

**CITY OF GROVE, OKLAHOMA**

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED  
JUNE 30, 2013

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council,  
City of Grove  
Grove, OK 74344

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, State Oklahoma as of and for the year ended June 30, 2013, which collectively comprise the City of Grove's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Grove, State of Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### 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, State of Oklahoma, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### OTHER MATTERS

#### *Required Supplementary Information*

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 39, be presented to supplement the

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grove, State of Oklahoma's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2013, on our consideration of the City of Grove, State of Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Grove, State of Oklahoma's internal control over financial reporting and compliance.



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

**OCTOBER 3, 2013**

CITY OF GROVE, OKLAHOMA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
JUNE 30, 2013

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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, 2013. 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 \$37,578,783 (net assets). Of this amount, \$ 2,787,628 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ The government's total net assets increased by \$ 1,815,435 for the year ended June 30, 2013.
- ❖ As of the close of the current fiscal year the City of Grove's governmental funds reported combined ending fund balances of \$ 1,982,566, a decrease of \$ 567,264 in comparison with the prior year. Approximately \$ 739,460 is available for spending at the government's discretion (unassigned fund balance).
- ❖ The City's total debt increased by \$ 1,352,065 during the current fiscal year. The key factors in this increase was the addition of a series 2012 note for help in funding the Wolf Creek Park Public Fishing Access project, as well as the first draw of an 8,765,000 note from the Oklahoma Water Resources Board for the expansion/upgrade of the existing Water Treatment Facility and the addition of a Lease/Purchase agreement to purchase a Hyundai Excavator, with offsetting principal payments reducing the balance of existing debt.
- ❖ At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 743,903 or 14.9% of total general fund expenditures.

**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).

CITY OF GROVE, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013

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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.

**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, Economic Development operations 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, the Grove Economic Development 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 21–41 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 42-44 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 45-46 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 \$ 37,578,784 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (85%) 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, OKLAHOMA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 JUNE 30, 2013

**City of Grove**  
 Net Assets  
June 30, 2013, and 2012

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Current assets	\$ 2,793,810	\$ 3,235,294	\$ 4,978,399	\$ 4,905,821	\$ 7,772,209	\$ 8,141,115
Capital and other	13,156,764	11,211,805	38,032,088	38,272,014	51,188,852	46,957,544
Total assets	<u>15,950,574</u>	<u>14,447,099</u>	<u>43,010,487</u>	<u>43,177,835</u>	<u>58,961,060</u>	<u>55,098,659</u>
Current liabilities	859,025	243,926	3,273,559	2,766,564	4,132,584	3,010,490
Long-term liabilities	919,610	1,405,481	16,330,083	14,484,496	17,249,693	15,889,977
Total liabilities	<u>1,778,634</u>	<u>1,649,407</u>	<u>19,603,643</u>	<u>17,251,060</u>	<u>21,382,277</u>	<u>18,900,467</u>
Net assets:						
Invested in capital assets, net of related debt	12,870,268	10,886,610	19,557,987	19,255,002	32,428,255	30,141,612
Restricted	1,197,437	1,717,461	1,165,464	1,096,874	2,362,901	2,814,335
Unrestricted	104,235	193,622	2,683,393	2,982,690	2,787,628	3,176,312
Total net assets	<u>\$ 14,171,939</u>	<u>\$ 12,797,693</u>	<u>\$ 23,406,844</u>	<u>\$ 23,334,566</u>	<u>\$ 37,578,784</u>	<u>\$ 36,132,259</u>

An additional portion of the City's net assets (6.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$ 2,787,628) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets increase by \$1,446,524 during the current fiscal year. This increase resulted from the acquisition of fixed assets, namely the Wolf Creek Public Fishing Facility

**City of Grove**  
 Statement of Activities  
June 30, 2013, and 2012

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	\$ 365,273	\$ 879,463	\$ 8,873,234	\$ 7,931,425	\$ 9,238,507	\$ 8,810,888
Grants/contributions	1,888,614	432,608	30,800	63,359	1,919,414	495,967
General revenues	6,050,258	6,265,594	962,289	1,055,222	7,012,547	7,320,816
Total revenues	<u>8,304,145</u>	<u>7,577,665</u>	<u>9,866,323</u>	<u>9,050,006</u>	<u>18,170,468</u>	<u>16,627,671</u>

CITY OF GROVE, OKLAHOMA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 JUNE 30, 2013

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
<b>Expenses:</b>						
General government/administration	2,131,599	1,034,721			2,131,599	1,034,721
Public safety	2,099,375	3,238,490			2,099,375	3,238,490
Public works	1,632,811	2,505,406			1,632,811	2,505,406
Culture and recreation	578,013	143,304			578,013	143,304
Utilities			8,593,115	7,906,799	8,593,115	7,906,799
Airport			729,169	726,464	729,169	726,464
Economic Development			590,951	453,426	590,951	453,426
Total expenses	<u>6,441,798</u>	<u>6,921,921</u>	<u>9,913,235</u>	<u>9,086,689</u>	<u>16,355,033</u>	<u>16,008,610</u>
Increase (decrease) in net assets	1,862,347	655,745	(46,912)	(36,683)	1,815,436	619,062
Transfers, net	(488,079)	59,790	488,079	(59,790)	0	0
Increase (decrease) in net assets	1,374,268	715,535	441,167	(96,473)	1,815,435	619,062
Net assets, beginning, as restated	12,797,693	12,082,158	22,965,677	23,431,039	35,763,348	35,513,197
Net assets, ending	<u>\$ 14,171,939</u>	<u>\$ 12,797,693</u>	<u>\$ 23,406,844</u>	<u>\$ 23,334,566</u>	<u>\$ 37,578,784</u>	<u>\$ 36,132,259</u>

The government's net assets increased by 1,815,436. The key elements of this increase were the acquisition of fixed assets.

**City of Grove**  
 Governmental Activities  
 June 30, 2013, and 2012

	Program Revenues		Cost Of Services	
	2013	2012	2013	2012
General government	\$ 207,685	\$ 207,438	\$ 2,131,599	\$ 1,034,721
Public safety	2,400	226,077	2,099,375	3,238,490
Public works	2,041,802	861,951	1,632,811	2,505,406
Culture and recreation	2,000	16,605	578,013	143,304
Total governmental activities	<u>\$ 2,253,887</u>	<u>\$ 1,312,071</u>	<u>\$ 6,441,798</u>	<u>\$ 6,921,920</u>

For the most part, increases in expenses were due to an increase of capital projects

CITY OF GROVE, OKLAHOMA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 JUNE 30, 2013

**Business-type activities.** Business-type activities increased the City's net assets by \$ 547,677.

**City of Grove**  
 Business-type Activities  
June 30, 2013, and 2009

	Program Revenues		Cost Of Services	
	2013	2012	2013	2012
Gas	\$ 4,741,046	\$ 4,400,863	\$ 3,146,325	\$ 3,402,506
Water	2,618,019	2,484,545	1,569,542	1,699,071
Wastewater	528,311	509,141	1,155,495	1,047,822
Sanitation	514,662	36,258	478,276	
Service Charges	51,385	52,250		
Airport	264,821	360,510	729,169	726,465
Administration/other	92,882	52,505	2,243,567	1,757,400
Economic Development	92,908	98,712	590,951	453,426
Total business-type activities	<u>\$ 8,904,034</u>	<u>\$ 7,994,784</u>	<u>\$ 9,913,325</u>	<u>\$ 9,086,690</u>

Increases in program revenues of \$ 909,250 were due to a increase in natural gas revenues, and water revenues due to a seasonal drought, as well as the sanitation fund being reclassified as an enterprise fund instead of an other governmental fund. Increase in costs of 826,635 had to do with the reclassification of the Sanitation Fund and increases in costs of basic services (i.e. utilities & fuel), as well as increases in interest expense and depreciation expense.

