	(649,762)
Contributions - employee	-	423,234	(423,234)
Net investment income	-	(3,420,302)	3,420,302
Benefit payments, including refunds of employee contributions	(2,367,479)	(2,367,479)	-
Administrative expense	-	(29,658)	29,658
Other changes	-	35,389	(35,389)
Net change	<u>1,454,286</u>	<u>(4,709,054)</u>	<u>6,163,340</u>
Balance at 12/31/2022	<u>\$ 45,321,106</u>	<u>\$ 42,243,458</u>	<u>\$ 3,077,648</u>
Plan fiduciary net position as a percentage of the total pension liability			93.21%
Covered-employee payroll			\$ 6,932,435
Net pension liability/(asset) as a percentage of covered employee payroll			44.39%
Presented in Statement of Net Position as follows:			
Governmental Activities			\$ 2,380,253
Business-Type Activities			<u>697,395</u>
			<u>\$ 3,077,648</u>

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Sensitivity of the net pension asset to changes in the discount rate

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

	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
Primary government's net pension liability (asset)	\$ 8,513,723	\$ 3,077,648	\$ (1,482,822)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in the Schedule of Changes in Fiduciary Net Position, by Participating City. That report may be obtained on the Internet at www.tmr.com.

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

For the year ended September 30, 2023 the City recognized pension expense of \$1,073,163.

At September 30, 2023, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 106,374	\$ 50,708
Changes in actuarial assumptions	6,049	-
Difference between projected and actual investment earnings	2,874,892	-
Contributions subsequent to the measurement date	391,696	-
Total	\$ 3,379,011	\$ 50,708

Presented in Statement of Net Position as follows:

Governmental Activities	\$ 2,612,425	\$ 39,218
Business-Type Activities	766,586	11,490
	\$ 3,379,011	\$ 50,708

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 10: DEFINED BENEFIT PENSION PLAN (CONTINUED)

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$391,696 will be recognized as a reduction of the net pension asset for the year ending September 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending <u>December 31,</u>	Net Deferred Outflows/ (Inflows) of <u>Resources</u>
2023	\$ 127,467
2024	707,807
2025	783,415
2026	1,317,918
2027	-
Thereafter	-
	<u>\$ 2,936,607</u>

NOTE 11: EMPLOYEE BENEFIT PLANS

Section 457 Plan

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

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

CITY OF GROVES, TEXAS

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

NOTE 11: EMPLOYEE BENEFIT PLANS (CONTINUED)

Section 401 Plan

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

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

(2) Section 401 Profit Sharing Plan – Each participant has a plan account to which he/she may contribute up to 8% of qualified earnings on an after-tax basis, with the City matching one-half up to 4% of employee earnings. Earnings on plan contributions are not taxed until withdrawn.

	<u>Current Year</u>
401 Money Purchase Plan:	
Employee Contributions	\$ 159,226
Employer Contributions	<u>79,613</u>
	<u>\$ 238,839</u>
401 Profit Sharing Plan:	
Employee Contributions	\$ 212,967
Employer Contributions	<u>106,483</u>
	<u>\$ 319,450</u>

NOTE 12: UNEARNED REVENUES

On July 14, 2021, the City of Groves applied for funding through the Coronavirus State and Local Fiscal Recovery Funds program. On August 25, 2021, the City received a grant of \$1,917,863. None of the grant was expended in 2021. In 2022, The City received an additional \$1,921,654. The deferred revenue balance at September 30, 2022 was \$3,567,672. During 2023, the City expended \$1,764,864. The deferred revenue balance at September 30, 2023 is \$1,802,808.

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 13: LEASES

The City is involved in leasing arrangements for equipment. With the implementation of GASB Statement No. 87 Leases, effective for the fiscal year ended September 30, 2022, all existing and newly acquired leases during the current fiscal year were analyzed and classified for both lessor and lessee positions. With this implementation, a respective right-to-use asset, and lease payable is recognized. Each subsequent year, the City evaluates new leasing arrangements to determine if subject to GASB Statement No. 87.

