

**CITY OF JOSEPHINE, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**CITY OF JOSEPHINE, TEXAS  
ANNUAL FINANCIAL REPORT  
For the Year Ended September 30, 2019**

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**City of Josephine, Texas  
List of Principal Officials  
September 30, 2019**

**OFFICIALS**

Mayor ..... Joe Holt  
Council Member Place 1 ..... Doug Ewing  
Council Member Place 2 ..... Katrina Heifner-Donihoo  
Council Member Place 3 ..... Becca Lutjen  
Council Member Place 4 ..... Cedric Powell  
Council Member Place 5 ..... Jason Turney (Mayor Pro-Tem)  
City Secretary ..... Patti Brooks

## **FINANCIAL SECTION**

## Independent Auditor's Report

To the City Council  
City of Josephine, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining aggregate funds of the City of Josephine, Texas, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Josephine, Texas, as of September 30, 2019, 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 schedule – General Fund and the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios – Texas Municipal Retirement System and the Schedule of Funding Progress on pages 4–13 and 53-56 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 Josephine, Texas' basic financial statements. The Historical Schedule of Assessed Property Valuation and the Historical Schedule of Property Tax Rates are presented for purposes of additional analysis and are not a required part of the basic financial statements.

*Fox, Byrd + Company, P.C.*

Fox, Byrd & Company, P.C.

March 6, 2020

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management for the City of Josephine, Texas, we offer readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2019. This discussion should be read in conjunction with the financial statements and related notes.

### **FINANCIAL HIGHLIGHTS:**

- Government-wide net assets reported in the Statement of Activities are \$5,125,328. Of this amount \$2,988,003 is invested in capital assets or restricted for debt service, leaving \$2,137,325 of unrestricted net assets.
- Government-wide net assets increased by \$973,709 during 2019.
- Each of the City's fund financial statements reported changes in equity as follows:
  - General Fund – \$49,461 decrease
  - Debt Service Fund - \$4,679 increase
  - Water Fund - \$443,737 increase
  - Sewer Fund - \$189,347 increase

### **USING THIS ANNUAL REPORT:**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests. Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the water and sewer system. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.



## **REPORTING THE CITY AS A WHOLE-GOVERNMENT-WIDE FINANCIAL STATEMENTS:**

### **The Statement of Net Position and the Statement of Activities**

Government-wide financial statements provide an analysis of the City's overall financial condition and operations. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

The Statement of Net Position includes all the City's assets and liabilities while the Statement of Activities includes all the revenue and expenses generated by the City's operations during the year. Government-wide statements utilize the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: 1) charges for services, 2) operating grants and contributions, 3) capital grants and contributions and 4) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current year or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and the changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activities:

*Governmental Activities* – Most of the City's services are reported here, including, administration, sanitation services, judicial, public works, police, infrastructure and the street repairs. Property taxes and state and federal grants finance most of these activities.

*Business-type Activities* – The City charges fees to customers to help it cover the cost of certain services it provides. The City's water and sewer system operations are reported here.

*Component Unit* – The City of Josephine includes a discretely presented component unit, the City's Type A Sales Tax Corporation known as the Josephine Community Development Corporation. Although legally separate, the City of Josephine is financially accountable for this component unit. The City Council appoints the component unit's Board of Directors, sets the budget and approves any debt issuance.

## **REPORTING THE CITY'S MOST SIGNIFICANT FUNDS:**

### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds. The City's administration establishes funds to help it control and manage money for particular purposes. The City's two kinds of funds – governmental and proprietary use different accounting approaches.

*Governmental Funds* – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules found directly following each of the governmental fund financial statements.

*Proprietary Funds* – The Proprietary/Enterprise funds are used to account for operations that are financed in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing water and sewer services to the general public on a continuing basis are financed through user charges.

## **FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS:**

In the government-wide financial statements, net assets serve as one useful indicator of a government's financial position. In the case of the City, combined net assets exceed liabilities by \$5,125,328 and \$4,151,619 at the close of FY 2019 and 2018, respectively.

The combined net assets of the City's activities increased from \$4,151,619 to \$5,125,328 or \$973,309 during 2019. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements were \$2,137,325.

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS:**

As the City completed the year, its governmental funds, \$213,825 and proprietary funds \$4,038,860 reported combined fund balance and net assets of \$4,252,685, a \$588,305 increase from last year.

**CAPITAL ASSET AND DEBT ADMINISTRATION:**

*Capital Assets* – the City's investment in capital assets, net of related debt, reported in governmental activities and business-type activities was \$1,032,849 and \$1,847,535, respectively. This investment in capital assets includes land, buildings and improvements, equipment and vehicles. The change in the City's net investment in capital assets for the current fiscal year was \$569,086 and \$(248,584) in each of the respective activities.

*Long-term Debt* – at year-end the City had \$400,000 in bonds outstanding which represents a decrease of \$150,000 from the prior year.

**BUDGETARY HIGHLIGHTS & ECONOMIC FACTORS:**

The Magnolia Point housing development is underway and by the end of the 2018-2019 budget year had drawn 140 permits. Phase 1 on Magnolia Point is completed, and Phase 2 began during the 2018-2019 budget year. Shepherd Place Homes built 12 homes on East Street and increased the High Meadows development by approximately 20 homes. We anticipate they will continue to grow that development with an additional 10 building permits to be drawn in the 2019-2020 budget year. The Mayor and the City continued street projects during the 2018-2019 budget year and expect to continue projects into the 2019-2020 budget year.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT:**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City Secretary at (972) 843-8282.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF JOSEPHINE, TEXAS**  
**COMPARATIVE STATEMENTS OF NET POSITION**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>						
Current and other assets	\$ 332,639	\$ 377,034	\$ 2,058,612	\$ 1,458,248	\$ 2,391,251	\$ 1,835,282
Capital assets, net	<u>1,587,139</u>	<u>1,302,095</u>	<u>2,130,362</u>	<u>2,096,119</u>	<u>3,717,501</u>	<u>3,398,214</u>
<b>Total Assets</b>	<b><u>1,919,778</u></b>	<b><u>1,679,129</u></b>	<b><u>4,188,974</u></b>	<b><u>3,554,367</u></b>	<b><u>6,108,752</u></b>	<b><u>5,233,496</u></b>
Deferred outflows of resources	39,426	8,370	21,770	4,648	61,196	13,018
<b>LIABILITIES</b>						
Other liabilities	303,254	255,182	162,108	153,242	465,362	408,424
Long-term debt	<u>549,941</u>	<u>686,471</u>	<u>-</u>	<u>-</u>	<u>549,941</u>	<u>686,471</u>
<b>Total Liabilities</b>	<b><u>853,195</u></b>	<b><u>941,653</u></b>	<b><u>162,108</u></b>	<b><u>153,242</u></b>	<b><u>1,015,303</u></b>	<b><u>1,094,895</u></b>
<b>Deferred Inflows of Resources</b>						
Deferred inflows from pensions	18,797	-	9,301	-	28,098	-
Deferred inflows OPEB	<u>744</u>	<u>-</u>	<u>475</u>	<u>-</u>	<u>1,219</u>	<u>-</u>
<b>Total deferred inflows of resources</b>	<b><u>19,541</u></b>	<b><u>-</u></b>	<b><u>9,776</u></b>	<b><u>-</u></b>	<b><u>29,317</u></b>	<b><u>-</u></b>
<b>NET POSITION</b>						
Net investment in capital assets	1,037,198	463,763	1,847,535	2,096,119	2,884,733	2,559,882
Restricted for debt service	103,403	98,724	(133)	-	103,270	98,724
Restricted for capital projects	-	-	-	133	-	133
Unrestricted	<u>(54,133)</u>	<u>183,359</u>	<u>2,191,458</u>	<u>1,309,521</u>	<u>2,137,325</u>	<u>1,492,880</u>
<b>Total Net Position</b>	<b><u>\$ 1,086,468</u></b>	<b><u>\$ 745,846</u></b>	<b><u>\$ 4,038,860</u></b>	<b><u>\$ 3,405,773</u></b>	<b><u>\$ 5,125,328</u></b>	<b><u>\$ 4,151,619</u></b>

**CITY OF JOSEPHINE, TEXAS**  
**COMPARATIVE STATEMENTS OF ACTIVITIES**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Program revenues:						
Charges for services	\$ 498,470	\$ 428,235	\$ 1,669,369	\$ 1,320,863	\$ 2,167,839	\$ 1,749,098
General revenues:						
Ad valorem taxes	607,618	489,408	-	-	607,618	489,408
Sales taxes	75,181	65,130	-	-	75,181	65,130
Franchise taxes	54,872	36,246	-	-	54,872	36,246
Intergovernmental	1,925	103,153	-	-	1,925	103,153
Grant revenue	360,975	98,611	-	-	360,975	98,611
Other	46,295	38,838	15,808	4,014	62,103	42,852
Total revenues	<u>1,645,336</u>	<u>1,259,621</u>	<u>1,685,177</u>	<u>1,324,877</u>	<u>3,330,513</u>	<u>2,584,498</u>
Expenses:						
Administration	487,559	456,352	-	-	487,559	456,352
Sanitation services	119,308	107,784	-	-	119,308	107,784
Public works	23,835	21,403	-	-	23,835	21,403
Park	21,519	7,944	-	-	21,519	7,944
Police department/municipal court	618,097	387,472	-	-	618,097	387,472
Streets	118,395	60,696	-	-	118,395	60,696
Water and sewer services	-	-	968,093	739,379	968,093	739,379
Total Expenses	<u>1,388,714</u>	<u>1,041,651</u>	<u>968,093</u>	<u>739,379</u>	<u>2,356,807</u>	<u>1,781,030</u>
Excess before transfers	256,622	217,970	717,084	585,498	973,706	803,468
Transfers	<u>84,000</u>	<u>98,159</u>	<u>(84,000)</u>	<u>(98,159)</u>	<u>-</u>	<u>-</u>
<b>Change in Net Position</b>	<b>340,622</b>	<b>316,129</b>	<b>633,084</b>	<b>487,339</b>	<b>973,706</b>	<b>803,468</b>
Net position - October 1	745,846	432,665	3,405,776	2,920,891	4,151,622	3,353,556
Prior period adjustment - OPEB Contributions	<u>-</u>	<u>(2,948)</u>	<u>-</u>	<u>(2,457)</u>	<u>-</u>	<u>(5,405)</u>
<b>Net position - September 30</b>	<b><u>\$ 1,086,468</u></b>	<b><u>\$ 745,846</u></b>	<b><u>\$ 4,038,860</u></b>	<b><u>\$ 3,405,773</u></b>	<b><u>\$ 5,125,328</u></b>	<b><u>\$ 4,151,619</u></b>