**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 \$ 1,982,566, a decrease of \$ 567,264 in comparison with the prior year. Approximately 37% of this total amount (\$ 739,460) 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 \$ 743,903. 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 (\$743,903) represents 14.9% of total general fund expenditures.

The fund balance of the City's general fund decreased by \$ 20,231 during the current fiscal year. The key component of this decrease was sales tax revenues being deposited into the TIF Reserve Fund.

The capital projects fund has a total fund balance of \$ 972,448, all of which is reserved for capital improvements. The net decrease in fund balance during the current year in the capital projects fund was \$ 532,035 due to capital projects. The major revenue during the year was sales tax.

Major capital projects fund expenditures included:

- ◆ Acquisition of Land For Wolf Creek
- ◆ Wolf Creek Public Fishing Facility

**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 \$ 2,145,352. The total increase in net assets was \$ 350,829. Operating revenues increased \$ 1,120,995 over the previous year. Part of which, had to do with the reclassification of the Sanitation Fund Revenue. An increase of \$ 588,687 in expenses was primarily due to the reclassification of the sanitation expense from the Sanitation Fund and an increase in natural gas purchases.

The Grove Municipal Airport Managing Authority had a decrease of operating revenues of \$ 96,272.

#### **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 4,666,512 were \$ 382,991 less than the estimated revenues in the budget of \$ 5,049,503. Actual expenditures of \$ 4,682,853 were \$ 438,751 less than the \$ 5,121,604 approved in budget appropriations.

#### **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, 2013 amounts to \$ 48,335,778 (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:

- ◆ Acquisition of Land For Wolf Creek
- ◆ Wolf Creek Public Fishing Facility

CITY OF GROVE, OKLAHOMA  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 JUNE 30, 2013

**City of Grove**  
 Capital Assets  
June 30, 2013, and 2012  
 (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,046,893	\$ 1,006,783	\$ 1,266,488	\$ 738,712	\$ 2,373,381	\$ 1,745,495
Construction in progress	412,430	288,481	442,955	146,545	855,385	435,026
Buildings and improvements	10,494,501	8,434,289	30,064,542	30,475,456	40,559,043	38,909,745
Equipment	700,936	907,474	3,345,433	3,478,707	4,046,369	4,386,181
Vehicles	502,004	574,777	59,596	90,709	561,600	665,486
Capital assets, net	<u>\$ 13,156,764</u>	<u>\$ 11,211,804</u>	<u>\$ 35,179,014</u>	<u>\$ 34,930,129</u>	<u>\$ 48,335,778</u>	<u>\$ 46,141,933</u>

**Long-term debt.** As of the end of the current fiscal year, the City had total debt outstanding of \$ 18,322,522. This represents debt secured solely by specified revenue sources (i.e., revenue bonds and notes) of \$ 13,103,935, TIF Note of \$2,415,000, other notes payable of \$ 2,160,000 capital lease obligations totaling \$ 443,587, and accrued compensated absences of \$ 854,174.

**City of Grove**  
 Outstanding Debt  
June 30, 2013, and 2012

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenue notes	\$	\$	\$ 13,103,935	\$ 14,161,534	\$ 13,103,935	\$ 14,161,534
Revenue bonds			200,000	385,000	200,000	385,000
TIF Notes			2,415,000	2,415,000	2,415,000	2,415,000
Other notes			2,160,000	1,285,000	2,160,000	1,285,000
Capital lease obligations	286,496	325,195	157,092	111,897	443,588	437,092
Total outstanding debt	<u>\$ 286,496</u>	<u>\$ 325,195</u>	<u>\$ 18,036,027</u>	<u>\$ 18,358,431</u>	<u>\$ 18,322,523</u>	<u>\$ 18,683,626</u>

The City's total debt decreased by \$ 361,103 during the current fiscal year. The key factors in the change was the addition of a series 2012 note for help in funding the Wolf Creek Park Public Fishing Access project, as well as the first draw of an 8,765,000 note from the Oklahoma Water Resources Board for the expansion/upgrade of the existing Water Treatment Facility and the addition of a Lease/Purchase agreement to purchase a Hyundai Excavator, with offsetting principal payments reducing the balance of existing debt.

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

The City's elected and appointed officials considered many factors when setting the fiscal-year 2013 budget, tax rates, and fees that will be charged for the proprietary fund type activities. One of these factors is the economy. Being as the main revenue for the City is Sales Tax, we must consider the economy, as well as unemployment, which affect sales tax revenue.

These indicators were taken into account when adopting the general fund budget for 2013.

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

All of these factors were considered in preparing the City's budget for the 2013 fiscal year.

During the current fiscal year, fund balance in the general fund decreased to \$ 743,903. This is a decrease of 20,231 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 POSITION**  
 JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 982,727	\$ 1,944,529	\$ 2,927,256
Receivables, net of allowance for uncollectibles:			
Accounts	17,180	177,857	195,037
Taxes	1,218,339	-	1,218,339
Due from other funds	372,031	185,831	557,863
Inventories	-	714,629	714,629
Prepaid Expenses	4,442	6,974	11,417
Restricted assets - cash and investments	199,090	1,948,579	2,147,669
<b>Total current assets</b>	<u>2,793,810</u>	<u>4,978,399</u>	<u>7,772,209</u>
<b>Noncurrent assets</b>			
TIF Receivables	-	2,462,714	2,462,714
Investment in land held for sale	-	390,360	390,360
Capital assets, net of accumulated depreciation	13,156,764	35,179,014	48,335,778
<b>Total noncurrent assets</b>	<u>13,156,764</u>	<u>38,032,088</u>	<u>51,188,852</u>
<b>Total assets</b>	<u>15,950,574</u>	<u>43,010,487</u>	<u>58,961,060</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	321,758	339,430	661,188
Payable from restricted assets:			
Accrued interest payable	7,335	155,619	162,954
Customer deposits	-	777,215	777,215
Due to other funds	489,485	67,023	556,508
Current portion of long-term obligations	40,446	1,934,272	1,974,718
<b>Total current liabilities</b>	<u>859,025</u>	<u>3,273,559</u>	<u>4,132,584</u>
<b>Noncurrent liabilities</b>			
TIF Bonds Payable	-	2,462,714	2,462,714
Notes and capital leases payable	246,050	13,686,755	13,932,805
Accrued compensated absences	673,560	180,614	854,174
<b>Total noncurrent liabilities</b>	<u>919,610</u>	<u>16,330,083</u>	<u>17,249,693</u>
<b>Total liabilities</b>	<u>1,778,634</u>	<u>19,603,643</u>	<u>21,382,277</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	12,870,268	19,557,987	32,428,255
Restricted for			
Capital improvements	972,448	225,168	1,197,616
Debt service	-	940,296	940,296
Other	224,989	-	224,989
Unrestricted	104,234	2,683,393	2,787,627
<b>Total net position</b>	<u>\$ 14,171,939</u>	<u>\$ 23,406,844</u>	<u>\$ 37,578,783</u>

The accompanying notes are an integral part of these financial statements



CITY OF GROVE, OKLAHOMA  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
 JUNE 30, 2013