Governmental Activities lease payable

The City has two lease agreements as the lessee for equipment. Interest rates are 2.01%. Annual payments for the current year range from \$1,835 to \$2,190.

Lease payables currently outstanding as of September 30, 2023 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental Activities:				
Equipment	\$ -	\$ 16,865	(4,025)	12,840
Total Governmental Activities	\$ -	\$ 16,865	\$ (4,025)	\$ 12,840

Future annual lease commitments as of September 30, 2023 are as follows:

Fiscal Year	
2024	\$ 4,107
2025	4,190
2026	3,885
2027	658
	\$ 12,840

CITY OF GROVES, TEXAS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

NOTE 14: SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

The City has several arrangements subject to the requirements of GASB Statement No. 96 Subscription-Based Information Technology Arrangements (SBITA's). These arrangements can be described in groups – those related to culture and recreation and administrative purposes. The City makes annual payments and the agreements are for varying terms. The SBITA liability is the present value of these payments using the district's incremental borrowing rate of 3%. The liability is amortized providing the principal and interest components of the payments over the SBITA term. The SBITA asset is measured as the SBITA liability plus any capitalized expenditures incurred in the initial implementation stage. The SBITA asset is depreciated (amortized) using a straight-line depreciation method over the term of the SBITA arrangement. There were no additional commitments made before the commencement of the SBITA terms. There were no impairments or modifications to be reported during the fiscal year.

SBITA assets and accumulated amortization at September 30, 2023, was as follows:

	Terms in Months	Total Asset Amount	Accumulated Amortization	Remaining Value
Governmental Funds:				
Culture & Recreation	75-78	\$ 28,140	\$ (4,399)	\$ 23,741
Administrative	137	936,160	(81,999)	854,161
Total Governmental Activities		<u>\$ 964,300</u>	<u>\$ (86,398)</u>	<u>\$ 877,902</u>

SBITA liability activity for the year ended September 30, 2023 was as follows:

	Terms in Months	Interest Rate	Beginning Liability	Additions	Reductions	Remaining Value	Due Within One Year
Governmental Activities:							
Culture & Recreation	75-78	3%	\$ -	\$ 28,140	\$ (3,688)	\$ 24,452	\$ 3,936
Administrative	137	3%	-	936,160	(37,733)	898,427	46,355
Total Governmental Activities			<u>\$ -</u>	<u>\$ 964,300</u>	<u>\$ (41,421)</u>	<u>\$ 922,879</u>	<u>\$ 50,291</u>

Annual principal and interest requirements to maturity for the SBITA liability are as follows:

Year Ended September 30	SBITA Liabilities		
	Principal	Interest	Total
2024	\$ 50,291	\$ 26,806	\$ 77,097
2025	59,431	25,153	84,584
2026	67,475	23,245	90,720
2027	75,772	21,092	96,864
2028	84,328	18,687	103,015
2029-2033	531,538	49,833	581,371
2034	54,044	269	54,313
	<u>\$ 922,879</u>	<u>\$ 165,085</u>	<u>\$ 1,087,964</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GROVES, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	Budgeted Amounts		Actual GAAP BASIS	Variance With Final Budget Positive of (Negative)
	Original	Final		
REVENUES:				
Property Tax	\$ 6,409,145	\$ 6,200,000	\$ 6,148,659	\$ (51,341)
Sales Tax	1,672,500	1,801,000	1,982,923	181,923
Franchise and Local Taxes	900,000	797,500	895,394	97,894
Intergovernmental	-	-	14,285	14,285
Charges for Services	137,000	79,750	134,226	54,476
License and Permits	246,500	244,750	228,700	(16,050)
Fines and Forfeitures	295,000	270,000	292,870	22,870
Investment Income	27,000	128,000	223,712	95,712
Other Revenue	24,000	24,000	128,401	104,401
Total Revenues	<u>9,711,145</u>	<u>9,545,000</u>	<u>10,049,170</u>	<u>504,170</u>
EXPENDITURES:				
Current:				
General Government	2,018,312	1,816,413	1,746,164	70,249
Public Safety	5,712,342	5,951,894	5,617,752	334,142
Public Works	2,992,261	2,754,682	2,675,278	79,404
Culture and Recreation	681,730	666,011	591,543	74,468
Interest and Fiscal Charges	-	-	296	(296)
Capital Outlay	<u>1,386,000</u>	<u>550,000</u>	<u>760,142</u>	<u>(210,142)</u>
Total Expenditures	<u>12,790,645</u>	<u>11,739,000</u>	<u>11,391,175</u>	<u>347,825</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,079,500)</u>	<u>(2,194,000)</u>	<u>(1,342,005)</u>	<u>851,995</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	2,845,000	2,171,500	1,725,000	(446,500)
Transfers Out (Use)	-	-	(380,016)	(380,016)
Insurance Recoveries	<u>50,000</u>	<u>25,000</u>	<u>26,038</u>	<u>1,038</u>
Total Other Financing Sources (Uses)	<u>2,895,000</u>	<u>2,196,500</u>	<u>1,371,022</u>	<u>(825,478)</u>
Change in Fund Balance	<u>(184,500)</u>	<u>2,500</u>	<u>29,017</u>	<u>26,517</u>
Fund Balance -Beginning	<u>2,245,468</u>	<u>2,245,468</u>	<u>2,245,468</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 2,060,968</u>	<u>\$ 2,247,968</u>	<u>\$ 2,274,485</u>	<u>\$ 26,517</u>

