

**ANNUAL  
FINANCIAL REPORT**

**CITY OF GROVES, TEXAS**

**For the fiscal year ended  
September 30, 2013**





**CITY OF GROVES, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
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## **Introductory Section**



**CITY OF GROVES, TEXAS**  
*PRINCIPAL CITY OFFICIALS*

**CITY COUNCIL**

**Brad P. Bailey** Mayor

**Joseph P. Arisco** Council Member, Ward 1

**Karen Theis** Council Member, Ward 2

**Sidney Badon** Council Member, Ward 3

**Kyle Hollier** Council Member, Ward 4

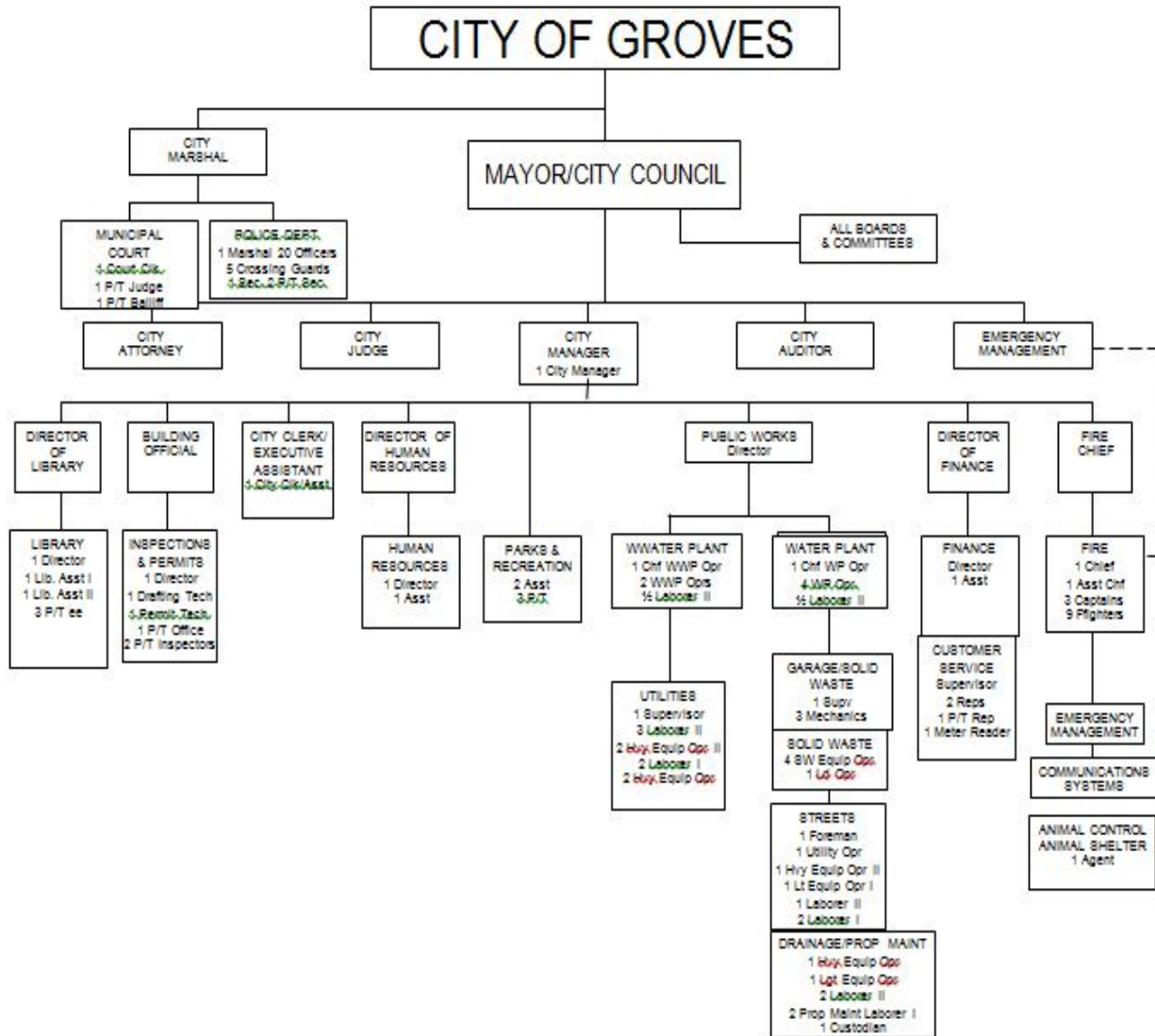
**CITY MANAGER**

**D.E. Sosa**

**CITY ATTORNEY**

**James Black**

**CITY OF GROVES, TEXAS**  
**ORGANIZATIONAL CHART**





## **Report of Independent Auditors**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of City of Groves, Texas (the "City"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City, as of September 30, 2013, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 13 to the financial statements, the City adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of September 30, 2013. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, slightly slanted style.

March 24, 2014

**CITY OF GROVES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Groves (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2013.

**Overview of the Financial Statements**

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

**Government-wide Financial Statements**

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

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

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

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

The government-wide financial statements can be found on Pages 16 through 18 of this report.

**Fund Financial Statements**

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

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

**Governmental Funds**

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

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

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

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

The basic governmental fund financial statements can be found on Pages 19 through 22 of this report.

**Proprietary Funds**

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

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

The basic proprietary fund financial statements can be found on Pages 23 through 25 of this report.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on Pages 26 through 45 of this report.

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

**Other Information**

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

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$29.0 million (net position). At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position.

By far, the largest portion of the City's net position ( \$26.1 million) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CONDENSED SCHEDULE OF NET POSITION**

*September 30, 2013 and 2012*  
*Amounts in (000's)*

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 5,231	\$ 4,272	\$ 1,620	\$ 1,821	\$ 6,851	\$ 6,093
Internal balances	2,722	2,265	(2,722)	(2,265)		
Capital assets	8,366	8,258	29,009	30,110	37,375	38,368
<b>Total Assets</b>	<b>16,319</b>	<b>14,795</b>	<b>27,907</b>	<b>29,666</b>	<b>44,226</b>	<b>44,461</b>
Other liabilities	375	386	672	740	1,047	1,126
Long-term liabilities	12,943	11,572	1,241	1,523	14,184	13,095
<b>Total Liabilities</b>	<b>13,318</b>	<b>11,958</b>	<b>1,913</b>	<b>2,263</b>	<b>15,231</b>	<b>14,221</b>
Net Position:						
Net investment in capital assets	(1,665)	(2,143)	27,813	28,634	26,148	26,491
Restricted	504	539			504	539
Unrestricted	4,162	4,441	(1,819)	(1,231)	2,343	3,210
<b>Total Net Position</b>	<b>\$ 3,001</b>	<b>\$ 2,837</b>	<b>\$ 25,994</b>	<b>\$ 27,403</b>	<b>\$ 28,995</b>	<b>\$ 30,240</b>

An additional portion of the City's net position (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$2.3 million, may be used to meet the government's ongoing obligations to citizens and creditors.

The City's net position decreased by \$1.2 million during the current fiscal year, primarily due to increases in long term debt due to issuance of certificates of obligation of \$2.5 million during the year.

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

**Government-wide Financial Analysis (continued)**

The following table summarizes the changes in net position for the City for the year ended September 30, 2013.