	Governmental Funds			
	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 145,291	\$ 775,428	\$ 62,008	\$ 982,727
Receivables				
Taxes	1,210,140	-	8,199	1,218,339
Accounts	17,180	-	-	17,180
Due from other funds	7	372,024	-	372,031
Prepaid Expenses	4,442	-	-	4,442
Restricted cash and investments	-	-	199,090	199,090
<b>Total assets</b>	<u>1,377,060</u>	<u>1,147,453</u>	<u>269,297</u>	<u>2,793,809</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	143,672	175,005	3,081	321,758
Due to other funds	489,485	-	-	489,485
<b>Total liabilities</b>	<u>633,157</u>	<u>175,005</u>	<u>3,081</u>	<u>811,243</u>
<b>Fund balances</b>				
Nonspendable	4,442	-	-	4,442
Restricted	-	972,448	224,989	1,197,437
Assigned	-	-	41,227	41,227
Unassigned	739,460	-	-	739,460
<b>Total fund balances</b>	<u>743,903</u>	<u>972,448</u>	<u>266,215</u>	<u>1,982,566</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,377,060</u>	<u>\$ 1,147,453</u>	<u>\$ 269,297</u>	<u>\$ 2,793,809</u>

**Total fund balances - Governmental Funds** \$ 1,982,566

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,156,764
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in funds:	
Capital lease obligations	(286,496)
Accrued interest on long-term debt	(7,336)
Accrued compensated absences	<u>(673,560)</u>

**Net position of governmental activities** \$ 14,171,939

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**  
 JUNE 30, 2013

	Governmental Funds			
	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 4,149,133	\$ 1,677,351	\$ 50,491	\$ 5,876,975
Licenses and permits	52,226	-	-	52,226
Intergovernmental	78,161	1,708,768	2,155	1,789,085
Fines and forfeitures	123,496	-	3,003	126,500
Charges for services	122,570	-	2,740	125,310
Other	123,764	113,114	69,252	306,130
Interest	17,161	-	1,757	18,918
<b>Total revenues</b>	<b>4,666,511</b>	<b>3,499,233</b>	<b>129,399</b>	<b>8,295,144</b>
<b>Expenditures</b>				
<b>Current</b>				
General government	1,075,234	-	-	1,075,234
Public safety	2,299,191	-	31,050	2,330,241
Public works	1,158,020	-	-	1,158,020
Culture and recreation	150,408	-	600	151,008
Debt service	-	-	53,409	53,409
Capital outlay	-	3,606,396	-	3,606,396
<b>Total expenditures</b>	<b>4,682,853</b>	<b>3,606,396</b>	<b>85,059</b>	<b>8,374,309</b>
Excess of revenues over (under) expenditures	(16,342)	(107,163)	44,340	(79,165)
<b>Other financing sources (uses)</b>				
Transfers in	3,246,694	2,486,213	-	5,732,907
Transfers (out)	(3,250,583)	(2,911,086)	(59,317)	(6,220,986)
<b>Total other financing sources (uses)</b>	<b>(3,889)</b>	<b>(424,873)</b>	<b>(59,317)</b>	<b>(488,079)</b>
<b>Net change in fund balances</b>	<b>(20,231)</b>	<b>(532,035)</b>	<b>(14,977)</b>	<b>(567,244)</b>
<b>Fund balances, beginning</b>	<b>764,134</b>	<b>1,504,483</b>	<b>281,193</b>	<b>2,549,809</b>
<b>Fund balances, ending</b>	<b>\$ 743,903</b>	<b>\$ 972,448</b>	<b>\$ 266,215</b>	<b>\$ 1,982,566</b>

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 AND CHANGES IN NET ASSETS**  
 JUNE 30, 2013

**Net change in fund balances – total governmental funds** \$ (567,244)

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	3,289,320
Depreciation expense	(1,352,909)
Amortization Expense	(451)
Gain on sale of assets	9,000
	<u>1,944,961</u>

Governmental Funds report note and lease payments as expenditures. However, in the Government-Wide Statement of Activities and Changes In Net Assets, the principal paid on that liability is applied against the liability. This is the amount of principal recorded In the current period.

Principal payments on capital leases	38,677
	<u>38,677</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 capital leases	932
Accrued compensated absences, net change	(43,080)
	<u>(42,148)</u>

**Change in net position of governmental activities** \$ 1,374,246

The accompanying notes are an integral part of these financial statements

CITY OF GROVE, OKLAHOMA  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
 JUNE 30, 2013

	Business-type Activities - Enterprise Funds			Total
	Grove Municipal Services Authority	Grove Economic Development Authority	Grove Municipal Airport Managing Authority	
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 1,774,599	\$ 68,554	\$ 101,375	1,944,529
Accounts, net of allowance for uncollectibles	161,916	-	15,941	177,857
Due from other funds	129,475	56,356	-	185,831
Inventories	661,441	-	53,187	714,629
Prepaid expenses and other assets	6,947	-	27	6,974
Restricted assets - cash and investments	1,739,254	209,324	-	1,948,579
<b>Total current assets</b>	<b>4,473,634</b>	<b>334,235</b>	<b>170,530</b>	<b>4,978,399</b>
<b>Noncurrent assets</b>				
TIF Receivables	-	2,462,714	-	2,462,714
Investment in land held for sale	-	390,360	-	390,360
Capital assets, net of accumulated depreciation	32,142,827	2,436,042	600,145	35,179,014
<b>Total noncurrent assets</b>	<b>32,142,827</b>	<b>5,289,116</b>	<b>600,145</b>	<b>38,032,088</b>
<b>Total assets</b>	<b>36,616,461</b>	<b>5,623,351</b>	<b>770,675</b>	<b>43,010,487</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable	280,720	-	49,823	330,542
Accrued payroll liabilities	5,396	-	152	5,547
Accrued compensation	-	-	3,341	3,341
Payable from restricted assets				
Accrued interest payable	127,071	28,548	-	155,619
Customer deposits	777,215	-	-	777,215
Due to other funds	5,769	-	61,254	67,023
Current portion of long-term obligations	1,654,272	280,000	-	1,934,272
<b>Total current liabilities</b>	<b>2,850,442</b>	<b>308,548</b>	<b>114,569</b>	<b>3,273,559</b>
<b>Noncurrent liabilities</b>				
TIF Bonds & Payables	-	2,462,714	-	2,462,714
Notes payable	11,806,756	1,880,000	-	13,686,755
Accrued compensated absences	175,972	-	4,642	180,614
<b>Total noncurrent liabilities</b>	<b>11,982,728</b>	<b>4,342,714</b>	<b>4,642</b>	<b>16,330,083</b>
<b>Total liabilities</b>	<b>14,833,170</b>	<b>4,651,262</b>	<b>119,211</b>	<b>19,603,643</b>
<b>Net position</b>				
Invested in capital assets, net of related debt	18,681,799	276,042	600,145	19,557,987
Restricted for				
Capital improvements	225,168	-	-	225,168
Debt service	730,972	209,324	-	940,296
Unrestricted	2,145,352	486,723	51,319	2,683,393
<b>Total net position</b>	<b>\$ 21,783,291</b>	<b>\$ 972,089</b>	<b>\$ 651,464</b>	<b>\$ 23,406,844</b>

The accompanying notes are an integral part of these financial statements

CITY OF GROVE, OKLAHOMA  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
 JUNE 30, 2013