CITY OF GROVES, TEXAS

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	FY 2023 Plan Year 2022	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020
	<u>2022</u>	<u>2021</u>	<u>2020</u>
A. Total Pension Liability			
Service Cost	\$ 898,444	\$ 859,665	\$ 909,706
Interest (on the Total Pension Liability)	2,911,430	2,826,752	2,742,997
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	11,891	(61,523)	366,398
Changes of Assumptions	-	-	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(2,367,479)</u>	<u>(2,412,101)</u>	<u>(3,094,416)</u>
Net Change in Total Pension Liability	1,454,286	1,212,793	924,685
Total Pension Liability - Beginning	<u>43,866,820</u>	<u>42,654,027</u>	<u>41,729,342</u>
Total Pension Liability - Ending	<u><u>\$ 45,321,106</u></u>	<u><u>\$ 43,866,820</u></u>	<u><u>\$ 42,654,027</u></u>
B. Total Fiduciary Net Position			
Contributions - Employer	\$ 649,762	\$ 584,283	\$ 645,397
Contributions - Employee	423,234	394,342	423,448
Net Investment Income	(3,420,302)	5,575,952	3,163,055
Benefit Payments, Including Refunds of Employee Contributions	<u>(2,367,479)</u>	<u>(2,412,101)</u>	<u>(3,094,416)</u>
Administrative Expenses	(29,658)	(25,838)	(20,491)
Other	<u>35,389</u>	<u>177</u>	<u>(799)</u>
Net Change in Plan Fiduciary Net Position	(4,709,054)	4,116,815	1,116,194
Plan Fiduciary Net Position - Beginning	<u>46,952,512</u>	<u>42,835,697</u>	<u>41,719,503</u>
Plan Fiduciary Net Position - Ending	<u><u>\$ 42,243,458</u></u>	<u><u>\$ 46,952,512</u></u>	<u><u>\$ 42,835,697</u></u>
C. Net Pension Liability (Asset)	<u><u>\$ 3,077,648</u></u>	<u><u>\$ (3,085,692)</u></u>	<u><u>\$ (181,670)</u></u>
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	93.21%	107.03%	100.43%
E. Covered Payroll	\$ 6,932,435	\$ 6,572,360	\$ 7,057,459
F. Net Pension Liability (Asset) as a Percentage of Covered Payroll	44.39%	-46.95%	-2.57%

