



CITY OF CHINA GROVE, TEXAS

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED

SEPTEMBER 30, 2022

CITY OF CHINA GROVE, TEXAS
ANNUAL FINANCIAL REPORT

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CITY OFFICIALS

MAYOR

MARY ANN HAJEK

MAYOR PRO-TEM

LARRY KELLER, SR.

CITY COUNCIL

MARGIE HOLISKY

GAIL BEAVER

FRANK BENNETT

DAVID WINDHORST

CITY SECRETARY

SUSAN CONAWAY

CITY ATTORNEY

DENTON, NAVARRO, ROCHA, BERNAL & ZECH, PC

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Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Mayor and City Council
City of China Grove, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the City of China Grove, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City of China Grove's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the City of China Grove, as of September 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of China Grove and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 of China Grove's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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.

Supplementary Information

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

The individual fund financial statements 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Armstrong, Vaughan & Associates, P.C.

Armstrong, Vaughan & Associates, P.C.

January 17, 2023

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

The discussion and analysis of the City of China Grove's financial performance provides an overview of the City's financial activity for the year ended September 30, 2022. It should be read in conjunction with the financial statements.

Financial Highlights

- The City's overall net position was \$2.4 million at September 30, 2022, an increase of \$335 thousand from September 30, 2021.
- The City's total revenues were \$1.3 million, an increase of \$243 thousand. The City's increase in revenue was driven by an increase in sales tax, advalorem tax and permit fees.
- The City's expenses were \$918 thousand, an increase of \$186 thousand. The City's increase in expenses was driven by an increase in payroll as well as increased professional fees associated with the increase in permits.

City Highlights

The City of China Grove was incorporated in May of 1960 under the Type B General Law form of government consisting of a Mayor and five aldermen (council members) voted at large, alternately, for a term of two years at an annual election. However, the council later voted (August, 1992) to change to a Type A General Law form of government.

Using this Annual Report

This annual report consists of three parts; Management's Discussion and Analysis, Financial Statements, and Required Supplementary Information. The Statements of Net Position and Activities provide information on the City as a whole with a focus on economic resources. The city's net position (the difference between assets and liabilities) are a way to measure financial health or financial position. The fund financial statements, present the City's operations with a focus on financial resources.

Statement of Net Position

Table 1 shows all of the assets and liabilities of the City and is presented on the accrual basis. The total net position is just over \$2.4 million.

Table 1
Statement of Net Position

	9/30/2022	9/30/2021
Current Assets	\$ 1,590,663	\$ 998,278
Capital Assets	1,200,263	1,288,739
Total Assets	2,790,926	2,287,017
Current Liabilities	363,241	194,100
Total Liabilities	363,241	194,100
Net Investment in Capital Assets	1,200,263	1,288,739
Restricted	18,762	18,298
Unrestricted	1,208,660	785,880
Total Net Position	\$ 2,427,685	\$ 2,092,917

Statement of Activities

Table 2 summarizes the expenses and revenues of the City and is also presented on the accrual basis. Charges for services primarily consist of municipal court fines as well as permit fees, while tax revenues are made up of property, sales, franchise, and mixed beverage taxes.

Table 2
Changes in Net Position

	<u>9/30/2022</u>	<u>9/30/2021</u>
Program Revenues:		
Charges for Services	\$ 477,318	\$ 319,362
Capital Grants and Contributions	-	-
General Revenues		
Tax Revenues	764,041	650,415
Other Revenues	11,268	39,951
Total Revenues	<u>1,252,627</u>	<u>1,009,728</u>
General Government	687,372	572,219
Public Safety	155,837	131,658
Public Works	74,651	28,353
Total Expenses	<u>917,859</u>	<u>732,230</u>
Change in Net Position	334,768	277,498
Beginning Net Position	<u>2,092,917</u>	<u>1,815,419</u>
Ending Net Position	<u>\$ 2,427,685</u>	<u>\$ 2,092,917</u>

The City contributes annually to the volunteer fire department.