**CONDENSED SCHEDULE OF CHANGES IN NET POSITION**

*For the Fiscal Years Ended September 30, 2013 and 2012*

*Amounts in (000's)*

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenue:						
Charges for services	\$ 302	\$ 340	\$ 5,644	\$ 5,821	\$ 5,946	\$ 6,161
Operating grants and contributions	39	189			39	189
Capital grants and contributions	578				578	
Property taxes	4,624	4,805			4,624	4,805
Sales and use taxes	1,783	1,815			1,783	1,815
Franchise taxes	1,591	1,013			1,591	1,013
Unrestricted investment earnings	1	1			1	1
Miscellaneous	76	156		20	76	176
<b>Total Revenues</b>	<b>8,994</b>	<b>8,319</b>	<b>5,644</b>	<b>5,841</b>	<b>14,637</b>	<b>14,160</b>
Expenses						
General government	1,380	1,336			1,380	1,336
Public safety	4,592	4,397			4,592	4,397
Public works	2,415	2,498			2,415	2,498
Culture and recreation	590	673			590	673
Economic development	78	115			78	115
Interest on long-term debt	412	451			412	451
Water and sewer			5,230	4,724	5,230	4,724
Solid Waste			1,187	1,052	1,187	1,052
<b>Total Expenses</b>	<b>9,466</b>	<b>9,470</b>	<b>6,417</b>	<b>5,776</b>	<b>15,883</b>	<b>15,246</b>
Decrease in net position before transfers	(472)	(1,151)	(773)	65	(1,245)	(1,086)
Transfers	636	348	(636)	(348)		
Change in net position	164	(803)	(1,409)	(283)	(1,245)	(1,086)
<b>Net Position - Beginning</b>	<b>2,837</b>	<b>3,640</b>	<b>27,403</b>	<b>27,686</b>	<b>30,240</b>	<b>31,326</b>
<b>Net Position - Ending</b>	<b>\$ 3,001</b>	<b>\$ 2,837</b>	<b>\$ 25,994</b>	<b>\$ 27,403</b>	<b>\$ 28,995</b>	<b>\$ 30,240</b>

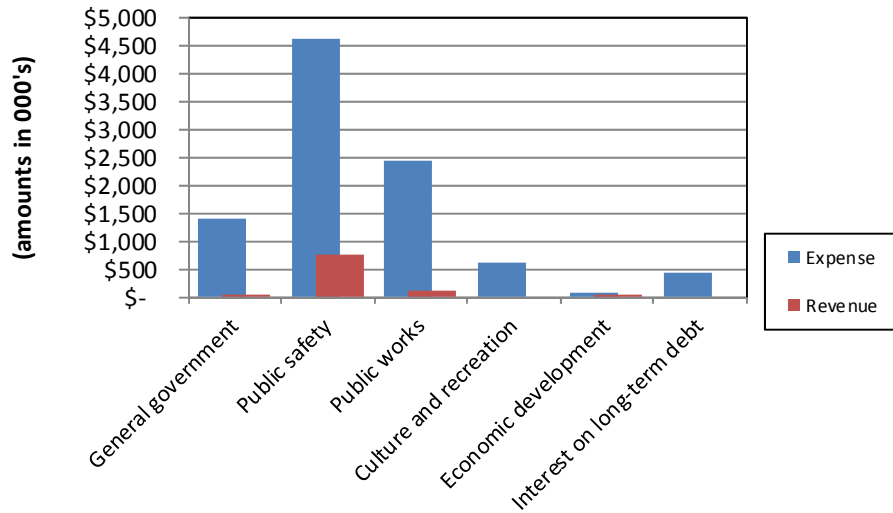
**CITY OF GROVES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Governmental Activities**

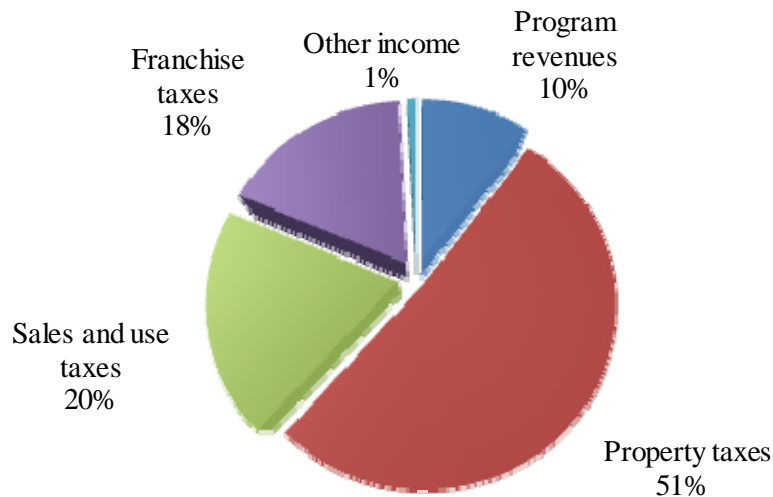
Governmental activities decreased the City's net position by approximately \$0.2 million. The key element of this decrease is the following:

- Increase in public safety expenditures of \$ \$0.2 million.

A comparison of program expenses to program revenues follows:



Revenue sources for governmental activities were distributed as follows:



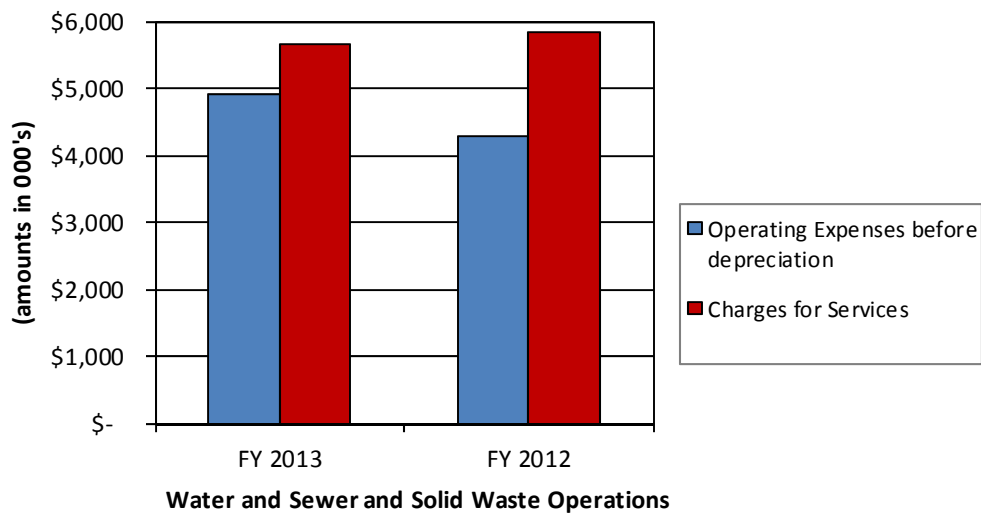


**CITY OF GROVES, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Business-type Activities**

Business-type activities decreased the City's net position by \$1.4 million. A large portion this decrease was due to net transfers of \$636,000 to governmental funds. Operating activity included the following:

- Charges for services of **\$5.6 million**, a decrease of approximately \$177,000 from prior year due to decreased usage from fiscal year 2012 to 2013.
- Water and sewer and solid waste expenses of **\$5.2 million** and **\$1.2 million** respectively. This resulted in a increase in expenses of \$506 thousand from prior year for water and sewer expenses and a decrease of expenses of \$135,000 for solid waste expenses.



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

**Financial Analysis of the Government's Funds**

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

**Governmental Funds**

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

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$6.9 million, an increase of approximately \$1.4 million from the prior year. The key element of this increase is as follows:

- An increase of \$1.4 million in the general fund, due primarily to proceeds from issuance of certificates of obligation.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$426,574 . The unassigned fund balance decreased by \$638,640 from fiscal year 2012.

The General Fund has assigned fund balance amounts of \$490,526 for long-term compensated absences and \$654,902 for equipment replacement.

The City has General Fund nonspendable fund balance of \$2.7 million primarily for long-term interfund receivables as of September 30, 2013.

At the close of the current fiscal year, the City's debt service fund reported a fund balance of \$1,472, an decrease of -\$200,316 from the prior year. Debt service expenditures for the year ending September 30, 2013, totaled \$1,605,704.

