

CITY OF GHOLSON, TEXAS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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WILLIAM B. SANDERS
Certified Public Accountant

P.O. BOX 21024
WACO, TEXAS 76702
west-cpa@msn.com

TEL. (254) 722-4071
FAX (254) 751-0900

Independent Auditor's Report

To the City Council
City of Gholson, Texas

Report on the Audit of the Financial Statements

Opinion

I have audited the accompanying financial statements of the governmental activities of the City of Gholson, Texas (the City) as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In my opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City as of September 30, 2023, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods

of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise the City's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In my opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated December 21, 2023 on my consideration of the City's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Bill Sanders

West, Texas
December 21, 2023

City of Gholson, Texas
Management's Discussion and Analysis
September 30, 2023

Within this section of the City of Gholson, Texas (City) annual financial report, the City's management provides narrative discussion and analysis of the financial statements of the City for the year ended September 30, 2023. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section.

Financial Highlights:

The City's assets exceeded its liabilities by \$1,617,447 for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$1,664,288.

Total net position is comprised of the following:

- (1) Capital assets of \$526,264 include property and equipment, net of accumulated depreciation.
- (2) Unrestricted net assets of \$1,091,183 represent the portion available to maintain the City's continuing obligations to its citizens.

The City's governmental fund reported an ending balance of \$1,091,183. This compares to the prior year ending fund balance of \$1,139,403, representing a decrease of \$48,220 during the current year.

Overview of the Financial Statements:

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the *Statement of Net Position*. This is the City-wide statement of financial position presenting information that includes all of the City's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating. Evaluation of the overall economic health of the City would extend to other nonfinancial factors such as the condition of the City infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the *Statement of Activities* which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements present only governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants. Governmental activities include general government, public safety, public services, education, and culture and recreation. Business-type activities, such as airports, water utilities, solid-waste management, golf courses, ground transportation, and others are not applicable to the City.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. Within the basic financial statements, fund financial statements focus on the City's general fund rather than the City as a whole.

The City currently uses one kind of fund:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements.

The only governmental fund currently in use by the City is the general fund.

A budgetary comparison statement is included in the basic financial statements for the general fund. This statement demonstrates compliance with the City's adopted budget.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Financial Analysis of the City as a Whole

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the City as a whole.

The City's net position at fiscal year-end is \$1,617,447. This is a \$46,841 decrease under last year's net position of \$1,664,288. The City's financial position declined slightly during the fiscal year, largely due to spending the proceeds from a grant from the Texas Department of Energy Management received in the prior year.

The following table provides a summary of the City's net position at September 30:

Summary of Net Position

	Governmental Activities	
	2023	2022
Cash	\$ 479,639	\$ 1,125,347
Temporary Investments	600,792	-
Taxes Receivable	24,110	17,065
Capital Assets	526,264	524,885
Total Assets	1,630,805	1,667,297
Liabilities	13,358	3,009
Net Position		
Invested in Capital Assets	526,264	524,885
Unrestricted	1,091,183	1,139,403
Total Net Position	\$ 1,617,447	\$ 1,664,288

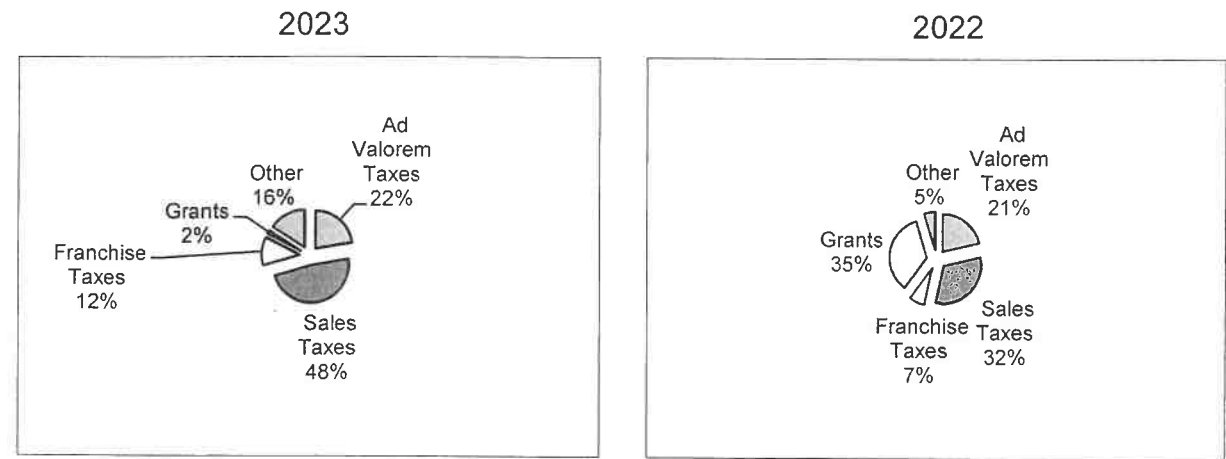
The following table provides a summary of the City's changes in net position for the years ended September 30:

Summary of Changes in Net Position

	Governmental Activities	
	2023	2022
Revenues:		
Ad Valorem Taxes & Penalties	\$ 43,760	\$ 62,365
Sales Taxes	93,935	93,389
Franchise Taxes	23,976	20,127
Grant	3,000	102,547
Interest	30,232	11,172
Child Safety Fees & Other	472	2,422
Total Revenues	195,375	292,022
Expenses:		
City Secretary	40,107	12,125
Depreciation	21,571	15,735
Dues	3,750	3,880
Election	1,070	25
Fees	2,203	2,194
Legal & Professional	34,835	32,975
Insurance	2,485	1,934
Miscellaneous	4,655	3,540
Office	6,951	5,809
Repairs - Streets	48,319	70,778
Repairs - Other	16,650	-
Tree Trimming	12,797	-
Utilities	12,416	10,094
Fire Department Subsidy	34,407	45,000
Total Expenses	242,216	204,089
Change in Net Position	(46,841)	87,933
Beginning Net Position	1,664,288	1,576,355
Ending Net Position	\$ 1,617,447	\$ 1,664,288

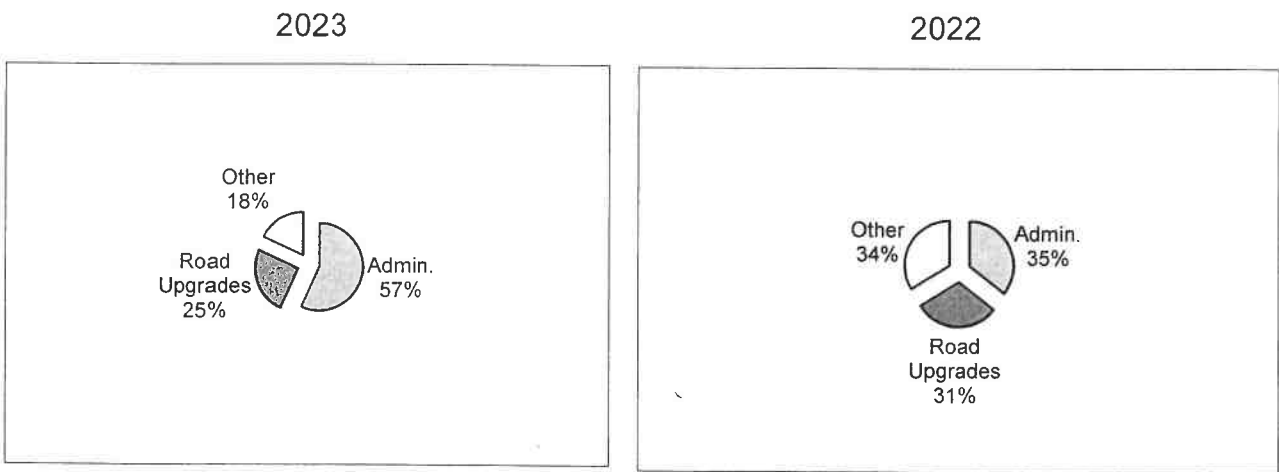
Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities for the current and preceding year.

Governmental Revenues



As graphically portrayed above, the City is heavily reliant on ad valorem taxes, sales taxes, franchise taxes, and grants to support governmental operations. These taxes provided almost 100% of the City's total governmental revenues in each of fiscal years 2023 and 2022.