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

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

FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
\$ 830,548	\$ 800,622	\$ 823,620	\$ 787,773	\$ 743,764	\$ 748,448
2,693,270	2,608,614	2,515,223	2,440,216	2,390,243	2,339,469
-	-	-	-	-	-
(250,811)	(94,707)	66,072	(202,070)	(49,009)	(245,549)
75,201	-	-	-	782,654	-
<u>(2,207,784)</u>	<u>(1,942,868)</u>	<u>(2,076,815)</u>	<u>(1,788,454)</u>	<u>(1,980,822)</u>	<u>(2,248,540)</u>
1,140,424	1,371,661	1,328,100	1,237,465	1,886,830	593,828
40,588,918	39,217,257	37,889,157	36,651,692	34,764,862	34,171,034
<u>\$ 41,729,342</u>	<u>\$ 40,588,918</u>	<u>\$ 39,217,257</u>	<u>\$ 37,889,157</u>	<u>\$ 36,651,692</u>	<u>\$ 34,764,862</u>
\$ 602,957	\$ 577,892	\$ 602,529	\$ 530,967	\$ 544,328	\$ 557,430
387,202	361,727	372,679	356,458	340,915	344,865
5,748,802	(1,180,239)	4,935,035	2,312,915	52,105	1,984,850
(2,207,784)	(1,942,868)	(2,076,815)	(1,788,454)	(1,980,822)	(2,248,540)
(32,515)	(22,827)	(25,587)	(26,133)	(31,740)	(20,724)
<u>(977)</u>	<u>(1,193)</u>	<u>(1,296)</u>	<u>(1,407)</u>	<u>(1,568)</u>	<u>(1,704)</u>
4,497,685	(2,207,508)	3,806,545	1,384,346	(1,076,782)	616,177
37,221,818	39,429,326	35,622,781	34,238,435	35,315,217	34,699,040
<u>\$ 41,719,503</u>	<u>\$ 37,221,818</u>	<u>\$ 39,429,326</u>	<u>\$ 35,622,781</u>	<u>\$ 34,238,435</u>	<u>\$ 35,315,217</u>
<u>\$ 9,839</u>	<u>\$ 3,367,100</u>	<u>\$ (212,069)</u>	<u>\$ 2,266,376</u>	<u>\$ 2,413,257</u>	<u>\$ (550,355)</u>
99.98%	91.70%	100.54%	94.02%	93.42%	101.58%
\$ 6,453,364	\$ 6,028,783	\$ 6,211,309	\$ 5,940,973	\$ 5,681,923	\$ 5,747,757
0.15%	55.85%	-3.41%	38.15%	42.47%	-9.58%

**CITY OF GROVES, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Actuarially Determined Contributions	\$ 575,668	\$ 614,853	\$ 588,389
Contributions in Relation to the Actuarially Determined Contributions	<u>575,668</u>	<u>614,853</u>	<u>588,389</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 7,125,076	\$ 6,738,678	\$ 6,569,861
Contributions as a Percentage of Covered Payroll	8.08%	9.12%	8.96%

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

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

NOTES TO SCHEDULE OF CONTRIBUTIONS

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

Methods and Assumptions Used to Determine Contribution Rates:

Actual Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 Years (longest amortization ladder)
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a full generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes: There were no benefit changes during the year.

<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 623,739	\$ 592,999	\$ 528,815	\$ 588,767	\$ 545,248	\$ 555,555
<u>623,739</u>	<u>592,999</u>	<u>529,166</u>	<u>584,754</u>	<u>548,657</u>	<u>555,555</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (351)</u>	<u>\$ 4,013</u>	<u>\$ (3,409)</u>	<u>\$ -</u>
\$ 6,799,590	\$ 6,324,397	\$ 6,009,030	\$ 6,188,678	\$ 6,021,200	\$ 5,780,649
9.17%	9.38%	8.81%	9.45%	9.11%	9.61%