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

**Proprietary Funds**

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

The deficit in unrestricted net position at the end of the year amounted to \$2.4 million for the Water and Sewer Fund. Total net position of the Water and Sewer Fund decreased by \$1.3 million. Unrestricted net position at the end of the year amounted to \$597,094 for the Solid Waste Fund. Net position of the Solid Waste Fund decreased by \$79,434. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

**General Fund Budgetary Highlights**

Actual revenues differed from budgeted revenues by \$1,777,000 , primarily due to intergovernmental revenue being \$1.4 million less than budgeted due to EOC grant progress being behind schedule. During the budgeting process, the city factored in still maintaining a fund balance amount sufficient to cover over a three-month operating reserve.

Budgeted expenditures exceeded actual expenditures by \$2,581,254, the key element of which is as follows:

- Public Safety with a positive variance of \$2,682,292 due to slower than expected progress on construction of the EOC.

**Capital Asset and Debt Administration**

The City's net investment in capital assets for its governmental and business-type activities as of September 30, 2013, amounted to \$37.3 million (net of accumulated depreciation). This net investment in capital assets includes land, buildings, roads, park facilities, water and sewer plants and service lines, machinery and equipment, and construction in progress. Capital asset balances increased by approximately \$993 thousand from the prior year due to capital outlay being greater than the depreciation expense during the year.

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

The following table shows the balances at September 30, 2013 and 2012 (in 000's):

	<u>2012</u>	<u>2013</u>
<b>Governmental Activities</b>		
Capital Assets not being depreciated:		
Land	\$ 74	153
Construction in progress	196	1,014
Capital Assets, net of depreciation:		
Infrastructure	4,332	3,937
Buildings	920	867
Machinery and Equipment	2,019	1,743
Improvements other than buildings	717	652
Total capital assets - Governmental Activities	<u>\$ 8,258</u>	<u>\$ 8,366</u>
<b>Business-Type Activities</b>		
Capital Assets not being depreciated:		
Land	\$ 678	\$ 678
Construction in progress	18	
Capital Assets, net of depreciation:		
Buildings & System	23,622	23,144
Machinery and Equipment	5,792	5,187
Total capital assets - Business-Type Activities	<u>\$ 30,110</u>	<u>\$ 29,009</u>

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

**Long-term Liabilities**

At the end of the current fiscal year, the City had total long-term debt outstanding of \$14.2 million. This is a decrease from the prior year of \$1.1 million, due to scheduled principal debt payments. The entire amount of bonded debt is backed by the full faith and credit of the City. In addition, the debt agreements allow for the obligations to be paid from certain sales and use tax receipts and water/wastewater revenues. A schedule of long-term debt at September 30, 2012 and 2013 follows (in \$000's):

	<u>2012</u>	<u>2013</u>
<b>Governmental Activities</b>		
General obligation bonds	\$ 6,080	\$ 5,170
Certificates of obligation	4,620	6,880
Tax notes	215	173
Compensated absences	658	721
	<u>\$ 11,572</u>	<u>\$ 12,944</u>
<b>Business Activities</b>		
Capital leases	\$ 1,050	\$ 879
Tax notes	425	317
Compensated absences	48	45
	<u>\$ 1,523</u>	<u>\$ 1,241</u>

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

**Capital Asset and Debt Administration (continued)**

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

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

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

The stagnation that typified the country's economic recovery arrived in the City of Groves. The completed refinery turnarounds and the accompanying emptying of inventory in the storage yards placed increased pressure on the economics and tax rate of the City. After three years of growth, the City's sales tax was consistent with its fiscal year 2012 levels as temporary workers' contracts ended. The City was disappointed with its results but anticipates a bottoming of economic conditions due to increased interest in residential and commercial development projects not experienced in the past few years; many of which have stemmed from the City's aggressive residential demolition program and economic development efforts.

The City's 2014 budget continues its trend of doing more with less and increased efficiencies. Other than the continued construction of the emergency operations center, the budget continues to reduce expenses and utilize reductions in the City's workforce through retirements and attrition.

The City continues to benefit from an aggressive pursuit of grants to offset the capital costs of needed new buildings and infrastructure repair, including but not limited to a new emergency operations center that will house the police department and municipal court as well. The City did complete an issue of its 2013 twenty year certificates of obligation to finance its matching amount of the EOC project and realized an annualized coupon rate of 2.60%.

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

**Requests for Information**

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

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## **Basic Financial Statements**

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**CITY OF GROVES, TEXAS**

**STATEMENT OF NET POSITION**

September 30, 2013

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 3,741,007	\$ 447,166	\$ 4,188,173
Accounts receivable	763,508	599,841	1,363,349
Due from other governments	718,102		718,102
Internal balances	2,722,217	(2,722,217)	
Inventories	6,074	77,688	83,762
Prepaid items	1,893		1,893
Restricted cash and cash equivalents		495,877	495,877
Capital assets, not subject to depreciation:			
Land	153,104	677,865	830,969
Construction in progress	1,013,572		1,013,572
Capital assets, net of depreciation:			
Infrastructure	4,588,943	6,228,287	10,817,230
Buildings and improvements	867,429	16,915,429	17,782,858
Machinery and equipment	1,743,344	5,187,226	6,930,570
<b>Total Capital Assets</b>	<u>8,366,392</u>	<u>29,008,807</u>	<u>37,375,199</u>
<b>Total Assets</b>	<u>16,319,193</u>	<u>27,907,162</u>	<u>44,226,355</u>
<b>Liabilities</b>			
Accounts payable and accrued expenses	343,878	665,726	1,009,604
Accrued interest	31,017	6,815	37,832
Long-term liabilities:			
Due within one year	1,419,408	288,616	1,708,024
Due in more than one year	11,524,121	951,955	12,476,076
<b>Total Liabilities</b>	<u>13,318,424</u>	<u>1,913,112</u>	<u>15,231,536</u>
<b>Net Position</b>			
Net investment in capital assets	(1,664,914)	27,812,956	26,148,042
Restricted for:			
Debt service	13,293		13,293
Economic development	384,719		384,719
Public safety	105,746		105,746
Unrestricted	4,161,925	(1,818,906)	2,343,019
<b>Total Net Position</b>	<u>\$ 3,000,769</u>	<u>\$ 25,994,050</u>	<u>\$ 28,994,819</u>

See Notes To Basic Financial Statements.

**CITY OF GROVES, TEXAS**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended September 30, 2013

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenue</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary government</b>				
Governmental Activities:				
General government	\$ 1,380,261	\$ 15,923	\$ 33,942	\$
Public safety	4,591,686	173,542	1,434	577,673
Public works	2,415,000	112,173	2,668	
Culture and recreation	589,511			
Economic development	77,667		1,331	
Interest on long-term debt	411,653			
Total governmental activities	<u>9,465,778</u>	<u>301,638</u>	<u>39,375</u>	<u>577,673</u>
Business-type activities:				
Water and sewer	5,229,657	4,346,115		
Solid Waste	1,186,693	1,297,259		
Total business-type activities	<u>6,416,350</u>	<u>5,643,374</u>		
<b>Total primary government</b>	<u>\$ 15,882,128</u>	<u>\$ 5,945,012</u>	<u>\$ 39,375</u>	<u>\$ 577,673</u>

**General revenues:**

Taxes:

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

Transfers

**Total general revenues and transfers**

Change in net position

**Net Position - Beginning**

**Net Position - Ending**

See Notes to Basic Financial Statements.