	Business-type Activities - Enterprise Funds			Total
	Grove Municipal Services Authority	Grove Economic Development Authority	Grove Municipal Airport Managing Authority	
<b>Operating revenues</b>				
Charges for services				
Gas	\$ 4,710,246	\$ -	\$ -	\$ 4,710,246
Water	2,703,347	-	-	2,703,347
Wastewater	535,864	-	-	535,864
Sanitation	514,662	-	-	514,662
Service Fees	51,385	-	-	51,385
Pool Fees	-	92,908	-	92,908
Other	72,071	-	264,821	336,892
Total operating revenues	<u>8,587,575</u>	<u>92,908</u>	<u>264,821</u>	<u>8,945,305</u>
<b>Operating expenses</b>				
Administration	1,214,797	-	-	1,214,797
Gas	2,984,161	-	-	2,984,161
Water	1,213,579	-	-	1,213,579
Wastewater	1,049,403	-	-	1,049,403
Airport	-	-	337,229	337,229
Economic Development	-	340,476	-	340,476
Bad debt expense	20,700	-	-	20,700
Depreciation and amortization	1,520,517	194,896	391,940	2,107,353
Total operating expenses	<u>8,003,157</u>	<u>535,372</u>	<u>729,169</u>	<u>9,267,698</u>
Net operating income (loss)	584,418	(442,464)	(464,348)	(322,393)
<b>Nonoperating revenues (expenses)</b>				
Taxes	670,636	-	-	670,636
Tax incentive financing	-	173,505	-	173,505
Capital Grants	30,800	-	-	30,800
Interest income	41,608	4,351	118	46,077
Interest expense and fiscal charges	(589,958)	(55,579)	-	(645,536)
Total nonoperating revenues (expenses)	<u>153,087</u>	<u>122,276</u>	<u>118</u>	<u>275,481</u>
<b>Operating transfers</b>				
Transfers in	6,919,128	1,504,828	55,000	8,478,956
Transfers (out)	(6,936,915)	(1,053,962)	-	(7,990,876)
Total operating transfers	<u>(17,787)</u>	<u>450,866</u>	<u>55,000</u>	<u>488,080</u>
Net income (loss)	719,718	130,679	(409,229)	441,169
Net position, beginning	<u>21,063,573</u>	<u>841,410</u>	<u>1,060,694</u>	<u>22,965,677</u>
Net position, ending	<u>\$ 21,783,291</u>	<u>\$ 972,089</u>	<u>\$ 651,464</u>	<u>\$ 23,406,844</u>

The accompanying notes are an integral part of these financial statements

CITY OF GROVE, OKLAHOMA  
**STATEMENT OF CASH FLOWS -- PROPRIETARY FUNDS**  
 JUNE 30, 2013

	Grove Municipal Services Authority	Grove Economic Development Authority	Grove Municipal Airport Managing Authority	Totals
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 8,628,174	\$ 156,470	\$ 269,458	\$ 9,054,100
Payments to suppliers	(5,449,847)	(348,068)	(254,338)	(6,052,254)
Payments to employees	(976,252)	-	(31,275)	(1,007,527)
Net cash provided (used) by operating activities	<u>2,202,074</u>	<u>(191,600)</u>	<u>(16,156)</u>	<u>1,994,319</u>
<b>Cash flows from noncapital financing activities</b>				
Change in interfund receivables/payables	15,822	(56,356)	(4,679)	(45,215)
Transfers in (out)	(17,787)	450,866	55,000	488,078
Net cash provided (used) by noncapital financing activities	<u>(1,965)</u>	<u>394,509</u>	<u>50,321</u>	<u>442,863</u>
<b>Cash flows from capital and related financing activities</b>				
Capital grants	30,800	-	-	30,800
Capital Contributions	-	1,047,714	-	1,047,714
Proceeds from Long-term Debt	126,940	-	-	126,940
Principal paid on long-term debt	(1,324,343)	(236,275)	-	(1,560,619)
Interest expense and fiscal charges	(550,220)	(45,610)	-	(595,829)
Tax revenues received	670,636	173,505	-	844,141
(Acquisition) disposition of capital assets	(1,080,340)	(971,385)	-	(2,051,725)
Net cash provided (used) by capital and related financing activities	<u>(2,126,527)</u>	<u>(32,051)</u>	<u>-</u>	<u>(2,158,578)</u>
<b>Cash flows from investing activities</b>				
(Acquisition)/disposition of land held for resale	-	(240,560)	-	(240,560)
Interest income	41,608	4,351	118	46,077
Net cash provided (used) by investing activities	<u>41,608</u>	<u>(236,209)</u>	<u>118</u>	<u>(194,483)</u>
Net increase (decrease) in cash and cash equivalents	115,190	(65,351)	34,283	84,121
Cash and cash equivalents, beginning	3,398,664	343,228	67,091	3,808,983
Cash and cash equivalents, ending	<u>3,513,854</u>	<u>277,876</u>	<u>101,375</u>	<u>3,893,104</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Net income (loss)	584,418	(442,464)	(464,348)	(322,393)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	1,520,517	187,304	391,940	2,099,760
Changes in assets and liabilities:				
(Increase) decrease in receivables	40,598	63,560	4,637	108,795
(Increase) decrease in prepaids	2,884	-	(27)	2,857
(Increase) decrease in inventories	11,671	-	(1,868)	9,803
(Increase)decrease in accounts payable	(21,967)	-	49,823	27,855
Increase (decrease) in customer deposits	67,620	-	-	67,620
Increase (decrease) in accrued expenses	(3,666)	-	3,688	22
Total adjustments	<u>1,617,656</u>	<u>250,864</u>	<u>448,192</u>	<u>2,316,712</u>
Net cash provided (used) by operating activities	<u>\$ 2,202,074</u>	<u>\$ (191,600)</u>	<u>\$ (16,156)</u>	<u>\$ 1,994,319</u>

The accompanying notes are an integral part of these financial statements

## **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 non-fiduciary 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.

**II. Summary of significant accounting policies - Continued**

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.

**II. Summary of significant accounting policies - Continued**

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.

The Grove Economic Development Authority accounts for economic development operations.

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 non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating 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 non-operating 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.

**II. Summary of significant accounting policies - Continued**

***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 uncollectible. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles.

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.

***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.

**II. Summary of significant accounting policies - Continued**

**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.

**II. Summary of significant accounting policies - Continued**

**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. 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 re-appropriated and honored during the subsequent year.

**IV. Detailed notes on all funds**

**A. Deposits and investments**

The detail of cash and investments at year end are summarized as follows:

	Cash and Cash Equivalents
Current assets	
Cash and Certificates of Deposit	<u>\$ 2,927,256</u>
Restricted Assets	
Cash and Certificates of Deposit	<u>\$ 2,147,669</u>

**IV. Detailed notes on all funds - Continued**

**A. Deposits and investments - Continued**

*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.

*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, 2013, 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, 2013, 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 Governmental Funds
<b>Receivables:</b>						
Taxes	\$ 1,210,140	\$ -	\$ 8,199	\$ -	\$ -	\$ 1,218,339
Accounts	17,180	-	-	161,916	15,941	195,037
Gross receivables	1,227,320	-	8,199	161,916	15,941	1,413,376
Less: allowance for uncollectibles	-	-	-	-	-	-
Net total receivables	<u>\$ 1,227,320</u>	<u>\$ -</u>	<u>\$ 8,199</u>	<u>\$ 161,916</u>	<u>\$ 15,941</u>	<u>\$ 1,413,376</u>

CITY OF GROVE, OKLAHOMA  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 JUNE 30, 2013

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**IV. Detailed notes on all funds**

**C. Restricted Cash**

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, 2006, 2011 and the 2011 Note also include debt service accounts, and the 2011 Sales Tax Revenue Note includes 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 Economic Development Authority Series 2010 note has debt service funds. All funds are on deposit with trustee banks. Also listed as restricted cash is the money on deposit with the Delaware County Treasurer from the Delaware County Fire Tax Revenues.