Government Functional Expenses



As portrayed above, the City's primary expenses are road improvements and administration.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances and demonstrate the City's commitment to public accountability. More information can be obtained from the City at 749 Knust Circle, Waco, Texas 76705

**CITY OF GHOLSON, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2023**

ASSETS:	<u>Governmental Activities</u>
Current Assets	
Cash on Hand and in Banks	\$ 479,639
Temporary Investments (Note 2)	600,792
Taxes Receivable, Net	<u>24,110</u>
Total Current Assets	1,104,541
Capital Assets:	
Capital Assets, net of Accumulated Depreciation (Note 3)	<u>526,264</u>
Total Assets	<u><u>\$ 1,630,805</u></u>
LIABILITIES	
Accounts Payable	<u>\$ 13,358</u>
Total Liabilities	13,358
Net Position:	
Invested in Capital Assets	526,264
Unrestricted	<u>1,091,183</u>
Total Net Position	<u><u>\$ 1,617,447</u></u>

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

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

Functions / Programs

Governmental Activities:

City Secretary	40,107
Depreciation	21,571
Dues	3,750
Election	1,070
Fees	2,203
Legal & Professional	34,835
Insurance	2,485
Miscellaneous	790
Office	6,951
Planning & Zoning	3,865
Repairs - Streets	48,319
Repairs & Maintenance - Other	16,650
Tree Trimming	12,797
Utilities	12,416
Volunteer Fire Dept. Subsidy	34,407

Total Governmental Activities	<u>242,216</u>
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Net (Expense) Revenue	\$ (242,216)
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General Revenues:

Ad Valorem Taxes	43,760
Sales Taxes	93,935
Franchise Taxes	23,976
Grant	3,000
Interest	30,232
Child Safety Fees	472

Total General Revenues	195,375
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Change in Net Position	(46,841)
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Net Position, Beginning of Year	<u>1,664,288</u>
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Net Position, Ending of Year	<u><u>\$ 1,617,447</u></u>
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The accompanying notes are an integral part of this financial statement.

**CITY OF GHOLSON, TEXAS
BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2023**

ASSETS

	<u>General</u>
Current Assets:	
Cash in Banks	\$ 479,639
Temporary Investments	600,792
Taxes Receivable, Net	<u>24,110</u>
Total Current Assets;	<u>1,104,541</u>
 Total Assets	 <u><u>\$ 1,104,541</u></u>

LIABILITIES AND FUND BALANCE

Accounts Payable	<u>\$ 13,358</u>
Total Liabilities	13,358
Fund Balance	
Unreserved	<u>1,091,183</u>
Total Liabilities and Fund Balance	<u><u>\$ 1,104,541</u></u>

Reconciliation of the Balance Sheet of Governmental Fund
to the Statement of Net Position:

Total Fund Balance - Governmental Fund	1,091,183
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Amount reported for governmental activities in the
statement of net position is different because:

Capital assets of \$675,258, net of accumulated depreciation of \$148,995, are not financial resources and, therefore, are not reported in the funds.	<u>526,264</u>
Net Position of Governmental Activities	<u><u>\$ 1,617,447</u></u>

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

CITY OF GHOLSON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2023

Revenues:

Ad Valorem Taxes & Penalties	\$ 43,760
Sales Taxes	93,935
Franchise Taxes	23,976
Grant	3,000
Interest	30,232
Child Safety Fees	472
Total Revenues	\$ 195,375

Expenditures:

Capital Outlay	22,950
City Secretary	40,107
Dues	3,750
Election	1,070
Fees	2,203
Legal & Professional	34,835
Insurance	2,485
Miscellaneous	790
Office Supplies	6,951
Planning & Zoning	3,865
Repairs - Streets	48,319
Repairs - Other	16,650
Tree Trimming	12,797
Utilities	12,416
Fire Department Subsidy	34,407
Total Expenditures	243,595

Excess (Deficit) of Revenues Over (Under) Expenditures	(48,220)
Fund Balance, Beginning of Year	1,139,403
Fund Balance, End of Year	\$ 1,091,183

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance to the Statement of Activities:

Net Change in Fund Balance - Governmental Fund	(48,220)
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Amount reported for governmental activities in the statement
of activities is different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the costs of these assets are allocated
over their estimated useful lives and recorded as depreciation expense.

The difference between capital outlays and depreciation expense is	1,379

Change in Net Position of Governmental Activities	\$ (46,841)

