

CITY OF JOSEPHINE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2020

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ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2020**

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**City of Josephine, Texas
List of Principal Officials
September 30, 2020**

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, 2020, 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, 2020, 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 1, 2021

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, 2020. 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 \$8,714,892. Of this amount \$5,102,863 is invested in capital assets or restricted for debt service, leaving \$3,612,029 of unrestricted net assets.
- Government-wide net assets increased by \$3,589,563 during 2020.
- Each of the City's fund financial statements reported changes in equity as follows:
 - General Fund – \$346,111 increase
 - Debt Service Fund - \$104,391 increase
 - Water Fund - \$2,697,781 increase
 - Sewer Fund - \$235,016 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 \$8,714,892 and \$5,125,328 at the close of FY 2020 and 2019, respectively.

The combined net assets of the City's activities increased from \$5,125,328 to \$8,714,892 or \$3,589,564 during 2020. 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 \$3,612,029.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS:

As the City completed the year, its governmental funds, \$664,327 and proprietary funds \$6,971,657 reported combined fund balance and net assets of \$7,635,984, a \$3,383,299 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 \$1,225,363 and \$3,669,839, 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 \$188,165 and \$1,822,304 in each of the respective activities.

Long-term Debt – at year-end the City had \$324,000 in bonds outstanding which represents a decrease of \$76,000 from the prior year.

BUDGETARY HIGHLIGHTS & ECONOMIC FACTORS:

The Magnolia Point housing development is expanding and by the end of the 2019-2020 budget year had drawn 46 permits. Phase 1 and 2 of Magnolia Point are completed, and Phase 3 and 4 are underway with 281 permits already drawn in the 2020-2021 budget year. Shepherd Place Homes built 27 more homes in the High Meadows development and LJ Homes built 2 homes in Fountain View. The Mayor and the City continued street projects during the 2019-2020 budget year and will continue projects into the 2020-2021 budget year. The City Council approved moving forward with building restroom facilities at the Josephine City Park.

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.

CITY OF JOSEPHINE, TEXAS
COMPARATIVE STATEMENTS OF NET POSITION

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
ASSETS						
Current and other assets	\$ 812,142	\$ 332,639	\$ 3,253,928	\$ 2,058,612	\$ 4,066,070	\$ 2,391,251
Capital assets, net	<u>1,585,014</u>	<u>1,587,139</u>	<u>3,960,822</u>	<u>2,130,362</u>	<u>5,545,836</u>	<u>3,717,501</u>
Total Assets	<u>2,397,156</u>	<u>1,919,778</u>	<u>7,214,750</u>	<u>4,188,974</u>	<u>9,611,906</u>	<u>6,108,752</u>
Deferred outflows of resources	40,862	39,426	22,237	21,770	63,099	61,196
LIABILITIES						
Other liabilities	295,297	303,254	243,622	162,108	538,919	465,362
Long-term debt	<u>359,651</u>	<u>549,941</u>	<u>-</u>	<u>-</u>	<u>359,651</u>	<u>549,941</u>
Total Liabilities	<u>654,948</u>	<u>853,195</u>	<u>243,622</u>	<u>162,108</u>	<u>898,570</u>	<u>1,015,303</u>
Deferred Inflows of Resources						
Deferred inflows from pensions	38,266	18,797	20,704	9,301	58,970	28,098
Deferred inflows OPEB	<u>1,570</u>	<u>744</u>	<u>1,003</u>	<u>475</u>	<u>2,573</u>	<u>1,219</u>
Total deferred inflows of resources	<u>39,835</u>	<u>19,541</u>	<u>21,708</u>	<u>9,776</u>	<u>61,543</u>	<u>29,317</u>
NET POSITION						
Net investment in capital assets	1,225,363	1,037,198	3,669,839	1,847,535	4,895,202	2,884,733
Restricted for debt service	207,794	103,403	(133)	(133)	207,661	103,270
Unrestricted	<u>310,078</u>	<u>(54,133)</u>	<u>3,301,951</u>	<u>2,191,458</u>	<u>3,612,029</u>	<u>2,137,325</u>
Total Net Position	<u>\$ 1,743,235</u>	<u>\$ 1,086,468</u>	<u>\$ 6,971,657</u>	<u>\$ 4,038,860</u>	<u>\$ 8,714,892</u>	<u>\$ 5,125,328</u>