**CITY OF JOSEPHINE, TEXAS  
COMPARATIVE BALANCE SHEETS  
GOVERNMENTAL FUNDS  
September 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 263,850	\$ 161,391
Ad valorem taxes	21,918	19,602
Sales and franchise taxes	10,077	20,631
Other	30,490	37,918
Due from Proprietary fund	-	133,805
Prepaid items	1,077	1,034
<b>Total Assets</b>	<b>\$ 327,412</b>	<b>\$ 374,381</b>
 <b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 86,727	\$ 87,262
Due to JCDC	4,188	6,373
<b>Total Liabilities</b>	<b>90,915</b>	<b>93,635</b>
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue	22,672	22,139
<b>Total deferred inflows of resources</b>	<b>22,672</b>	<b>22,139</b>
 <b>FUND BALANCES</b>		
Non-spendable:		
Prepaid items	1,077	1,034
Restricted for debt service	103,403	98,724
Unassigned	109,345	158,849
<b>Total Fund Balances</b>	<b>213,825</b>	<b>258,607</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 327,412</b>	<b>\$ 374,381</b>

**CITY OF JOSEPHINE, TEXAS**  
**Comparative Statements of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Years Ended September 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>REVENUES:</b>		
Ad valorem taxes	\$ 607,618	\$ 499,262
Franchise taxes	54,872	36,246
Sales tax	75,181	65,130
Garbage fees	229,117	195,048
Permits	147,255	146,105
Fines	122,098	98,366
Intergovernmental	1,925	103,153
Grant revenue	360,975	98,611
Other income	37,999	37,418
Interest	8,296	1,420
<b>Total Revenues</b>	<b>1,645,336</b>	<b>1,280,759</b>
<b>EXPENDITURES:</b>		
Administration	433,820	429,637
Sanitation services	119,308	107,784
Public works	23,835	21,403
Park	11,850	6,293
Street department	70,499	54,245
Police department/municipal court	541,962	336,048
<b>Debt Service:</b>		
Principal	230,580	23,401
Interest	30,433	13,061
Capital Outlay	430,463	1,054,212
<b>Total Expenditures</b>	<b>1,892,750</b>	<b>2,046,084</b>
<b>Deficiency of Revenues Over Expenditures</b>	<b>(247,414)</b>	<b>(765,325)</b>
<b>Other Revenues and Financing Sources (uses)</b>		
Bond proceeds	118,632	815,010
Transfers in	84,000	98,159
<b>Total Other Revenues and Financing Sources (uses)</b>	<b>202,632</b>	<b>913,169</b>
<b>Net change in fund balances</b>	<b>(44,782)</b>	<b>147,844</b>
<b>Fund balance, October 1</b>	<b>258,607</b>	<b>110,763</b>
<b>Fund balance, September 30</b>	<b>\$ 213,825</b>	<b>\$ 258,607</b>



**CITY OF JOSEPHINE, TEXAS**  
**COMPARATIVE STATEMENTS OF FUND NET POSITION**  
**PROPRIETARY FUND**  
**September 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
	<b>Enterprise Fund</b>	<b>Enterprise Fund</b>
	<b>Water and Sewer</b>	<b>Water and Sewer</b>
	<b>Activities</b>	<b>Activities</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,863,910	\$ 1,518,107
Accounts receivable, net	194,102	73,751
Prepays	600	195
<b>Total current assets</b>	<b>2,058,612</b>	<b>1,592,053</b>
<b>Capital Assets:</b>		
Land	17,682	17,682
Construction in progress	-	27,263
Buildings & other improvements	199,774	199,774
Water and sewer infrastructure	3,001,981	2,911,983
Equipment	384,523	286,773
Less accumulated depreciation	(1,473,598)	(1,347,356)
<b>Capital Assets, net</b>	<b>2,130,362</b>	<b>2,096,119</b>
<b>Total assets</b>	<b>4,188,974</b>	<b>3,688,172</b>
<b>Deferred Outflows of Resources</b>		
Deferred outflows from pensions	21,770	4,336
Deferred outflows from OPEB	-	312
<b>Total deferred outflows of resources</b>	<b>21,770</b>	<b>4,648</b>
<b>LIABILITIES</b>		
Accounts payable	19,810	52,941
Compensated absences	9,076	4,970
Due to general fund	-	133,805
Meter deposits payable	123,717	92,441
<b>Payable from restricted assets:</b>		
Accrued interest payable	-	481
<b>Total current liabilities</b>	<b>152,603</b>	<b>284,638</b>
Pension liability	7,167	(728)
OPEB liability	2,338	3,137
<b>Total non-current liabilities</b>	<b>9,505</b>	<b>2,409</b>
<b>Total liabilities</b>	<b>162,108</b>	<b>287,047</b>
<b>Deferred Inflows of Resources</b>		
Deferred inflows from pensions	9,301	-
Deferred inflows OPEB	475	-
<b>Total deferred inflows of resources</b>	<b>9,776</b>	<b>-</b>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	1,847,535	2,096,119
Restricted for debt service	(133)	-
Restricted for capital projects, \$0 (2019) \$133 (2018)		
Net of related debt, \$0 (2019) \$133 (2018)	-	133
Unrestricted	2,191,458	1,309,521
<b>Total Net Position</b>	<b>\$ 4,038,860</b>	<b>\$ 3,405,773</b>

**CITY OF JOSEPHINE, TEXAS**  
**Comparative Statements of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Fund**  
**Years Ended September 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
	<u>Enterprise Fund</u>	<u>Enterprise Fund</u>
	<u>Water and</u>	<u>Water and</u>
	<u>Sewer</u>	<u>Sewer</u>
<b>OPERATING REVENUES:</b>		
Water sales	\$ 1,072,662	\$ 691,636
Sewer sales	275,127	250,863
Grant income	65,375	-
Tap and reconnect fees	256,205	378,364
<b>Total Operating Revenues</b>	<b><u>1,669,369</u></b>	<b><u>1,320,863</u></b>
<b>OPERATING EXPENSES:</b>		
Salaries, taxes, and benefits	279,232	279,686
Contract labor	46,719	-
Professional fees	4,875	-
Water purchases	207,045	177,778
Repairs and facility maintenance	13,083	28,663
Vehicle expense	11,276	8,559
Utilities and telephone	33,553	27,629
Water/Sewer testing	1,697	8,211
Depreciation and amortization	126,241	-
Grant expense	90,686	114,839
Other expense	153,686	92,247
<b>Total Operating Expenses</b>	<b><u>968,093</u></b>	<b><u>737,612</u></b>
<b>Operating Income</b>	<b><u>701,276</u></b>	<b><u>583,251</u></b>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Interest income	15,419	4,014
Interest and fiscal charges	-	(1,767)
Miscellaneous income	392	-
<b>Total Non-operating Revenues (Expenses)</b>	<b><u>15,811</u></b>	<b><u>2,247</u></b>
<b>Income before capital grants and transfers</b>	<b><u>717,087</u></b>	<b><u>585,498</u></b>
Transfers out	(84,000)	(98,159)
<b>Change in net position</b>	<b><u>633,087</u></b>	<b><u>487,339</u></b>
<b>Net position, October 1</b>	<b><u>3,405,773</u></b>	<b><u>2,920,891</u></b>
<b>Prior period adjustment - OPEB Contributions</b>	<b><u>-</u></b>	<b><u>(2,457)</u></b>
<b>Net position, September 30</b>	<b><u>\$ 4,038,860</u></b>	<b><u>\$ 3,405,773</u></b>