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

CITY OF GHOLSON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	<u>Budget</u>	<u>Actual</u>	<u>Difference Favorable (Unfavorable)</u>
Revenues:			
Ad Valorem Taxes & Penalties	\$ 77,160	\$ 43,760	\$ (33,400)
Sales Taxes	90,000	93,935	3,935
Franchise Taxes	15,000	23,976	8,976
Grant	102,000	3,000	(99,000)
Interest	12,000	30,232	18,232
Other	200	472	272
	<u>296,360</u>	<u>195,375</u>	<u>(100,985)</u>
Total Revenues	296,360	195,375	(100,985)
Expenditures:			
Capital Outlay	53,000	22,950	30,050
City Secretary	23,923	40,107	(16,184)
Dues	7,304	3,750	3,554
Election	2,500	1,070	1,430
Fees	1,209	2,203	(994)
Legal & Professional	46,800	34,835	11,965
Insurance	9,000	2,485	6,515
Miscellaneous	1,200	790	410
Office Supplies	4,000	6,951	(2,951)
Planning & Zoning	9,500	3,865	5,635
Repairs - Streets	95,000	48,319	46,681
Repairs - Other	10,200	16,650	(6,450)
Tree Trimming	3,000	12,797	(9,797)
Utilities	8,360	12,416	(4,056)
Fire Department Subsidy	-	34,407	(34,407)
	<u>274,996</u>	<u>243,595</u>	<u>31,401</u>
Total Expenditures	274,996	243,595	31,401
Excess (Deficit) of Revenues Over (Under) Expenditures	21,364	(48,220)	(69,584)
Fund Balance, Beginning of Year	<u>1,139,403</u>	<u>1,139,403</u>	<u>-</u>
Fund Balance, End of Year	<u>\$1,160,767</u>	<u>\$1,091,183</u>	<u>\$ (69,584)</u>

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

**CITY OF GHOLSON, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2023**

1. Summary of Significant Accounting Policies:

The financial statements of the City of Gholson, Texas ("City") have been prepared in conformity with generally accepted accounting principles as applicable to governmental units.

Reporting Entity

For financial reporting purposes, the City includes all funds over which the City Council exercises oversight responsibility. The City is not included in any other "reporting entity" as defined in GASB pronouncements, since Council members are elected by the public and have decision-making authority, the power to designate management, and the ability to significantly influence operations and primary accountability for fiscal matters.

Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balances, revenues, and expenditures or expenses as appropriate. The following fund type is used by the City:

Governmental Fund Type

General Fund - The General Fund is currently the only operating fund of the City and accounts for all revenues and expenditures of the City.

Basis of Accounting

The modified accrual basis of accounting is used by the general fund. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, if measurable.

Budget

The City adopts an annual budget for the General Fund. This budget is presented on the modified accrual basis of accounting.

CITY OF GHOLSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2023

Cash

The City maintained cash accounts at one financial institution in Central Texas. At September 30, 2023, the balances were \$479,639, of which \$250,000 were covered by federal depository insurance, and \$229,639 were collateralized by municipal bonds held by the City's financial institution, with par values of \$890,000 and market values of \$620,239.

Property Taxes

Property taxes attach as enforceable liens on property as of January 1. Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent on February 1 of the following year. The City's taxes are collected by the McLennan County Tax Office. City property taxes are recognized when levied. An allowance is established for delinquent taxes to the extent that their collectibility is improbable. At September 30, 2023, this allowance is \$11,084.

2. Temporary Investments

The City opened two accounts at the Texas Local Government Investment Pool (TexPool) during the year. These accounts are secured by the State of Texas.

The Texas Local Government Investment Pool has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments. TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for all fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with Tex Pool. The advisory board members review the investment policy and management fee structure. The Comptroller of Public Accounts is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. Pursuant to the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. under an agreement with the Comptroller, acting on behalf of the Trust Company.

TexPool investments consist exclusively of U.S. Government securities, repurchase agreement collateralized by U.S. Government securities, and AAA-rated no-load money market mutual funds. Standard & Poor's rates TexPool AAA. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

CITY OF GHOLSON, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2023

3. Property and Equipment

Fixed assets used in governmental fund type operations are accounted for in the Statement of Net Position rather than in governmental funds. Fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated fair market value on the date donated. Repairs and maintenance are recorded as expenditures; renewals and betterments are capitalized. Capital assets are depreciated using the straight-line method. Classes of property and estimated useful lives are as follows:

Buildings	40	years
Streets	40	years
Furniture and Equipment	5-20	years

Changes in Fixed Assets:

	Balance, Sept. 30, 2022	Additions	Retire- ments	Balance, Sept. 30, 2023
Building	\$ 193,648	\$ -	\$ -	\$ 193,648
Streets	424,082	-	-	424,082
Furniture and Equipment	22,243	22,950	-	45,193
Land	12,335	-	-	12,335
Accumulated Depreciation	(127,423)	(21,571)	-	(148,994)
Totals	<u>\$ 524,885</u>	<u>\$ 1,379</u>	<u>\$ -</u>	<u>\$ 526,264</u>

4. Commitments

The City has committed to spending \$98,000 with McLennan County for road repairs. As of September 30, 2023, \$22,248 has been spent, leaving \$75,752 to be spent in the next fiscal year.

