

**City of Grove, Oklahoma**  
Audited Financial Statements  
June 30, 2011

**Published by**  
**The City of Grove, Oklahoma**

**Wingard, Ragsdale, Langley, CPAs', PLLC**  
**Certified Public Accountants**  
**Pryor, Oklahoma**

**City of Grove, Oklahoma**  
**Report on Audit of Financial Statements**  
**June 30, 2011**  
**Table of Contents**

<u><b>Financial Section</b></u>	<u>Pages</u>
Independent Auditor’s Report	1–2
Management’s Discussion and Analysis	3–11
Basic Financial Statements	
Statement of Net Assets	12
Statement of Activities	13
Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Assets – Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Fiduciary Net Assets – Fiduciary Funds	20
Notes to Financial Statements	21–40
 <u><b>Required Supplementary Information</b></u>	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Major Governmental Funds	41–42
Explanation of Differences Between Revenues, Expenditures, and Other Financing Sources (Uses) for Budgetary Funds on a Budgetary Basis and GAAP General Fund and Major Special Revenue Funds On a GAAP Basis	43

**City of Grove, Oklahoma**  
**Report on Audit of Financial Statements**  
**June 30, 2011**  
**Table of Contents**  
(continued)

<b><u>Supplementary Information</u></b>	<b><u>Pages</u></b>
Combining Financial Statements	
Nonmajor Governmental Funds	
Combining Balance Sheet	44-45
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	46-47
Schedule of Expenditures of Federal Awards	48
Notes to the Schedule of Expenditures of Federal Awards	49
<b><u>Compliance and Internal Control Report</u></b>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	50-51
Schedule of Findings and Responses	52
Summary Schedule of Prior Audit Findings	53

# WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

18 NORTH VANN STREET, PRYOR, OK 74361

918-825-6441 OFFICE 918-825-6443 FAX

mail@wandrcpas.net

## INDEPENDENT AUDITOR'S REPORT

To the City Council,  
City of Grove  
Delaware County, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grove, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Grove's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grove, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2012 on our consideration of the City of Grove'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 31 through 33 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grove's financial statements as a whole. The combining and individual nonmajor fund financial statements and the accompanying schedule of expenditures of federal awards is presented for purposes of additional and is not a required part of the financial statements. These statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



**WINGARD, RAGSDALE & LANGLEY**  
*CERTIFIED PUBLIC ACCOUNTANTS, PLLC*

**MARCH 6, 2012**

**City of Grove, Oklahoma**  
**Management's Discussion and Analysis**  
**June 30, 2011**

The following discussion and analysis of the City of Grove's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the City's financial statements, which begin on page 12.

**Financial Highlights**

- ❖ The assets of the City of Grove exceeded its liabilities at the close of the most recent fiscal year by \$ 35,513,197(net assets). Of this amount, \$ 3,550,576 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ The government's total net assets decreased by \$ 186,218 for the year ended June 30, 2011.
- ❖ As of the close of the current fiscal year the City of Grove's governmental funds reported combined ending fund balances of \$ 2,229,310, a decrease of \$ 443,102 in comparison with the prior year. Approximately \$ 412,391 is available for spending at the government's discretion (unassigned fund balance).
- ❖ At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 412,391, or 9% of total general fund expenditures.
- ❖ The City of Grove's total debt decreased by \$224,172 during the current fiscal year. The key factors in this decrease was schedule payment on debt obligations, however the City issued the series 2011 promissory note for construction of the public works facility in the amount of \$945,000, with offsetting principal payments reducing the balance of existing debt.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Grove's basic financial statements. The City of Grove'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 view of the City of Grove's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in

cash flows in the 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 of Grove 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 of Grove include general government, public safety, public works, and culture and recreation. The business-type activities of the City of Grove, which include the City's natural gas, water, wastewater, and sanitation utility operations, include the Grove Municipal Services Authority and the Grove Municipal Airport Managing Authority.

The government-wide financial statements include not only the City of Grove itself (known as the primary government), but also the legally separate authorities (Grove Municipal Services Authority, Grove Municipal Airport Managing Authority, and the Grove Industrial Development Authority) for which the City of Grove is financially accountable. Financial information for these component units is blended with the primary government itself. The government-wide financial statements can be found on pages 12–13 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 of Grove, 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 of Grove can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on 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 ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund, both of which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general and capital projects funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14–16 of this report.

**Proprietary funds.** The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its utility services and municipal airport operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Grove Municipal Services Authority and the Grove Municipal Airport Managing Authority, which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 17–19 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 20 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 21–40 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City’s actual revenues and expenditures on a budgetary basis compared with the original and final budgets for the general fund. Required supplementary information can be found on pages 41–43 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, and internal service funds are presented immediately following the required supplementary information on budget and actual revenues and expenditures for the major governmental fund. Combining statements and schedules can be found on pages 44–47 of this report.

## **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$ 35,513,197 at the close of the most recent fiscal year.

By far the largest portion of the City’s net assets (83%) reflects its investment in capital assets (e.g., land, buildings, improvements, vehicles, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Grove**  
Net Assets  
June 30, 2011, and 2010

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current assets	\$ 2,941,513	\$ 3,081,696	\$ 5,825,304	\$ 5,505,161	\$ 8,766,816	\$ 8,586,857
Capital and other	13,011,348	12,107,039	32,402,280	35,456,755	45,413,629	47,563,795
Total assets	<u>15,952,861</u>	<u>15,188,735</u>	<u>38,227,584</u>	<u>40,961,916</u>	<u>54,180,445</u>	<u>56,150,652</u>
Current liabilities	681,375	1,291,432	2,432,845	2,550,141	3,114,220	3,841,573
Long-term liabilities	2,545,178	1,716,602	13,007,849	13,709,847	15,553,027	15,426,449
Total liabilities	<u>3,226,553</u>	<u>3,008,034</u>	<u>15,440,694</u>	<u>16,259,987</u>	<u>18,667,248</u>	<u>19,268,021</u>
Net assets:						
Invested in capital assets, net of related debt	10,936,295	10,212,636	17,785,058	20,586,555	28,721,353	30,799,191
Restricted	1,551,932	1,801,171	1,689,336	860,004	3,241,268	2,661,175
Unrestricted	238,081	472,448	3,312,495	3,255,370	3,550,576	3,727,818
Total net assets	<u>\$ 12,726,308</u>	<u>\$ 12,486,255</u>	<u>\$ 22,786,889</u>	<u>\$ 24,701,929</u>	<u>\$ 35,513,197</u>	<u>\$ 37,188,184</u>

An additional portion of the City's net assets (9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$ 3,550,576) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets decreased by \$ 186,218 during the current fiscal year. This decrease resulted from the disposition of fixed assets, namely the removal of the old wastewater treatment facility.

**City of Grove**  
Statement of Activities  
June 30, 2011, and 2010

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program revenues:						
Charges for services	\$ 873,701	\$ 847,861	\$ 8,494,029	\$ 9,117,916	\$ 9,367,730	\$ 11,865,777
Grants/contributions	252,424	882,989	162,400	586,720	414,824	882,989
General revenues	<u>5,992,184</u>	<u>5,863,475</u>	<u>587,090</u>	<u>762,355</u>	<u>6,579,274</u>	<u>8,024,832</u>
Total revenues	<u>7,118,309</u>	<u>7,594,325</u>	<u>9,243,519</u>	<u>11,780,271</u>	<u>16,361,828</u>	<u>20,773,598</u>

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Expenses:						
General						
government/administration	1,293,820	1,253,807			1,293,820	1,253,807
Public safety	3,660,660	3,224,643			3,660,660	3,224,643
Public works	2,065,839	3,316,194			2,065,839	3,316,194
Culture and recreation	492,009	520,621			492,009	520,621
Utilities			8,431,905	8,795,206	8,431,905	8,795,206
Airport			603,813	540,400	603,813	540,400
Total expenses	<u>7,512,328</u>	<u>8,315,266</u>	<u>9,035,718</u>	<u>9,335,606</u>	<u>16,548,046</u>	<u>17,650,871</u>
Increase (decrease) in net assets	(486,066)	(720,941)	299,848	2,444,665	(186,218)	3,122,725
Transfers, net	<u>92,047</u>	<u>(360,000)</u>	<u>(92,047)</u>	<u>360,000</u>	<u>0</u>	<u>0</u>
Increase (decrease) in net assets	(394,019)	350,721	207,801	2,804,665	(186,218)	3,155,386
Net assets, beginning, as restated	<u>13,120,327</u>	<u>12,135,535</u>	<u>22,579,088</u>	<u>23,218,435</u>	<u>35,699,415</u>	<u>35,350,970</u>
Net assets, ending	<u>\$ 12,726,308</u>	<u>\$ 12,486,255</u>	<u>\$ 22,786,889</u>	<u>\$ 26,023,100</u>	<u>\$ 35,513,197</u>	<u>\$ 38,506,355</u>

**Governmental activities.** Governmental activities decreased the City's net assets by \$ 394,019. The key elements of this increase was the acquisition of fixed assets.

**City of Grove**  
Governmental Activities  
June 30, 2011, and 2010

	Program Revenues		Cost Of Services	
	2011	2010	2011	2010
General government	\$ 296,215	\$ 153,255	\$ 1,293,820	\$ 1,253,809
Public safety	219,384	592,050	3,660,660	3,224,643
Public works	598,889	947,487	2,065,839	3,316,194
Culture and recreation	11,637	38,058	492,009	520,621
Total governmental activities	<u>\$ 1,126,125</u>	<u>\$ 1,730,850</u>	<u>\$ 7,512,328</u>	<u>\$ 8,315,266</u>

For the most part, increases in expenses resulted in increased health and employee benefit costs, as well as increases in fuel and utility costs.