The restricted cash as of June 30, 2013 is as follows:

	Business Activities Bonds and Notes	Business Activities Meter Deposits	Governmental Activities
DEL CO FIRE TRAVEL CASH	-		1,055
DEL CO FIRE M&O	-		184,419
DEL CO FIRE CAP OUT	-		13,616
Meter Deposits	-	777,215	
CASH OWRB PROJ COSTS DISB ACCT	225,168		-
'89 & 96 BOK RESERVE FUND	223,124		-
2011 PWF NOTE PRINCIPAL FUND	26,814		-
2005 BONDS - INTEREST FUND	121,857		-
2006 NOTE PRINCIPAL FUND	164,073		-
2009 OWRB CWSRF DS FUND	44,586		-
2010 NOTE PRINCIPAL FUND	51,611		-
2011 STN CONST FUND	156,417		-
2011 TIF REVENUE FUND	96,587		-
2012 NOTE PRINCIPAL FUND	61,126		-
	<u>\$ 1,171,363</u>	<u>\$ 777,215</u>	<u>\$ 199,090</u>

CITY OF GROVE, OKLAHOMA  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2013

IV. Detailed notes on all funds - Continued

D. Capital assets

Capital asset balances and activities for the year ended June 30, 2013, were as follows:

Depreciation expense was charged to functions/programs as follows:

Governmental Activities

	6/30/2012	Additions	Dispositions	Transfers	6/30/2013
Land	\$ 1,006,783	\$ 40,110	\$ -	\$ -	\$ 1,046,893
Buildings and Improvements	11,571,573	2,897,281	-	-	14,468,854
Equipment	2,501,167	92,034	(80,997)	-	2,512,203
Vehicles	2,131,509	143,848	(196,611)	-	2,078,746
Furniture and Fixtures	348,668	7,286	(50,324)	-	305,629
Construction in Process	288,481	148,949	-	(25,000)	412,430
Total Property, Plant, and Equipment	17,848,181	3,329,508	(327,933)	(25,000)	20,824,756
Accumulated Depreciation	(6,622,642)	(1,355,785)	300,340	10,096	(7,667,992)
Net Property, Plant, and Equipment	\$ 11,225,539	\$ 1,973,722	\$ (27,593)	\$ (14,904)	\$ 13,156,764

Business Type Activities

	6/30/2012	Additions	Dispositions	Transfers	6/30/2013
Land	\$ 738,712	\$ 527,776	\$ -	\$ -	\$ 1,266,488
Buildings and infrastructure	44,487,034	811,784	-	25,000	45,323,818
Equipment	4,655,346	379,817	-	-	5,035,163
Furniture and fixtures	190,041	4,226	-	-	194,267
Vehicles	435,870	-	-	-	435,870
Construction in progress	146,545	296,410	-	-	442,955
Total	50,653,548	2,020,013	-	25,000	52,698,561
Accumulated depreciation	(15,455,114)	(2,054,336)	-	(10,096)	(17,519,546)
Net book value	\$ 35,198,434	\$ (34,323)	\$ -	\$ 14,904	\$ 35,179,015

Functional Category

Functional Category	Amount
General Government	\$ 73,578
Public Safety	347,482
Public Works	931,849
Total	\$ 1,352,909

**IV. Detailed notes on all funds - Continued**

**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, 2013, restricted cash and investments included \$ 777,215 available for refund of customer deposits, while the liability to customers was \$ 777,215.

**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, 2013 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 4.8% for a 2011 Freightliner 4 door commercial pumper	\$ 204,735
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Welch State Bank dated March 28, XXXX, 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	81,761
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Kansas State Bank of Manhattan dated May 28, 2013, in the amount of \$126,940, payable in annual installments of \$26,854.83 plus interest of 2.89% for a 2012 Hyundai R140LC9 Excavator.	<u>100,085</u>
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Total governmental-type capital lease activities	<u>\$ 386,581</u>
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**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 3.8%, for a 2009 sewer vacuum truck	<u>\$ 57,007</u>
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Total business-type capital lease activities	<u>\$ 57,007</u>
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CITY OF GROVE, OKLAHOMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013

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**IV. Detailed notes on all funds - Continued**

Operating Leases – The City has entered into two operating lease agreements for a copy machine and a postage machine. Grove Municipal Services Authority has entered into two operating lease agreements for a folder/sorter machine and a printer. The balance of those operating lease are as follows:

**Government-type activities**

Standley Systems, Inc. for a Savin C9155SP Color Multi Function Copier beginning June 2011 for a period of 60 months with montly installments of \$203.14	\$ 7,287
Great American Leasing for an FP Ultimail 95 postage machine beginning February 2012 for a period of 60 months with montly installments of \$240.73	<u>10,776</u>
Total governmental-type operating lease activities	<u>\$ 18,063</u>

**Business-type activities**

Leaf for an Okidata B930N Printer beginning February 2012 for a period of 60 months with monthly installments of \$91	\$ 4,004
Wells Fargo Financial Leasing for an FP Folder/Sorter machine beginning January 2011 for a period of 60 months with montly installments of \$309.56	<u>9,906</u>
Total business-type operating lease activities	<u>\$ 13,910</u>

**IV. Detailed notes on all funds - Continued**

**G. Long-term debt**

Long-term liabilities of the City of Grove as of June 30, 2013, are summarized as follows:

**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, 2012, payable in semi-annual installments ranging from \$109,322 – \$116,680, with payments commencing on October 1, 2012. 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. Balance as of June 30, 2013 is \$785,000.

\$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. As of June 30, 2013, the balance is \$1,013,925.

\$8,765,000, Grove Municipal Services Authority, Drinking Water SRF Loan to the Oklahoma Water Resources Board, dated June 1, 2013, for the purpose of financing drinking water treatment Systems improvements. The loan is payable semi-annually, commencing on September 15, 2013 and continuing each March 15 and September 15 thereafter for the term of the loan. The interest on the loan is at a rate of 2.25%, plus an administrative fee of 0.5%. Note shall mature on the earlier of (1) March 15 or September 15 next preceding the date which is twenty (20) years after completion of construction, or (2) on September 15, 2034. Balance as of June 30, 2013 is \$225,125.

\$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. As of June 30, 2013, the balance is \$4,724,185.

\$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. Balance as of June 30, 2013 is \$2,395,000.

**IV. Detailed notes on all funds - Continued**

**G. Long-term debt - Continued**

\$ 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. As of June 30, 2013, the balance is \$2,005,000.

\$ 2,050,000 Grove Municipal Services Authority Sales Tax Revenue Note Series 2011, dated October 27, 2011, payable in semi-annual installments of \$110,000 to \$180,000 beginning September 1, 2012, plus interest of 3.18% to finance the acquisition and installation of an automated meter reading system for water and gas meters, secured by a year-to-year pledge of sales tax from the City of Grove. Balance as of June 30, 2013 is \$1,940,000.

**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%. As of June 30, 2013, the balance is \$215,700.

*Total Grove Municipal Services Authority: \$13,303,935*

*Grove Economic Development Authority:*

Grove Economic Development Authority Series 2011 Promissory Notes, dated February 1, 2011, in the amount of \$1,435,000, payable in semi-annual payments ranging from \$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. As of June 30, 2013, the balance is \$1,205,000.