**CITY OF JOSEPHINE, TEXAS**  
**STATEMENT OF NET POSITION**  
**September 30, 2019**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total Primary Government	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 263,850	\$ 1,863,910	\$ 2,127,760	\$ 47,269
Receivables				
Taxes, net of allowance	31,995	-	31,995	-
Accounts, net of allowance	35,717	194,102	229,819	-
Prepays	1,077	600	1,677	-
Internal balances	-	-	-	7,181
<b>Capital assets:</b>				
Capital assets, not being depreciated	2,300	17,682	19,982	-
Capital assets, net of accumulated depreciation	1,584,839	2,112,680	3,697,519	-
<b>Total Assets</b>	<b>1,919,778</b>	<b>4,188,974</b>	<b>6,108,752</b>	<b>54,450</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows from pensions	39,426	21,770	61,196	-
<b>Total deferred outflows of resources</b>	<b>39,426</b>	<b>21,770</b>	<b>61,196</b>	<b>-</b>
<b>LIABILITIES</b>				
Accounts payable	86,727	19,810	106,537	-
Meter deposits payable	-	123,717	123,717	-
Due to JCDC	4,188	-	4,188	-
Noncurrent Liabilities:				
<b>Due within one year:</b>				
Compensated absences	23,645	9,076	32,721	-
Capital leases	36,132	-	36,132	-
Notes payable	135,963	-	135,963	-
<b>Due in more than one year:</b>				
Pension liability	12,943	7,167	20,110	-
OPEB liability	3,656	2,338	5,994	-
Capital leases	57,804	-	57,804	-
Notes payable	492,137	-	492,137	-
<b>Total Liabilities</b>	<b>853,195</b>	<b>162,108</b>	<b>1,015,303</b>	<b>-</b>
<b>Deferred Inflows of Resources</b>				
Deferred inflows from pensions	18,797	9,301	28,098	-
Deferred inflows OPEB	744	475	1,219	-
<b>Total deferred inflows of resources</b>	<b>19,541</b>	<b>9,776</b>	<b>29,317</b>	<b>-</b>
<b>NET POSITION</b>				
Net investment in capital assets	1,037,198	1,847,535	2,884,733	-
Restricted for debt service	103,403	(133)	103,270	-
Restricted for capital projects, \$133				
Net of related debt, (\$133)	-	-	-	-
Unrestricted	(54,133)	2,191,458	2,137,325	54,450
<b>Total Net position</b>	<b>\$ 1,086,468</b>	<b>\$ 4,038,860</b>	<b>\$ 5,125,328</b>	<b>\$ 54,450</b>

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

**CITY OF JOSEPHINE, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**Year Ended September 30, 2019**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals	
<b>Governmental activities:</b>								
Administration	\$ 487,559	\$ 147,255	\$ 1,925	\$ 360,975	\$ 22,596	\$ -	\$ 22,596	\$ -
Sanitation services	119,308	229,117	-	-	109,809	-	109,809	-
Public works	23,835	-	-	-	(23,835)	-	(23,835)	-
Park	21,519	-	-	-	(21,519)	-	(21,519)	-
Police department/municipal court	618,097	122,098	-	-	(495,999)	-	(495,999)	-
Street department	118,395	-	-	-	(118,395)	-	(118,395)	-
<b>Total governmental activities</b>	<b>1,388,714</b>	<b>498,470</b>	<b>1,925</b>	<b>360,975</b>	<b>(527,344)</b>	<b>-</b>	<b>(527,344)</b>	<b>-</b>
<b>Business-type activities:</b>								
Water and sewer services	968,093	1,669,369	-	-	-	701,276	701,276	-
<b>Total business-type activities</b>	<b>968,093</b>	<b>1,669,369</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>701,276</b>	<b>701,276</b>	<b>-</b>
<b>Total primary government</b>	<b>\$ 2,356,807</b>	<b>\$ 2,167,839</b>	<b>\$ 1,925</b>	<b>\$ 360,975</b>	<b>(527,344)</b>	<b>701,276</b>	<b>173,932</b>	<b>-</b>
<b>Component Unit:</b>								
Economic Development Corporation	\$ 17,321	\$ -	\$ -	\$ -	-	-	-	(17,321)
<b>Total component unit</b>	<b>\$ 17,321</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17,321)</b>
<b>General revenues:</b>								
Ad valorem taxes					607,618	-	607,618	-
Sales taxes					75,181	-	75,181	37,523
Franchise taxes					54,872	-	54,872	-
Miscellaneous					37,999	392	38,391	15,000
Unrestricted investment earnings					8,296	15,419	23,715	-
Transfers					84,000	(84,000)	-	-
<b>Total general revenues and transfers</b>					<b>867,966</b>	<b>(68,189)</b>	<b>799,777</b>	<b>52,523</b>
<b>Change in net position</b>					<b>340,622</b>	<b>633,087</b>	<b>973,709</b>	<b>35,202</b>
<b>Net position - beginning of year</b>					<b>745,846</b>	<b>3,405,773</b>	<b>4,151,619</b>	<b>19,248</b>
<b>Net position - end of year</b>					<b>\$ 1,086,468</b>	<b>\$ 4,038,860</b>	<b>\$ 5,125,328</b>	<b>\$ 54,450</b>

The accompanying notes are an integral part of these financial statements

**CITY OF JOSEPHINE, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2019**

	<b>General</b>	<b>Debt Service</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 160,447	\$ 103,403	\$ 263,850
Receivables			
Ad valorem taxes, net	21,918	-	21,918
Sales and franchise taxes	10,077	-	10,077
Other	30,490	-	30,490
Prepays	1,077	-	1,077
<b>Total assets</b>	<b>\$ 224,009</b>	<b>\$ 103,403</b>	<b>\$ 327,412</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 86,727	\$ -	\$ 86,727
Due to JCDC	4,188	-	4,188
<b>Total liabilities</b>	<b>90,915</b>	<b>-</b>	<b>90,915</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	22,672	-	22,672
<b>Total deferred inflows of resources</b>	<b>22,672</b>	<b>-</b>	<b>22,672</b>
<b>FUND BALANCES</b>			
Prepays	1,077	-	1,077
Restricted for debt service	-	103,403	103,403
Unassigned	109,345	-	109,345
<b>Total fund balances</b>	<b>110,422</b>	<b>103,403</b>	<b>213,825</b>
<b>Total liabilities deferred inflows of resources and fund balances</b>	<b>\$ 224,009</b>	<b>\$ 103,403</b>	<b>\$ 327,412</b>
<b>Governmental fund balance as presented above:</b>			<b>\$ 213,825</b>
<b>Amounts presented for governmental activities in the statement of net assets are different because:</b>			
Capital assets reported in the statement of net assets are not current financial resources and are not reported in the fund balance sheet.			1,587,139
Other long-term assets (receivables) are not available to pay current-period expenditures and, therefore, are deferred in the funds. These include deferred property taxes of \$22,672 and fines receivable of \$5,227.			27,899
Deferred inflow/outflow of resources for pensions are not reported in the fund financial statements			20,629
Deferred inflow/outflow of resources for OPEB are not reported in the fund financial statements			(744)
Net pension liability is not due and payable in the current period and, therefore, is not reported in the fund financial statements			(12,943)
Net OPEB liability is not due and payable in the current period and, therefore, is not reported in the fund financial statements			(3,656)
Long-term liabilities are reported in the statement of net position but they are not due and payable in the current period.			(745,681)
<b>Net Assets of Governmental Activities</b>			<b>\$ 1,086,468</b>

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

**CITY OF JOSEPHINE, TEXAS**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**Year Ended September 30, 2019**

	<b>General Fund</b>	<b>Debt Service</b>	<b>Total Governmental Funds</b>
<b>REVENUES:</b>			
Ad valorem taxes	\$ 516,228	\$ 91,390	\$ 607,618
Franchise taxes	54,872	-	54,872
Sales tax	75,181	-	75,181
Garbage fees	229,117	-	229,117
Permits	147,255	-	147,255
Fines	122,098	-	122,098
Intergovernmental	1,925	-	1,925
Grant revenue	360,975	-	360,975
Other income	37,999	-	37,999
Interest income	7,955	341	8,296
<b>Total Revenues</b>	<b>1,553,605</b>	<b>91,731</b>	<b>1,645,336</b>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
Administration	433,820	-	433,820
Sanitation services	119,308	-	119,308
Public works	23,835	-	23,835
Park	11,850	-	11,850
Street department	70,499	-	70,499
Police department/municipal court	541,962	-	541,962
<b>Debt Service:</b>			
Principal	80,580	150,000	230,580
Interest and other costs	9,381	21,052	30,433
Capital outlay	430,463	-	430,463
<b>Total Expenditures</b>	<b>1,721,699</b>	<b>171,052</b>	<b>1,892,750</b>
<b>Deficiency of Revenues Over Expenditures</b>	<b>(168,094)</b>	<b>(79,321)</b>	<b>(247,414)</b>
<b>Other Revenues and Financing Sources (uses)</b>			
Bond proceeds	118,632	-	118,632
Transfers in	-	84,000	84,000
<b>Total Other Revenues and Financing Sources (uses)</b>	<b>118,632</b>	<b>84,000</b>	<b>202,632</b>
<b>Net change in fund balances</b>	<b>(49,461)</b>	<b>4,679</b>	<b>(44,782)</b>
<b>Fund balance, October 1</b>	<b>159,883</b>	<b>98,724</b>	<b>258,607</b>
<b>Fund balance, September 30</b>	<b>\$ 110,422</b>	<b>\$ 103,403</b>	<b>\$ 213,825</b>

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

**CITY OF JOSEPHINE, TEXAS**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balance of Governmental Funds**  
**to the Statement of Activities**  
**Year Ended September 30, 2019**

**Net change in fund balance - Governmental funds** **\$ (44,782)**

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

Governmental funds report capital outlays as expenditures, while in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital expenditures of \$423,136 exceeded depreciation expense of \$138,092. 285,043

The issuance of long-term debt (e.g. bonds and capital leases) provides current financial resources to governmental funds, while repayment of long-term debt is reported as an expenditure for governmental funds but is reported as a reduction of debt in the statement of activities. This amount represents the net of long-term debt proceeds (\$118,632) and long-term debt repayments (\$234,930). 116,297

Changes in the liability for compensated absences are reported as an increase or decrease to expense in the government-wide financial statements but are not reported in governmental funds if the amounts are not expected to be paid from current resources. (18,403)

Expenditures are recognized in the governmental funds when paid. However, the statement of activities is presented on the accrual basis and expenses are reported when incurred. The following is the net difference in pension and OPEB costs. (640)

Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds. This includes the change in unavailable revenue of \$533 and court fines of \$2,574 3,107

**Change in net assets of governmental activities** **\$ 340,622**

**CITY OF JOSEPHINE, TEXAS**  
**Statement of Fund Net Position**  
**Proprietary Fund**  
**September 30, 2019**

	<u>Enterprise Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Enterprise Funds</u>
			<u>Water and</u>
			<u>Sewer Fund</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,337,550	\$ 526,360	\$ 1,863,910
Accounts receivable, net	164,529	29,573	194,102
Prepays	600	-	600
<b>Total current assets</b>	<b>1,502,679</b>	<b>555,933</b>	<b>2,058,612</b>
<b>Capital Assets:</b>			
Land	8,841	8,841	17,682
Buildings & other improvements	99,887	99,887	199,774
Water and sewer infrastructure	2,562,108	439,873	3,001,981
Equipment	206,119	178,404	384,523
Less accumulated depreciation	(1,029,553)	(444,045)	(1,473,598)
<b>Capital Assets, net</b>	<b>1,847,402</b>	<b>282,960</b>	<b>2,130,362</b>
<b>Total assets</b>	<b>3,350,081</b>	<b>838,893</b>	<b>4,188,974</b>
<b>Deferred Outflows of Resources</b>			
Deferred outflows from pensions	15,703	6,067	21,770
<b>Total deferred outflows of resources</b>	<b>15,703</b>	<b>6,067</b>	<b>21,770</b>
<b>LIABILITIES</b>			
Accounts payable	14,300	5,510	19,810
Compensated absences	9,076	-	9,076
Due to general fund	-	-	-
Meter deposits payable	123,717	-	123,717
Pension liability	3,324	3,843	7,167
OPEB Liability	1,199	1,139	2,338
<b>Total current liabilities</b>	<b>151,616</b>	<b>10,492</b>	<b>162,108</b>
<b>Total liabilities</b>	<b>151,616</b>	<b>10,492</b>	<b>162,108</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflows from pensions	7,193	2,108	9,301
Deferred inflows OPEB	244	231	475
<b>Total deferred inflows of resources</b>	<b>7,437</b>	<b>2,339</b>	<b>9,776</b>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	1,847,535	-	1,847,535
Restricted for debt service	(133)	-	(133)
Restricted for capital projects, \$133			
Net of related debt, \$(133)	-	-	-
Unrestricted	1,359,329	832,129	2,191,458
<b>Total Net Position</b>	<b>\$ 3,206,731</b>	<b>\$ 832,129</b>	<b>\$ 4,038,860</b>

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



**CITY OF JOSEPHINE, TEXAS**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Fund**  
**Year Ended September 30, 2019**

	<u>Enterprise Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Enterprise Funds</u>
			<u>Water and</u>
			<u>Sewer Fund</u>
<b>OPERATING REVENUES:</b>			
Water sales	\$ 1,072,662	\$ -	\$ 1,072,662
Sewer sales	-	275,127	275,127
Grant income	65,375	-	65,375
Tap and reconnect fees	43,630	212,575	256,205
<b>Total Operating Revenues</b>	<u>1,181,667</u>	<u>487,702</u>	<u>1,669,369</u>
<b>OPERATING EXPENSES:</b>			
Salaries, taxes, and benefits	143,117	136,115	279,232
Contract labor	23,770	22,949	46,719
Professional fees	-	4,875	4,875
Water purchases	207,045	-	207,045
Repairs and facility maintenance	9,324	3,759	13,083
Vehicle expense	5,439	5,837	11,276
Utilities and telephone	18,233	15,320	33,553
Water/Sewer testing	1,697	-	1,697
Depreciation and amortization	96,964	29,277	126,241
Grant expense	90,686	-	90,686
Other expense	73,463	80,223	153,686
<b>Total Operating Expenses</b>	<u>669,738</u>	<u>298,355</u>	<u>968,093</u>
<b>Operating Income (Loss)</b>	<u>511,929</u>	<u>189,347</u>	<u>701,276</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Interest income	15,419	-	15,419
Miscellaneous income	389	-	389
Total Nonoperating Revenues (Expenses)	<u>15,808</u>	<u>-</u>	<u>15,808</u>
<b>Income before transfers</b>	527,737	189,347	717,084
Transfers Out	<u>(84,000)</u>	<u>-</u>	<u>(84,000)</u>
<b>Change in net position</b>	443,737	189,347	633,084
<b>Net position, October 1</b>	<u>2,762,994</u>	<u>642,782</u>	<u>3,405,776</u>
<b>Net position, September 30</b>	<u>\$ 3,206,731</u>	<u>\$ 832,129</u>	<u>\$ 4,038,860</u>

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

**CITY OF JOSEPHINE, TEXAS**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**Year Ended September 30, 2019**

	<b>Enterprise Fund</b>
	<b>Water and Sewer Fund</b>
<b>Cash flows from operating activities:</b>	
Cash received from customers and users	\$ 1,580,294
Cash paid to suppliers	(596,150)
Cash paid to employees	(275,376)
<b>Net cash provided by operating activities</b>	<b>708,768</b>
<b>Cash flows from noncapital financing activities:</b>	
Change in amount due to general fund	(133,805)
Transfers	(84,000)
<b>Net cash used by noncapital financing activities</b>	<b>(217,805)</b>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition of capital assets	(160,487)
Interest paid on bonds and certificates of obligation	(481)
<b>Net cash used by capital and related financing activities</b>	<b>(160,968)</b>
<b>Cash flows from investing activities:</b>	
Proceeds from other income	389
Interest on deposits and investments	15,419
<b>Net cash provided by investing activities</b>	<b>15,808</b>
<b>Net increase in cash and cash equivalents</b>	<b>345,803</b>
<b>Cash and cash equivalents, October 1</b>	<b>1,518,107</b>
<b>Cash and cash equivalents, September 30</b>	<b>\$ 1,863,910</b>

**Reconciliation of Net Income to Net Cash Provided (Used)**  
**by Operating Activities**

	<b>Enterprise Fund</b>
	<b>Water and Sewer Fund</b>
<b>Operating income</b>	<b>\$ 701,276</b>
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>	
Depreciation	126,242
Change in accounts receivable (net)	(120,351)
Change in customer deposits	31,276
Change in prepaids	(405)
Change in accounts payable	(33,131)
Change in compensated absences	4,106
Change in pension liabilities	549
	(799)
Total Adjustments	7,487
<b>Net cash provided by operating activities</b>	<b>\$ 708,768</b>

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

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**1. Introduction and Summary of Significant Accounting Policies**

The financial statements of the City of Josephine, Texas and its component unit, Josephine Community Development Corporation, collectively identified as the "City" have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ending September 30, 2019.

**(A) Reporting Entity and Related Organizations**

The City is a municipal corporation governed by an elected mayor and a five member City Council. The City provides general administration, water and sewer, sanitation services, public works, police and judicial, and community development services to its residents.

The City Council has the authority to make decisions, appoint administrators and managers, significantly influence operations; and has the primary accountability for fiscal matters. The City is not included in any other governmental "reporting entity" as defined in Section 2100, codification of Governmental Accounting and Financial Reporting Standards.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GASB Statements No. 14 and 39. These statements define the reporting entity as the primary government and those component units for which the primary government is financially accountable. In addition, component units may be included in the reporting entity based on the nature and significance of the relationship with the primary government, or based on being closely related or financially integrated with the primary government. Based on these criteria, the City has the following component units at September 30, 2019:

Discretely Presented Component Units

Josephine Community Development Corporation (JCDC) - JCDC serves all citizens of the government and is governed by a board appointed by the City Council. The City Council may remove the JCDC board for cause. JCDC is a nonprofit corporation governed by Section 4B of the Texas Development Corporation Act of 1979 and organized for the public purpose of developing industries and cultivating communities within the City of Josephine, Texas. Financial statements for JCDC may be obtained by contacting the City offices. JCDC is reported as a discretely presented component unit in the government-wide financial statements.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**1. Introduction and Summary of Significant Accounting Policies - continued**

**(B) Government-Wide and Fund Financial Statements**

*Government-wide financial statements*

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole, excluding fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes, fines, and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenue includes: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

*Fund financial statements*

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds and enterprise funds are reported in separate columns.

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

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**1. Introduction and Summary of Significant Accounting Policies - continued**

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

The government-wide statements report using the *economic resources measurement focus* and the *accrual basis of accounting* generally including the reclassification or elimination of internal activity (between or within funds). Proprietary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond and capital lease principal and interest which are reported as expenditures in the year due.

Major revenues sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes, grant revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for the proprietary fund are charges to customers for water and sewer sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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 needed.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**1. Introduction and Summary of Significant Accounting Policies - continued**

**(D) Fund Types and Major Funds**

*Governmental Funds*

The City reports the following major governmental funds:

*General Fund* - reports as the primary operating fund of the City. This fund is used to account for all financial resources not reported in other funds.

*Debt Service Fund* – reports the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

*Proprietary Funds*

The City reports the following major proprietary funds:

*Water Fund* - accounts for the operating activities of the City's water utilities services.

*Sewer Fund* - accounts for the operating activities of the City's sewer utilities services.

**(E) Assets, Liabilities and Net Assets or Equity**

**Cash and Investments**

The City maintains non-pooled cash which is separately held and reflected in the respective individual funds. This non-pooled cash is displayed on its respective balance sheet as "cash and cash equivalents."

Restricted cash and cash equivalents are restricted for debt service requirements (\$103,403) or for capital projects (\$133) at year-end.