**Business-type activities.** Business-type activities increased the City's net assets by \$ 207,801.

**City of Grove**  
Business-type Activities  
June 30, 2011, and 2009

	Program Revenues		Cost Of Services	
	2011	2010	2011	2010
Gas	\$ 5,393,895	\$ 6,269,630	\$ 4,335,423	\$ 5,017,391
Water	2,098,384	1,988,628	1,258,477	801,183
Wastewater	454,722	430,024	999,488	595,400
Sanitation	33,743	25,059		
Service Charges	48,750			
Airport	260,961	205,635	603,813	156,063
Administration/other	31,631	198,940	1,335,465	2,328,740
Total business-type activities	<u>\$ 8,322,087</u>	<u>\$ 9,117,916</u>	<u>\$ 8,532,667</u>	<u>\$ 8,898,777</u>

Decreases in program revenues of \$ 795,829 were due to a decrease in natural gas costs, which resulted in lower natural gas revenues.

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

As noted earlier, the City uses 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 end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 2,229,310, a decrease of \$443,102 in comparison with the prior year. Approximately 24% of this total amount (\$ 412,391) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted, committed or assigned to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, fund balance of the general fund was \$ 520,111. As a measure of the general fund's liquidity, it may be useful to compare fund balance to total fund expenditures. The unassigned portion of the fund balance (\$412,391) represents 9% of total general fund expenditures.

The fund balance of the City's general fund decreased by \$ (9,857) during the current fiscal year. The key component of this decrease was increased operating costs, as well as the downturn in the economy, resulting in reduced sales tax revenues.

The capital projects fund has a total fund balance of \$ 1,287,956, all of which is reserved for capital improvements. The net decrease in fund balance during the current year in the capital projects fund was \$ 44,429. The major revenue during the year was sales tax.

Major capital projects fund expenditures included:

- ◆ Public Works Facility
- ◆ Equipment Purchases

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

Unrestricted net assets of the Grove Municipal Services Authority as of the end of the year amounted to \$ 3,189,580. The total increase in net assets was \$551,423. Operating revenues decreased \$ 850,744 over the previous year due to reduce sales of natural gas and water. A decrease of \$ 429,837 in expenses was primarily due to a decrease in the amount and cost of natural gas purchased.

The Grove Municipal Airport Managing Authority had an increase of revenues of \$ 55,326 due to an increase in fuel sales revenues.

### **General Fund Budgetary Highlights**

There were only slight differences between the original budget and the final budget for the general fund. Overall, actual revenues on the budgetary basis of \$ 4,589,527 were \$ 49,296 less than the estimated revenues in the budget of \$ 4,638,823. Actual expenditures of \$ 4,580,897 were \$ 43,051 less than the \$ 4,623,948 approved in budget appropriations. The City budgeted \$ (175,000) to try to make up for its negative cash balance in the general fund.

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

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2011 amounts to \$ 44,704,875 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and vehicles.

Major capital asset events during the current fiscal year included the following:

- ◆ Begin Construction on the Public Works Facility
- ◆ Equipment Purchases

**City of Grove**  
**Capital Assets**  
June 30, 2011, and 2010  
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 967,448	\$ 927,156	\$ 738,712	\$ 738,712	\$ 1,706,160	\$ 1,665,868
Construction in progress	646,828	448,492	374,228	150,720	1,021,056	599,212
Buildings and improvements	9,353,213	9,123,430	29,240,182	32,437,468	38,593,395	41,560,898
Equipment	1,029,741	906,855	1,653,215	1,807,075	2,682,956	2,713,930
Vehicles	661,174	326,703	43,298	27,719	704,472	354,422
Capital assets, net	<u>\$ 12,658,404</u>	<u>\$ 11,732,636</u>	<u>\$ 32,049,635</u>	<u>\$ 35,161,694</u>	<u>\$ 44,708,039</u>	<u>\$ 46,894,330</u>

Additional information of the City's capital assets can be found in Note V.D. on pages 30–31 of this report.

**Long-term debt.** As of the end of the current fiscal year, the City had total debt outstanding of \$ 16,695,330. This represents debt secured solely by specified revenue sources (i.e., revenue bonds and notes) of \$ 13,829,935, other notes payable of \$ 1,626,748, capital lease obligations totaling \$ 526,838, and accrued compensated absences of \$ 711,809.

**City of Grove**  
**Outstanding Debt**  
June 30, 2011, and 2010

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenue notes	\$	\$ 1,520,000	\$ 13,274,935	\$ 13,343,578	\$ 13,274,935	\$ 14,863,578
Revenue bonds			555,000	715,000	555,000	715,000
Other notes	1,360,000		266,748	300,918	1,626,748	300,918
Capital lease obligations	362,087		164,751	215,643	526,838	215,643
Compensated absences	555,721	405,789	156,088	144,799	711,809	550,588
Total outstanding debt	<u>\$ 2,277,808</u>	<u>\$ 1,925,789</u>	<u>\$ 14,417,522</u>	<u>\$ 14,719,938</u>	<u>\$ 16,695,330</u>	<u>\$ 16,645,727</u>

The City of Grove's total debt decreased by \$224,172 during the current fiscal year. The key factors in this decrease was schedule payment on debt obligations, however the City issued the series 2011 promissory note for construction of the public works facility in the amount of \$945,000, with offsetting principal payments reducing the balance of existing debt.

Additional information on the City's long-term debt can be found in Notes V.F. and V.G. on pages 33–36 of this report.

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

The City's elected and appointed officials considered many factors when setting the fiscal-year 2011 budget, tax rates, and fees that will be charged for the proprietary fund type activities. One of these factors is the economy. The downturn of the national economy has affected the local economy. Unemployment is up, sales tax revenues have been decreasing.

These indicators were taken into account when adopting the general fund budget for 2012.

- ◆ Population Growth
- ◆ Decreasing Sales Tax Revenue
- ◆ Commercial Growth
- ◆ Changes in Commodity Prices

All of these factors were considered in preparing the City's budget for the 2012 fiscal year.

During the current fiscal year, fund balance in the general fund decreased to \$ 520,111. This is a decrease of (9,857) from last fiscal year.

## **Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, funding agencies, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the City of Grove, 104 West 3<sup>rd</sup> Street, Grove, Oklahoma 74344.

**City of Grove, Oklahoma**  
**Statement of Net Assets**  
**June 30, 2011**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 1,476,098	\$ 2,826,077	\$ 4,302,175
Receivables, net of allowance for uncollectibles:			
Accounts	9,235	217,767	227,002
Taxes	1,172,620	-	1,172,620
Due from Intra-government	1,135	379,262	380,397
Inventories	-	706,120	706,120
Prepaid Expenses	18,449	6,741	25,190
Restricted assets - cash and investments	263,976	1,689,336	1,953,312
Total current assets	<u>2,941,513</u>	<u>5,825,304</u>	<u>8,766,816</u>
Noncurrent assets:			
Notes receivable	111,634	-	111,634
Investment in land held for sale	209,025	-	209,025
Debt issuance costs, net of accumulated amortization	32,308	355,787	388,095
Capital assets, net of accumulated depreciation	12,658,382	32,046,493	44,704,875
Total noncurrent assets	<u>13,011,348</u>	<u>32,402,280</u>	<u>45,413,629</u>
Total assets	<u>15,952,861</u>	<u>38,227,584</u>	<u>54,180,445</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued liabilities	537,189	218,183	755,372
Payable from restricted assets:			
Accrued interest payable	32,294	144,945	177,239
Customer deposits	-	660,044	660,044
Current portion of long-term obligations	111,892	1,409,673	1,521,565
Total current liabilities	<u>681,375</u>	<u>2,432,845</u>	<u>3,114,220</u>
Noncurrent liabilities:			
Due to intra-government	379,262	-	379,262
Bonds payable	-	385,000	385,000
Notes payable	1,285,000	12,354,864	13,639,864
Lease/Purchase Obligations	325,195	111,897	437,092
Accrued compensated absences	555,721	156,088	711,809
Total noncurrent liabilities	<u>2,545,178</u>	<u>13,007,849</u>	<u>15,553,027</u>
Total liabilities	<u>3,226,553</u>	<u>15,440,694</u>	<u>18,667,248</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	10,936,295	17,785,058	28,721,353
Restricted for:			
Capital improvements	1,287,956	1,019,230	2,307,186
Debt service	49,084	670,106	719,190
Fire Department	214,892	-	214,892
Unrestricted	238,081	3,312,495	3,550,576
Total net assets	<u>\$ 12,726,308</u>	<u>\$ 22,786,889</u>	<u>\$ 35,513,197</u>

The accompanying notes are an integral part of these financial statements.

**City of Grove, Oklahoma  
Statement of Activities  
Year Ended June 30, 2011**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 1,293,820	\$ 252,582	43,633	-	\$ (997,605)	\$	\$ (997,605)
Public safety	3,660,660	174,354	35,940	9,090	(3,441,276)		(3,441,276)
Public works	2,065,839	446,765	-	152,124	(1,466,950)		(1,466,950)
Culture and recreation	492,009	-	5,000	6,637	(480,372)		(480,372)
Total governmental activities	7,512,328	873,701	84,573	167,851	(6,386,203)		(6,386,203)
<b>Business-type activities:</b>							
Utilities	7,928,854	8,233,068	-	162,400		466,614	466,614
Airport	603,813	260,961	-	-	(342,852)		(342,852)
Interest on long term debt	503,051	-	-	-	(503,051)		(503,051)
Total business-type activities	9,035,718	8,494,029	-	162,400	(379,289)		(379,289)
Total government	\$ 16,548,046	\$ 9,367,730	\$ 84,573	\$ 330,251	\$ (6,386,203)	\$ (379,289)	\$ (6,765,492)
<b>Net (Expense) Revenue</b>					\$ (6,386,203)	\$ (379,289)	\$ (6,765,492)
<b>General revenues:</b>							
Taxes:							
Sales and use					5,393,952	672,134	6,066,086
Franchise					208,819	-	208,819
Other					254,517	-	254,517
Interest income					25,864	39,953	65,817
Capital Transfer					106,168	(106,168)	-
Transfers - internal activity					(14,121)	14,121	-
Gain on sale of assets					16,985	(32,950)	(15,965)
Total general revenues and transfers					5,992,184	587,090	6,579,274
Change in net assets					(394,019)	207,801	(186,218)
Net assets, beginning					13,120,327	22,579,088	35,699,415
Net assets, ending					\$ 12,726,308	\$ 22,786,889	\$ 35,513,197

The accompanying notes are an integral part of these financial statements.