CITY OF JOSEPHINE, TEXAS
COMPARATIVE STATEMENTS OF ACTIVITIES

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Program revenues:						
Charges for services	\$ 617,147	\$ 498,470	\$ 2,285,813	\$ 1,669,369	\$ 2,902,960	\$ 2,167,839
Operating grants/contributions	19,045	1,925	-	-	19,045	1,925
Capital grants/contributions	412,905	360,975	1,804,114	-	2,217,019	360,975
General revenues:						
Ad valorem taxes	713,260	607,618	-	-	713,260	607,618
Sales taxes	111,579	75,181	-	-	111,579	75,181
Franchise taxes	50,678	54,872	-	-	50,678	54,872
Gain on disposal of capital assets	-	-	-	-	-	-
Other	285,078	46,295	5,610	15,811	290,688	62,106
Total revenues	<u>2,209,692</u>	<u>1,645,336</u>	<u>4,095,537</u>	<u>1,685,180</u>	<u>6,305,229</u>	<u>3,330,516</u>
Expenses:						
Administration	568,973	487,559	-	-	568,973	487,559
Sanitation services	150,962	119,308	-	-	150,962	119,308
Public works	37,100	23,835	-	-	37,100	23,835
Park	27,869	21,519	-	-	27,869	21,519
Police department/municipal court	708,744	618,097	-	-	708,744	618,097
Streets	143,276	118,395	-	-	143,276	118,395
Water and sewer services	-	-	1,078,740	968,093	1,078,740	968,093
Total Expenses	<u>1,636,925</u>	<u>1,388,714</u>	<u>1,078,740</u>	<u>968,093</u>	<u>2,715,665</u>	<u>2,356,807</u>
Excess before transfers	572,767	256,622	3,016,797	717,087	3,589,564	973,709
Transfers	84,000	84,000	(84,000)	(84,000)	-	-
Change in Net Position	656,767	340,622	2,932,797	633,087	3,589,564	973,709
Net position - October 1	1,086,468	745,846	4,038,860	3,405,773	5,125,328	4,151,619
Net position - September 30	<u><u>\$ 1,743,235</u></u>	<u><u>\$ 1,086,468</u></u>	<u><u>\$ 6,971,657</u></u>	<u><u>\$ 4,038,860</u></u>	<u><u>\$ 8,714,892</u></u>	<u><u>\$ 5,125,328</u></u>

**CITY OF JOSEPHINE, TEXAS
COMPARATIVE BALANCE SHEETS
GOVERNMENTAL FUNDS
September 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 700,094	\$ 263,850
Ad valorem taxes	28,180	21,918
Sales and franchise taxes	-	10,077
Other	57,895	30,490
Prepaid items	19,572	1,077
Total Assets	\$ 805,741	\$ 327,412
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 113,234	\$ 86,727
Due to JCDC	-	4,188
Total Liabilities	113,234	90,915
 DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	28,180	22,672
Total deferred inflows of resources	28,180	22,672
 FUND BALANCES		
Non-spendable:		
Prepaid items	19,572	1,077
Restricted for debt service	207,794	103,403
Unassigned	436,961	109,345
Total Fund Balances	664,327	213,825
Total Liabilities and Fund Balances	\$ 805,741	\$ 327,412

CITY OF JOSEPHINE, TEXAS
Comparative Statements of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUES:		
Ad valorem taxes	\$ 707,752	\$ 607,618
Franchise taxes	50,678	54,872
Sales tax	111,579	75,181
Garbage fees	303,983	229,117
Permits	220,264	147,255
Fines	91,726	122,098
Intergovernmental	18,495	1,925
Grant revenue	413,455	360,975
Other income	282,764	37,999
Interest	2,314	8,296
Total Revenues	<u>2,203,010</u>	<u>1,645,336</u>
EXPENDITURES:		
Administration	526,712	433,820
Sanitation services	150,962	119,308
Public works	37,100	23,835
Park	18,091	11,850
Street department	109,293	70,499
Police department/municipal court	622,376	541,962
Debt Service:		
Principal	210,586	230,580
Interest	20,571	30,433
Capital Outlay	140,816	430,463
Total Expenditures	<u>1,836,508</u>	<u>1,892,750</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>366,502</u>	<u>(247,414)</u>
Other Revenues and Financing Sources (uses)		
Bond proceeds	-	118,632
Transfers in	84,000	84,000
Total Other Revenues and Financing Sources (uses)	<u>84,000</u>	<u>202,632</u>
Net change in fund balances	450,502	(44,782)
Fund balance, October 1	<u>213,825</u>	<u>258,607</u>
Fund balance, September 30	<u><u>\$ 664,327</u></u>	<u><u>\$ 213,825</u></u>