Grove Economic Development Authority Series 2011 TIF Tax Increment Revenue Note dated September 28, 2011 in the principal amount of \$2,415,000, to mature on June 1, 2036. The Note shall bear interest at a variable rate of interest equal to BBA LIBOR 6-month rate plus 200 basis points, initially 2.29%, with rate being reset every June 1 and December 1, not to exceed 14%. The note is payable on a semi-annual basis. This note will be paid with ad valorem tax received on the property. Balance as of June 30, 2013 is \$2,415,000.

Grove Economic Development Authority Series 2012 Promissory Note, dated July 25, 2013 in the principal amount of \$1,000,000, payable in semi-annual payments ranging from \$55,000 to \$156,000, with an interest rate of 2.33% over 4 years. The Note is for a Parking Facility Project. As of June 30, 2013, the balance is \$955,000.

*Total Grove Economic Development Authority: \$4,575,000*

*Total Business Type Activities: \$17,878,935*

**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**IV. Detailed notes on all funds - Continued****G. Long-term debt - Continued**

Long-term liabilities transactions for the year ended June 30, 2013, and changes therein were as follows:

	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013	Amount due in one year
<b>Governmental activities:</b>					
Lease/Purchase obligations					
89 Ladder Truck	\$ 96,346	\$ -	\$ (14,586)	\$ 81,760	\$ 15,145
KSBM Excavator	-	126,940	(26,855)	100,085	23,962
2010 FL Pumper	228,849		(24,114)	204,735	25,301
Total governmental activities	<u>\$ 325,195</u>	<u>\$ 126,940</u>	<u>\$ (65,555)</u>	<u>\$ 386,580</u>	<u>\$ 64,408</u>
<b>Business-type activities:</b>					
Grove Municipal Service Authority:					
Notes Payable:					
OWRB 2003	5,071,222	-	(347,037)	4,724,185	358,660
OWRB 2009	1,120,312	-	(106,386)	1,013,926	108,944
OWRB 2013	-	225,125	-	225,125	-
Series 2005	2,655,000	-	(260,000)	2,395,000	275,000
Series 2006	2,400,000	-	(395,000)	2,005,000	415,000
Series 2011 Promissory Note	865,000	-	(80,000)	785,000	85,000
Series 2011 Sales Tax Note	2,050,000	-	(110,000)	1,940,000	115,000
Revenue Bonds:					
Series 1989	385,000	-	(169,300)	215,700	215,700
Lease/Purchase obligations:					
BOKF Equipment Lease	111,897		(54,891)	57,006	57,006
Grove Municipal Airport Managing Authority:					
Series 2011 Promissory Note	1,285,000	-	(80,000)	1,205,000	80,000
Series 2011 Tax Increment Note	2,415,000	-	-	2,415,000	-
Series 2012 Promissory Note	-	1,000,000	(45,000)	955,000	200,000
Total business-type activities	<u>18,358,431</u>	<u>1,225,125</u>	<u>(1,647,614)</u>	<u>17,935,942</u>	<u>1,910,310</u>
Total long-term debt	<u>\$18,683,626</u>	<u>\$ 1,352,065</u>	<u>\$ (1,713,169)</u>	<u>\$ 18,322,522</u>	<u>\$ 1,974,718</u>

**IV. Detailed notes on all funds - Continued**

**G. Long-term debt - Continued**

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

Year Ending June 30,	Governmental Activities			
	Notes Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest
2014	40,446	12,962	-	-
2015	42,242	11,168	-	-
2016	44,118	9,292	-	-
2017	46,061	7,348	-	-
2018	48,124	5,284	-	-
2019-2030	65,505	4,753	-	-
Totals	<u>\$ 286,496</u>	<u>\$ 50,807</u>	<u>\$ -</u>	<u>\$ -</u>

Year Ending June 30,	Business-Type Activities			
	Notes Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest
2014	1,718,572	401,000	215,700	-
2015	1,834,605	421,698	-	-
2016	1,902,657	400,801	-	-
2017	1,571,722	333,128	-	-
2018	1,449,974	280,629	-	-
2019-2030	9,390,509	817,833	-	-
Totals	<u>\$ 17,868,039</u>	<u>\$ 2,655,089</u>	<u>\$ 215,700</u>	<u>\$ -</u>

**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.

**IV. Detailed notes on all funds - Continued**

**I. Tax Increment Financing District 2011 Note**

The City adopted and approved the Harbor Point Economic Development project Plan which envisions the generation of substantial capital investment and creation of significant new retail opportunities with the reinvestment area by establishment of the Project within the Increment District. The Increment District is generally described as an area bordered on the west by South Broadway Street, on the north by West 13<sup>th</sup> Street, on the east by Main Street (State Highway 59), and on the south by Elm Branch Creek. The City has used sales tax revenues as collateral of the note, with ad valorem taxes to pay the future note obligations.

**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, sick and compensatory time as follows:

Governmental activities	\$ 716,640
Business-type activities	<u>180,614</u>
Total accrued compensated absences	<u>\$ 897,254</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.

CITY OF GROVE, OKLAHOMA  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
 JUNE 30, 2013

**IV. Detailed notes on all funds - Continued**

**K. Interfund receivables, payables, and transfers**

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

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Municipal Court	\$ 7
GMSA Debt Service	General Fund	123,706
Capital Outlay	General Fund	309,405
Capital Outlay	Airport	62,619
Technology Fund	Municipal Court	10
Total		<u>\$ 495,747</u>

Interfund transactions:

	<u>Transfers In</u>						<u>Total</u>
	<u>General</u>	<u>Capital</u>	<u>Non-Major</u>	<u>GMSA</u>	<u>GEDA</u>	<u>Airport</u>	
Transfers Out:	(2,250,583)	(1,911,086)	(59,317)	(4,469,628)	(92,908)		(8,783,522)
General Fund				1,931,685	263,898	55,000	2,250,583
Capital Projects	150,000			1,520,156	240,930		1,911,086
Non-Major		59,317					59,317
GMSA	3,003,786	1,465,842					4,469,628
GEDA	92,908						92,908
Totals	<u>996,111</u>	<u>(385,927)</u>	<u>(59,317)</u>	<u>(1,017,787)</u>	<u>411,920</u>	<u>55,000</u>	<u>-</u>

**V. 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.

**V. Other information - Continued**

**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, 2013, for employees and employer were \$ 67,090 and \$ 109,024, respectively, on covered payroll of \$ 838,635.

**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.

**V. Other information - Continued**

**C. Employee retirement systems and pension plans - Continued**

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, 2013, for employees and employer were \$ 16,727 and \$ 27,182, respectively, on covered payroll of \$ 209,093.

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, 2013, for employees and employer were \$ 71,414 and \$ 336,471, respectively, on covered payroll of \$ 2,076,611.

**D. Prior Period Adjustment**

In accordance with the recent GASB 65 pronouncements, debt issuance costs do not meet the definition of either (a) an asset or a liability or (b) a deferred outflow of resources or a deferred inflow of resources. The Board decided the recognition of debt issuance costs as an outflow (expenses/expenditures) is more appropriate. Per this pronouncement debt issuance costs have been retroactively adjusted in the prior period and only affected the enterprise fund Grove Municipal Service Authority.

	As reported June 30, 2012	Adjustments	As Restated at June 30, 2012
Debt issuance costs, net of accumulated	368,889	(368,889)	-
Invested in capital assets, net of related debt	(23,334,566)	368,889	(22,965,677)

**E. Subsequent Events**

Management has evaluated and disclosed subsequent events up to the date of this audit report.