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

CITY OF GROVES, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2023

	Economic Development Corporation	Police Forfeitures	Debt Service	Total Nonmajor Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 1,507,892	\$ 41,649	\$ 90,851	\$ 1,640,392
Taxes Receivable	-	-	67,787	67,787
Allowance for Uncollectible Taxes	-	-	(4,145)	(4,145)
Due from Other Funds	191,984	-	-	191,984
Total Assets	<u>\$ 1,699,876</u>	<u>\$ 41,649</u>	<u>\$ 154,493</u>	<u>\$ 1,896,018</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue:				
Property Taxes	\$ -	\$ -	\$ 63,641	\$ 63,641
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>63,641</u>	<u>63,641</u>
FUND BALANCES				
Restricted for:				
Economic Development	1,699,876	-	-	1,699,876
Public Safety	-	41,649	-	41,649
Debt Service	-	-	90,852	90,852
Total Fund Balances	<u>1,699,876</u>	<u>41,649</u>	<u>90,852</u>	<u>1,832,377</u>
Total Liabilities and Fund Balances	<u>\$ 1,699,876</u>	<u>\$ 41,649</u>	<u>\$ 154,493</u>	<u>\$ 1,896,018</u>

CITY OF GROVES, TEXAS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	Economic Development Corporation	Police Forfeitures	Debt Service	Total Nonmajor Governmental Funds
REVENUES:				
Property Tax	\$ -	\$ -	\$ 569,392	\$ 569,392
Sales Tax	988,186	-	-	988,186
Fines and Forfeitures	-	933	-	933
Investment Income	292	1,177	15,090	16,559
Total Revenues	<u>988,478</u>	<u>2,110</u>	<u>584,482</u>	<u>1,575,070</u>
EXPENDITURES:				
Current:				
Public Safety	-	-	-	-
Economic Development	77,552	-	-	77,552
Debt Service:				
Principal on Debt	-	-	820,000	820,000
Interest and Fiscal Charges	-	-	332,303	332,303
Total Expenditures	<u>77,552</u>	<u>-</u>	<u>1,152,303</u>	<u>1,229,855</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>910,926</u>	<u>2,110</u>	<u>(567,821)</u>	<u>345,215</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	579,750	579,750
Transfers Out (Use)	<u>(704,750)</u>	<u>-</u>	<u>-</u>	<u>(704,750)</u>
Total Other Financing Sources (Uses)	<u>(704,750)</u>	<u>-</u>	<u>579,750</u>	<u>(125,000)</u>
Net Change in Fund Balance	206,176	2,110	11,929	220,215
Fund Balance - Beginning	<u>1,493,700</u>	<u>39,539</u>	<u>78,923</u>	<u>1,612,162</u>
Fund Balance - Ending	<u>\$ 1,699,876</u>	<u>\$ 41,649</u>	<u>\$ 90,852</u>	<u>\$ 1,832,377</u>

CITY OF GROVES, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
ECONOMIC DEVELOPMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance With
	<u>Original</u>	<u>Final</u>	<u>GAAP BASIS</u>	<u>Final Budget</u>
				<u>Positive or</u>
				<u>(Negative)</u>
REVENUES:				
Sales Tax	\$ 835,000	\$ 900,000	\$ 988,186	\$ 88,186
Investment Income	-	-	292	292
Total Revenues	<u>835,000</u>	<u>900,000</u>	<u>988,478</u>	<u>88,478</u>
EXPENDITURES:				
Economic Development	<u>130,250</u>	<u>245,150</u>	<u>77,552</u>	<u>167,598</u>
Total Expenditures	<u>130,250</u>	<u>245,150</u>	<u>77,552</u>	<u>167,598</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	704,750	654,850	910,926	256,076
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	<u>(704,750)</u>	<u>(804,850)</u>	<u>(704,750)</u>	<u>100,100</u>
Total Other Financing Sources (Uses)	<u>(704,750)</u>	<u>(804,850)</u>	<u>(704,750)</u>	<u>100,100</u>
Net Change in Fund Balance	-	(150,000)	206,176	356,176
Fund Balance - Beginning	<u>1,493,700</u>	<u>1,493,700</u>	<u>1,493,700</u>	-
Fund Balance - Ending	<u>\$ 1,493,700</u>	<u>\$ 1,343,700</u>	<u>\$ 1,699,876</u>	<u>\$ 356,176</u>