Balance Sheet

The Balance sheet shows the financial assets, liabilities and fund balances for the City. Long-term assets and liabilities are not presented on this statement because the focus is on current financial resources.

Statement of Revenues, Expenditures and Changes in Fund Balance

This statement shows the revenues and expenditures for the City. The revenue from property tax, sales tax, mixed beverage tax and franchise tax make up 61% of the total revenues. Revenues increased due to an increase in sales tax, advalorem tax and permit fees. Expenditures of \$829 thousand included the purchase of a new vehicle. The City's fund balance increased \$421 thousand to \$1.2 million.

Capital Assets

The City has \$1.8 million in a variety of capital assets. The City Hall and City Street projects comprise the majority of the balance. The City purchased a police vehicle during the fiscal year. The notes to the financial statements provide more details.

Budgetary Analysis

The City has one fund – general. Revenues exceeded the budget by \$381 thousand and expenditures were under budget by \$38 thousand. Revenues were over budget mainly because of better than expected tax revenue and permit income. Expenditures were under budget primarily due to street maintenance costs being below expectations.

Description of Current and Expected Conditions

The City's elected and appointed officials considered many factors when setting the fiscal year 2023 budget, tax rates, and fees that will be charged. The City's budget levels remain similar to previous years, with continuous efforts to save for "big ticket" capital items to ensure not needing to fund their purchases out of a single year's revenue. For fiscal year 2022-2023, the City included \$150 thousand for street repairs in addition to \$30 thousand for equipment upgrades.

Financial Outlook

When planning a budget and setting a tax rate for properties in China Grove, the Council has been able to keep the tax rate at a relatively low rate compared to similar entities.

The Council and City Management do not expect any other significant changes to the operations of the City.

Contacting the City's Financial Management

The financial report is designed to provide a general overview of the City's finances and to show the City's accountability to its taxpayers. If you have any questions about this report or need additional information, contact the City office at City of China Grove, 2412 FM 1516 S., China Grove, Texas 78263.

CITY OF CHINA GROVE
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2022

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government – Wide Financial Statements
- Fund Financial Statements:
 - Governmental Funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF CHINA GROVE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 766,158
Certificates of Deposit	712,491
Accounts Receivable - Ad Valorem Taxes	9,815
Accounts Receivable - Other	102,199
Capital Assets:	
Land	56,021
Buildings & Improvements	424,806
Infrastructure	1,117,891
Furniture & Equipment	164,783
Accumulated Depreciation	(563,238)
TOTAL ASSETS	2,790,926
 LIABILITIES	
Accounts Payable	7,660
Payroll Liabilities	4,780
Due to Other Governments	22,829
Unearned Grant Revenue	327,972
TOTAL LIABILITIES	363,241
 NET POSITION	
Net Investment in Capital Assets	1,200,263
Restricted for Court Security	7,942
Restricted for Court Technology	10,820
Unrestricted	1,208,660
TOTAL NET POSITION	\$ 2,427,685

See accompanying notes to basic financial statements.

CITY OF CHINA GROVE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022

FUNCTIONS AND PROGRAMS	Expenses	Program Revenues		Net Revenue (Expense)
		Charges for Services	Capital Grants and Contributions	Total Governmental Activities
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 687,372	\$ 209,180	\$ -	\$ (478,192)
Public Safety	155,837	268,138	-	112,301
Public Works	74,651	-	-	(74,651)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 917,859	\$ 477,318	\$ -	\$ (440,541)
 GENERAL REVENUES				
Taxes:				
Franchise				167,291
Sales Tax				275,190
Ad Valorem (Property)				312,295
Mixed Beverage				9,265
Interest Income				5,013
Miscellaneous				6,255
TOTAL GENERAL REVENUES				775,309
Change in Net Position				334,768
NET POSITION AT BEGINNING OF YEAR				2,092,917
NET POSITION AT END OF YEAR				\$ 2,427,685

See accompanying notes to basic financial statements.