Investments are reported at fair value determined as follows. Short-term, highly liquid investments are reported at cost, which approximates fair value. Cash deposits are reported at the carrying amount which reasonably estimates fair value. The City did not own any nationally traded securities or long-term investments during the current fiscal year, but the City's policy for reporting assets such as these would be at fair value on the balance sheet date.

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**1. Introduction and Summary of Significant Accounting Policies - continued**

**(E) Assets, Liabilities and Net Assets or Equity – continued**

**Inventories and Prepaids**

Inventories consisting of expendable supplies held for consumption in governmental funds are reported using the expenditure method. Under this method, amounts paid for these items are reported as expenditures when purchased. Inventories, when material, are recorded at cost stated on a first-in, first-out basis in the government-wide financial statements and proprietary fund statements.

Prepaids record payments to vendors that benefit future reporting periods and are reported on the consumption basis at cost. Prepaids are similarly reported in government-wide and fund financial statements.

**Capital Assets, Depreciation, and Amortization**

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost, or if historical cost is not available, they are stated at estimated historical cost. These assets are comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$1,000 or more as purchase and construction outlays occur and \$5,000 for road upgrades. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and Improvements	10-40
Road infrastructure	15
Water and sewer infrastructure and rights	30- 40
Vehicles	5
Furniture, machinery, and equipment	5

The City has not capitalized any interest costs in the carrying value of capital assets.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**1. Introduction and Summary of Significant Accounting Policies - continued**

**(E) Assets, Liabilities and Net Assets or Equity – continued**

**Deferred Outflows of Resources**

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has four items of deferred outflows or resources related to the implementation of the GASB statements on pension accounting. One is for pension contributions after the measurement date and the other is for pension investment experience (difference in projected and actual earnings on pension assets). The amount deferred for pension contributions is recognized in the following fiscal year. The amounts deferred for change in actuarial assumptions and pension experience will be recognized over the estimated average remaining lives of all members determined as of the measurement date. The difference in projected and actual earnings will be amortized over a closed five-year period. These items appear on the Statement of Net Position in the government wide financial statements.

The City has two items of deferred outflows of resources related to the implementation of GASB statement on OPEB. One is for OPEB contributions after the measurement date and the other is for a change in assumptions (annual change in the municipal bond index rate). The amount deferred for OPEB contributions is recognized in the following year. The amount deferred for change in assumptions will be amortized over a closed five-year period.

**Deferred Inflows of Resources**

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items appearing on the Statement of Position in the government wide financial statements reflecting the implementation of GASB statements on pension accounting. This amount deferred for the difference in expected and actual pension experience will be recognized over the estimated average remaining lives of all members determined as of the measurement date. The difference in projected and actual earnings will be amortized over a closed five-year period. The City has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported in the governmental funds balance sheet.



**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**1. Introduction and Summary of Significant Accounting Policies - continued**

**(E) Assets, Liabilities and Net Assets or Equity – continued**

**Long-term Debt, Bond Discounts/Premiums, and Issuance Costs**

Bond issuance costs incurred are recorded as current expenditures as opposed to being capitalized and amortized over the maturity period of the debt.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

**Other Post-Employment Benefits (OPEB)**

In June 2015, GASB made major changes to its OPEB accounting standards with the issuance of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan, with retiree coverage, and is effective for fiscal years beginning after June 2017. The new requirements called for these major changes:

A “Total OPEB Liability” is calculated by TMRS’ actuary and is put on the face of the City’s Statement of Net Position in the government-wide financial statements.

OPEB expense is calculated by the actuary, and is no longer tied to the amount of contributions submitted to TMRS each year; rather, it is tied to the change in total OPEB liability from year to year. OPEB expense is put in the City’s Statement of Activities in the government-wide financial statements.

Some of each year’s OPEB costs may be deferred (deferred inflows and deferred outflows of resources, recorded in the Statement of Net Position) and amortized over a number of years.

The City’s participation in the TMRS Supplemental Death Benefits Plan – with retiree coverage – is making disclosures as a participant in a defined benefit OPEB plan that is not administered through a trust that meets the criteria in paragraph 4 of GASB 75.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**1. Introduction and Summary of Significant Accounting Policies - continued**

**(E) Assets, Liabilities and Net Assets or Equity – continued**

**Pensions**

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*.

**Compensated Absences**

Full-time employees earn vacation leave for each month of work performed. Progressive accrual of vacation leave is based on the number of years the individual is employed by the City. After completion of a probationary period of employment, accrued vacation leave is paid upon termination of employment.

Full-time employees also earn sick leave time. Unused sick leave is not paid upon termination of employment.

Compensated absences are reported as accrued in the government-wide and proprietary fund financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees and these are included in wages and benefits payable.

**Fund Equity**

The City implemented GASB Statement 54 standards for the classification of fund balances in the governmental funds. The fund balances of governmental funds are defined as follows:

*Non-spendable* – amounts that cannot be spent either because they are in non-spendable form, such as inventory or prepaid items or because they are legally or contractually required to be maintained intact.

*Restricted* – amounts that can be spent only for specific purposes because of constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**1. Introduction and Summary of Significant Accounting Policies - continued**

**(E) Assets, Liabilities and Net Assets or Equity – continued**

**Fund Equity - continued**

*Committed* – amounts that can be used only for specific purposes determined by a formal action of the City Council. The City Council is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through a formal resolution of the City Council.

*Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes that have been established by the City Council.

*Unassigned* – all other spendable amounts in the general fund.

The City Council delegates the responsibility to assign funds to the Mayor or other designee as determined by the Council. When expenditures are incurred for which both restricted and unrestricted fund balance is available the City considers restricted funds to have been spent first. Similarly, committed funds are considered to have been spent first when there is a choice for the use of less restricted funds, then assigned and then unassigned funds.

**(F) 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; injuries to employees; and natural disasters. The City is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located within Texas. The agreement provides that the trust established by TML will be self-sustaining through member premiums. The City pays annual premiums to TML for worker's compensation, general and auto liability, property damage, employee dishonesty, public officials liability, and law enforcement professional liability coverages. The City does not anticipate any material additional insurance cost assessments as a result of participation in this risk management pool. There were no reductions in insurance coverage from the prior year. Settlements have not exceeded insurance coverage during any of the past three fiscal years.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**1. Introduction and Summary of Significant Accounting Policies - continued**

**(G) Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**2. Stewardship, Compliance, and Accountability**

**Budgetary Information**

The Mayor and the City Secretary submit an annual budget to the City Council in accordance with the laws of the State of Texas. The budget is presented to the City Council for review, budget workshops are held with the various City department officials, and public hearings are held to address priorities and the allocation of resources. Generally, in August, the City Council adopts the annual fiscal year budgets for all City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Each fund's approved budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personnel services and related fringe benefits, supplies, other services and charges, capital outlay, transfers, and debt service. Expenditures may not exceed appropriations at the department level. Within this control level, management may transfer appropriations between line items. Budget revisions and line item transfers are subject to final review by the City Council.

The budgets for the operating funds are prepared on the cash and expenditure basis. Revenues are budgeted in the year receipt is expected; and expenditures, which do not include encumbrances, are budgeted in the year that the liability is to be incurred. Unexpended appropriations for annually budgeted funds lapse at fiscal year-end.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**3. Deposits and Investments**

**Custodial credit risk** for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's policy requires deposits to be fully secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation (FDIC) insurance. Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health. Collateral agreements must be approved prior to deposit of funds. The City Council approves authorized depository institutions based on the recommendations of City management.

Deposits of City of Josephine, Texas are insured or collateralized with securities held by the City, its agent, or by the pledging financial institution's trust department or agent in the name of the City.

**Investments**

The City did not own any investments at year-end.

**Investment Policies**

**Credit risk** is the risk that an issuer or other counter party to an investment will not fulfill its obligations. Generally, the City's investing activities are managed under the custody of the Mayor, City Secretary and two members of City Council. Investing is performed in accordance with investment policies adopted by the City Council complying with state statutes. City investment policy and state statute generally permit the City to invest in certificates of deposit, fully collateralized repurchase agreements, public funds investment pools, obligations of the United States of America or its agencies, direct obligations of the State of Texas or its agencies, other obligations which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, and obligations of states, agencies, counties, cities and other political subdivisions 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. During the year ended September 30, 2019, the City did not own any types of securities other than those permitted by statute.

**Interest rate risk** is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City did not own any investments during the fiscal year. City policy generally requires investment maturities to correspond to anticipated cash flow needs. City policy on credit risk also prohibits the purchase of investments maturing in more than five years.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**3. Deposits and Investments - continued**

**Investment Policies - continued**

**Concentration of credit risk** is the risk of loss attributed to the magnitude of the City's investment in a single issuer. City policy requires that the risk of principal loss in the portfolio as a whole shall be minimized by diversifying investment types according to the following limitations:

<u>Investment Type</u>	<u>% of Portfolio</u>
U. S. Treasury Notes/ Bonds/Bills	100%
U. S. Agencies	60%
Local Government Investment Pools	50%
Repurchase Agreements	30%
Certificates of Deposit	30%
Money Market Mutual Funds	15%

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The City's policy on principal protection and safekeeping is, "All bank and savings and loan associations deposits and investments of City funds shall be secured by pledged collateral with a market value equal to no less than 102 percent of the principal plus accrued interest less an amount insured by FDIC."