**Net (Expense) Revenue and Changes in Net Position**

**Primary Government**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (1,330,396)	\$	\$ (1,330,396)
(3,839,037)		(3,839,037)
(2,300,159)		(2,300,159)
(589,511)		(589,511)
(76,336)		(76,336)
(411,653)		(411,653)
<u>(8,547,092)</u>		<u>(8,547,092)</u>
	(883,542)	(883,542)
	110,566	110,566
	<u>(772,976)</u>	<u>(772,976)</u>
<u>(8,547,092)</u>	<u>(772,976)</u>	<u>(9,320,068)</u>
4,623,514		4,623,514
1,783,477		1,783,477
1,591,389		1,591,389
632		632
75,517	143	75,660
636,113	(636,113)	
<u>8,710,642</u>	<u>(635,970)</u>	<u>8,074,672</u>
163,550	(1,408,946)	(1,245,396)
2,837,219	27,402,996	30,240,215
<u>\$ 3,000,769</u>	<u>\$ 25,994,050</u>	<u>\$ 28,994,819</u>

**CITY OF GROVES, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

September 30, 2013

	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 3,055,495	\$ 1,471	\$ 684,041	\$ 3,741,007
Taxes receivable, net	440,456	42,839		483,295
Other receivables	678,997			678,997
Due from other funds	2,722,217		320,165	3,042,382
Receivable from other governments	319,319			319,319
Inventories	6,074			6,074
Prepaid expenses	1,893			1,893
<b>Total Assets</b>	<u>\$ 7,224,451</u>	<u>\$ 44,310</u>	<u>\$ 1,004,206</u>	<u>\$ 8,272,967</u>
<b>Liabilities</b>				
Accounts payable	\$ 36,640	\$	\$	\$ 36,640
Due to other funds	320,165			320,165
Other accrued expenses	307,238			307,238
<b>Total Liabilities</b>	<u>664,043</u>	<u></u>	<u></u>	<u>664,043</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - property taxes	440,456	42,838		483,294
Unavailable revenue - municipal court	201,415			201,415
<b>Total Deferred Inflows of Resources</b>	<u>641,871</u>	<u>42,838</u>	<u></u>	<u>684,709</u>
<b>Fund balances</b>				
<b>Nonspendable</b>				
Inventories	6,074			6,074
Prepaid expenses	1,893			1,893
Long-term interfund receivables	2,722,217			2,722,217
<b>Restricted</b>				
Debt service		1,472		1,472
Capital projects	1,504,953		513,741	2,018,694
Public safety			105,746	105,746
Economic development			384,719	384,719
Grants and memorials	111,398			111,398
<b>Assigned</b>				
Long-term compensated absences	490,526			490,526
Equipment replacement	654,902			654,902
Unassigned	426,574			426,574
<b>Total Fund Balances</b>	<u>5,918,537</u>	<u>1,472</u>	<u>1,004,206</u>	<u>6,924,215</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 7,224,451</u>	<u>\$ 44,310</u>	<u>\$ 1,004,206</u>	<u>\$ 8,272,967</u>

See Notes to Basic Financial Statements.

**CITY OF GROVES, TEXAS**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**

**TO THE STATEMENT OF NET POSITION**

*September 30, 2013*

Total fund balance, governmental funds \$ 6,924,215

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 8,366,392

Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 684,709

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

Bonds and capital leases	(12,222,764)
Accrued long-term interest	(31,017)
Accrued compensated absences	(720,766)

Net Position of Governmental Activities \$ 3,000,769

*See Notes to Basic Financial Statements.*

**CITY OF GROVES, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2013**

	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Taxes:				
Property taxes	\$ 4,233,057	\$ 345,274	\$	\$ 4,578,331
Sales and use taxes	1,157,053		576,719	1,733,772
Franchise taxes	1,712,774			1,712,774
Hotel taxes	53,320			53,320
Fines and forfeitures	155,384		2,071	157,455
Licenses and permits	101,354			101,354
Intergovernmental	621,545		1,434	622,979
Charges for services	54,660		1,331	55,991
Investment earnings	514	97	22	633
Other	39,713			39,713
<b>Total Revenues</b>	<u>8,129,374</u>	<u>345,371</u>	<u>581,577</u>	<u>9,056,322</u>
<b>Expenditures</b>				
Current:				
General government	1,181,787			1,181,787
Public safety	5,058,191			5,058,191
Public works	2,102,617			2,102,617
Culture and recreation	497,351			497,351
Economic development			202,667	202,667
Capital Outlay	179,851		1,864	181,715
Debt Service:				
Principal		1,192,000		1,192,000
Interest and other charges		413,704		413,704
<b>Total Expenditures</b>	<u>9,019,797</u>	<u>1,605,704</u>	<u>204,531</u>	<u>10,830,032</u>
Excess (deficiency) of revenues over expenditures	<u>(890,423)</u>	<u>(1,260,333)</u>	<u>377,046</u>	<u>(1,773,710)</u>
<b>Other Financing Sources (Uses)</b>				
Issuance of debt	2,500,000			2,500,000
Transfers in	193,145	1,181,904	8,000	1,383,049
Transfers out	(401,000)	(121,887)	(224,049)	(746,936)
<b>Total other financing sources (uses)</b>	<u>2,292,145</u>	<u>1,060,017</u>	<u>(216,049)</u>	<u>3,136,113</u>
Net Changes in Fund Balances	1,401,722	(200,316)	160,997	1,362,403
<b>Fund Balances - Beginning</b>	4,516,815	201,788	843,209	5,561,812
<b>Fund Balances - End of Year</b>	<u>\$ 5,918,537</u>	<u>\$ 1,472</u>	<u>\$ 1,004,206</u>	<u>\$ 6,924,215</u>

See Notes to Basic Financial Statements.

**CITY OF GROVES, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
*For the Year Ended September 30, 2013*

Net change in fund balances - total governmental funds: \$ 1,362,403

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

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

This is the amount by which depreciation of \$869,233 is less than capital outlay of \$977,857 in the current period. 108,624

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 61,551

Governmental funds report repayment of bond principal and capital leases as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of payments made on long-term debt. 1,192,000

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

Accrued interest not reflected in Governmental funds 2,051  
 Compensated absences (63,079)

Change in net position of governmental activities \$ 163,550

*See Notes to Basic Financial Statements.*

**CITY OF GROVES, TEXAS**

*STATEMENT OF NET POSITION*

*PROPRIETARY FUNDS*

*September 30, 2013*

	<b>Business-type Activities</b>		
	<b>Water and Sewer</b>	<b>Solid Waste</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 450	\$ 446,716	\$ 447,166
Accounts receivable, net	599,841		599,841
Due from other funds		207,265	207,265
Restricted cash and cash equivalents	495,877		495,877
Inventories	77,688		77,688
<b>Total Current Assets</b>	<b>1,173,856</b>	<b>653,981</b>	<b>1,827,837</b>
Non-current assets:			
Capital assets not being depreciated:			
Land and improvements	677,865		677,865
Other capital assets, net of depreciation:			
Infrastructure	6,228,287		6,228,287
Buildings	16,915,429		16,915,429
Equipment and furniture	4,745,709	441,517	5,187,226
<b>Total Non-Current Assets</b>	<b>28,567,290</b>	<b>441,517</b>	<b>29,008,807</b>
<b>Total Assets</b>	<b>29,741,146</b>	<b>1,095,498</b>	<b>30,836,644</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	68,665	43,025	111,690
Due to other funds	2,929,482		2,929,482
Deposits	495,877		495,877
Accrued interest payable	6,815		6,815
Salaries payable	49,504	8,655	58,159
<b>Total Current Liabilities</b>	<b>3,550,343</b>	<b>51,680</b>	<b>3,602,023</b>
Non-current liabilities:			
Compensated absences	39,513	5,207	44,720
Capital lease obligation	878,615		878,615
Bonds, notes and loans payable	317,236		317,236
<b>Total Non-Current Liabilities</b>	<b>1,235,364</b>	<b>5,207</b>	<b>1,240,571</b>
<b>Total Liabilities</b>	<b>4,785,707</b>	<b>56,887</b>	<b>4,842,594</b>
<b>NET POSITION</b>			
Net investment in capital assets	27,371,439	441,517	27,812,956
Unrestricted	(2,416,000)	597,094	(1,818,906)
<b>Total Net Position</b>	<b>\$ 24,955,439</b>	<b>\$ 1,038,611</b>	<b>\$ 25,994,050</b>