CITY OF CHINA GROVE
BALANCE SHEET - GOVERNMENTAL FUND
SEPTEMBER 30, 2022

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 766,158
Certificates of Deposit	712,491
Accounts Receivable - Ad Valorem Taxes	9,815
Accounts Receivable - Other	<u>102,198</u>
TOTAL ASSETS	<u><u>\$ 1,590,662</u></u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
<i>Liabilities:</i>	
Accounts Payable	\$ 7,660
Payroll Liabilities	4,780
Due to Other Governments	22,829
Unearned Grant Revenue	<u>327,972</u>
<i>Total Liabilities</i>	<u>363,241</u>
 <i>Deferred Inflow of Resources:</i>	
Unavailable Ad Valorem Tax	<u>9,815</u>
<i>Total Deferred Inflow of Resources</i>	<u>9,815</u>
 <i>Fund Balances:</i>	
Restricted for Court Security	7,942
Restricted for Court Technology	10,820
Unassigned	<u>1,198,844</u>
<i>Total Fund Balances</i>	<u>1,217,606</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCE	 <u><u>\$ 1,590,662</u></u>

See accompanying notes to basic financial statements.

CITY OF CHINA GROVE
RECONCILIATION TO STATEMENT OF NET POSITION - GOVERNMENTAL FUND
SEPTEMBER 30, 2022

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS \$ 1,217,606

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

Property Taxes receivable are not available to pay for current expenditures
and therefore, are deferred in the fund statements. 9,815

Capital Assets used in governmental activities are not current financial
resources and, therefore, are not reported in the governmental fund. 1,200,264

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 2,427,685

See accompanying notes to basic financial statements.

CITY OF CHINA GROVE
 STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES – GOVERNMENTAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

		General Fund
REVENUES		
Franchise Fees	\$	167,288
Sales Tax		275,190
Ad Valorem Tax		309,952
Mixed Beverage Tax		9,265
Fines and Forfeits		200,430
Impound Fees		67,690
Licenses and Permits		209,180
Interest		5,013
Miscellaneous		6,273
TOTAL REVENUES		1,250,281
 EXPENDITURES		
Current:		
Personnel Services and Related Expenditures		413,810
Operating Supplies and Expenditures		206,133
Police Department Expenditures		65,384
Volunteer Fire Services		60,000
Professional and Other Services		59,903
Street Maintenance		16,152
Capital Outlay		8,000
TOTAL EXPENDITURES		829,382
Net Change in Fund Balance		420,899
FUND BALANCE AT BEGINNING OF YEAR		796,707
FUND BALANCE AT END OF YEAR	\$	1,217,606

See accompanying notes to basic financial statements.

CITY OF CHINA GROVE
 RECONCILIATION TO STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		\$ 420,899
Amounts reported for governmental activities in the Statement of Activities are different because:		
The change in property taxes receivable reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenue in the governmental fund		2,345
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation	\$(96,476)	
Capital Outlay	<u>8,000</u>	<u>(88,476)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 334,768</u>

See accompanying notes to basic financial statements.

CITY OF CHINA GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of China Grove, Texas ("City") are presented in accordance with generally accepted accounting principles (GAAP) applicable to state and local governmental units as set forth by the Governmental Accounting Standards Board. A summary of the City's significant accounting policies consistently applied in the preparation of the accompanying financial statements follow:

1. REPORTING ENTITY

The City of China Grove was established in May of 1960 and is a Type A-General Law form of Government which elects a mayor and five council members at large.

The City's annual financial report includes the accounts of all City operations. The financial statements of the City of China Grove have been prepared in accordance with generally accepted accounting principles. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles.

In evaluating how to define the government for financial purposes, management has considered all potential component units. The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. Based on the foregoing criteria, there were no component units identified that would require inclusion in this report.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The **government-wide financial statements** include the statement of Net Position and the statement of activities. Government-wide statements report, except for City fiduciary activity, information on all of the activities of the City. Governmental activities are supported mainly by tax revenues, municipal court revenues, and interest on short-term investments.

The statement of activities reflects 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. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function. Taxes and other items not properly included in program revenues are reported as general revenues.

Separate **fund financial statements** are provided for governmental funds which meet the criteria as a **major governmental fund**. The general fund is the only major fund of the City and there were no non-major funds.