**City of Grove, Oklahoma**  
**Balance Sheet – Governmental Funds**  
**June 30, 2011**

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ (130,801)	\$ 1,241,881	\$ 365,018	\$ 1,476,097
Receivables:				
Accounts	9,235	-	-	9,235
Taxes	1,152,948	-	19,672	1,172,620
Due from other governments	-	-	-	-
Due from other funds	1,135	314,966	-	316,101
Prepaid Expenses	18,449	-	-	18,449
Restricted cash and investments	-	-	214,892	214,892
Total assets	\$ 1,050,965	\$ 1,556,846	\$ 599,582	\$ 3,207,394
<b>Liabilities and fund balances</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 89,960	\$ 268,890	\$ 178,339	\$ 537,189
Due to other funds	440,895	-	-	440,895
Total liabilities	\$ 530,855	\$ 268,890	\$ 178,339	\$ 978,083
Fund balances:				
Reserved for:				
Nonspendable	-	-	-	-
Restricted	-	1,287,956	249,150	1,537,106
Committed	107,720	-	-	107,720
Assigned	-	-	172,093	172,093
Unassigned	412,391	-	-	412,391
Total fund balances	520,111	1,287,956	421,243	2,229,310
Total liabilities and fund balances	\$ 1,050,966	\$ 1,556,846	\$ 599,583	
Amounts reported for governmental activities in the statement of net assets are different because:				
Cash held in trust for long term debt obligations is not available to satisfy current obligations				49,085
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				12,658,382
Debt issuance costs used in governmental activities are not financial resources and, therefore, are not reported in funds:				32,308
Land held for sale is not expected to be realized in the current period.				209,025
Notes receivable are not a current financial resource and, therefore, not reported in the funds.				111,634
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in funds:				
Due to other entities				(253,333)
Capital lease obligations				(362,087)
Notes payable				(1,360,000)
Accrued interest on long-term debt				(32,294)
Accrued compensated absences				(555,721)
<b>Net assets of governmental activities</b>				<b>\$ 12,726,308</b>

The accompanying notes are an integral part of these financial statements.

**City of Grove, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances – Governmental Funds**  
**Year Ended June 30, 2011**

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 4,106,325	\$ 1,681,098	\$ 69,865	\$ 5,857,288
Licenses and permits	21,327	-	-	21,327
Intergovernmental	32,393	167,851	46,338	246,582
Fines and forfeitures	153,027	-	-	153,027
Charges for services	150,836	-	446,765	597,601
Other	95,895	-	89,336	185,231
Interest	20,069	-	5,795	25,864
Total revenues	<u>4,579,872</u>	<u>1,848,949</u>	<u>658,098</u>	<u>7,086,919</u>
<b>Expenditures</b>				
Current:				
General government	809,193	-	-	809,193
Public safety	2,322,616	-	794,951	3,117,567
Public works	1,182,917	-	3,000	1,185,917
Culture and recreation	280,627	-	1,000	281,627
Debt service	-	-	195,320	195,320
Capital outlay	-	1,926,271	-	1,926,271
Total expenditures	<u>4,595,353</u>	<u>1,926,271</u>	<u>994,270</u>	<u>7,515,895</u>
Excess of revenues over (under) expenditures	(15,481)	(77,322)	(336,172)	(428,976)
<b>Other financing sources (uses)</b>				
Transfers in	3,563,868	2,043,588	341,257	5,948,713
Transfers (out)	(3,558,244)	(2,010,694)	(393,901)	(5,962,839)
Total other financing sources (uses)	<u>5,624</u>	<u>32,894</u>	<u>(52,644)</u>	<u>(14,126)</u>
<b>Net change in fund balances</b>	(9,857)	(44,429)	(388,817)	(443,102)
Fund balances, beginning (see note D, pg 40)	<u>529,968</u>	<u>1,332,385</u>	<u>810,060</u>	<u>2,672,413</u>
Fund balances, ending	<u>\$ 520,111</u>	<u>\$ 1,287,956</u>	<u>\$ 421,243</u>	<u>\$ 2,229,311</u>

The accompanying notes are an integral part of these financial statements.

**City of Grove, Oklahoma**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2011**

Net change in fund balances – total governmental funds	<u>\$ (443,102)</u>
Adjustments for the statement of activities:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets are allocated over their estimated useful lives as a depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation in the current reporting period.	
Capital outlay expenditures, net	1,926,271
Depreciation expense	(1,260,522)
Land Sales	(39,690)
Assets Transferred	(106,168)
Gain on sale of assets	16,985
	<u>536,876</u>
The receipt of principal payments on long-term notes receivable provide current financial resources to governmental funds, however they have no effect on net assets.	
Principal payments received on long-term notes receivable	<u>(81,762)</u>
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.	
Principal payments on capital leases	21,983
Principal payments on long-term debt	160,000
	<u>181,983</u>
Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore, are not reported in governmental funds.	
Accrued interest payable on long-term debt	(32,294)
Accrued compensated absences, net change	(555,721)
	<u>(588,015)</u>
Change in net assets of governmental activities	<u>\$ (394,019)</u>

The accompanying notes are an integral part of these financial statements.

**City of Grove, Oklahoma**  
**Statement of Net Assets – Proprietary Funds**  
**June 30, 2011**

	Business-Type Activities – Enterprise Funds		Total
	Grove Municipal Services Authority	Grove Municipal Airport Managing Authority	
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 2,771,212	\$ 54,865	\$ 2,826,077
Receivables			
Accounts, net of allowance for uncollectibles	203,445	14,322	217,767
Due from other funds	379,262	-	379,262
Inventories	651,106	55,014	706,120
Prepaid Expenses	6,741	-	6,741
Restricted assets - cash and investments	1,689,336	-	1,689,336
Total current assets	<u>5,701,103</u>	<u>124,201</u>	<u>5,825,304</u>
Noncurrent assets			
Debt issuance costs, net of accumulated amortization	355,787	-	355,787
Capital assets, net of accumulated depreciation	30,737,002	1,309,491	32,046,493
Total noncurrent assets	<u>31,092,789</u>	<u>1,309,491</u>	<u>32,402,280</u>
Total assets	<u>36,793,892</u>	<u>1,433,692</u>	<u>38,227,584</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	217,467	716	218,183
Payable from restricted assets			
Accrued interest payable	144,945	-	144,945
Customer deposits	660,044	-	660,044
Current portion of long-term obligations	1,396,257	13,416	1,409,673
Total current liabilities	<u>2,418,713</u>	<u>14,132</u>	<u>2,432,845</u>
Noncurrent liabilities			
Revenue bonds	385,000	-	385,000
Notes payable	12,354,864	-	12,354,864
Lease/Purchase Obligations	111,897	-	111,897
Accrued compensated absences	155,517	570	156,088
Total noncurrent liabilities	<u>13,007,279</u>	<u>570</u>	<u>13,007,849</u>
Total liabilities	<u>15,425,992</u>	<u>14,702</u>	<u>15,440,694</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	16,488,984	1,296,075	17,785,059
Restricted			
Capital improvements	1,019,230	-	1,019,230
Debt service	670,106	-	670,106
Unrestricted	3,189,580	122,914	3,312,494
Total net assets	<u>\$ 21,367,900</u>	<u>\$ 1,418,989</u>	<u>\$ 22,786,889</u>

The accompanying notes are an integral part of these financial statements.

**City of Grove, Oklahoma**  
**Statement of Revenues, Expenses, and Changes in**  
**Fund Net Assets – Proprietary Funds**  
**Year Ended June 30, 2011**

	Business-Type Activities – Enterprise Funds		Total
	Grove Municipal Services Authority	Grove Municipal Airport Managing Authority	
<b>Operating revenues</b>			
Charges for services:			
Gas	\$ 5,393,896	\$ -	\$ 5,393,896
Water	2,098,384	-	2,098,384
Wastewater	454,722	-	454,722
Sanitation	33,743	-	33,743
Service Fees	48,750	-	48,750
Other	31,631	260,961	292,592
Total operating revenues	<u>8,061,126</u>	<u>260,961</u>	<u>8,322,087</u>
<b>Operating expenses</b>			
Administration	1,315,655	-	1,315,655
Gas	4,335,423	-	4,335,423
Water	1,258,477	-	1,258,477
Wastewater	999,488	-	999,488
Airport	-	603,813	603,813
Bad debt expense	19,810	-	19,810
Total operating expenses	<u>7,928,854</u>	<u>603,813</u>	<u>8,532,667</u>
Net operating income (loss)	132,272	(342,852)	(210,580)
<b>Nonoperating revenues (expenses)</b>			
Taxes	672,134	-	672,134
Miscellaneous revenues	171,944	-	171,944
Interest income	39,852	100	39,952
Interest expense and fiscal charges	(502,183)	(868)	(503,051)
Gains and losses	(32,950)	-	(32,950)
Total nonoperating revenues (expenses)	<u>348,797</u>	<u>(768)</u>	<u>348,029</u>
<b>Operating transfers</b>			
Transfers in	5,029,181	-	5,029,181
Transfers (out)	(5,121,228)	-	(5,121,228)
Total operating transfers	<u>(92,047)</u>	<u>-</u>	<u>(92,047)</u>
<b>Contributions</b>			
Capital Contributions	162,400	-	162,400
Total Contributions	<u>162,400</u>	<u>-</u>	<u>162,400</u>
<b>Net income (loss)</b>	551,423	(343,620)	207,802
Net assets, beginning (see note D, pg. 39)	20,816,479	1,762,609	22,579,088
Net assets, ending	<u>\$ 21,367,901</u>	<u>\$ 1,418,989</u>	<u>\$ 22,786,890</u>

The accompanying notes are an integral part of these financial statements.