*See Notes to Basic Financial Statements.*



**CITY OF GROVES, TEXAS**

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

**PROPRIETARY FUNDS**

*For the Year Ended September 30, 2013*

	<b>Business-type Activities</b>		
	<b>Water and Sewer</b>	<b>Solid Waste</b>	<b>Total</b>
<b>Operating Revenues</b>			
Charges for services	\$ 4,346,258	\$ 1,297,259	\$ 5,643,517
<b>Total Operating Revenues</b>	<u>4,346,258</u>	<u>1,297,259</u>	<u>5,643,517</u>
<b>Operating Expenses</b>			
Personnel services	1,719,649	319,907	2,039,556
Supplies	1,061,805	313,201	1,375,006
Contracted services	329,393	389,428	718,821
Utilities	216,543	1,814	218,357
Repairs and maintenance	461,185	48,817	510,002
Depreciation	1,383,186	113,526	1,496,712
<b>Total Operating Expenses</b>	<u>5,171,761</u>	<u>1,186,693</u>	<u>6,358,454</u>
<b>Operating income (loss)</b>	<u>(825,503)</u>	<u>110,566</u>	<u>(714,937)</u>
<b>Non-Operating Revenues (Expenses)</b>			
Interest expense	(57,896)		(57,896)
<b>Income (loss) before Transfers</b>	<u>(883,399)</u>	<u>110,566</u>	<u>(772,833)</u>
Transfers in	121,887		121,887
Transfers out	(568,000)	(190,000)	(758,000)
Change in Net Position	(1,329,512)	(79,434)	(1,408,946)
<b>Total Net Position - Beginning of Year</b>	<u>26,284,951</u>	<u>1,118,045</u>	<u>27,402,996</u>
<b>Total Net Position - End of Year</b>	<u>\$ 24,955,439</u>	<u>\$ 1,038,611</u>	<u>\$ 25,994,050</u>

*See Notes to Basic Financial Statements.*

**CITY OF GROVES, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2013

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water and Sewer</b>	<b>Solid Waste</b>	<b>Totals</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 4,275,589	\$ 1,297,259	\$ 5,572,848
Disbursed for personnel services	(1,718,490)	(319,685)	(2,038,175)
Disbursed for goods and services	(2,126,891)	(767,154)	(2,894,045)
<b>Net cash provided by operating activities</b>	<b>430,208</b>	<b>210,420</b>	<b>640,628</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers from other funds	121,887		121,887
Transfers (to) other funds	(568,000)	(190,000)	(758,000)
Loans from other funds	478,725	(21,995)	456,730
<b>Net cash used by noncapital financing activities</b>	<b>32,612</b>	<b>(211,995)</b>	<b>(179,383)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Principal payments on debt	(279,883)		(279,883)
Cash receipts from sale of assets			
Acquisition and construction of capital assets	(395,927)		(395,927)
<b>Cash used by capital and related financing activities</b>	<b>(675,810)</b>		<b>(675,810)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest paid	(59,272)	-	(59,272)
<b>Net cash used by investing activities</b>	<b>(59,272)</b>	<b>-</b>	<b>(59,272)</b>
Net increase in cash and cash equivalents	(272,262)	(1,575)	(273,837)
<b>Cash and cash equivalents - beginning of year</b>	<b>768,589</b>	<b>448,291</b>	<b>1,216,880</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 496,327</b>	<b>\$ 446,716</b>	<b>\$ 943,043</b>
Unrestricted cash and cash equivalents	\$ 450	\$ 446,716	\$ 447,166
Restricted cash and cash equivalents	495,877	-	495,877
	<b>\$ 496,327</b>	<b>\$ 446,716</b>	<b>\$ 943,043</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
Operating Income (loss)	\$ (825,503)	\$ 110,566	\$ (714,937)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,383,186	113,526	1,496,712
Increase in accounts receivable	(75,299)	-	(75,299)
(Increase) decrease in inventories	2,286	-	2,286
Increase in compensated absences	(3,308)	396	(2,912)
Increase (decrease) in accounts payable	(56,943)	(14,290)	(71,233)
Decrease in salaries payable	1,159	222	1,381
Increase in customer deposits	4,630	-	4,630
<b>Net cash provided by operating activities</b>	<b>\$ 430,208</b>	<b>\$ 210,420</b>	<b>\$ 640,628</b>

See Notes to Basic Financial Statements.

**CITY OF GROVES, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**Note 1 - Organization**

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

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

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

**Note 2 - Summary of Significant Accounting Policies**

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

**A. Reporting Entity**

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

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

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

## **CITY OF GROVES, TEXAS**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

#### **Note 2 - Summary of Significant Accounting Policies (continued)**

##### **B. Government-wide and Fund Financial Statements**

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

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

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

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

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

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

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

## **CITY OF GROVES, TEXAS**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

#### **Note 2 - Summary of Significant Accounting Policies (continued)**

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

Property taxes collected within 60 days subsequent to September 30, 2013, have not been recorded as revenue as the amount is not considered material. Franchise taxes and sales taxes relating to underlying transactions that occurred prior to September 30, 2013, have been recorded as receivables and revenue. Licenses and permits and fines are not susceptible to accrual since they are not measurable until received. Revenue on federal and state cost-reimbursement grants is accrued when the related expenditures are incurred. Interest is recorded when earned.

The City has the following major governmental funds:

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

The City reports the following major proprietary funds:

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

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

## **CITY OF GROVES, TEXAS**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

#### **Note 2 - Summary of Significant Accounting Policies (continued)**

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

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

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

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

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

##### **D. Cash and Cash Equivalents**

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

##### **E. Receivables**

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

##### **F. Due to and from Other Funds**

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

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

**Note 2 - Summary of Significant Accounting Policies (continued)**

**G. Inventories and Prepaid Items**

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

**H. Capital Assets**

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

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

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

**I. Compensated Absences**

Employees earn vacation based on years of service with the City. In accordance with GAAP, the liability for accumulated vacation at September 30, 2013, has been recorded as a liability in the Government-Wide Statement of Net Position.

## **CITY OF GROVES, TEXAS**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

#### **Note 2 - Summary of Significant Accounting Policies (continued)**

##### **I. Compensated Absences (continued)**

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

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

##### **J. General Property Taxes**

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

##### **K. Debt Service**

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

##### **L. Use of Estimate**

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

##### **M. Deferred outflows/inflows of resources**

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



## **CITY OF GROVES, TEXAS**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

#### **Note 2 - Summary of Significant Accounting Policies (continued)**

##### **M. Deferred outflows/inflows of resources (continued)**

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

##### **N. Fund Equity**

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

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

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

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

*Assigned fund balance* – amounts the City intends to use for a specific purpose that is neither restricted or committed and includes the remaining positive fund balance of all governmental funds except for the General Fund. Balances for encumbrances, other than those committed by City Council, fall into this category. Intent can be established by City Council or delegated to the City Manager.

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

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

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

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

## **CITY OF GROVES, TEXAS**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

#### **Note 2 - Summary of Significant Accounting Policies (continued)**

##### **O. Revenues and Expenditures/Expenses**

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

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

##### **P. Post-employment Healthcare Benefits**

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

#### **Note 3 - Deposits (Cash) and Investments**

##### **Authorization for Deposits and Investments**

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

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

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

**CITY OF GROVES, TEXAS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

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

**Authorization for Deposits and Investments (continued)**

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

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

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

**Deposits**

The City's cash and investments consist of cash on hand, deposits with financial institutions, and non-negotiable certificates of deposit. The restricted cash and investments are assets restricted for specific use.