CITY OF GROVE, OKLAHOMA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2013

	General Fund				Capital Projects Fund			
	2013 Budget		Actual	Variance with Final Budget Positive (Negative)	2013 Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
<b>Revenues</b>								
Taxes	\$ 4,285,000	\$ 4,227,000	\$ 4,073,913	\$ (153,087)	\$ 1,800,000	\$ 1,772,500	\$ 1,677,351	\$ (95,149)
Licenses and permits	47,000	48,000	52,226	4,226	-	-	-	-
Intergovernmental	95,700	93,700	105,558	11,858	2,336,000	3,415,763	1,708,768	(1,706,995)
Fines and forfeitures	160,000	130,000	123,496	(6,504)	-	-	-	-
Charges for services	142,250	114,450	19,140	(95,310)	-	-	-	-
Miscellaneous	330,100	424,353	275,017	(149,336)	2,021,876	2,169,536	113,114	(2,056,422)
Interest	18,000	12,000	17,161	5,161	-	-	-	-
<b>Total revenues</b>	<b>5,078,050</b>	<b>5,049,503</b>	<b>4,666,512</b>	<b>(382,991)</b>	<b>6,157,876</b>	<b>7,357,799</b>	<b>3,499,233</b>	<b>(3,858,566)</b>
<b>Expenditures</b>								
<b>General government:</b>								
Administration	548,604	687,357	655,581	(31,776)	1,764,606	920,868	(21,900)	(942,768)
Governing board	304,900	310,859	272,188	(38,671)	-	-	-	-
Legal court	64,150	62,630	61,998	(632)	-	-	-	-
Finance	62,475	61,477	56,779	(4,698)	-	-	-	-
City hall	38,000	34,891	28,687	(6,204)	-	-	-	-
<b>Public safety:</b>								
Police	1,507,550	1,516,580	1,466,353	(50,227)	102,100	280,265	89,031	(191,234)
Dispatch and jail	354,862	304,617	292,721	(11,896)	-	-	-	-
Animal Control	63,800	56,085	52,616	(3,469)	-	-	-	-
Emergency management	50,000	50,000	50,000	-	-	-	-	-
Fire	432,031	476,529	437,501	(39,028)	89,000	100,000	98,382	(1,618)
<b>Public works:</b>								
Building and grounds	369,026	377,559	363,923	(13,636)	1,989,420	3,623,961	2,782,747	(841,214)
Streets	588,550	562,510	538,662	(23,848)	1,484,500	1,316,000	362,663	(953,337)
Vehicle maintenance	106,175	100,975	91,402	(9,573)	43,500	38,500	30,350	(8,150)
Community Development	212,385	175,555	160,762	(14,793)	107,500	108,780	108,102	(678)
Airport	55,000	58,394	3,271	(55,123)	622,000	864,175	157,021	(707,154)
Cemetery	9,202	10,219	6,721	(3,498)	-	-	-	-
<b>Culture and recreation:</b>								
Library	20,300	15,306	13,538	(1,768)	-	-	-	-
Senior center	18,800	17,000	15,924	(1,076)	-	-	-	-
Civic center	83,532	73,747	68,075	(5,672)	-	-	-	-
Sports and recreation	38,220	34,655	32,979	(1,676)	-	-	-	-
Parks	6,500	7,350	6,930	(420)	-	-	-	-
NEO Higher Ed	3,400	31	31	(0)	-	-	-	-
Swimming pool	139,538	123,753	2,362	(121,391)	-	-	-	-
Old library Building	1,050	3,525	3,847	322	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>5,078,050</b>	<b>5,121,604</b>	<b>4,682,853</b>	<b>(438,751)</b>	<b>6,202,626</b>	<b>7,252,549</b>	<b>3,606,396</b>	<b>(3,646,153)</b>
<b>Excess of revenues over expenditures</b>	<b>-</b>	<b>(72,101)</b>	<b>(16,341)</b>	<b>(821,742)</b>	<b>(44,750)</b>	<b>105,250</b>	<b>(107,163)</b>	<b>(7,504,719)</b>
<b>Other financing sources (uses)</b>								
Transfers in	3,600,000	3,767,101	3,246,693	(520,408)	1,844,750	1,817,250	2,486,214	668,964
Transfers (out)	(3,600,000)	(3,695,000)	(3,250,583)	444,417	(1,800,000)	(1,922,500)	(2,911,086)	(988,586)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>72,101</b>	<b>(3,890)</b>	<b>(75,991)</b>	<b>44,750</b>	<b>(105,250)</b>	<b>(424,872)</b>	<b>(319,622)</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>-</b>	<b>(20,231)</b>	<b>(897,733)</b>	<b>-</b>	<b>-</b>	<b>(532,035)</b>	<b>(7,824,340)</b>
<b>Fund balances, beginning</b>	<b>764,134</b>	<b>764,134</b>	<b>764,134</b>		<b>1,504,483</b>	<b>1,504,483</b>	<b>1,504,483</b>	
<b>Fund balances, ending</b>	<b>\$ 764,134</b>	<b>\$ 764,134</b>	<b>\$ 743,903</b>	<b>\$ (897,733)</b>	<b>\$ 1,504,483</b>	<b>\$ 1,504,483</b>	<b>\$ 972,448</b>	<b>\$ (7,824,340)</b>

CITY OF GROVE, OKLAHOMA  
**COMBINING BALANCE SHEET- NONMAJOR GOVERNMENTAL FUNDS**  
 JUNE 30, 2013

	Street and Alley Fund	Library Fund	Olympus Cemetery Fund	Special Park Fund	Special Fire Department Fund	Drug Forfeiture Fund	Special Police Fund	Technology Fund	Animal Control Fund	Sanitation Fund	Veteran's Memorial Perpetual Care Fund	Health Care Trust Authority Fund	Grove Del Co Fire Tax Fund	Total Nonmajor Governmental Funds
<b>Assets</b>														
Cash and cash equivalents	\$ -	\$ 10,637	\$ 19,742	\$ -	\$ 12,432	\$ 735	\$ 6,245	\$ 6,590	\$ 5,627	\$ -	\$ -	\$ -	\$ -	\$ 62,008
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables:														
Taxes	2,042	-	-	-	-	-	-	-	-	-	-	-	6,157	8,199
Accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TIF	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted cash and investments	-	-	-	-	-	-	-	-	-	-	-	-	199,090	199,090
Total assets	<u>2,042</u>	<u>10,637</u>	<u>19,742</u>	<u>-</u>	<u>12,432</u>	<u>735</u>	<u>6,245</u>	<u>6,590</u>	<u>5,627</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>205,247</u>	<u>269,297</u>
<b>Liabilities</b>														
Accounts payable	-	-	-	-	3,081	-	-	-	-	-	-	-	-	3,081
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,081</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,081</u>
<b>Fund balances</b>														
Unreserved:														
Non-Spendable	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	19,742	-	-	-	-	-	-	-	-	-	205,247	224,989
Committed	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Assigned	2,042	10,637	-	-	9,351	735	6,245	6,590	5,627	-	-	-	-	41,227
Total fund balances	<u>2,042</u>	<u>10,637</u>	<u>19,742</u>	<u>-</u>	<u>9,351</u>	<u>735</u>	<u>6,245</u>	<u>6,590</u>	<u>5,627</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>205,247</u>	<u>266,215</u>
<b>Total liabilities and fund balances</b>	<u>\$ 2,042</u>	<u>\$ 10,637</u>	<u>\$ 19,742</u>	<u>\$ -</u>	<u>\$ 12,432</u>	<u>\$ 735</u>	<u>\$ 6,245</u>	<u>\$ 6,590</u>	<u>\$ 5,627</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 205,247</u>	<u>\$ 269,297</u>

CITY OF GROVE, OKLAHOMA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES- NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2013