**City of Grove, Oklahoma**  
**Statement of Cash Flows – Proprietary Funds**  
**Year Ended June 30, 2011**

	Business-Type Activities – Enterprise Funds		Totals
	Grove Municipal Services Authority	Grove Municipal Airport Managing Authority	
<b>Cash flows from operating activities</b>			
Receipts from customers	\$ 8,418,816	\$ 246,639	\$ 8,665,455
Payments to suppliers	(5,932,040)	(213,923)	(6,145,963)
Payments to employees	(1,126,850)	(18,030)	(1,144,880)
Net cash provided (used) by operating activities	<u>1,359,926</u>	<u>14,686</u>	<u>1,374,612</u>
<b>Cash flows from capital and related financing activities</b>			
Proceeds from Long-term Debt	945,000	-	945,000
Principal paid on long-term debt	(1,244,536)	(14,169)	(1,258,705)
Interest expense and fiscal charges	(503,051)	(869)	(503,920)
Tax revenues received	672,134	-	672,134
Transfers in (out)	(92,047)	-	(92,047)
(Acquisition) of debt costs	(43,500)	-	(43,500)
(Acquisition) disposition of capital assets	(357,355)	(674)	(358,029)
Net cash provided (used) by capital and related financing activities	<u>(623,355)</u>	<u>(15,712)</u>	<u>(639,067)</u>
<b>Cash flows from investing activities</b>			
Interest income	39,953	100	40,053
Net cash provided (used) by investing activities	<u>39,953</u>	<u>100</u>	<u>40,053</u>
Net increase (decrease) in cash and cash equivalents	776,524	(926)	775,598
Cash and cash equivalents, beginning	3,684,024	55,791	3,739,815
Cash and cash equivalents, ending	<u>\$ 4,460,548</u>	<u>\$ 54,865</u>	<u>\$ 4,515,413</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Net operating income (loss)	\$ 551,423	(342,852)	\$ 208,571
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	973,010	380,520	1,353,530
Loss on sale of assets	32,950	-	32,950
Changes in assets and liabilities:			
(Increase) decrease in receivables	5,827	9,402	15,229
(Increase) decrease in prepaids	(6,741)	-	(6,741)
(Increase) decrease in inventories	445,193	(12,987)	432,206
Increase (decrease) in accounts payable	(690,415)	(1,459)	(691,874)
Increase (decrease) in customer deposits	17,521	-	17,521
Increase (decrease) in accrued expenses	16,388	(17,939)	(1,551)
Increase (decrease) in intra-government	14,771	-	14,771
Net cash provided (used) by operating activities	<u>\$ 1,359,927</u>	<u>\$ 14,685</u>	<u>\$ 1,374,612</u>

The accompanying notes are an integral part of these financial statements.

**City of Grove, Oklahoma**  
**Statement of Fiduciary Net Assets – Fiduciary Funds**  
**June 30, 2011**

	Agency Funds
<b>Assets</b>	
Cash and cash equivalents	\$ 38,950
Total assets	38,950
<b>Liabilities</b>	
Due to bondholders/employees	37,811
Due to other funds	1,139
Total liabilities	38,950
<b>Net Assets</b>	\$ -

The accompanying notes are an integral part of these financial statements.

**City of Grove, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2011**

**I. Organization**

The City of Grove, Oklahoma (the City) was incorporated November 22, 1902, and operates under a council/city manager form of government under Title 11 of the *Oklahoma Statutes*. The City provides the following services to its citizens: public safety; streets and highways; culture and recreation; public improvements; utilities including natural gas, water, sewer, and sanitation; airport services; and general government and administrative services.

**II. Summary of significant accounting policies**

**A. Reporting entity**

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. The City's financial statements do not include any discretely presented component units, which would be reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

**Blended component units.** The Grove Municipal Services Authority (GMSA) is a public trust created under authority of and pursuant to the provision of Title 60, *Oklahoma Statutes* 1961, Sections 176 to 180, for the use and benefit of the City of Grove. GMSA has as its purpose to develop and operate utility facilities and services including water, sewer, gas, sanitation, or other forms or types of public and municipal services within and without the corporate boundaries of the City of Grove. The city council appoints the trustees of the GMSA. The City of Grove is the beneficiary of the trust.

The Grove Municipal Airport Managing Authority (Airport) is a public trust created on January 5, 1960, and amended December 22, 1975, to develop, construct, and operate a municipal airport in the City of Grove. The Grove city council appoints the trustees of the Airport board. The City of Grove is the beneficiary of the trust.

The Grove Economic Development Authority (GEDA), previously the Grove Industrial Development Authority, is a public trust created on September 3, 1968, and amended February 1, 1984, for the purpose of promoting industrial development within the City of Grove. The Grove city council appoints the trustees of GIDA. The City of Grove is the beneficiary of the trust.

The Grove Healthcare Authority is a public trust created on September 21, 1999, for the purpose of developing and maintaining health care facilities to serve the needs of the people of Grove, Oklahoma. The board of trustees consists of five members, one of which is a member of the city council of the City of Grove, with the remaining four trustees being members at large. The City of Grove is the beneficiary of the trust.

Separate financial statements have not been prepared for the component units.

## **B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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 when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

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

The City reports the following major governmental funds:

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 another fund.

The capital projects fund accounts for the resources accumulated from grants, contributions, and transfers from other funds or entities and payments made for capital improvements and other capital outlay expenditures, as well as debt service payments on capital lease obligations.

The City reports the following major proprietary funds:

The Grove Municipal Services Authority accounts for the City's natural gas, water, and wastewater utility operations, as well as sanitation services.

The Grove Municipal Airport Managing Authority accounts for the municipal airport operations and improvements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's utility functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Department of Public Utilities and Special Utility Authority enterprise funds and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

## **D. Assets, liabilities, and net assets or equity**

### ***1. Deposits and investments***

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

State statutes authorize the City to invest in obligations of the U.S. Treasury; time deposits with financial institutions, if such deposits are fully insured by federal depository insurance or pledged collateral; and debt securities issued by the State of Oklahoma, an Oklahoma County, school district, or municipality.

Investments for the City, as well as for its component units are reported at fair value.

### ***2. Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles.

### ***3. Inventories and prepaid items***

All inventories are valued at the lower of weighted average cost or market and consist of expendable supplies held for consumption and fuel for sale at the airport. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### ***4. Restricted assets***

Certain proceeds of the Grove Municipal Services Authority's enterprise fund Oklahoma Water Resources Board promissory note and utility and sales tax revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts, and their use is limited by applicable debt covenants. The project fund account is used to report those proceeds that are restricted for use in construction. The debt service fund account is used to segregate resources accumulated for debt service payments over the next 12 months. The debt service reserve account is used to report resources set aside to make up potential future deficiencies in the debt service account.

## **5. Capital assets**

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$ 500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest on long-term financing of construction projects is capitalized as part of the cost of the asset as construction period interest and amortized to expense over the life of the debt.

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

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	25–50
Improvements other than buildings	20–50
Furniture, equipment, and vehicles	5–10

## **6. Compensated absences**

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Employees may accumulate from 24 to 90 days of unused vacation, depending on length of service. Sick leave may be accumulated up to a maximum of 90 days. Accumulated sick leave may be applied toward service credit for retirement benefits or may be paid for the accumulated sick leave, provided the employee has the required number of years of continuous service with the City. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

## **7. Long-term obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds on a straight-line basis over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

## **8. Fund equity**

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

### III. Reconciliation of government-wide and fund financial statements

#### A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in the funds. The details of this difference are as follows:

Due to other entities	\$	253,333
Accrued interest payable		32,294
Notes payable		1,360,000
Accrued compensated absences		555,721
Capital lease obligations		362,087
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	\$	<u>2,201,348</u>

Another difference concerns capital asset reporting. The cost of capital assets, net of accumulated depreciation, are reported on the government-wide statement of net assets, but not on the governmental fund financial statements since they are not financial resources. The details of this difference are as follows:

Capital assets, net of accumulated depreciation	\$	<u>12,658,382</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	\$	<u>12,658,382</u>

Other differences involve other assets, including cash held for long term purposes, land held for sale, and the cost of issuing debt. These items are reported as a noncurrent on the government-wide statement of net assets, but is not reported on the governmental fund financial statements since they are not expected to be sold or used during the current year.

Cash held to satisfy long term debt	\$	49,085
Debt issuance costs	\$	32,308
Land held for sale	\$	209,025
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	\$	<u>290,418</u>

One final difference between the governmental fund balance sheet and the government-wide statement of net assets is the long-term portion of notes receivable which are included in the government-wide financial statements but not in the governmental fund financial statements since they will not be collected in the current year. The details of this difference are as follows:

Long-term portion of notes receivable	\$	<u>111,634</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	\$	<u>111,634</u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

Capital outlay	\$ 1,926,271
Depreciation expense	(1,260,522)
Land Sales	(39,690)
Assets Transferred	(106,168)
Gain on sale of assets	<u>16,985</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 536,876</u>

Another element of that reconciliation states that the issuance of long-term debt (e.g., notes, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The details of this difference are as follows:

Principal repayments:	
Notes payable	\$ 160,000
Capital Leases	<u>21,983</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 181,983</u>

Another element of that reconciliation states that receipt of principal payments on notes receivable provide current financial resources to governmental funds, while they have no effect on net assets in the government-wide financial statements. The details of this difference are as follows:

Principal payments received on notes receivable	<u>\$ (81,762)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (81,762)</u>

A final element of that reconciliation states that some expenses in the statement of activities do not require the use of current financial resources, and therefore, are not reported in the governmental fund financial statements. The net changes in accrued interest payable and compensated absences are included in the expenses in the government-wide statement of activities. The details of this difference are as follows:

Accrued interest payable	\$ (32,294)
Accrued compensated absences	<u>(555,721)</u>
Adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (588,015)</u>

## IV. Stewardship, compliance, and accountability

### Budgetary information

Annual budgets are adopted for all governmental funds, the Special Utility Authority, and Department of Public Utilities. All unencumbered, annual appropriations lapse at fiscal year-end. Actual expenditures within a fund may not legally exceed 90% of the adopted budget.