CITY OF CHINA GROVE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2022

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. 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. 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 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 government considers revenue to be available if 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 and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental fund:

The General Fund is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include sales and property taxes, franchise fees, charges for services and investment of idle funds. Primary expenditures are for general administration, public safety, public works and capital acquisition.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposits and investments with a maturity date within three (3) months of the date acquired by the City.

5. INVESTMENTS

State statutes authorize the City to invest in (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in the state that are (i) guaranteed or insured by Federal Deposit Insurance Corporation, or its successor; or (ii) secured by obligations that are described by (a) – (d); or (e).

CITY OF CHINA GROVE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2022

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. INVESTMENTS (Continued)

Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations. The City has all its monies in interest bearing checking accounts, savings accounts, money market accounts, certificates of deposit, or investments in TexPool. Earnings from these investments are added to each account monthly or quarterly. The City's investments include certificates of deposit (carried at amortized cost) and local government investment pools. These pools are 2a7-like which means they are not registered with the Securities and Exchange Commission as an investment company, but nevertheless have a policy that they will, and do, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. These pools are reported at a share price of \$1 which approximates their fair value.

6. ACCOUNTS RECEIVABLE

Property taxes are levied based on taxable value at January 1 and become due October 1, 2021 and are past due after January 31, 2022. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for the prior year's levy are shown net of an allowance for uncollectibles. Management has estimated that all past due property tax receivables are collectible, and, thus, the allowance is zero for September 30, 2022.

Accounts receivable from other sources includes franchise fees and amounts due from the state for sales tax collections. Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by the court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as unavailable revenue in the fund statements.

7. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period while a deferred inflow of resources is an acquisition of net position. These items are presented in a separate section following assets (deferred outflows) or liabilities (deferred inflows) on the statement of net position and the balance sheet.

Property tax revenues are recognized when they become both measurable and available in the fund statements. Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenues not expected to be available for the current period are reflected as unavailable revenue (a deferred inflow of resources).

CITY OF CHINA GROVE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2022

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the governmental activities column in the government-wide financial statements. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Only assets greater than \$5 thousand are capitalized.

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. Interest has not been capitalized during the construction period on property plant and equipment.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings and improvements	15 to 40 years
Furniture and equipment	5 to 10 years
Infrastructure	20 years

9. FUND EQUITY

Fund balances in governmental funds are classified as follows:

Nonspendable – Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact.

Restricted – Represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed – Represents amounts that can only be used for a specific purpose because of a formal action by the City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints through the same formal action.

Assigned – Represents amounts which the City intends to use for a specific purpose but do not meet the criteria of restricted or committed. The City Council is the only entity that may make assignments at this time.

Unassigned – Represents the residual balance that may be spent on any other purpose of the City.

When an expenditure is incurred for a purpose in which multiple classifications are available, the City considers restricted balances spent first, committed second, assigned third, and unassigned fourth.

CITY OF CHINA GROVE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2022

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. NET POSITION

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When expenses are incurred for which both restricted and unrestricted net position is available, the City reduces the restricted balance first.

11. USE OF ESTIMATES

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

12. NEW ACCOUNTING PRONOUNCEMENTS

The City implemented Governmental Accounting Standard Board's Statement 87 regarding leases as of October 1, 2021. This statement changed the way leases (contracts conveying the right to use an identified asset) are presented and recorded. The City analyzed its contracts and found no leases at this time.

NOTE B -- UNINSURED DEPOSITS

As of September 30, 2022, the City's bank deposit balances have exceeded the coverage provided by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA). The total uncollateralized amount as of fiscal year-end was \$385,617.

CITY OF CHINA GROVE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2022

NOTE C -- DEPOSITS AND INVESTMENTS

The City's investments at September 30, 2022 include \$73,327 on deposit in TexPool, 2a7-like public funds investment pool. TexPool operates in accordance with the provisions of the Texas Public Funds Investment Act and are rated AAAM. The investment in TexPool is included in cash and cash equivalents.