**4. Receivables, Uncollectible Accounts, and Deferred Revenue**

*Enterprise Receivables and Uncollectible Accounts*

Significant receivables include amounts due from customers primarily for utility services and grants. These receivables are due within one year. The Enterprise Fund report accounts receivable net of an allowance for uncollectible accounts and revenues net of uncollectible amounts. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days. Following is the detail of the Enterprise Fund receivables and the related allowance for uncollectible accounts:

Accounts receivable, gross	\$ 201,756
Less: allowance for uncollectible accounts	<u>(7,654)</u>
Net accounts receivable	<u>\$ 194,102</u>

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**4. Receivables, Uncollectible Accounts, and Deferred Revenue - continued**

*Property Taxes Receivable and Property Tax Calendar*

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1<sup>st</sup> for all real property located within the City. Appraised values are established by the Collin County Central Appraisal District at 100% of market value. As of January 1, 2018, all real property was assessed at a net taxable value of \$106,125,444.

The property tax rate for the year ended September 30, 2019 was .580 per \$100 of the assessed valuation on taxable property. The following is a summary of the overall tax rate as levied by fund type:

Maintenance and Operations - General Fund	.491312
Interest and Sinking – Debt Service Fund	.088688

The property tax levy for the year ending September 30, 2019 was \$604,666. Collections of the current year property tax levy were \$596,759 or 98.69% of the current year tax levied.

In the governmental fund financial statements, property taxes are recorded as receivables in each of the respective funds on the tax levy date with appropriate allowances for estimated uncollectible amounts. At fiscal year-end, property tax receivables represent delinquent taxes. If delinquent taxes are not collected within 60 days of year-end, they are recorded as deferred revenue.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City with appropriate allowances for estimated uncollectible amounts regardless of when cash is received. Over time substantially all property taxes are collected.

The City's full year property tax calendar is as follows:

October 1	Full year tax levy assessed for the current fiscal year taxes are due and payable.
January 1	Tax lien is attached to property to secure the payment of taxes, and penalty and interest as applicable.
February 1	Penalty and interest charges begin to accrue on unpaid past due taxes.
July 1	Taxes become delinquent and are subject to attorney fees incurred for collection.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**4. Receivables, Uncollectible Accounts, and Deferred Revenue - continued**

*Allowance for Uncollectible Taxes*

The City records an allowance for uncollectible property taxes in order to estimate the amount of taxes that will ultimately prove to be uncollectible. Management has determined that an allowance in the amount of ten percent (10%) of the property taxes receivable in each of the applicable fund types should be adequate to provide for uncollectible property taxes. No provisions are made for uncollectible sales tax receivables, or grants receivable as management estimates that these amounts will be fully collectible.

The following is a summary of property taxes receivable and the related allowance for uncollectible accounts:

Accounts receivable, gross	\$ 25,191
Less: allowance for uncollectible accounts	<u>(3,273)</u>
Net accounts receivable	<u>\$ 21,918</u>

*Fines and Court Costs Receivable and Related Allowances*

In the governmental fund financial statements, fines and court costs are recognized as revenue on the cash basis.

In the government-wide financial statements, the City records fines and court costs receivable net of amounts estimated to be uncollectible and net of any amounts that would be due to other governmental entities as a result of collection. Management has determined the estimate of uncollectible fines and court costs through an analysis of actual amounts collected subsequent to year end. Amounts due to other governmental entities have been determined based on distribution requirements of the State of Texas.



**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**5. Capital Assets**

The following table provides a summary of changes in capital assets, including assets recorded under capital leases:

	Balance October 1, 2018	Increases	Decreases	Balance September 30, 2019
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated				
Land	\$ 2,300	\$ -	\$ -	\$ 2,300
Construction in progress	212,010	-	212,010	-
Total capital assets not being depreciated	<u>214,310</u>	<u>-</u>	<u>212,010</u>	<u>2,300</u>
Other capital assets being depreciated:				
Buildings and other improvements	721,979	15,922	-	737,901
Road infrastructure	278,646	451,830	7,327	723,149
Furniture and equipment	375,488	174,721	-	550,209
Total capital assets being depreciated	<u>1,376,113</u>	<u>642,473</u>	<u>7,327</u>	<u>2,011,259</u>
Total Capital Assets	<u>1,590,423</u>	<u>642,473</u>	<u>219,337</u>	<u>2,013,559</u>
Less accumulated depreciation:				
Buildings and other improvements	15,271	31,371	-	46,642
Road infrastructure	110,429	38,885	-	149,314
Furniture and equipment	162,628	67,836	-	230,464
Total accumulated depreciation	<u>288,328</u>	<u>138,092</u>	<u>-</u>	<u>426,420</u>
Governmental Activities Capital Assets, net	<u>\$ 1,302,095</u>	<u>\$ 504,381</u>	<u>\$ 219,337</u>	<u>\$ 1,587,139</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets not being depreciated				
Land	\$ 17,682	\$ -	\$ -	\$ 17,682
Construction in progress	27,263	-	27,263	-
Total capital assets not being depreciated	<u>44,945</u>	<u>-</u>	<u>27,263</u>	<u>17,682</u>
Other capital assets being depreciated:				
Buildings and other improvements	199,774	-	-	199,774
Water and sewer infrastructure	2,911,983	89,998	-	3,001,981
Furniture and equipment	286,773	97,750	-	384,523
Total capital assets being depreciated	<u>3,398,530</u>	<u>187,748</u>	<u>-</u>	<u>3,586,278</u>
Total Capital Assets	<u>3,443,475</u>	<u>187,748</u>	<u>27,263</u>	<u>3,603,960</u>
Less accumulated depreciation	<u>1,347,356</u>	<u>126,242</u>	<u>-</u>	<u>1,473,598</u>
Business-type Activities Capital Assets, net	<u>\$ 2,096,119</u>	<u>\$ 61,506</u>	<u>\$ 27,263</u>	<u>\$ 2,130,362</u>
Primary Government Capital Assets, net	<u>\$ 3,398,214</u>	<u>\$ 565,887</u>	<u>\$ 246,600</u>	<u>\$ 3,717,501</u>

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**5. Capital Assets - continued**

Depreciation expense for governmental activities was charged to functions of the City as follows:

Administration	\$ 34,455
Parks	9,669
Police Department	55,083
Street Department	38,885

Depreciation expense recorded in business-type activities and the Proprietary Fund was \$126,242.

The gross amount of assets included in the equipment category above, which were recorded under capital lease obligations is \$150,823. Accumulated amortization of these assets is \$66,735. Amortization expense is included in depreciation expense.

**6. Long-Term Debt**

*General Fund – Interlocal Agreement*

On November 6, 2012 the City entered into an interlocal agreement with Collin County, Texas to reconstruct mutual boundary roads CR1003 and CR689. The County agreed to arrange for the road improvements. Funds were expended on the road reconstruction beginning in late 2017. The City agreed to reimburse their share of the costs over a five year period. Terms of the agreement include an annual interest rate of 3.50% and 60 monthly payments of \$1,408.22, with the first payment due March 1, 2017. At September 30, 2019 the principal balance was \$6,980. Interest expense was \$556 for the year and was included in the street department functional expense in the Statement of Activities.

On October 8, 2018 the City entered into an interlocal agreement with Collin County, Texas to reconstruct CR596 (Hubbard). The County agreed to arrange for the road improvements. The City agreed to reimburse their share of the costs over a five year period. Terms of the agreement include an annual interest rate of 2.80% and 60 monthly payments of \$4,875, with the first payment due November 1, 2018. At September 30, 2019 the principal balance was \$225,469.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**6. Long-Term Debt - continued**

*General Fund – Capital Lease Agreement*

On April 5, 2018 the City entered into an agreement with Government Capital Corporation to purchase a 2018 Ford Explorer, with an interest rate of 4.44% and a maturity date of April 5, 2021. Terms of the agreement include annual payments of \$19,439.86 with the initial payment due April 5, 2019. At September 30, 2019 the principal balance was \$36,436. Interest expense was \$2,375 for the year.

On October 31, 2018 the City issued Tax Note Series 2018 for the construction and equipping of a new City Hall. The Tax Notes will mature on September 1, 2024. They carry an interest rate of 2.25% based on a 360-day year. Annual principal and interest payments will be due beginning September 1, 2018 and will continue to maturity. The amounts due graduate over the term of the notes, with the initial principal payment of \$75,000 and the final payment in 2024 of \$84,000. At September 30, 2019 the principal balance was \$400,000. Interest expense was \$21,035 for the year.

On December 17, 2018 the City entered into an agreement with Government Capital Corporation to purchase a 2019 Ford Explorer Interceptor, with an interest rate of 4.61% and a maturity date of January 3, 2022. Terms of the agreement include annual payments of \$20,960.37 with the initial payment due January 3, 2020. At September 30, 2019 the principal balance was \$57,500. Interest expense was \$2,032.24 for the year

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**6. Long-Term Debt - continued**

The following is a summary of changes in long-term debt for the year ended September 30, 2019:

Description and purpose:	Balance October 1, 2018	Issued	Retired	Balance September 30, 2019	Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Tax Note Series 2017	\$ 550,000	\$ -	\$ 150,000	\$ 400,000	\$ 76,000
Interlocal Agreement 3.5%	23,323	-	16,343	6,980	6,980
Interlocal Agreement 2.8%	<u>212,010</u>	<u>60,632</u>	<u>51,522</u>	<u>221,120</u>	<u>52,983</u>
Total Notes Payable	785,333	60,632	217,865	628,100	135,963
Government Capital Corporation	53,000	500	17,064	36,436	17,822
Government Capital Corporation	<u>-</u>	<u>57,500</u>	<u>-</u>	<u>57,500</u>	<u>18,310</u>
Total Leases Payable	53,000	58,000	17,064	93,936	36,132
Net Pension liability	681	12,262	-	12,943	-
OPEB liability	3,763	-	107	3,656	-
Compensated Absences	<u>5,242</u>	<u>18,403</u>	<u>-</u>	<u>23,645</u>	<u>23,645</u>
 Total Governmental Activities	 <u>62,686</u>	 <u>31,165</u>	 <u>17,171</u>	 <u>76,680</u>	 <u>41,467</u>
 <b>BUSINESS-TYPE ACTIVITIES</b>					
Net Pension liability	(728)	7,895	-	7,167	-
OPEB liability	3,137	-	799	2,338	-
Compensated Absences	<u>4,970</u>	<u>4,106</u>	<u>-</u>	<u>9,076</u>	<u>9,076</u>
 Total Business-type Activities	 <u>7,379</u>	 <u>12,001</u>	 <u>799</u>	 <u>18,581</u>	 <u>9,076</u>
 Total Primary Government Long-Term Debt	 <u>\$ 7,379</u>	 <u>\$ 12,001</u>	 <u>\$ 799</u>	 <u>\$ 18,581</u>	 <u>\$ 9,076</u>

The City's general obligation bonds are guaranteed by the full faith and credit of the City. The bond issues are approved by the voters and repaid with water and sewer revenues recorded in the Proprietary Fund. Current requirements for principal and interest of these obligations are accounted for in the Debt Service Fund.