Prior to June of each year, all department heads of the City submit requests for appropriations to the city manager so that a budget may be prepared. The city council meets with the city manager and city financial officer to review the needs estimates and requests of the departments. The council holds a public hearing prior to June 15, and a final budget is formally approved and adopted by the city council no later than June 24.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between classification categories within a department or between departments within a fund require the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the object classification level within a department. Object classifications include personal services, materials and supplies, other services and charges, capital outlay, and debt service. Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

## V. Detailed notes on all funds

### A. Deposits and investments

#### *Deposits*

The City's carrying amount of deposits was \$ 4,284,990 as of June 30, 2011, and the bank balances totaled \$ 4,577,225. Deposits are carried at cost.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

#### *Investments*

As of June 30, 2011, the City had the following investments.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
U.S. Treasury mutual funds	N/A	\$ 5,536,998
Certificate of deposit	< 12 months	<u>0</u>
Total		<u>\$ 5,536,998</u>

*Interest Rate Risk.* The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State statutes limit investments to the following: a) direct obligations of the U.S. Government, its agencies or instrumentalities; b) collateralized or insured certificates of deposit within the state, and insured certificates only if out of state; c) savings accounts or savings certificates; d) fully collateralized prime banker acceptances, prime commercial paper, repurchase agreements, or SEC regulated money market funds; e) obligations to the payment of which the full faith and credit of the state is pledged; f) county, municipal, or school district and valorem tax funded debt; g) bonds, notes, or money judgments of a county, municipality, or school district; h) revenue anticipation notes of a public trust of which the municipality is beneficiary; or; i) any bond, note, or other debt of any public trust of which the municipality is sole beneficiary, or other entities whose governing boards were appointed by the municipality. The City has no investment policy that would further limit its investment choices. As of June 30, 2011, the City had no investments in certificates of deposit.

*Concentration of Credit Risk.* The City places no limit on the amount it may invest in any one issuer. None of the City's investments are in certificates of deposit. The investment is 100% of the City's total investments.

## B. Receivables

Receivables as of June 30, 2011, for the City of Grove's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Capital Projects	Nonmajor Governmental Funds	Grove Municipal Services Authority	Grove Municipal Airport Managing Authority	Total
Receivables:						
Taxes	1,152,948		19,672			1,172,620
Accounts	9,235			256,599	14,322	280,156
Gross receivables	1,162,183		19,672	256,599	14,322	1,452,776
Less: allowance for uncollectibles				53,154		53,154
Net total receivables	1,162,183		19,672	203,445	14,322	1,399,622

Additionally, reported in governmental activities, a note receivable includes an amount due from a loan in the form of payment of construction costs on a building for economic development by the Grove Economic Development Authority. The original amount of the note was \$ 250,000. Loan payments of \$ 2,129 per month, including interest at 3.50% are due beginning November 2003. The balance outstanding at June 30, 2011 was \$ 111,634.

### C. Restricted assets

The Grove Municipal Services Authority Utility and Sales Tax Revenue Bonds Series 1989 includes restricted cash and investments for a debt service fund for repayment of the principal and interest when due, and a debt service reserve to be used for payment of principal and interest provided sufficient funds are not available in the debt service fund. The Grove Municipal Services Authority Sales Tax Revenue Notes Series 2005 and 2007 also include debt service accounts, and the Series 2005 note has a construction fund. The 2009 CWSRF OWRB note has a specific cash account. The meter deposit account for customer refunds is also shown as restricted. Additionally, the Grove Industrial Development Authority Use Tax Notes, Series 2001 include a revenue fund and note fund to be used for payment of the principal and interest when due, as well as the Series 2010 note which also includes a construction fund. All funds are on deposit with trustee banks.

	Grove Municipal Services Authority			GIDA
	Revenue Bonds & Notes	Meter Deposits	Totals	Use Tax Notes
Debt service – 1989 bonds	71,463		71,463	
Reserve – 1989 bonds	217,192		217,192	
Debt service – 2005 note	132,458		132,458	
Construction fund – 2005 note	117,715		117,715	
Debt service – 2006 note	176,571		176,571	
2009 CWSRF OWRB Funds	44,178		44,178	
Customer meter deposits		660,044	660,044	
Debt service – 2011 note	28,244		28,244	
2011 Note Construction fund	901,516		901,516	
Debt service – GEDA 2010 note				49,084
Delaware County Fire tax Funds				214,892
Totals	<u>1,689,337</u>	<u>660,044</u>	<u>2,349,381</u>	<u>263,976</u>

## D. Capital assets

Capital asset balances and activities for the year ended June 30, 2011, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets, not being depreciated:				
Land	\$ 927,156	40,292		967,448
Construction in progress	448,492	198,336		646,828
Total capital assets, not being depreciated	<u>1,375,648</u>	<u>238,628</u>		<u>1,614,276</u>
Capital assets, being depreciated:				
Buildings and improvements	11,218,989	853,530		12,072,519
Equipment	2,542,647	106,038	(19,732)	2,628,953
Vehicles	1,777,464	227,486		2,004,950
Total capital assets, being depreciated	<u>15,539,100</u>	<u>1,187,054</u>	<u>(19,732)</u>	<u>16,706,422</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,970,559)	(748,747)		(2,719,306)
Equipment	(1,350,464)	(268,206)	19,458	(1,599,212)
Vehicles	(1,177,133)	(166,643)		(1,343,776)
Total accumulated depreciation	<u>(4,498,156)</u>	<u>(1,183,596)</u>	<u>19,458</u>	<u>(5,662,294)</u>
Total capital assets, being depreciated, net	<u>11,040,944</u>	<u>3,458</u>	<u>(274)</u>	<u>11,044,128</u>
Total governmental activities capital assets, net	<u>\$ 12,416,592</u>	<u>242,086</u>	<u>(274)</u>	<u>12,658,404</u>
<b>Business-type activities</b>				
<b>Grove Municipal Services Authority</b>				
Capital assets, not being depreciated:				
Land	\$ 700,312			700,312
Construction in progress	150,720	223,508		374,228
Total capital assets, not being depreciated	<u>851,032</u>	<u>223,508</u>		<u>1,074,540</u>
Capital assets, being depreciated:				
Buildings and improvements	36,706,787	105,951	(59,476)	36,753,262
Equipment	2,742,249	20,891	(3,088)	2,760,052
Vehicles	320,349	44,702		365,051
Total capital assets, being depreciated	<u>39,769,385</u>	<u>171,544</u>	<u>(62,564)</u>	<u>39,878,365</u>
Less accumulated depreciation for:				
Buildings and improvements	(8,051,478)	(738,251)	6,580	(8,783,149)
Equipment	(938,259)	(172,603)	3,003	(1,107,859)
Vehicles	(292,630)	(29,123)		(321,753)
Total accumulated depreciation	<u>(9,282,367)</u>	<u>(939,977)</u>	<u>9,583</u>	<u>(10,212,761)</u>
Total capital assets, being depreciated, net	<u>30,487,018</u>	<u>(768,433)</u>	<u>(52,981)</u>	<u>29,665,604</u>
GMSA capital assets, net	<u>31,338,050</u>	<u>(544,925)</u>	<u>(52,981)</u>	<u>30,740,144</u>

	Beginning Balance	Increase	Decrease	Ending Balance
<b>Grove Municipal Airport Managing Authority</b>				
Capital assets, not being depreciated:				
Land	\$ 38,400			38,400
Total capital assets, not being depreciated	<u>38,400</u>			<u>38,400</u>
Capital assets, being depreciated:				
Buildings and improvements	4,536,673			4,536,673
Equipment	117,618	674		118,292
Total capital assets, being depreciated	<u>4,654,291</u>	<u>674</u>		<u>4,654,965</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,888,819)	(377,785)		(3,266,604)
Equipment	(114,534)	(2,736)		(117,270)
Total accumulated depreciation	<u>(3,003,353)</u>	<u>(380,521)</u>		<u>(3,383,874)</u>
Total capital assets, being depreciated, net	<u>1,650,938</u>	<u>(379,846)</u>		<u>1,271,091</u>
Airport capital assets, net	<u>1,689,338</u>	<u>(379,846)</u>		<u>1,309,491</u>
Total business-type activities, capital assets	<u>\$ 33,077,388</u>	<u>(895,649)</u>	<u>(52,979)</u>	<u>32,049,635</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 81,250
Public safety	427,513
Public works	751,759
Total depreciation expense – governmental activities	<u>\$ 1,260,522</u>
Business-type activities:	
Administration	\$ 120,498
Gas	126,449
Water	281,446
Wastewater	431,865
Airport	380,520
Total depreciation expense – business-type activities	<u>\$ 1,340,778</u>

Construction period interest of \$ 356,972 is included above in buildings and improvements for Grove Municipal Services Authority, as well as accumulated amortization of \$ (80,033). The current year amortization was \$ 8,635. The unamortized balance at June 30, 2011 was \$ 276,939.

#### **E. Deposits subject to refund**

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2011, restricted cash and investments included \$ 660,044 available for refund of customer deposits, while the liability to customers was \$ 660,044.

Appearance bonds and other payments made to the municipal court funds are held until final disposition by the court at which time they are refunded to the bondholder or paid over to the City general fund as fines. As of June 30, 2011, \$ 38,950 was being held that was subject to refund.