Investment Rate Risk. The City manages exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year.

Credit Risk. The City's investment policy limits restricts the types of investments it may purchase to obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas; obligations of states, agencies, contracts, cities, and other political subdivisions rated as to investment quality of not less than A or its equivalent by a nationally recognized investment firm. U.S. Government Securities are not considered to have credit risk and do not require disclosure of credit quality.

The City may also invest funds in government investment pools provided the pool maintains a AAA rating. As of September 30, 2022, the investments in TexPool were rated AAAM by Standard & Poor's.

The City's investments in pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool operates in a manner consistent with Rule 2a7. Therefore, the investments are reported at \$1 per share, which approximates fair value.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As discussed in Note B, the City's deposits were not fully collateralized as of September 30, 2022.

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2022, the City was not exposed to custodial credit risk.

Investment Rate Risk. The City and component unit manage exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year.

Public Funds Investment Act Compliance. The City is required the State to assign an investment officer whom will review, quarterly at minimum, the City's investments. The investment officer must all complete annual, state-approved, investment training. Finally, the City must adopted an investment policy annually. The City failed to maintain compliance with training and review requirements.

CITY OF CHINA GROVE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2022

NOTE D -- PROPERTY TAX CALENDAR

The City's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Bexar County Appraisal District. Assessed values are reduced by lawful exemptions to arrive at taxable values. The total taxable value as of January 1, 2022, upon which the fiscal 2022 levy was based was \$127,563 thousand (i.e., market value less exemptions). The estimated market value was \$222,832 thousand, making the taxable value 57.2% of the estimated market value.

The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended December 31, 2022, was \$.204049 per \$100 of assessed value, which means that the City has a tax margin of \$2.296 for each \$100 of assessed value and could increase its annual levy by approximately \$2.9 million based upon the present assessed valuation before the limit is reached. However, the City generally may not increase the maintenance and operations portion of the property tax rate (that funds the General Fund) more than 3.5% annually (based on a three-year average) without an election.

NOTE E -- ACCOUNTS RECEIVABLE - OTHER

Accounts Receivable – Other as of September 30, 2022 consisted of the following balances owed to the City:

Mixed Drink Taxes	\$	1,892
Franchise Taxes		47,287
Sales Tax		53,020
	\$	<u>102,199</u>

CITY OF CHINA GROVE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2022

NOTE F -- CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2022 was as follows:

<u>Governmental Activities</u>	Balance 10/1/2021	Additions	Disposals/ Transfers	Balance 9/30/2022
Land	\$ 56,021	\$ -	\$ -	\$ 56,021
Buildings and Improvements	424,806	-	-	424,806
Infrastructure	1,117,891	-	-	1,117,891
Furniture & Equipment	199,626	8,000	(42,843)	164,783
	<u>1,798,344</u>	<u>8,000</u>	<u>(42,843)</u>	<u>1,763,501</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(181,867)	(12,386)	-	(194,253)
Infrastructure	(216,790)	(55,895)	-	(272,685)
Furniture & Equipment	(110,948)	(28,195)	42,843	(96,300)
	<u>(509,605)</u>	<u>(96,476)</u>	<u>42,843</u>	<u>(563,238)</u>
Governmental Capital Assets, Net	<u>\$ 1,288,739</u>	<u>\$ (88,476)</u>	<u>\$ -</u>	<u>\$ 1,200,263</u>

Land is not depreciated.

Depreciation Expense was allocated to the following governmental functions

General Government	\$ 8,920
Public Safety	29,059
Public Works	58,498
	<u>\$ 96,476</u>

NOTE G -- RISK MANAGEMENT

The City has identified possible risk of losses arising from events such as the following:

1. Torts.
2. Theft of, damage to, or destruction of assets.
3. Errors and omissions.
4. Job-related illnesses or injuries to employees.
5. Acts of God.

The City contracts with Texas Municipal League providers to provide insurance coverage for identified risks. TML is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are set annually by TML. Liability by the City is generally limited to the contributed amounts. Annual contributions for the year ended September 30, 2022, were \$22,897.