CITY OF JOSEPHINE, TEXAS
COMPARATIVE STATEMENTS OF FUND NET POSITION
PROPRIETARY FUND
September 30, 2020 and 2019

	2020	2019
	Enterprise Fund	Enterprise Fund
	Water and Sewer	Water and Sewer
	Activities	Activities
ASSETS		
Cash and cash equivalents	\$ 2,962,611	\$ 1,863,910
Accounts receivable, net	290,712	194,102
Prepays	605	600
Total current assets	3,253,928	2,058,612
Capital Assets:		
Land	152,682	17,682
Buildings & other improvements	206,298	199,774
Water and sewer infrastructure	4,770,795	3,001,981
Equipment	461,923	384,523
Less accumulated depreciation	(1,630,876)	(1,473,598)
Capital Assets, net	3,960,822	2,130,362
Total assets	7,214,750	4,188,974
Deferred Outflows of Resources		
Deferred outflows from pensions	21,404	21,770
Total deferred outflows of resources	21,404	21,770
LIABILITIES		
Accounts payable	60,880	19,810
Compensated absences	11,290	9,076
Meter deposits payable	174,516	123,717
Payable from restricted assets:		
Accrued interest payable	-	-
Total current liabilities	246,686	152,603
Pension liability	(6,182)	7,167
OPEB liability	3,118	2,338
Total non-current liabilities	(3,064)	9,505
Total liabilities	243,622	162,108
Deferred Inflows of Resources		
Deferred inflows from pensions	20,704	9,301
Deferred inflows OPEB	171	475
Total deferred inflows of resources	20,875	9,776
NET POSITION		
Invested in capital assets, net of related debt	3,669,839	1,847,535
Restricted for debt service	(133)	(133)
Unrestricted	3,301,951	2,191,458
Total Net Position	\$ 6,971,657	\$ 4,038,860

CITY OF JOSEPHINE, TEXAS
Comparative Statements of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
Years Ended September 30, 2020 and 2019

	2020	2019
	Enterprise Fund	Enterprise Fund
	Water and	Water and
	Sewer	Sewer
OPERATING REVENUES:		
Water sales	\$ 1,409,840	\$ 1,072,662
Sewer sales	462,826	275,127
Grant income	-	65,375
Tap and reconnect fees	413,147	256,205
Total Operating Revenues	2,285,813	1,669,369
OPERATING EXPENSES:		
Salaries, taxes, and benefits	343,528	279,232
Contract labor	71,551	46,719
Professional fees	11,500	4,875
Water purchases	240,966	207,045
Repairs and facility maintenance	20,526	13,083
Vehicle expense	9,556	11,276
Utilities and telephone	61,349	33,553
Water/Sewer testing	1,175	1,697
Depreciation and amortization	157,278	126,241
Grant expense	-	90,686
Other expense	161,311	153,686
Total Operating Expenses	1,078,740	968,093
Operating Income	1,207,073	701,276
NONOPERATING REVENUES (EXPENSES):		
Interest income	5,627	15,419
Interest and fiscal charges	(20)	-
Miscellaneous income	3	392
Total Non-operating Revenues (Expenses)	5,610	15,811
Income before capital grants and transfers	1,212,683	717,087
Developer contributions	1,804,114	-
Transfers out	(84,000)	(84,000)
Change in net position	2,932,797	633,087
Net position, October 1	4,038,860	3,405,773
Net position, September 30	\$ 6,971,657	\$ 4,038,860