## F. Leases

Capital leases – The City has entered into two lease agreements as lessee for financing the acquisition of fire vehicles utilizing its portion of the Delaware County Fire Tax Funds. GMSA has entered into a lease agreement as lessee for financing the acquisition of equipment. These lease agreement qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The Capital lease obligations at June 30, 2011 are as follows:

### Government-type activities

#### Capital Leases

First National Bank and Trust Co. of Chickasha, OK dated October 26, 2009, in the Amount of \$273,870, payable in annual installments of \$35,128.63 plus interest at 4.80%, For a 2010 Freightliner 4 door commercial pumper	\$251,887
---	-----------

Welch State Bank dated March 28, 201, in the amount of \$110,200, payable in annual installments of 18,280.48 plus interest of 3.76% for a 1989 Pierce 75' Quint Ladder Truck	\$110,200
---	-----------

Total Governmental-type activities	\$362,087
------------------------------------	-----------

### Business-type activities

#### Capital Leases

BOKF Equipment, Inc. dated April 20, 2009, in the amount of \$ 264,646, payable in quarterly installments of \$ 14,592 plus interest at 3.80%, for a 2009 sewer vacuum truck.	\$ 164,751
---	------------

<b>Total business-type activities</b>	<b>\$ 164,751</b>
---------------------------------------	-------------------

The assets acquired through capital leases are as follows:

Asset:	
2009 Sewer Vacuum Truck	\$ 264,646
Less accumulated depreciation	57,340
Net	<u>\$ 207,306</u>

Asset:	
2010 Frightliner Pumper Truck	\$ 273,870
1989 Pierce 75' Quint Ladder Truck	123,200
Less accumulated depreciation	53,858
Net	<u>\$ 343,212</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, are as follows:

Year Ending June 30,	Government Activities	Business-type Activities
2011	\$ 444,121	\$ 175,101
Total required payments	444,121	175,101
Less: amount representing interest	82,034	10,350
Total principal payments	<u>\$ 362,087</u>	<u>\$ 164,751</u>

## G. Long-term debt

Long-term liabilities of the City of Grove as of June 30, 2011, are summarized as follows:

### Governmental activities

Revenue notes:

Grove Economic Development Authority Use Tax Revenue Notes, dated November 1, 2001, in the amount of \$ 930,000, payable in annual installments ranging from \$ 65,000 to \$ 120,000 with interest at 4.09% over ten years. These notes are not general obligations of the GIDA, but are limited and special revenue obligations of the GIDA payable solely from a year-to-year pledge of certain use tax revenues and facility revenues and funds and accounts established by indenture. \$ 0

Grove Economic Development Authority Series 2010 Promissory Notes, dated February 1, 2010, In the amount of \$1,435,000, payable in semi-annual payments ranging form \$35,000 to \$60,000 With an interest rate of 3.47% over 15 years. These notes are obligations of the GEDA payable solely from a year-to-year pledge of revenues and funds and accounts established by indenture. 1,360,000

**Total governmental activities** 1,360,000

### Business-type activities

Grove Municipal Services Authority:

Notes payable:

\$945,000 Grove Municipal Services Authority, Series 2011 Promissory Note to the Bank of Grove, Dated March 30, 2011, payable in semi-annual installments ranging from \$109,322 – \$116,680, with payments commencing on October 1, 2011. Payments are plus interest at a rate of 3.47%, for the construction of a Public Works Facility. The note matures on April 1, 2021. \$ 945,000

\$1,900,000 Grove Municipal Services Authority, Series 2009 Small Community Clean Water SRF Promissory Note to the Oklahoma Water Resources Board, Dated August 21, 2009, payable in semi-annually with repayment commencing no later than one (1) year after the date construction of the project is completed, and shall mature on the earlier of (i) March 15 or September 15 next preceding the date which is twenty(20) years after completion of construction of project as certified to the OWRB by the borrower, or (ii) September 15, 2021. Payments are plus interest at a rate of 1.87% and an administrative fee of 0.5%, for the construction of an upgrade/expansion to the existing wastewater treatment plant, secured by revenues generated by the utility system plus a pledge of 2.4% sales tax from the City of Grove. \$ 1,224,125

Note payable to the Oklahoma Department of Commerce for a Community Development Block Grant loan, dated November 18, 2002, in the amount of \$ 400,000 payable in monthly installments of \$ 1,667 to amortize the loan balance over 20 years with no interest. This loan is to provide funds to the City of Grove for certain infrastructure improvements benefiting the City with job opportunities for low- and moderate-income individuals in the City. \$ 253,333

\$ 7,500,000 Grove Municipal Services Authority, Series 2003 Small Community Clean Water SRF Promissory Note to the Oklahoma Water Resources Board, dated November 6, 2003, payable semi-annually commencing on the earlier of (1) the March 15 or September 15 next following the date construction of the project is completed or (2) March 15, 2005, over twenty years, plus interest at 2.157% and an administrative fee of 0.5% beginning March 15, 2004, for the construction of a wastewater treatment plant, secured by revenues generated by the utility system plus a pledge of 2.4% sales tax from the City of Grove. \$ 5,420,809

\$ 4,080,000 Grove Municipal Services Authority Sales Tax Revenue Note Series 2005, dated September 26, 2005, payable in semi-annual installments of \$ 75,000 to \$ 185,000 plus interest at 3.00%, beginning March 1, 2007, to finance water, sewer, and natural gas line relocation costs and improvements to the water and sanitary sewer systems, secured by a year-to-year pledge of sales tax from the City of Grove. \$ 2,905,000

\$ 4,170,000 Grove Municipal Services Authority Sales Tax Revenue Refunding Notes Series 2006, dated February 15, 2006, payable in semi-annual installments of \$ 165,000 to \$ 225,000 beginning September 1, 2008, plus interest at 4.10% beginning September 1, 2007, to refund the \$ 6,540,000 Utility and Sales Tax Revenue Bonds Series 1996, secured by a pledge of sales tax from the City of Grove. \$ 2,780,000

Revenue bonds:

\$ 2,350,000 Utility and Sales Tax Revenue Bonds Series 1989, payable from revenues of GMSA for the purpose of refunding outstanding bonds of 1967. The bonds are due in annual installments ranging from \$ 35,000 to \$ 200,000. The final installment is due March 1, 2014. The interest rates range from 6.65% to 7.85%. \$ 555,000

Total Grove Municipal Services Authority \$ 14,083,267

Grove Municipal Airport Managing Authority:

Notes payable:

Note payable to the Grand Federal Savings Bank, dated February 7, 2003, in the amount of \$ 112,909, payable in monthly installments of \$ 1,253, including interest at 4.50%, for airport improvements. \$ 13,416

**Total Business-type activities** 14,096,687

**Total Long Term Debt** \$ 15,456,687

Long-term liabilities transactions for the year ended June 30, 2011, and changes therein were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>Governmental activities</b>					
Grove Economic Development Authority:					
Notes payable:					
Series 2001	\$ 85,000		85,000		
Series 2010	1,435,000		75,000	1,360,000	75,000
Accrued compensated absences	405,789	149,932		555,721	
Lease/Purchase obligations	273,870	110,200	21,983	362,087	36,892
Total governmental activities	2,199,659	260,132	181,983	2,277,808	111,892
<b>Business-type activities</b>					
Grove Municipal Services Authority:					
Notes payable:					
CDBG	273,333		20,000	253,333	20,000
OWRB 2003	5,761,604		340,795	5,420,809	339,590
OWRB 2009	1,291,974		67,849	1,224,125	103,814
Series 2005	3,145,000		240,000	2,905,000	250,000
Series 2006	3,145,000		365,000	2,780,000	380,000
Series 2011	0	945,000		945,000	80,000
Revenue bonds:					
Series 1989	715,000		160,000	555,000	170,000
Lease/Purchase obligations	215,643		50,892	164,751	52,853
Grove Municipal Airport Managing Authority:					
Notes payable – hangars	27,585		14,074	13,416	13,416
Accrued compensated absences	144,799	11,289		156,088	
Total business-type activities	14,719,938	956,289	1,258,610	14,417,522	1,329,768
Total long-term debt	\$ 16,919,597	1,216,421	1,440,593	16,695,330	1,404,768

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ending	Governmental Activities		Business-Type Activities			
	Notes Payable		Notes Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
June 30,						
2012	75,000	49,585	1,186,819	395,869	170,000	43,482
2013	80,000	43,895	1,210,576	357,155	185,000	30,223
2014	80,000	41,120	1,262,604	317,747	200,000	15,700
2015	85,000	38,344	1,309,950	276,581		
2016	90,000	35,307	1,352,290	233,926		
2021–2030	950,000	163,958	7,219,445	671,049		
Totals	1,360,000	372,209	13,541,684	2,252,327	555,000	89,405

## H. Conduit Debt

The Grove Economic Development Authority (GEDA) is involved in conduit debt for Precision Leasing Co, LLC, through GE Government Finance, Inc. The proceeds are to be utilized to purchase equipment. The amount of this debt is not to exceed 8 million dollars. GEDA has no obligation whatsoever in repaying this debt. Repayment of this debt obligation rests solely with Precision Leasing Co, LLC.

### I. Debt issuance costs

Debt issuance costs of \$ 603,731 have been capitalized on enterprise fund revenue bonds and notes payable, and are being amortized on the straight-line basis over the term of the relevant debt issues. During the year ended June 30, 2011, \$ 33,034 in debt issuance costs was amortized.

### J. Compensated absences

Full-time employees with at least one year of service earn vacation of twelve to twenty-four days per year depending on years of service completed. Employees may accrue up to a maximum of two years entitlement. Additionally, employees receive compensatory time off for overtime worked. Upon separation from service, any accumulated compensatory time not taken would be paid to the employee.

In accordance with the guidelines set forth by GASB Statement No. 16, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, a provision has been made for accumulated vacation as follows:

Governmental activities	\$ 555,721
Business-type activities	<u>156,088</u>
Total accrued compensated absences	<u><u>\$ 711,809</u></u>

Full-time employees earn sick leave at the rate of eight hours per month, up to 720 hours. Employees may be paid for unused accumulated sick leave upon separation from service, provided they have at least 7 ½ years of service.

## **VI. Other information**

### **A. Risk management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City has insurance for the major risks such as property and general liability. Commercial insurance is used to cover general liability claims and the risk of loss to City buildings and mobile equipment, as well as worker's compensation. Judgments against the City may be paid by a property tax assessment over a three-year period.

### **B. Contingent liabilities**

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

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

### **C. Employee retirement systems and pension plans**

The City of Grove participates in the Oklahoma State Police Pension and Retirement System and the Oklahoma State Firefighters' Pension and Retirement System, both of which are cost-sharing multiple-employer defined benefit pension plans administered by the State of Oklahoma. Additionally, for other City employees not covered by the other plans, the City of Grove maintains a defined benefit plan—the Oklahoma Municipal Retirement Fund Employee Retirement System of Grove, Oklahoma (the Plan).

#### Oklahoma State Police Pension and Retirement System (OPPRS)

Plan Description – The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OPPRS. The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the police employees of the City. That report may be obtained by writing to the Oklahoma State Police Pension and Retirement System, 1001 N.W. 63rd Street, Suite 305, Oklahoma City, Oklahoma 73116-7339, or by calling 1-405-840-3555.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary, and the City of Grove contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OPPRS for the year ended June 30, 2011, for employees and employer were \$ 63,491 and \$ 103,173, respectively, on covered payroll of \$ 793,641.

## Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

Plan Description – The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OFPRS. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the firefighting employees of the City. That report may be obtained by writing to the Oklahoma State Firefighters' Pension and Retirement System, 4545 North Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105, or by calling 1-405-525-7813.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary, and the City of Grove contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OFPRS for the year ended June 30, 2011, for employees and employer were \$ 17,545 and \$ 28,510, respectively, on covered payroll of \$ 219,308.

## Oklahoma Public Employees Retirement System of Grove, Oklahoma

Plan Description – The Oklahoma Public Employees Retirement System of Grove, Oklahoma (OPERS) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to OPERS members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OPERS. The OPERS issues a publicly available financial report that includes financial statements and required supplementary information for the public employees of the City. The report may be obtained by writing to the Oklahoma State Public Employees Pension and Retirement System, 4545 N. Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105, or by calling 405-525-7813.

Funding Policy – OPERS members are required to contribute 3.5% of their annual covered salary and the City contributes 11.5%. The contribution requirements of OPERS members and the City are established and may be amended by the state legislature. Contributions to the OPERS for the year ended June 30, 2011, for employees and employer were \$ 72,353 and \$ 337,390, respectively, on covered payroll of \$ 2,059,907.

## **D. Subsequent Events**

Subsequent events have been evaluated through the date of the auditor's report. The following items are the result of that evaluation:

Grove Municipal Services Authority (GMSA) - In October of 2011, GMSA's Board approved the purchase of web-based meter reading automation system in the amount of \$1,883,979. As such, the Board additionally, approved the issuance of the Sales Tax Revenue Note 2011 in the amount of \$2,050,000.

Grove Economic Development Authority (GEDA) – in September of 2011, GEDA's Board approved the issuance of Tax Increment Revenue Note, Taxable Series 2011 in the aggregate principal of \$2,415,000 pursuant to the Harbor Point Economic Development Project Plan adopted by the City of Grove. The purpose of the Increment District is to encourage economic development in the City by facilitating the creation of new retail and commercial development within the City that encourages commerce, increases retail opportunities, and generates a corresponding growth in the local tax base.

## **E. Prior Period Adjustment**

During the current period management determined certain proprietary assets were not properly written off in the period during which the assets were disposed. As such, the following Financial Statement items were adjusted as follows:

### **Grove Municipal Services Authority**

As presented June 30, 2010:

Capital Assets, net of accumulated depreciation:	\$ 33,472,357
Invested in capital assets, net of related Debt:	18,924,803
Total Net Assets:	22,939,320

As adjusted in the current Financial Statements

Capital Assets, net of accumulated depreciation:	\$ 30,737,002
Invested in capital assets, net of related Debt:	16,488,984
Total Net Assets:	21,637,900

### **Business-Type Activities – Totals**

As presented June 30, 2010:

Capital Assets, net of accumulated depreciation:	\$ 35,161,694
Invested in capital assets, net of related Debt:	20,586,555

As adjusted in the current Financial Statements

Capital Assets, net of accumulated depreciation:	\$ 32,046,493
Invested in capital assets, net of related Debt:	17,785,058

### **Governmental Activities**

As presented June 30, 2010:

Capital Assets, net of accumulated depreciation:	\$ 11,732,636
Invested in capital assets, net of related Debt:	10,212,636

As adjusted in the current Financial Statements

Capital Assets, net of accumulated depreciation:	\$ 12,658,382
Invested in capital assets, net of related Debt:	10,936,295

**City of Grove, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund**  
**Balances – Budget and Actual – Major Governmental Funds**  
**Year Ended June 30, 2011**

	General Fund				Capital Projects Fund			
	Budget		Variance with Final Budget Positive (Negative)		Budget		Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		Original	Final	Actual	
<b>Revenues</b>								
Taxes	\$ 4,002,000	\$ 4,039,328	\$ 3,952,020	\$ (87,308)	\$ 1,662,500	\$ 1,675,000	\$ 1,671,687	\$ (3,313)
Licenses and permits	53,450	57,250	56,713	(537)	-	-	-	-
Intergovernmental	196,000	202,000	183,179	(18,821)	298,004	447,572	167,851	(279,721)
Fines and forfeitures	193,201	231,405	151,949	(79,456)	-	-	-	-
Charges for services	129,600	134,638	124,007	(10,631)	-	-	-	-
Miscellaneous	23,000	(60,182)	101,590	161,772	1,662,500	1,409,357	1,352,761	(56,596)
Interest	34,384	34,384	20,069	(14,315)	-	-	-	-
Total revenues	4,631,635	4,638,823	4,589,527	(49,296)	3,623,004	3,531,929	3,192,299	(339,630)
<b>Expenditures</b>								
General government:								
Administration	535,400	540,662	539,067	(1,595)	1,244,200	984,650	333,348	(651,302)
Governing board	192,350	187,405	177,985	(9,420)	-	-	-	-
Legal court	62,150	58,287	58,026	(261)	-	-	-	-
Finance	56,775	59,789	59,677	(112)	-	-	-	-
City hall	35,500	33,324	32,893	(431)	-	-	-	-
Public safety:								
Police	1,432,400	1,403,911	1,398,579	(5,332)	202,900	235,880	199,264	(36,616)
Dispatch and jail	299,800	321,609	320,848	(761)	-	-	-	-
Animal Control	85,200	61,641	61,119	(522)	-	-	-	-
Emergency management	50,000	50,000	50,000	-	-	24,646	15,245	(9,402)
Fire	411,350	434,517	433,965	(552)	68,000	174,000	58,864	(115,136)
Public works:								
Building and grounds	360,950	340,569	336,121	(4,447)	423,904	743,479	736,146	(7,333)
Streets	495,350	512,664	510,010	(2,654)	1,044,700	916,900	600,895	(316,005)
Vehicle maintenance	87,950	94,996	90,393	(4,603)	20,800	15,800	15,391	(409)
Community Development	207,085	191,559	189,231	(2,328)	157,000	100,074	87,111	(12,963)
Airport	45,159	45,424	45,061	(363)	39,000	176,500	19,015	(157,485)
Cemetery	4,425	5,348	4,941	(407)	-	-	-	-
Culture and recreation:								
Library	19,100	18,063	17,861	(201)	-	-	-	-
Senior center	20,800	17,007	16,531	(477)	-	-	-	-
Civic center	85,400	75,968	73,111	(2,856)	-	-	-	-
Sports and recreation	43,750	34,189	33,248	(941)	-	-	-	-
Parks	5,191	2,581	2,239	(342)	-	-	-	-
NEO Higher Ed	3,500	2,294	2,291	(3)	-	-	-	-
Swimming pool	69,700	124,402	120,759	(3,643)	-	-	-	-
YMCA	7,350	7,740	6,940	(800)	-	-	-	-
Total expenditures	4,616,635	4,623,948	4,580,897	(43,051)	3,200,504	3,371,929	2,065,278	(1,306,651)
Excess of revenues over expenditures	\$ 15,000	\$ 14,875	\$ 8,630	\$ (92,347)	\$ 422,500	\$ 160,000	\$ 1,127,021	\$ (1,646,282)

**City of Grove, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund**  
**Balances – Budget and Actual – Major Governmental Funds**  
**Year Ended June 30, 2011**

	General Fund			Capital Projects Fund			Variance with Final Budget Positive (Negative)
	Budget	Final	Actual	Budget	Final	Actual	
<b>Other financing sources (uses)</b>							
Transfers in	3,570,000	3,584,645	3,543,373	1,702,500	1,715,000	1,717,656	2,656
Transfers (out)	(3,585,000)	(3,599,520)	(3,558,244)	(1,862,500)	(1,875,000)	(1,871,687)	3,313
Total other financing sources (uses)	(15,000)	(14,875)	(14,871)	(160,000)	(160,000)	(154,031)	5,969
<b>Net change in fund balance:</b>	-	-	(6,241)	262,500	-	972,990	(1,640,312)
Fund balances, beginning	-	-	529,968	(262,500)	-	1,332,384	3,945,686
Fund balances, ending	\$ -	\$ -	\$ 523,727	\$ -	\$ -	\$ 2,305,374	\$ 2,305,374

**City of Grove, Oklahoma**  
**Explanation of Differences Between Revenues, Expenditures, and Other**  
**Financing Sources (Uses) for Budgetary Funds on a Budgetary Basis and**  
**GAAP General Fund and Major Special Revenue Funds on a GAAP Basis**  
**Year Ended June 30, 2011**

<u><b>Budgetary funds</b></u>	<u>General Fund</u>	<u>Capital Projects Fund</u>
<u><b>Financial statement major funds</b></u>		
<b>Revenues</b>		
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	\$ 4,589,527	3,192,299
Adjustments:		
<i>Budgetary</i> general fund revenues are reported on the cash basis, rather than the modified accrual basis	(9,655)	(1,343,350)
	<hr/>	<hr/>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 4,579,872</u>	<u>\$ 1,848,949</u>
<b>Expenditures</b>		
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	\$ 4,580,897	2,065,278
Adjustments:		
	14,456	(139,007)
	<hr/>	<hr/>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>\$ 4,595,353</u>	<u>\$ 1,926,271</u>
<b>Other financing sources (uses)</b>		
Actual amounts (budgetary basis) "other financing sources and uses" from the budgetary comparison schedules	\$ (14,871)	(154,031)
Adjustments:		
	20,495	186,925
	<hr/>	<hr/>
Total other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ 5,624</u>	<u>\$ 32,894</u>