Compensated absences are paid from the fund responsible for the employee's compensation.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**6. Long-Term Debt - continued**

*Debt Service Requirements to Maturity*

The annual debt service requirement to maturity for interlocal debt is as follows at year-end:

The annual debt service requirement to maturity for bonded debt is as follows at year-end:

Fiscal Year Ending September 30,	<u>Governmental Activities</u>						Total Required
	<u>Interlocal Agreements</u>		<u>Tax Note Series 2017</u>		<u>Government Capital Corp</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2020	\$ 59,963	\$ 5,576	\$ 76,000	\$ 9,000	\$ 36,132	\$ 4,269	\$ 190,940
2021	54,486	4,012	78,000	7,290	37,767	2,633	184,188
2022	56,031	2,467	80,000	5,535	20,037	924	164,994
2023	57,620	878	82,000	3,735	-	-	144,233
2024	-	-	84,000	1,890	-	-	85,890
2025	-	-	-	-	-	-	-
Totals	\$ <u>228,100</u>	\$ <u>12,933</u>	\$ <u>400,000</u>	\$ <u>27,450</u>	\$ <u>93,936</u>	\$ <u>7,826</u>	\$ <u>770,245</u>

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**7. Commitments/Contingencies**

Certain state reports and remittances are required by the City's municipal court. These reports and remittances are subject to audit by the Comptroller of Public Accounts. Any adjustments which may occur based upon such an audit could require the City to remit additional funds. The City expects that costs disallowed, if any, would be minimal.

The City has entered into a contract for garbage collection services with Republic Services. Contract period is from 12/1/17 to 11/30/24. The contract has up to five one-year renewals with a 180 day notice prior to the end of the initial term. During fiscal year 2019, the City spent \$111,446 on garbage collection services.

**8. Balances and Transfers/Payments Within the Reporting Entity**

*Receivables and Payables*

Generally, outstanding balances between funds reported as "due to/from other funds" in the governmental fund financial statements include outstanding charges by one fund to another for services or goods, and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the fiscal year are described as "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Outstanding balances between the City's General Fund and its Proprietary Fund include funds for operating expenditures that will be transferred after the end of the year. At September 30, 2019 the outstanding balance between the General Fund and the Proprietary Fund is \$ - 0 -.

*Transfers and Payments*

Transfers and payments within the reporting entity are substantially for the purposes of funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs. During the year ending September 30, 2019, there were transfers of \$84,000 between funds.

**9. Economic Dependence**

City operations are funded by taxes and revenues provided by the residents of the City of Josephine, Texas. Accordingly, the City is economically dependent on the property values and local economy of City of Josephine, Texas and the surrounding area.

The City is currently obligated under a 30-year water purchase contract with the North Texas Municipal Water District until December 31, 2025. Total water cost for the year ended September 30, 2019 was \$207,145.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**10. TMRS Pension Plan**

Plan Description

The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

All eligible employees of the City are required to participate in TMRS.

Benefits Provided:

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits, also known as the matching ratio, are 200% of the employee's accumulated contributions and are only payable in the form of an annuity.

Beginning in 1993, the City granted an annually repeating (automatic) basis for a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 1993, the City provided an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index. (CPI).

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**10. TMRS Pension Plan - continued**

Plan Description - continued

A summary of plan provisions for the City are as follows:

Employee deposit rate	6%
Matching ratio (City to employee)	1.5 to 1
Year required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated Service Credit	100% Repeating
Annuity Increase to retirees	0% of CPI Repeating

Employees covered by benefit terms –

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	4
Active employees	8
	<u>12</u>

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the consulting actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Josephine were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Josephine were 7.43% and 6.76% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2019 was \$31,555 and was equal to the required contributions.



**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**10. TMRS Pension Plan - continued**

Net Pension Liability:

The City's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions –

The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.00% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation.

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2018 valuation were based on the results of actuarial experience studies. This experience study was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**10. TMRS Pension Plan - continued**

Actuarial assumptions – continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2018, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	5.0%	7.75%
Total	<u>100.0%</u>	

Discount Rate –

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**10. TMRS Pension Plan - continued**

Changes in the Net Pension Liability –

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2017	\$ 349,492	\$ 349,539	\$ (47)
Changes for the year:			
Service cost	51,786	-	51,786
Interest	24,988	-	24,988
Change in benefit terms	-	-	-
Difference between expected and actual experience	(11,920)	-	(11,920)
Changes in assumptions	-	-	-
Contribution - employer	-	29,149	(29,149)
Contribution - employee	-	26,221	(26,221)
Net investment income	-	(10,459)	10,459
Benefit payments, including refunds of employee contributions	(10,379)	(10,379)	-
Administrative expense	-	(202)	202
Other changes	-	(11)	11
Net changes	<u>54,475</u>	<u>34,319</u>	<u>20,156</u>
Balance at 12/31/2018	<u>\$ 403,967</u>	<u>\$ 383,858</u>	<u>\$ 20,110</u>

Sensitivity of the net pension liability to changes in the discount rate –

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate 5.75%	Current Single Rate Assumption 6.75%	1% Increase in Discount Rate 7.75%
City's net pension liability	\$ 77,726	\$ 20,110	\$ (27,630)

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**10. TMRS Pension Plan - continued**

Pension Plan Fiduciary Net Position –

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmr.com](http://www.tmr.com).

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

For the year ended September 30, 2019, the City recognized pension expense of \$31,926. This amount is included as part of Personal Services expenses within the functional program activities.

At September 30, 2019, the City reported deferred outflow and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to the measurement date	\$ 25,672	\$ -
Difference between projected and actual investment earnings	30,012	11,497
Differences between actuarial assumptions and actual experience	5,333	22,264
Changes in actuarial assumptions used	5,841	-
Total	<u>\$ 66,858</u>	<u>\$ 33,761</u>

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**10. TMRS Pension Plan - continued**

Pension Plan Fiduciary Net Position – continued

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$25,672 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2019 (i.e. recognized in the City's financial statements as of September 30, 2019). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ended December 31,	Amount
2019	\$ 4,875
2020	2,125
2021	2,117
2022	5,946
2023	(983)
Thereafter	(6,655)
Total	\$ 7,425

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**11. TMRS Supplemental Death Benefits Fund**

Post-Employment Benefits Other Than Pensions

Benefit Plan Description

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including retirees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB 75 (i.e., no assets are accumulated for OPEB) and as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single-employer, defined benefit OPEB plan with benefit payments treated as being equal to the employer's yearly contribution for retirees.

Benefits Provided

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's actual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit" or OPEB.

Employees Covered by Benefit Terms

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Membership \*

Number of

- Inactive employees or beneficiaries currently receiving benefits	-
- Inactive employees entitled to but not yet receiving benefits	1
- Active employees	<u>8</u>
- Total	<u><u>9</u></u>

\* Membership counts for inactive employees currently receiving or entitled to but not yet receiving benefits will differ from GASB 68 as they include only those eligible for a SDBF benefit (i.e. excludes beneficiaries, non-vested terminations due a refund, etc.).

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**11. TMRS Supplemental Death Benefits Fund - continued**

Total OPEB Liability

The City's total OPEB liability of \$5,994 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

Actuarial assumptions –

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 10.5% including inflation
Discount rate	3.71%
Retirees' share of benefit related costs	\$ 0

The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

Mortality rates – service retirees

RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Mortality rates – disabled retirees

RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**11. TMRS Supplemental Death Benefits Fund - continued**

Changes in the Total OPEB Liability

	<u>2018</u>	<u>2019</u>
Total OPEB Liability - beginning of year	\$ 5,405	\$ 6,900
Changes for the year		
Service Cost	524	875
Interest on Total OPEB Liability	214	243
Changes of benefit terms	-	-
Differences between expected and actual experience	-	(1,482)
Changes in assumptions or other inputs	757	(542)
Benefit payments **	-	-
Net Changes	<u>1,495</u>	<u>(906)</u>
Total OPEB Liability - end of year	<u>\$ 6,900</u>	<u>\$ 5,994</u>

\*\* Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Sensitivity of the total OPEB liability to changes in the discount rate –

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.71%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.71%) or 1 percentage point higher (4.71%) than the current rate:

	<u>1% Decrease</u>	<u>Current</u>	<u>Discount Rate</u>	<u>1% Increase</u>
	<u>(2.71%)</u>	<u>(3.71%)</u>	<u>(3.71%)</u>	<u>(4.71%)</u>
Total OPEB Liability	\$ 7,451	\$ 5,994	\$ 5,994	\$ 4,830

Deferred Outflows of Resources and Deferred Inflows of Resources, by year, to be recognized in Future OPEB Expense (excluding City-provided contributions made subsequent to the measurement date).