CITY OF GROVES, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>GAAP BASIS</u>	<u>Final Budget</u>
				<u>Positive or</u>
				<u>(Negative)</u>
REVENUES:				
Property Tax	\$ 570,253	\$ 569,548	\$ 569,392	\$ (156)
Investment Income	2,000	2,000	15,090	13,090
Total Revenues	<u>572,253</u>	<u>571,548</u>	<u>584,482</u>	<u>12,934</u>
EXPENDITURES:				
Debt Service:				
Principal on Debt	820,000	840,000	820,000	20,000
Interest on Debt	<u>332,003</u>	<u>311,398</u>	<u>332,303</u>	<u>(20,905)</u>
Total Expenditures	<u>1,152,003</u>	<u>1,151,398</u>	<u>1,152,303</u>	<u>(905)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(579,750)</u>	<u>(579,850)</u>	<u>(567,821)</u>	<u>12,029</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	<u>579,750</u>	<u>579,850</u>	<u>579,750</u>	<u>(100)</u>
Total Other Financing Sources (Uses)	<u>579,750</u>	<u>579,850</u>	<u>579,750</u>	<u>(100)</u>
Net Change in Fund Balance	-	-	11,929	11,929
Fund Balance - Beginning	<u>78,923</u>	<u>78,923</u>	<u>78,923</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 78,923</u>	<u>\$ 78,923</u>	<u>\$ 90,852</u>	<u>\$ 11,929</u>

FEDERAL AWARDS SECTION

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



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

April 8, 2024

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

The Honorable Mayor and City Council
City of Groves, Texas

Members of the Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (Government Auditing Standards), the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Groves, Texas (the City), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 8, 2024.

Report on Internal Control over Financial Reporting

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

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

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

To the Honorable Mayor and
Members of City Council
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April 8, 2024

Report on Compliance and Other Matters

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

Purpose of This Report

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

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

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

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



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

April 8, 2024

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

The Honorable Mayor and City Council
City of Groves, Texas

Members of the Council:

Report on Compliance for the Major Federal Program

Qualified Opinion

We have audited City of Groves, Texas's (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended September 30, 2023. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on Assistance Listing 21.027 Coronavirus State and Local Fiscal Recovery Funds

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on 21.027 Coronavirus State and Local Fiscal Recovery Funds for the year ended September 30, 2023.

Basis for Qualified Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (Government Auditing Standards); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

To the Honorable Mayor and
Members of City Council
Page 2
April 8, 2024

Matter Giving Rise to Qualified Opinion on Assistance Listing 21.027 Coronavirus State and Local Fiscal Recovery Funds

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding Assistance Listing 21.027 Coronavirus State and Local Fiscal Recovery Funds as described in finding number 2023-001 for Procurement.

Compliance with such requirement is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

To the Honorable Mayor and
Members of City Council
Page 3
April 8, 2024

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-002 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City’s response to the internal control over compliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The City’s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

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

Certified Public Accountants

CITY OF GROVES, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2023

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

<u>Federal Assistance Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>21.027</u>	<u>Coronavirus State and Local Fiscal Recovery Funds</u>

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

Auditee qualified as low-risk auditee? yes no

CITY OF GROVES, TEXAS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2023**

Section II – Financial Statement Findings

-- NONE NOTED --

CITY OF GROVES, TEXAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2023
(CONTINUED)

Section III – Federal Award Findings

2023-001 – Coronavirus State and Local Fiscal Recovery Funds (ALN 21.027) United States Department of Treasury, Passed through the Texas Division of Emergency Management.

Compliance – Office of Management and Budget Guidance for Grants and Agreements Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 Code Federal Regulations (CFR) Part 200 Procurement Standards (2 CFR 200).

Criteria: The City of Groves, Texas is required to adhere to procurement guidelines reflected in the applicable state and federal regulations and conform to 2 CFR 200 procurement requirements.

Condition and Context: The City did not comply with section 70914 of the Build America, Buy America (BABA) Act.

Cause: The Build America, Buy America (BABA) Act was made effective on May 14, 2022 for the Coronavirus State and Local Fiscal Recovery Funds (ALN 21.027) grant. The City was already in the process of preparing bidding documents for an August 3, 2022 bid and did not realize the grant requirements had been changed.