SUPPLEMENTARY INFORMATION

**CITY OF GHOLSON, TEXAS
CITY COUNCIL, KEY PERSONNEL, AND CONSULTANTS
SEPTEMBER 30, 2023**

City Mailing Address: 749 Knust Circle
Waco, Texas 76705

City Telephone Number: (254) 829-0100

<u>Name and Address</u>	<u>Term of Office</u>	<u>Fees</u>	<u>Title</u>
City Council:			
Taylor Jackson 848 River Rd. Waco, Texas 76705	9/22 - 5/23	None	Mayor
Chance Bradbury 743 Sandfield Lane Waco, Texas 76705	5/23 - 5/25	None	Mayor
Ron McCartney 12311 Gholson Rd. Waco, Texas 76705	5/23 - 5/25	None	Member
Diane Binnion 1617 Hamilton Waco, Texas 76705	5/22 - 5/24	None	Member
Tom Buzbee 12658 Gholson Rd. Waco, Texas 76705	5/23 - 5/25	None	Mayor Pro-Tem
Billy Sparks 1067 Wesley Chapel Rd. Waco, Texas 76705	5/21-5/23	None	Member
Jonathan Spence 1915 Hamilton Rd. Waco, Texas 76705	5/23 - 5/25	None	Member
Ric Maddox 2080 Hamilton Dr. Waco, Texas 76705	5/22 - 5/24	None	Member
Consultants:			
William B. Sanders CPA 300 N. Reagan West, Texas 76691		\$ 1,300	Auditor
Diaz & Wright P.O Box 522 Rosebud, Texas 76570		\$ 24,000	Attorney

WILLIAM B. SANDERS
Certified Public Accountant

P.O. BOX 21024
WACO, TEXAS 76702
west-cpa@msn.com

TEL. (254) 722-4071
FAX (254) 751-0900

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

To the City Council
City of Gholson, Texas

I have audited the financial statements of the governmental activities of the City of Gholson, Texas, as of and for the year ended September 30, 2023, which comprise the City of Gholson, Texas' basic financial statements and have issued my report thereon dated December 21, 2023. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and 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 my audit, I considered the City of Gholson, Texas' internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the City of Gholson, Texas' internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Gholson, Texas' internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Gholson, Texas' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Gholson, Texas' financial statements that is more than inconsequential will not be prevented or detected by the City of Gholson, Texas' internal control. I consider the following deficiency to be a significant deficiency in internal control:

Controls Over Financial Reporting

Recently-issued auditing standards have clarified that the components of internal controls are the same for all entities. There is no exemption or special relief given to a smaller entity because of its size or the challenges present when achieving effective internal control. Certain internal controls that have often been overlooked by small businesses relate to the financial reporting process. Annual financial reporting control objectives address the preparation of accurate annual financial statements and related note disclosures in accordance with generally accepted accounting principles. That is to say, the system of internal control over financial reporting does not stop at the entity's general ledger. It includes controls over the actual financial statement preparation, including note disclosures.

I have historically drafted the annual financial statements and related note disclosures of the City at the City's request. This was done because, due to its limited resources, The City's internal personnel did not possess all the skills and competencies necessary to prepare its own financial statements in accordance with the highly technical pronouncements and requirements of generally accepted accounting principles. However, I can not be considered part of the City's internal controls. Consequently, the inability of the City to internally prepare its own financial statements and related notes is considered a control deficiency. The fact that I prepare the financial statements may give users more confidence that the financial statements are correct; however, it does not eliminate the control deficiency.

To remedy the control deficiency related to the preparation of the annual financial statements, the City needs to ensure that appropriate personnel are in place and that they have the appropriate knowledge and tools (i.e., current accounting literature, current disclosure checklist, etc.) to be an effective element of the internal control process. Another remedy in this area may be for the City to engage another firm or person to outsource the financial statement preparation portion of the process. Alternatively, management may make a conscious decision to accept the degree of risk in this control deficiency because of cost or other considerations. That decision would not affect my continued drafting of the City's financial statements and notes in the future. However, my responsibility under professional standards includes communicating deficiencies, regardless of management's decisions, as long as the deficiency exists.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Gholson, Texas' internal control. I believe the above deficiency constitutes a material weakness.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Gholson, Texas' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*:

This report is intended solely for the use of management and City Council and is not intended to be and should not be used by anyone other than this specified party.

Bill Sanders

West, Texas
December 21, 2023