**CITY OF JOSEPHINE, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**September 30, 2019**

**11. TMRS Supplemental Death Benefits Fund - continued**

Deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the measurement year ending December 31, 2020 (i.e. recognized in the City's financial statements for the year ending September 30, 2019). Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year	Net deferred outflows (inflows) of resources
2019	\$ (119)
2020	(119)
2021	(119)
2022	(119)
2023	(119)
Thereafter	(624)
Total	\$ (1,219)

**12. Litigation**

The City is involved in litigation arising in the ordinary course of business. It is management's belief that any liability resulting from such litigation would not be material in relation to the City's financial position.

**13. Subsequent Events**

In recent days, the COVID-19 outbreak in the United States has resulted in the disruption of the general economy. Although the full extent of the economic impact is not yet known, it is reasonable to expect that various sectors of the economy will respond differently to the disruption. As a result of the outbreak, businesses within the boundaries of the City have significantly modified their activities and in some cases reduced or even temporarily suspended their operations. As a result, revenue including but not limited to sales tax and permit fees, may be adversely affected. The effect and long-term impact of these events on the City is unknown and cannot be reasonably estimated at this time.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF JOSEPHINE, TEXAS**  
**BUDGET TO ACTUAL COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
<b>REVENUES:</b>				
Ad valorem taxes	\$ 566,150	\$ 480,800	\$ 516,228	\$ 35,428
Franchise taxes	36,500	36,500	54,872	18,372
Sales tax	50,000	60,000	75,181	15,181
Garbage fees	181,750	230,000	229,117	(883)
Permits	141,950	141,950	147,255	5,305
Fines	153,000	121,750	122,098	348
Contributions	-	-	1,925	1,925
MUD Inspection & public safety fees	-	308,000	360,975	52,975
Other income	134,475	36,425	37,999	1,574
Interest income	900	900	7,955	7,055
<b>Total Revenues</b>	<u><b>1,264,725</b></u>	<u><b>1,416,325</b></u>	<u><b>1,553,605</b></u>	<u><b>137,280</b></u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
Administration	463,225	445,600	433,820	11,780
Sanitation services	122,975	122,975	119,308	3,667
Public works	25,700	25,700	23,835	1,865
Park	9,950	12,350	11,850	500
Street department	106,825	74,575	70,499	4,076
Police department/municipal court	567,075	538,250	541,962	(3,712)
Capital outlay	140,500	376,500	430,463	(53,963)
Debt Service:				
Principal	67,075	80,575	80,580	(5)
Interest and other costs	2,000	9,400	9,381	19
<b>Total Expenditures</b>	<u><b>1,505,325</b></u>	<u><b>1,685,925</b></u>	<u><b>1,721,698</b></u>	<u><b>(35,773)</b></u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u><b>(240,600)</b></u>	<u><b>(269,600)</b></u>	<u><b>(168,093)</b></u>	<u><b>101,507</b></u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from debt	53,000	57,000	118,632	61,632
<b>Total Other Financing Sources (Uses)</b>	<u><b>53,000</b></u>	<u><b>57,000</b></u>	<u><b>118,632</b></u>	<u><b>61,632</b></u>
<b>Net Change in Fund Balances</b>	(187,600)	(212,600)	(49,461)	163,139
<b>Fund balance, October 1</b>	<u><b>159,883</b></u>	<u><b>159,883</b></u>	<u><b>159,883</b></u>	<u><b>-</b></u>
<b>Fund balance, September 30</b>	<u><u><b>\$ (27,717)</b></u></u>	<u><u><b>\$ (52,717)</b></u></u>	<u><u><b>\$ 110,422</b></u></u>	<u><u><b>\$ 163,139</b></u></u>

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

**CITY OF JOSEPHINE, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS**  
**LAST FIVE FISCAL YEARS (PREVIOUS YEARS ARE NOT AVAILABLE)**

<b>Plan Year</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>A. Total Pension Liability</b>					
Service cost	\$ 19,345	\$ 24,663	\$ 30,557	\$ 36,466	\$ 51,786
Interest (on the Total Pension Liability)	12,337	15,417	18,490	21,217	24,988
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	9,840	801	(11,601)	(4,285)	(11,920)
Change of assumptions	-	9,853	-	-	-
Benefits payments, including refunds of employee contributions	(366)	-	-	-	(10,379)
Net Change in Total Pension Liability	41,156	50,734	37,446	53,398	54,475
Total Pension Liability - Beginning	<u>166,758</u>	<u>207,914</u>	<u>258,648</u>	<u>296,094</u>	<u>349,492</u>
Total Pension Liability - Ending (a)	<u>\$ 207,914</u>	<u>\$ 258,648</u>	<u>\$ 296,094</u>	<u>\$ 349,492</u>	<u>\$ 403,967</u>
<b>B. Plan Fiduciary Net Position</b>					
Contributions - employer	\$ 10,136	\$ 11,073	\$ 16,155	\$ 22,675	\$ 29,149
Contributions - employee	11,585	12,801	15,317	18,510	26,221
Net investment income	9,710	295	15,116	37,462	(10,459)
Benefit payments, including refunds of employee contributions	(366)	-	-	-	(10,379)
Administrative expense	(101)	(180)	(171)	(195)	(202)
Other	(8)	(9)	(9)	(9)	(11)
Net Change in Plan Fiduciary Net Position	30,956	23,980	46,408	78,443	34,319
Plan Fiduciary Net Position - Beginning	<u>169,752</u>	<u>200,708</u>	<u>224,688</u>	<u>271,096</u>	<u>349,539</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 200,708</u>	<u>\$ 224,688</u>	<u>\$ 271,096</u>	<u>\$ 349,539</u>	<u>\$ 383,858</u>
C. Net Pension Liability - Ending (a) - (b)	\$ 7,206	\$ 33,960	\$ 24,998	\$ (47)	\$ 20,110
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	96.53%	86.87%	91.56%	100.01%	95.02%
E. Covered Employee Payroll	\$ 193,077	\$ 213,351	\$ 255,281	\$ 308,508	\$ 437,014
F. Net Pension Liability as a Percentage of Covered Payroll	3.73%	15.92%	9.79%	-0.02%	4.60%

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

**CITY OF JOSEPHINE, TEXAS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS**  
**LAST FIVE FISCAL YEARS (PREVIOUS YEARS ARE NOT AVAILABLE)**

<b>Plan Year</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Actuarially Determined Contribution	\$ 10,136	\$ 11,073	\$ 16,155	\$ 22,675	\$ 29,149
Contributions in relation to the actuarially determined contribution	<u>10,136</u>	<u>11,328</u>	<u>16,155</u>	<u>22,675</u>	<u>29,149</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (255)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 193,077	\$ 213,351	\$ 255,281	\$ 308,508	\$ 437,014
Contributions as a percentage of covered employee payroll	5.25%	5.31%	6.33%	7.35%	6.67%

**Notes to Schedule of Contributions**

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experienced-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2015.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with males rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

**Other Information**

Notes There were no benefit changes during the year.

**CITY OF JOSEPHINE, TEXAS  
TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)  
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (ASSET) AND RELATED RATIOS  
LAST TWO FISCAL YEARS (PREVIOUS YEARS ARE NOT AVAILABLE)**

Measurement Year	<u>2018</u>	<u>2019</u>
Changes in the Total OPEB Liability		
Total OPEB Liability - beginning of year	\$ 5,405	\$ 6,900
Changes for the year		
Service Cost	524	875
Interest on Total OPEB Liability	214	243
Changes of benefit terms	-	-
Differences between expected and actual experience	-	(1,482)
Changes in assumptions or other inputs	757	(542)
Benefit payments **	<u>-</u>	<u>-</u>
Net Changes	<u>1,495</u>	<u>(906)</u>
Total OPEB Liability - end of year	<u>\$ 6,900</u>	<u>\$ 5,994</u>

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). The SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB 75 (i.e., no assets are accumulated for OPEB) and as such the SDBF is considered to be an unfunded OPEB plan.

Changes in assumptions reflect a change in the discount rate from 3.31% as of December 31, 2017 to 3.71% as of December 31, 2018.

\*\* Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

**SUPPLEMENTARY SCHEDULES**

**CITY OF JOSEPHINE, TEXAS**  
**HISTORICAL SCHEDULE OF ASSESSED PROPERTY VALUATION**  
**YEAR ENDED SEPTEMBER 30, 2019 (Unaudited)**

<b><u>Tax Roll Year</u></b>	<b><u>Fiscal Year Ended September 30</u></b>	<b><u>Net Taxable Valuation</u></b>
2018	2019	\$ 106,125,444
2017	2018	91,095,631
2016	2017	63,577,112
2015	2016	51,517,105
2014	2015	44,397,598
2013	2014	38,232,507
2012	2013	37,648,898
2011	2012	32,687,199
2010	2011	32,055,782
2009	2010	29,643,313



**CITY OF JOSEPHINE, TEXAS**  
**HISTORICAL SCHEDULE OF PROPERTY TAX RATES**  
**YEAR ENDED SEPTEMBER 30, 2019 (Unaudited)**

<u>Tax Roll Year</u>	<u>Fiscal Year Ended September 30</u>	<u>Tax Rates</u>
2018	2019	0.580000
2017	2018	0.540000
2016	2017	0.580000
2015	2016	0.600000
2014	2015	0.615000
2013	2014	0.590000
2012	2013	0.570000
2011	2012	0.552679
2010	2011	0.552679
2009	2010	0.485834