Effect: The City did not include the Build America, Buy America (BABA) Act requirements in their August 3, 2022 bid documents.

Recommendation: The City should take steps to monitor grants for changes made to the grant requirements after the grant has been awarded.

View of Responsible Party: Management concurs with the recommendation. See corrective action plan.

2023-002 – Coronavirus State and Local Fiscal Recovery Funds (ALN 21.027) United States Department of Treasury, Passed through the Texas Division of Emergency Management.

Internal Control – Monitoring

Criteria: Monitoring should be such that there is an assurance that control activities are being performed in a timely manner.

Condition and Context: The procedures in place did not include proper monitoring of changes made to the program requirements.

Cause: The City was not effectively monitoring for grant changes.

Effect: The City did not include the Build America, Buy America (BABA) Act requirements in their August 3, 2022 bid documents.

Recommendation: The City should take steps to monitor grants for changes made to the grant requirements after the grant has been awarded.

View of Responsible Party: Management concurs with the recommendation. See corrective action plan.

CITY OF GROVES, TEXAS

**STATUS OF PRIOR YEAR'S FINDINGS
YEAR ENDED SEPTEMBER 30, 2023**

-- NOT APPLICABLE --



CITY OF GROVES

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Section V – Corrective Action Plan

2023-001 – Coronavirus State and Local Fiscal Recovery Funds (ALN 21.027) United States Department of Treasury, Passed through the Texas Division of Emergency Management.

Compliance – Office of Management and Budget Guidance for Grants and Agreements Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 Code Federal Regulations (CFR) Part 200 Procurement Standards (2 CFR 200).

Condition and Context: The City did not comply with section 70914 of the Build America, Buy America (BABA) Act.

Recommendation: The City should take steps to monitor grants for changes made to the grant requirements after the grant has been awarded.

CORRECTIVE ACTION:

The City has issued a RFP to engage a grant management consultant to ensure compliance with the grant requirements, and Lamar Ozley, Director of Finance, will contemporaneously monitor grants for changes made to the grant requirements after a grant has been awarded to the City.

2023-002 – Coronavirus State and Local Fiscal Recovery Funds (ALN 21.027) United States Department of Treasury, Passed through the Texas Division of Emergency Management.

Internal Control – Monitoring

Condition and Context: The procedures in place did not include proper monitoring of changes made to the program requirements.

Recommendation: The City should take steps to monitor grants for changes made to the grant requirements after the grant has been awarded.

CORRECTIVE ACTION:

Kevin Carruth, City Manager, will monitor the steps taken by the grant management consultant and the Director of Finance to keep apprised of changes made to the grant requirements.

CITY OF GROVES, TEXAS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

	(02)	(2A)	(2A)	(03)
	Federal	Federal	Pass-through	
	Assistance	Award	Entity	
	Listing	Number	Identifying	Federal
	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Expenditures</u>
UNITED STATES DEPARTMENT OF TREASURY				
Passed Through Texas Division of Emergency Management:				
2021 Coronavirus Local Fiscal Recovery Fund (CLFRF)	21.027			<u>\$ 1,764,864</u>
Total Passed Through Texas Division of Emergency Management				<u>1,764,864</u>
Total United States Department of Treasury				<u>1,764,864</u>
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed Through Texas General Land Office:				
Community Development Block Grant	14.228		20-065-039-C120	<u>1,570,239</u>
Total Passed Through Texas General Land Office				<u>1,570,239</u>
Total United States Department of Housing and Urban Development				<u>1,570,239</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u><u>\$ 3,335,103</u></u>

CITY OF GROVES, TEXAS

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2023**

1. The accompanying Schedule Of Expenditures Of Federal Awards (Schedule) includes the federal grant activity of the City of Groves, Texas under programs of the Federal government for the year ended September 30, 2023. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.
2. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.
3. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of this fund present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

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

The accrual basis of accounting is used for the Proprietary Fund Types.

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

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