**City of Grove, Oklahoma**  
**Combining Balance Sheet – Nonmajor Governmental Funds**  
**June 30, 2011**

	Special Revenue					
	Street and Alley Fund	Library Fund	Olympus Cemetery Fund	Special Fire Department Fund	Drug Forfeiture Fund	Special Police Fund
<b>Assets</b>						
Cash and cash equivalents	\$ -	\$ 10,238	\$ 14,585	\$ 11,538	\$ 2,569	\$ 4,196
Receivables:						
Taxes	8,372	-	-	-	-	-
Accounts	-	-	-	-	-	-
Restricted cash and investments	-	-	-	-	-	-
Total assets	<u>\$ 8,372</u>	<u>\$ 10,238</u>	<u>\$ 14,585</u>	<u>\$ 11,538</u>	<u>\$ 2,569</u>	<u>\$ 4,196</u>
<b>Liabilities</b>						
Accounts payable	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Fund balances</b>						
Unreserved:						
Designated	8,372	10,238	14,585	11,538	2,569	4,196
Total fund balances	<u>8,372</u>	<u>10,238</u>	<u>14,585</u>	<u>11,538</u>	<u>2,569</u>	<u>4,196</u>
Total liabilities and fund balances	<u>\$ 8,372</u>	<u>\$ 10,238</u>	<u>\$ 14,585</u>	<u>\$ 11,538</u>	<u>\$ 2,569</u>	<u>\$ 4,196</u>

Special Revenue

Technology Fund	Animal Control Fund	Sanitation Fund	Veteran's Memorial Perpetual Care Fund	Grove Economic Development Authority	Health Care Trust Authority Fund	Grove Del Co Fire Tax Fund	Total Nonmajor Governmental Funds
\$ 301	\$ 3,908	\$ 37,339	\$ (18)	\$ 140,361	\$ 140,000	\$ -	\$ 365,018
-	-	-	-	-	-	11,301	19,672
-	-	-	-	-	-	-	-
-	-	-	-	-	-	214,892	214,892
<u>\$ 301</u>	<u>\$ 3,908</u>	<u>\$ 37,339</u>	<u>\$ (18)</u>	<u>\$ 140,361</u>	<u>\$ 140,000</u>	<u>\$ 226,193</u>	<u>\$ 599,582</u>
-	-	37,339	-	1,000	140,000	-	178,339
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,339</u>	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ 140,000</u>	<u>\$ -</u>	<u>\$ 178,339</u>
301	3,908	-	(18)	139,361	-	226,193	421,243
301	3,908	-	(18)	139,361	-	226,193	421,243
<u>\$ 301</u>	<u>\$ 3,908</u>	<u>\$ 37,339</u>	<u>\$ (18)</u>	<u>\$ 140,361</u>	<u>\$ 140,000</u>	<u>\$ 226,193</u>	<u>\$ 599,582</u>

**City of Grove, Oklahoma**  
**Combining Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances – Nonmajor Governmental Funds**  
**Year Ended June 30, 2011**

	Special Revenue					
	Street and Alley	Library Fund	Olympus Cemetery Fund	Special Fire Department Fund	Drug Forfeiture Fund	Special Police Fund
<b>Revenues</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	46,338	-	-	-	-	-
Charges for services	-	-	1,629	-	-	-
Other	-	-	-	3,904	-	7,064
Interest	-	156	211	147	45	68
<b>Total revenues</b>	<u>46,338</u>	<u>156</u>	<u>1,841</u>	<u>4,051</u>	<u>45</u>	<u>7,131</u>
<b>Expenditures</b>						
Current:						
Public safety	-	-	-	-	462	6,934
Public works	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Debt service	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>462</u>	<u>6,934</u>
Excess of revenues over (under) expenditures	46,338	156	1,841	4,051	(417)	197
<b>Other financing sources (uses)</b>						
Long-term Debt Proceeds	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Transfers (out)	(45,969)	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<u>(45,969)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balances</b>	369	156	1,841	4,051	(417)	197
Fund balances, beginning, (See Note D, pg. 39)	<u>8,003</u>	<u>10,082</u>	<u>12,744</u>	<u>7,487</u>	<u>2,986</u>	<u>3,999</u>
Fund balances, ending	<u>\$ 8,372</u>	<u>\$ 10,238</u>	<u>\$ 14,585</u>	<u>\$ 11,538</u>	<u>\$ 2,569</u>	<u>\$ 4,196</u>

Special Revenue

Technology Fund	Animal Control Fund	Sanitation Fund	Veteran's Memorial Fund	Grove Economic Development Authority	Health Care Trust Authority	Grove Del Co Fire Tax Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,865	\$ 69,865
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	46,338
-	250	444,135	750	-	-	-	446,765
300	-	-	-	77,643	-	425	89,336
1	58	-	3	2,018	-	3,087	5,795
<u>301</u>	<u>308</u>	<u>444,135</u>	<u>753</u>	<u>79,662</u>	<u>-</u>	<u>73,377</u>	<u>658,098</u>
-	-	444,135	-	-	340,000	3,420	794,951
-	-	-	-	3,000	-	-	3,000
-	-	-	1,000	-	-	-	1,000
-	-	-	-	160,191	-	35,128	195,319
-	-	-	-	-	-	-	-
-	-	<u>444,135</u>	<u>1,000</u>	<u>163,191</u>	<u>340,000</u>	<u>38,548</u>	<u>994,270</u>
301	308	-	(247)	(83,529)	(340,000)	34,829	(336,172)
-	-	-	-	-	-	-	-
-	-	-	-	139,757	200,000	1,500	341,257
-	-	-	-	(346,432)	-	(1,500)	(393,901)
-	-	-	-	<u>(206,675)</u>	<u>200,000</u>	<u>-</u>	<u>(52,644)</u>
301	308	-	(247)	(290,204)	(140,000)	34,829	(388,817)
-	3,600	-	229	429,565	140,000	191,364	810,060
<u>\$ 301</u>	<u>\$ 3,908</u>	<u>\$ -</u>	<u>\$ (18)</u>	<u>\$ 139,361</u>	<u>\$ -</u>	<u>\$ 226,193</u>	<u>\$ 421,243</u>

**City of Grove, Oklahoma**  
**Schedule of Federal Awards**  
**Year Ended June 30, 2011**

<b>Federal Grantor/Pass-through Grantor Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity</b>	<b>Pass-through Entity Identifying Number</b>	<b>Current Period Expenditures Recognized</b>
US Dept. of Housing & Urban Development	14.228	OK Dept. of Commerce	13103 CDBG 07	116,165.35
US Dept of Justice	16.579	Grove Public Schools - DARE	FY11	6,000.00
US Dept. of Housing & Urban Development	14.228	OK Dept. of Commerce	14127 CDBG 10 FEMA-1678-DR-	23,500.00
US Homeland Security	97.036	OK Dept of Emergency Mngmt	OK	15,244.50
US Homeland Security	97.053	OK Office of Homeland Security	130.004	4,563.68
US Dept. of Transportation	20.6	OK Highway Safety Office	PT-11-03-08-02	14,006.34
US Dept. of Transportation	20.016	Federal Aviation Administration	3-40-0035-014-2011	2,759.75
US Dept. of Transportation	20.205	OK Dept. of Transportation	SAFETEALU-10-16	22,309.00
US Dept. of Justice	16.803	Districts Attorney Council	JR09-060	9,090.00
US Dept. of Transportation	20.6	OK Highway Safety Office	PT-10-03-48-01	<u>9,769.37</u>
<b>Total Federal Expenditures</b>				<b>223,407.99</b>

**City of Grove, Oklahoma**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

**I. Basis of Accounting**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Grove, Oklahoma and is presented on the cash basis of accounting, which is another comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**II. Expenditures**

Expenditures represent the current year federal grant/contract portion only.

**III. Noncash Awards**

City of Grove, Oklahoma expended no form of noncash assistance during the year and had no loan or loan guarantees outstanding at June 30, 2011, which are required by OMB Circular A-133 to be included in the schedule of expenditures of federal awards.

**IV. Subrecipients**

City of Grove, Oklahoma provided no federal awards to subrecipients.

# WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

18 NORTH VANN STREET, PRYOR, OK 74361

918-825-6441 OFFICE 918-825-6443 FAX

mail@wandrcpas.net

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

To The Honorable Mayor and City Council  
City of Grove  
Delaware County, Oklahoma

We have audited the accompanying financial statements of the City of Grove, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City of Grove's basic financial statements and have issued our report thereon dated March 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

### COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Grove's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material

effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Wingard, Ragsdale & Langley, CPAs, PLLC".

**WINGARD, RAGSDALE & LANGLEY**  
*CERTIFIED PUBLIC ACCOUNTANTS, PLLC*

**MARCH 6, 2012**

# WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

18 NORTH VANN STREET, PRYOR, OK 74361

918-825-6441 OFFICE 918-825-6443 FAX

mail@wandrcpas.net

## SCHEDULE OF FINDINGS AND RESPONSES

### 2011-1 Recognition of Capital Contributions

*Criteria or specific requirement:* Capital contributions should be recognized at fair value at the time of the contribution.

*Condition:* Capital contributions result during the normal course of the City's operations, therefore require specific action by the City to properly report items received.

*Context:* Inquiries of management revealed material capital contributions were not properly recognized in previously issued financial statements.

*Effect:* Fixed asset records are misstated without recognition of capital contributions.

*Cause:* No specific control or policy is present regard the recognition of contributions, whether monetary or capital in nature.

*Recommendation:* Implementation of a control procedure, such as a reporting requirement, should occur at the time of formal acceptance of contributions. Formal acceptance of contributions should be contingent upon completion of the established reporting requirement, whereas, all required information to properly report such amounts has been reviewed and approved by the accounting department, before acceptance of such items.

*Views of responsible officials and planned corrective actions:*

Management has come up with an application process for items that are being donated to the City or its Authorities. This is to better track the item, make sure a value is assigned to the item prior to acceptance, as well as make sure all the proper approvals have been received prior to the asset being booked.

**WINGARD, RAGSDALE & LANGLEY**

*CERTIFIED PUBLIC ACCOUNTANTS, PLLC*

18 NORTH VANN STREET, PRYOR, OK 74361

918-825-6441 OFFICE 918-825-6443 FAX

mail@wandrcpas.net

**SCHEDULE OF PRIOR AUDIT FINDINGS**

**2010 Financial Statement Audit Findings**

There were no matters reported in the prior year's audit report.

**Federal Award Findings and Questioned Costs**

There were no matters reported in the prior year's audit report.