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

	<u>Fair Value</u>
<b>Primary Government</b>	
Cash Deposits	\$ 4,584,050
Certificates of Deposit	<u>100,000</u>
<b>Total</b>	<u><u>\$ 4,684,050</u></u>

**Custodial Risk**

At September 30, 2013, the entire amount of the city's deposits was covered by federal depository insurance or by collateral held by the City's agent in the City's name.

**CITY OF GROVES, TEXAS****NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)****Note 4 - Receivables**

Amounts recorded as receivables as of September 30, 2013, for the government's individual major and non-major funds, including the applicable allowance for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Water and Sewer</u>	<u>Total</u>
<b>Receivables:</b>				
Fines and Forfeitures	\$ 201,415			\$ 201,415
Property taxes	468,570	\$ 45,573		514,143
Customer accounts	78,799		\$ 1,158,516	1,237,315
Grants	398,783			398,783
Due from state (Sales Tax)	319,319			319,319
<b>Gross Receivables</b>	<u>1,466,886</u>	<u>45,573</u>	<u>1,158,516</u>	<u>2,670,975</u>
Less: allowance for uncollectibles	<u>(28,114)</u>	<u>(2,734)</u>	<u>(558,675)</u>	<u>(589,523)</u>
<b>Net Total Receivables</b>	<u><u>\$ 1,438,772</u></u>	<u><u>\$ 42,839</u></u>	<u><u>\$ 599,841</u></u>	<u><u>\$ 2,081,452</u></u>

Revenue from delinquent property taxes and outstanding warrants receivable at September 30, 2013, has been reported as deferred inflows of financial resources in the fund financial statements until collected. Delinquent tax collections during the first sixty days subsequent to September 30, 2013, have not been recorded as revenue as of September 30, 2013, as the amount is not considered material.

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

**Note 5 - Capital Assets**

A summary of activity for capital assets capitalized by the City for the year ended September 30, 2013, follows:

<b>Governmental Activities:</b>	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not being depreciated:				
Land	\$ 73,668	\$ 79,436	\$ -	\$ 153,104
Construction in Progress	195,660	817,912	-	1,013,572
Total	<u>269,328</u>	<u>897,348</u>	<u>-</u>	<u>1,166,676</u>
Capital Assets being depreciated:				
Buildings	3,876,602		-	3,876,602
Improvements other than Buildings	2,142,872	18,800	-	2,161,672
Machinery & Equipment	3,848,423	61,709	-	3,910,132
Public domain infrastructure	15,230,068	-	-	15,230,068
Total Capital Assets being depreciated	<u>25,097,965</u>	<u>80,509</u>	<u>-</u>	<u>25,178,474</u>
Less Accumulated Depreciation for:				
Buildings	2,956,496	52,677	-	3,009,173
Improvements other than Buildings	1,425,529	84,050	-	1,509,579
Machinery & Equipment	1,829,399	337,389	-	2,166,788
Public domain infrastructure	10,898,100	395,118	-	11,293,218
Total	<u>17,109,524</u>	<u>869,234</u>	<u>-</u>	<u>17,978,758</u>
Total Capital Assets being depreciated, Net	<u>7,988,441</u>	<u>(788,725)</u>	<u>-</u>	<u>7,199,716</u>
Total Government Activities Capital Assets, Net	<u>\$ 8,257,769</u>	<u>\$ 108,623</u>	<u>\$ -</u>	<u>\$ 8,366,392</u>
 <b>Business-Type Activities:</b>				
	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets not being depreciated:				
Land	\$ 677,865	\$ -	\$ -	\$ 677,865
Construction in Progress	17,900	-	(17,900)	-
Total	<u>695,765</u>	<u>-</u>	<u>(17,900)</u>	<u>677,865</u>
Capital Assets being depreciated:				
Buildings & System	33,377,704	413,827	-	33,791,531
Machinery & Equipment	14,919,115	-	-	14,919,115
Total Capital Assets being depreciated	<u>48,296,819</u>	<u>413,827</u>	<u>-</u>	<u>48,710,646</u>
Less Accumulated Depreciation for:				
Buildings & System	9,755,719	892,096	-	10,647,815
Machinery & Equipment	9,127,273	604,616	-	9,731,889
Total	<u>18,882,992</u>	<u>1,496,712</u>	<u>-</u>	<u>20,379,704</u>
Total Capital Assets being depreciated, Net	<u>29,413,827</u>	<u>(1,082,885)</u>	<u>-</u>	<u>28,330,942</u>
Total Business Type Activities Capital Assets, Net	<u>\$ 30,109,592</u>	<u>\$ (1,082,885)</u>	<u>\$ (17,900)</u>	<u>\$ 29,008,807</u>

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

**Note 5 - Capital Assets (continued)**

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

<b>Governmental Activities</b>	
General	\$ 12,610
Public safety	283,426
Public works	480,919
Culture and recreation	92,279
	<u>\$ 869,234</u>
<b>Business-type Activities</b>	
Water and sewer	\$ 1,383,186
Solid waste	113,526
	<u>\$ 1,496,712</u>

**Note 6 - Long-Term Debt**

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

During the year ended September 30, 2013, the following changes occurred in long-term liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
General obligation bonds	\$ 6,080,000	\$	\$ (910,000)	\$ 5,170,000	\$ 950,000
Certificates of obligation	4,620,000	2,500,000	(240,000)	6,880,000	270,000
Tax notes	214,764		(42,000)	172,764	55,255
Compensated absences	657,686	63,079		720,765	144,153
<b>Governmental Activities Long-term Liabilities</b>	<u>\$ 11,572,450</u>	<u>\$ 2,626,158</u>	<u>\$ (1,192,000)</u>	<u>\$ 12,943,529</u>	<u>\$ 1,419,408</u>
<b>Business Activities:</b>					
Capital leases	\$ 1,050,498	\$	\$ (171,883)	\$ 878,615	\$ 179,927
Tax notes	425,236		(108,000)	317,236	99,745
Compensated absences	47,632		(2,912)	44,720	8,944
<b>Business-type Activities Long-term Liabilities</b>	<u>\$ 1,523,366</u>	<u>\$</u>	<u>\$ (282,795)</u>	<u>\$ 1,240,571</u>	<u>\$ 288,616</u>

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

**Note 6 - Long-Term Debt (continued)**

The following is a summary of the terms of obligations of general obligation bonds outstanding as of September 30, 2013:

<b>Governmental Activities:</b>				Maturity	Debt
Series	Interest Rate	Original Issue	Date	Outstanding	
<b>General Obligation Bonds</b>					
Series 2005	3.25%-4.00%	\$ 10,855,000.00	2018	\$ 5,170,000	
<b>Total General Obligation Bonds</b>				<u>5,170,000</u>	
<b>Certificates of Obligations</b>					
Series 2004	1.85%-4.25%	\$ 715,000	2026	\$ 525,000	
Series 2006	3.65%	5,000,000	2027	3,855,000	
Series 2013	2.60%	2,500,000	2033	2,500,000	
<b>Total Certificates of Obligations</b>				<u>6,880,000</u>	
<b>Tax Notes</b>					
Series 2010	1.70%-4.00%	\$ 284,764	2016	\$ 172,764	
<b>Total Tax Notes</b>				<u>172,764</u>	
<b>Total Governmental Activities</b>				<u>\$ 12,222,764</u>	
<b>Business Activities:</b>					
Series	Interest Rate	Original Issue		Debt	
<b>Tax Notes</b>					
Series 2010	1.70%-4.00%	\$ 605,236	2016	\$ 317,236	
<b>Total Business Activities</b>				<u>\$ 317,236</u>	