	Street and Alley	Library Fund	Olympus Cemetery Fund	Special Park Fund	Special Fire Department Fund	Drug Forfeiture Fund	Special Police Fund	Technology Fund	Animal Control Fund	Sanitation Fund	Veteran's Memorial Fund	Health Care Trust Authority	Grove Del Co Fire Tax Funds	Total Nonmajor Governmental Funds
<b>Revenues</b>														
Taxes	\$ 50,491	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,491
Licenses and permits	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	2,155	-	-	-	-	-	-	2,155
Fines and forfeitures	-	-	-	-	-	-	-	3,003	-	-	-	-	-	3,003
Charges for services	-	-	1,920	-	-	-	-	-	320	-	500	-	-	2,740
Other	-	-	-	-	4,484	-	2,400	-	1,130	-	-	-	61,238	69,252
Interest	-	200	355	-	335	49	135	120	104	-	-	-	460	1,757
Total revenues	<u>50,491</u>	<u>200</u>	<u>2,275</u>	<u>-</u>	<u>4,819</u>	<u>49</u>	<u>4,690</u>	<u>3,123</u>	<u>1,554</u>	<u>-</u>	<u>500</u>	<u>-</u>	<u>61,698</u>	<u>129,399</u>
<b>Expenditures</b>														
Current:														
Public safety	-	-	-	-	10,837	2,007	2,187	-	-	-	-	-	16,020	31,050
Public works	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-	-	-	600	-	-	600
Debt service	-	-	-	-	-	-	-	-	-	-	-	-	53,409	53,409
Capital outlay	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,837</u>	<u>2,007</u>	<u>2,187</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>600</u>	<u>-</u>	<u>69,429</u>	<u>85,059</u>
Excess of revenues over (under) expenditures	50,491	200	2,275	-	(6,018)	(1,958)	2,503	3,123	1,554	-	(100)	-	(7,731)	44,340
<b>Other financing sources (uses)</b>														
Transfers in	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers (out)	(59,317)	-	-	-	-	-	-	-	-	-	-	-	-	(59,317)
Total other financing sources (uses)	<u>(59,317)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(59,317)</u>
<b>Net change in fund balances</b>	<u>(8,826)</u>	<u>200</u>	<u>2,275</u>	<u>-</u>	<u>(6,018)</u>	<u>(1,958)</u>	<u>2,503</u>	<u>3,123</u>	<u>1,554</u>	<u>-</u>	<u>(100)</u>	<u>-</u>	<u>(7,731)</u>	<u>(14,977)</u>
Fund balances, beginning	10,868	10,437	17,467	-	15,369	2,692	3,742	3,467	4,073	-	100	-	212,978	281,193
Fund balances, ending	<u>\$ 2,042</u>	<u>\$ 10,637</u>	<u>\$ 19,742</u>	<u>\$ -</u>	<u>\$ 9,351</u>	<u>\$ 735</u>	<u>\$ 6,245</u>	<u>\$ 6,590</u>	<u>\$ 5,627</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 205,247</u>	<u>\$ 266,215</u>

## WINGARD, RAGSDALE & LANGLEY

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### 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*

Honorable Chairman and Board of Directors  
City of Grove  
Grove, State of Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of City of Grove, State of Oklahoma, as of and for the year ended June 30, 2013, which collectively comprise the City of Grove, State of Oklahoma's basic financial statements and have issued our report thereon dated October 3, 2013. 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 of the financial statements, we considered City of Grove, State of Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Grove, State of Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Grove, State of Oklahoma's internal control.

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

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

**COMPLIANCE AND OTHER MATTERS**

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

**PURPOSE OF THIS REPORT**

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



**WINGARD, RAGSDALE & LANGLEY**

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

OCTOBER 3, 2013

# WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Chairman and Board of Directors  
City of Grove  
Grove, State of Oklahoma

We have audited City of Grove, State of Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Grove, State of Oklahoma's major federal programs for the year ended June 30, 2013. City of Grove, State of Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Grove, State of Oklahoma's management. Our responsibility is to express an opinion on City of Grove, State of Oklahoma's compliance based on our audit.

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

In our opinion, City of Grove, State of Oklahoma, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### ***INTERNAL CONTROL OVER COMPLIANCE***

Management of City of Grove, State of Oklahoma, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Grove, State of Oklahoma's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Grove, State of Oklahoma's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

*A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report is intended solely for the information and use of management, City Council, others within the entity, 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.

*Wingard, Ragsdale Langley, CPAs, PLLC*

**WINGARD, RAGSDALE & LANGLEY**  
**CERTIFIED PUBLIC ACCOUNTANTS, PLLC**  
**OCTOBER 3, 2013**

# WINGARD, RAGSDALE & LANGLEY

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## Schedule of Findings and Questioned Costs

### Section I—Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

•Material weaknesses identified? \_\_\_\_ yes \_\_\_X\_\_\_ no

•Significant deficiencies identified? \_\_\_\_ yes \_\_\_X\_\_\_ none reported

Noncompliance material to financial statements noted? \_\_\_\_ yes \_\_\_X\_\_\_ no

#### Federal Awards

Internal control over major programs:

•Material weakness identified? \_\_\_\_ yes \_\_\_X\_\_\_ no

•Significant deficiency identified? \_\_\_\_ yes \_\_\_X\_\_\_ none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? \_\_\_\_ yes \_\_\_X\_\_\_ no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

15.605 Sport Fish Restoration Program

Dollar threshold used to distinguish between type A and type B programs:\$300,000 or 33% of total Federal expenditures

Auditee qualified as low-risk auditee? \_\_\_\_ yes \_\_\_X\_\_\_ no

### Section II—Financial Statement Findings

There were no reported significant deficiencies as presented in the Schedule of Findings and Responses related to internal control deficiencies over financial reporting.

There were no reported material weaknesses as presented in the Schedule of Findings and Responses related to internal control deficiencies over financial reporting.

### Section III—Federal Award Findings and Questioned Costs

There were no reported deficiencies in the Schedule of Findings and Responses related to internal control deficiencies over compliance with federal awards.

<b>Federal Grantor/Pass-through Grantor/Program or Clustor Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>Direct Programs</b>			
U.S. Department of Transportation			
Federal Avaition Commission	20.106	N/A	<u>\$ 84,171</u>
<b>Pass Through Programs</b>			
U.S. Department of Education			
<i>Oklahoma State Departement of Education - Drug Abuse Resisrtance Education (D.A.R.E)</i>			
Safe and Drug-Free Schools and Communities—State Grants	84.186	FY13	6,000
U.S. Department of Transportation			
<i>Oklahoma Highway Safety Office</i>			
State and Community Highway Safety	20.600	PT-12-03-15-03	6,738
State and Community Highway Safety	20.600	PT-13-03-08-04	9,046
State and Community Highway Safety	20.600	K8-13-03-12-04	15,555
U.S. Department of Interior			
<i>OK Dept. of Wildlife Conservation</i>			
Sport Fish Restoration Program	15.605	Oklahoma AMD 12	1,688,485
Total Pass Through Programs			<u>1,725,824</u>
<b>Total Expenditure of Federal Awards</b>			<b><u>\$ 1,809,995</u></b>

See accompanying notes to schedule of expenditures of federal awards.

*Note A - Basis of Presentation*

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the City of Grove, Oklahoma under programs of the federal government for the year ended June 30, 2013. 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. Because the Schedule presents only a selected portion of the operations of the City of Grove, Oklahoma, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the City of Grove, Oklahoma.

*Note B - Summary of Significant Accounting Policies*

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.