CITY OF CHINA GROVE
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2022

NOTE H – UNEARNED GRANT REVENUE

The City received an award of \$327,972 under the American Rescue Plan Act (ARPA) of 2021 through the Texas Division of Emergency Management. Governance is considering several options for utilization of the funds, to include road maintenance and support of administrative and public safety activities. The funding is reflected as Unearned Revenues in the City's basic financial statements. The grant is refundable if not spent on authorized uses.

NOTE I -- COMMITMENTS AND CONTINGENCIES

During the fiscal year, the City budgeted for, and committed to the purchase of a new City Hall sign. The total purchase price \$32,416. The sign was not delivered or installed as of September 30, 2022 and is therefore not included in the current year expenditures.

NOTE J -- LITIGATION

The City is not aware of any pending or threatened claims against the City.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund

CITY OF CHINA GROVE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
REVENUES				
Franchise Fees	\$ 140,000	\$ 140,000	\$ 167,288	\$ 27,288
Sales Tax	183,800	183,800	275,190	91,390
Ad Valorem Tax	249,000	249,000	309,952	60,952
Mixed Beverage Tax	5,000	5,000	9,265	4,265
Fines and Forfeits	196,000	196,000	200,430	4,430
License and Permit Income	15,000	15,000	209,180	194,180
Impound Fees	52,000	52,000	67,690	15,690
Interest Income	3,000	3,000	5,013	2,013
Police Department Grant	12,000	12,000	-	(12,000)
Miscellaneous Income	13,400	13,400	6,273	(7,127)
TOTAL REVENUES	<u>869,200</u>	<u>869,200</u>	<u>1,250,281</u>	<u>381,081</u>
EXPENDITURES				
<i>Personnel Services & Related Expenditures:</i>				
Salaries and Retirement	373,148	372,428	383,484	(11,056)
Payroll Taxes	37,315	37,315	30,326	6,989
<i>Total Personnel Services & Related Expenditures</i>	<u>410,463</u>	<u>409,743</u>	<u>413,810</u>	<u>(4,067)</u>
<i>Operating Supplies & Expenditures:</i>				
Building Maintenance	14,600	14,600	9,070	5,530
Inspection Fee	9,000	9,000	132,865	(123,865)
Utilities	22,000	22,000	19,303	2,697
Office Supplies and Operations	18,500	18,500	14,748	3,752
Insurance and Bonds	18,000	18,000	22,897	(4,897)
Dues and Subscriptions	1,500	1,500	600	900
Municipal Court	4,250	4,250	1,393	2,857
Miscellaneous	44,200	40,700	5,257	35,443
<i>Total Operating Supplies & Expenditures</i>	<u>132,050</u>	<u>128,550</u>	<u>206,133</u>	<u>(77,583)</u>
<i>Professional and Other Services:</i>				
Legal	15,900	15,900	51,894	(35,994)
Accounting	7,100	7,100	7,100	-
Animal Control	3,600	3,600	909	2,691
<i>Total Professional and Other Services</i>	<u>\$ 26,600</u>	<u>\$ 26,600</u>	<u>\$ 59,903</u>	<u>\$ (33,303)</u>

CITY OF CHINA GROVE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
 BUDGET AND ACTUAL
 GENERAL FUND (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (CONT.):				
<i>Police Department</i>	<u>\$ 47,200</u>	<u>\$ 47,200</u>	<u>\$ 65,384</u>	<u>\$ (18,184)</u>
<i>Volunteer Fire Services</i>	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>-</u>
<i>Street Maintenance</i>	<u>195,000</u>	<u>195,000</u>	<u>16,152</u>	<u>178,848</u>
<i>Capital Outlay</i>	<u>-</u>	<u>-</u>	<u>8,000</u>	<u>(8,000)</u>
TOTAL EXPENDITURES	<u>871,313</u>	<u>867,093</u>	<u>829,382</u>	<u>37,711</u>
NET CHANGE IN FUND BALANCE	<u>(2,113)</u>	<u>2,107</u>	<u>420,899</u>	<u>418,792</u>
BEGINNING FUND BALANCE	<u>796,707</u>	<u>796,707</u>	<u>796,707</u>	<u>-</u>
ENDING FUND BALANCE	<u><u>\$ 794,594</u></u>	<u><u>\$ 798,814</u></u>	<u><u>\$ 1,217,606</u></u>	<u><u>\$ 418,792</u></u>