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

Year Ending	Governmental Activities					
	General Obligation Bonds		Certificates of Obligation		Tax Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
9/30						
2014	\$ 950,000	\$ 204,319	\$ 270,000	\$ 232,300	\$ 55,255	\$ 4,173
2015	990,000	167,506	285,000	217,188	58,055	2,713
2016	1,035,000	127,906	290,000	207,810	59,454	952
2017	1,075,000	87,800	300,000	198,133		
2018	1,120,000	44,800	310,000	187,840		
2019			430,000	177,038		
2020			445,000	162,818		
2021			455,000	147,933		
2022			470,000	132,715		
2023			490,000	116,775		
2024			505,000	99,955		
2025			525,000	82,430		
2026			535,000	64,165		
2027			505,000	45,305		
2028			165,000	27,690		
2029			170,000	23,400		
2030			175,000	18,980		
2031			180,000	14,430		
2032			185,000	9,750		
2033			190,000	4,940		
	<u>\$ 5,170,000</u>	<u>\$ 632,331</u>	<u>\$ 6,880,000</u>	<u>\$ 2,171,595</u>	<u>\$ 172,764</u>	<u>\$ 7,838</u>

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

**Note 6 - Long-Term Debt (continued)**

<b>Year Ending</b>	<b>Business Activities</b>	
	<b>Tax Notes</b>	
<b>9/30</b>	<b>Principal</b>	<b>Interest</b>
2014	\$ 99,745	\$ 10,729
2015	106,945	6,975
2016	110,546	2,448
	<u>\$ 317,236</u>	<u>\$ 20,152</u>

**Capital Leases**

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

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

<b>Year Ending</b>	<b>Business Activities</b>	
	<b>Capital Leases</b>	
<b>9/30</b>	<b>Total</b>	
2014	\$	217,269
2015		217,270
2016		217,269
2017		217,269
2018		108,049
		<u>977,126</u>
Less: Interest Portion		<u>(98,511)</u>
	\$	<u>878,615</u>

**Legal Compliance**

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



**CITY OF GROVES, TEXAS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 7 - Interfund Transactions**

The composition of interfund balances as of September 30, 2013, is as follows:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Water and Sewer Fund	\$ 2,722,217	Long-term receivable
Solid Waste Nonmajor Governmental Fund	Water and Sewer Fund	207,265	Accounts Receivable due to Solid Waste fund
	General Fund	320,165	Sales tax receivable due to Economic Development Corporation
		<u>\$ 3,249,647</u>	

The Water and Sewer Fund has an amount due to the General Fund for \$2.7 million. This amount is considered a long-term receivable as it will be paid from future cash flows from water and sewer activity. Amounts recorded as interfund receivables and payables are considered to be temporary loans and will be repaid during the following fiscal year.

A summary of interfund transfers, the purpose of which is to cover operational expenses/expenditures, for the year ended September 30, 2013, is as follows:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amounts</u>	<u>Purpose</u>
Solid Waste	General	190,000	Budgeted transfers to general fund
Water and Sewer	General	3,000	Running service line to Emergency Operations Center
Debt Service	Water and Sewer	121,887	Utilized fund balance to pay down debt
Water and Sewer	Debt Service	565,000	Budgeted payment for water and sewer debt service
Economic Development	Debt Service	223,904	Budgeted payment for Economic Development Corporation debt service
General	Debt Service	393,000	Transfer cash to pay debt service payment
General	Police Forfeiture	8,000	Purchase of undercover narcotics vehicle
Police Forfeiture	General	145	True up of Account
		<u>\$ 1,504,936</u>	

# CITY OF GROVES, TEXAS

## NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)

### Note 8 - Employee Retirement System

#### Plan Description

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

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

#### Benefits

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

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

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

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

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

**Note 8 - Employee Retirement System (continued)**

**Contributions**

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

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

The City's total payroll in fiscal year 2013 was \$5.7 million and the City's contributions were based on a payroll of \$6.0 million. Contributions made by employees totaled \$339 thousand, and the City made contributions of \$559 thousand during the fiscal year ended September 30, 2013.

**Annual Pension Cost**

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

<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Percent Contributed</b>
2011	\$ 830,353	100%
2012	644,508	100%
2013	599,092	100%

**Funding Policy**

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

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

**Note 8 - Employee Retirement System (continued)**

**Funding Policy (continued)**

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011, valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation date	December 31, 2010	December 31, 2011	December 31, 2012
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	26.1 years; closed period	24.6 years; closed period	21.8 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	Amortized cost	Amortized cost	Amortized cost
Actuarial Assumptions:			
Investment return	7.0%	7.0%	7.0%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service
Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living adjustments	0.0%	0.0%	0.0%

The funded status of the plan as of December 31, 2012, the most recent actuarial valuation date, is as follows:

Actuarial valuation date	December 31, 2012
Actuarial value of plan assets (a)	30,716,536
Actuarial accrued liability (AAL) (b)	31,119,967
Unfunded/(Overfunded) actuarial accrued liability (UAAL or OAAL) (b-a)	\$403,431
Funded Ratio (a/b)	98.7%
Projected Annual Covered Payroll (c)	6,007,820
UAAL or OAAL as % of covered payroll ((b-a)/c)	6.7%

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

**Note 9 - Employee Section 457 Plan**

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

**CITY OF GROVES, TEXAS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 9 - Employee Section 457 Plan (continued)**

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

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

**Note 10 - Employee Section 401 Plans**

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

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

	<u>Current Year</u>
401 Money Purchase Plan	
Employee Contributions	\$ 109,596
Employer Contributions	54,798
Total	<u>\$ 164,394</u>
 401 Profit Sharing	
Employee Contributions	\$ 144,341
Employer Contributions	72,171
Total	<u>\$ 216,512</u>

## **CITY OF GROVES, TEXAS**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

#### **Note 11 - Commitments and Contingencies**

##### **Litigation and Other Contingencies**

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

#### **Note 12 - Risk Management**

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

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

#### **Note 13 – Implementation of New GASB Standards**

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The City has implemented GASB No. 63 in this annual report.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement will improve financial reporting by reclassifying certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or as outflows or inflows of resources. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. The City has implemented GASB No. 65 in this annual report.

## **Required Supplementary Information**

**CITY OF GROVES, TEXAS**

**GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**BUDGET AND ACTUAL (UNAUDITED)**

*For the Year Ended September 30, 2013*

	2013			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	
<b>Revenues</b>				
Taxes:				
Property taxes	\$ 4,245,000	\$ 4,245,000	\$ 4,233,057	\$ (11,943)
Sales and use taxes	1,204,000	1,204,000	1,157,053	(46,947)
Franchise taxes	1,845,000	1,845,000	1,712,774	(132,226)
Hotel taxes	75,000	75,000	53,320	(21,680)
Fines and forfeitures	209,000	209,000	155,384	(53,616)
Licenses and permits	86,650	86,650	101,354	14,704
Intergovernmental	2,025,000	2,025,000	621,545	(1,403,455)
Charges for services	149,500	149,500	54,660	(94,840)
Investment earnings	17,500	17,500	514	(16,986)
Miscellaneous	50,000	50,000	39,713	(10,287)
<b>Total Revenues</b>	<u>9,906,650</u>	<u>9,906,650</u>	<u>8,129,374</u>	<u>(1,777,276)</u>
<b>Expenditures</b>				
Current:				
General government	1,143,380	1,143,380	1,181,787	(38,407)
Public Safety	7,740,483	7,740,483	5,058,191	2,682,292
Public Works	2,180,460	2,180,460	2,102,617	77,843
Culture and recreation	511,228	511,228	497,351	13,877
Capital Outlay	25,500	25,500	179,851	(154,351)
<b>Total Expenditures</b>	<u>11,601,051</u>	<u>11,601,051</u>	<u>9,019,797</u>	<u>2,581,254</u>
<b>Revenues under expenditures</b>	(1,694,401)	(1,694,401)	(890,423)	803,978
<b>Other Financing Sources (Uses)</b>				
Issuance of debt	1,600,000	1,600,000	2,500,000	900,000
Transfers in	649,000	649,000	193,145	(455,855)
Transfers out	(393,000)	(393,000)	(401,000)	(8,000)
<b>Total other financing sources (uses)</b>	<u>1,856,000</u>	<u>1,856,000</u>	<u>2,292,145</u>	<u>436,145</u>
Changes in fund balance	161,599	161,599	1,401,722	1,240,123
<b>Fund Balances - Beginning of Year</b>	<u>4,516,815</u>	<u>4,516,815</u>	<u>4,516,815</u>	
<b>Fund Balances - End of Year</b>	<u>\$ 4,678,414</u>	<u>\$ 4,678,414</u>	<u>\$ 5,918,537</u>	<u>\$ 1,240,123</u>



## **CITY OF GROVES, TEXAS**

### ***NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION***

*Year ended September 30, 2013*

#### **General Budget Policies**

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

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

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

The City has not complied with budgetary spending rules for the year ended September 30, 2013, as expenditures exceeded appropriations at the fund level for the Groves Economic Development Corporation Fund.

**CITY OF GROVES, TEXAS**  
**REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION**  
*September 30, 2013*

**TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)**  
**Schedule of Funding Progress**

<b>Actuarial Valuation Date December 31,</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Annual Covered Payroll (c)</b>	<b>(UAAL) as a Percentage of Covered Payroll ((b-a)/c)</b>
2010	\$ 27,386,285	\$ 29,117,087	\$ 1,730,802	94.1%	6,032,138	28.7%
2011	29,038,587	29,911,098	872,511	97.1%	6,034,863	14.5%
2012	30,716,536	31,119,967	403,431	98.7%	6,007,820	6.7%

**Combining and Individual Fund  
Statements and Schedules**

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## **Non-Major Governmental Funds**

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

### **GEDC**

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

### **Police Special Fund**

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

### **Grant Fund**

This special revenue fund is used to account for the activity relating to federal and state programs.

### **Capital Projects Fund**

This fund is used to account for the activity relating to capital projects.

**CITY OF GROVES, TEXAS**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
*September 30, 2013*

	<u>GEDC</u>	<u>Police Forfeiture Fund</u>	<u>Grant Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 64,554	\$ 68,702	\$ 37,044	\$ 513,741	\$ 684,041
Due from other funds	320,165				320,165
<b>Total Assets</b>	<u>\$ 384,719</u>	<u>\$ 68,702</u>	<u>\$ 37,044</u>	<u>\$ 513,741</u>	<u>\$ 1,004,206</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$	\$	\$	\$	\$
<b>Total Liabilities</b>					
Fund balances:					
Restricted for:					
Capital projects				513,741	513,741
Public safety		68,702	37,044		105,746
Economic development	384,719				384,719
<b>Total Fund Balances</b>	<u>384,719</u>	<u>68,702</u>	<u>37,044</u>	<u>513,741</u>	<u>1,004,206</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 384,719</u>	<u>\$ 68,702</u>	<u>\$ 37,044</u>	<u>\$ 513,741</u>	<u>\$ 1,004,206</u>

**CITY OF GROVES, TEXAS**  
**COMBINING STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
*For the Year Ended September 30, 2013*

	<u>GEDC</u>	<u>Police Forfeiture Fund</u>	<u>Grant Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>
<b>Revenues</b>					
Taxes:					
Sales taxes	\$ 576,719	\$	\$	\$	\$ 576,719
Fines and forfeitures		2,071			2,071
Intergovernmental			1,434		1,434
Charges for services	1,331				1,331
Investment earnings	13	9			22
<b>Total Revenues</b>	<u>578,063</u>	<u>2,080</u>	<u>1,434</u>		<u>581,577</u>
<b>Expenditures</b>					
Current:					
Economic development	202,667				202,667
Capital Outlay		1,864			1,864
<b>Total Expenditures</b>	<u>202,667</u>	<u>1,864</u>			<u>204,531</u>
<b>Revenues over expenditures</b>	<u>375,396</u>	<u>216</u>	<u>1,434</u>		<u>377,046</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in		8,000			8,000
Transfers out	(223,904)	(145)			(224,049)
<b>Total other financing sources (uses)</b>	<u>(223,904)</u>	<u>7,855</u>			<u>(216,049)</u>
Changes in Fund Balance	151,492	8,071	1,434		160,997
<b>Fund Balances - Beginning of Year</b>	<u>233,227</u>	<u>60,631</u>	<u>35,610</u>	<u>513,741</u>	<u>843,209</u>
<b>Fund Balances - End of Year</b>	<u>\$ 384,719</u>	<u>\$ 68,702</u>	<u>\$ 37,044</u>	<u>\$ 513,741</u>	<u>\$ 1,004,206</u>

**CITY OF GROVES, TEXAS****DEBT SERVICE FUND****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -****BUDGET AND ACTUAL***For the Year Ended September 30, 2013*

	<b>2013</b>		<b>Variance Positive (Negative)</b>
	<b>Final Budget</b>	<b>Actual</b>	
<b>Revenues</b>			
Taxes:			
Property taxes	\$ 353,689	\$ 345,274	\$ (8,415)
Investment earnings		97	97
<b>Total Revenues</b>	<u>353,689</u>	<u>345,371</u>	<u>(8,318)</u>
<b>Expenditures</b>			
Current:			
Debt Service:			
Principal	1,300,000	1,192,000	108,000
Interest and other charges	427,591	413,704	13,887
<b>Total Expenditures</b>	<u>1,727,591</u>	<u>1,605,704</u>	<u>121,887</u>
<b>Revenues over (under) expenditures</b>	(1,373,902)	(1,260,333)	113,569
<b>Other Financing Sources</b>			
Transfers in	1,373,902	1,181,904	(191,998)
Transfers out		(121,887)	(121,887)
<b>Total other financing sources (uses)</b>	<u>1,373,902</u>	<u>1,060,017</u>	<u>(313,885)</u>
<b>Revenues and other financing sources over expenditures</b>		(200,316)	(200,316)
<b>Fund Balances - Beginning of Year</b>	201,788	201,788	
<b>Fund Balances - End of Year</b>	<u>\$ 201,788</u>	<u>\$ 1,472</u>	<u>\$ (200,316)</u>



**CITY OF GROVES, TEXAS****GROVES ECONOMIC DEVELOPMENT CORPORATION FUND****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -****BUDGET AND ACTUAL***For the Year Ended September 30, 2013*

	<b>2013</b>		
	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>Revenues</b>			
Taxes:			
Sales and use taxes	\$ 600,000	\$ 576,719	\$ (23,281)
Charges for services		1,331	1,331
Investment earnings	2,000	13	(1,987)
<b>Total Revenues</b>	<u>602,000</u>	<u>578,063</u>	<u>(23,937)</u>
<b>Expenditures</b>			
Current:			
Economic development	195,000	202,667	(7,667)
<b>Total Expenditures</b>	<u>195,000</u>	<u>202,667</u>	<u>(7,667)</u>
<b>Revenues over (under)     expenditures</b>	407,000	375,396	(31,604)
<b>Other Financing Uses</b>			
Transfers out	<u>(407,000)</u>	<u>(223,904)</u>	<u>183,096</u>
<b>Revenues and other financing     sources over under expenditures</b>		151,492	151,492
<b>Fund Balances - Beginning of Year</b>	<u>233,227</u>	<u>233,227</u>	
<b>Fund Balances - End of Year</b>	<u>\$ 233,227</u>	<u>\$ 384,719</u>	<u>\$ 151,492</u>