CITY OF CHINA GROVE
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2022

Budgetary Information – Budgets are prepared for the general fund in accordance with the modified accrual basis of accounting. The City maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council and as such is a good management control device. The following fund has legally adopted an annual budget: General Fund.

Budgetary preparation and control is exercised at the fund level. Actual expenditures may not legally exceed appropriations at the fund level. In the current fiscal year, several line items were over budget due to development of a new commercial complex located partially within the City. The City does not use encumbrances.

SUPPLEMENTARY INFORMATION

Supplementary information includes financial statements and schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Contents

Comparative Balance Sheet - General Fund

Comparative Schedule of Revenues, Expenditures, and Change in Fund Balance – General Fund

CITY OF CHINA GROVE
 COMPARATIVE BALANCE SHEETS
 GENERAL FUND
 SEPTEMBER 30, 2022 AND 2021

	9/30/2022	9/30/2021
ASSETS		
Cash and Cash Equivalents	\$ 766,158	\$ 576,889
Certificates of Deposit	712,491	333,937
Accounts Receivable - Ad Valorem Taxes	9,815	7,472
Accounts Receivable - Other	102,198	69,981
Prepaid Item	-	10,000
TOTAL ASSETS	\$ 1,590,662	\$ 998,279
LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE		
<i>Liabilities:</i>		
Accounts Payable	\$ 7,660	\$ 1,561
Payroll Liabilities	4,780	-
Due to Other Governments	22,829	28,876
Unearned Grant Revenue	327,972	163,663
<i>Total Liabilities</i>	<i>363,241</i>	<i>194,100</i>
<i>Deferred Inflow of Resources:</i>		
Unavailable Ad Valorem Tax	9,815	7,472
<i>Total Deferred Inflow of Resources</i>	<i>9,815</i>	<i>7,472</i>
<i>Fund Balances:</i>		
<i>Nonspendable for:</i>		
Prepaid Expenses	-	10,000
<i>Restricted for:</i>		
Court Security	7,942	9,880
Court Technology	10,820	8,418
Unassigned	1,198,844	768,409
<i>Total Fund Balances</i>	<i>1,217,606</i>	<i>796,707</i>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	\$ 1,590,662	\$ 998,279

CITY OF CHINA GROVE
 COMPARATIVE SCHEDULES OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 GENERAL FUND
 FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	<u>9/30/2022</u>	<u>9/30/2021</u>
REVENUES		
Franchise Fees	\$ 167,288	\$ 127,427
Sales Tax	275,190	224,742
Ad Valorem Tax	309,952	292,477
Mixed Beverage Tax	9,265	7,262
Fines and Forfeits	200,430	207,438
Impound Fees	67,690	69,050
Licenses and Permits	209,180	28,129
Interest	5,013	3,431
Asset Forfeiture	-	14,371
Miscellaneous	6,273	36,770
TOTAL REVENUES	<u>1,250,281</u>	<u>1,011,097</u>
EXPENDITURES		
Current:		
Personnel Services and Related Expenditures	413,810	392,095
Operating Supplies and Expenditures	206,133	88,651
Police Department Expenditures	65,384	56,992
Emergency Services	60,000	60,000
Professional and Other Services	59,903	14,216
Street Maintenance	16,152	28,353
Capital Outlay	8,000	176,364
TOTAL EXPENDITURES	<u>829,382</u>	<u>816,671</u>
Net Change in Fund Balance	420,899	194,426
FUND BALANCE AT BEGINNING OF YEAR	<u>796,707</u>	<u>602,281</u>
FUND BALANCE AT END OF YEAR	<u>\$ 1,217,606</u>	<u>\$ 796,707</u>