BASIC FINANCIAL STATEMENTS

CITY OF JOSEPHINE, TEXAS
STATEMENT OF NET POSITION
September 30, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total Primary Government	
ASSETS				
Cash and cash equivalents	\$ 700,094	\$ 2,962,611	\$ 3,662,705	\$ 95,475
Receivables				
Taxes, net of allowance	28,180	-	28,180	-
Accounts, net of allowance	64,296	290,712	355,008	-
Prepays	19,572	605	20,177	-
Capital assets:				
Capital assets, not being depreciated	2,300	152,682	154,982	-
Capital assets, net of accumulated depreciation	<u>1,582,714</u>	<u>3,808,140</u>	<u>5,390,854</u>	<u>-</u>
Total Assets	<u>2,397,156</u>	<u>7,214,750</u>	<u>9,611,906</u>	<u>95,475</u>
DEFERRED OUTFLOWS OF RESOURCES				
Difference in expected and actual pension experience	2,761	1,494	4,255	-
Pension contributions after measurement date	20,392	11,033	31,425	-
Difference in projected and actual earnings on pension assets	13,264	7,177	20,441	-
Changes in actuarial assumptions used to determine pension assets	3,139	1,699	4,838	-
Changes in actuarial assumptions used to determine OPEB liability	1,305	835	2,140	-
Total deferred outflows of resources	<u>40,862</u>	<u>22,237</u>	<u>63,099</u>	<u>-</u>
LIABILITIES				
Accounts payable	113,234	60,880	174,114	-
Meter deposits payable	-	174,516	174,516	-
Noncurrent Liabilities:				
Due within one year:				
Compensated absences	36,907	11,290	48,197	-
Capital leases	19,516	-	19,516	-
Notes payable	132,486	-	132,486	-
Due in more than one year:				
Pension liability	(11,724)	(6,182)	(17,906)	-
OPEB liability	4,878	3,118	7,996	-
Notes payable	<u>359,651</u>	<u>-</u>	<u>359,651</u>	<u>-</u>
Total Liabilities	<u>654,948</u>	<u>243,622</u>	<u>898,570</u>	<u>-</u>
Deferred Inflows of Resources				
Difference in projected and actual earnings on pension assets	22,344	12,090	34,434	-
Changes in actuarial assumptions used to determine pension liabilities	363	197	560	-
Difference between actuarial assumptions and actual experience on pensions	15,558	8,418	23,976	-
Difference between actuarial assumptions and actual experience on OPEB	1,301	832	2,133	-
Changes in actuarial assumptions used to determine OPEB liabilities	268	172	440	-
Total deferred inflows of resources	<u>39,835</u>	<u>21,708</u>	<u>61,543</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	1,225,363	3,669,839	4,895,202	-
Restricted for debt service	207,794	(133)	207,661	-
Unrestricted	<u>310,078</u>	<u>3,301,951</u>	<u>3,612,029</u>	<u>95,475</u>
Total Net position	<u>\$ 1,743,235</u>	<u>\$ 6,971,657</u>	<u>\$ 8,714,892</u>	<u>\$ 95,475</u>

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

CITY OF JOSEPHINE, TEXAS
STATEMENT OF ACTIVITIES
Year Ended September 30, 2020

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	
Governmental activities:								
Administration	\$ 568,973	\$ 220,264	\$ 19,045	\$ 412,905	\$ 83,241	\$ -	\$ 83,241	\$ -
Sanitation services	150,962	303,983	-	-	153,021	-	153,021	-
Public works	37,100	-	-	-	(37,100)	-	(37,100)	-
Park	27,869	-	-	-	(27,869)	-	(27,869)	-
Police department/municipal court	708,744	92,900	-	-	(615,844)	-	(615,844)	-
Street department	143,276	-	-	-	(143,276)	-	(143,276)	-
Total governmental activities	1,636,925	617,147	19,045	412,905	(587,828)	-	(587,828)	-
Business-type activities:								
Water and sewer services	1,078,760	2,285,813	-	1,804,114	-	3,011,167	3,011,167	-
Total business-type activities	1,078,760	2,285,813	-	1,804,114	-	3,011,167	3,011,167	-
Total primary government	\$ 2,715,685	\$ 2,902,960	\$ 19,045	\$ 2,217,019	(587,828)	3,011,167	2,423,339	-
Component Unit:								
Economic Development Corporation	\$ 14,764	\$ -	\$ -	\$ -	-	-	-	(14,764)
Total component unit	\$ 14,764	\$ -	\$ -	\$ -	-	-	-	(14,764)
General revenues:								
Ad valorem taxes					713,260	-	713,260	-
Sales taxes					111,579	-	111,579	55,789
Franchise taxes					50,678	-	50,678	-
Miscellaneous					282,764	3	282,767	-
Unrestricted investment earnings					2,314	5,627	7,941	-
Transfers					84,000	(84,000)	-	-
Total general revenues and transfers					1,244,595	(78,370)	1,166,225	55,789
Change in net position					656,767	2,932,797	3,589,564	41,025
Net position - beginning of year					1,086,468	4,038,860	5,125,328	54,450
Net position - end of year					\$ 1,743,235	\$ 6,971,657	\$ 8,714,892	\$ 95,475

The accompanying notes are an integral part of these financial statements

**CITY OF JOSEPHINE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2020**

	General	Debt Service	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 492,300	\$ 207,794	\$ 700,094
Receivables			
Ad valorem taxes, net	28,180	-	28,180
Other	57,895	-	57,895
Prepays	19,572	-	19,572
Total assets	\$ 597,947	\$ 207,794	\$ 805,741
LIABILITIES			
Accounts payable	\$ 113,234	-	\$ 113,234
Total liabilities	113,234	-	113,234
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	28,180	-	28,180
Total deferred inflows of resources	28,180	-	28,180
FUND BALANCES			
Prepays	19,572	-	19,572
Restricted for debt service	-	207,794	207,794
Unassigned	436,961	-	436,961
Total fund balances	456,533	207,794	664,327
Total liabilities deferred inflows of resources and fund balances	\$ 597,947	\$ 207,794	\$ 805,741
Governmental fund balance as presented above:			\$ 664,327
Amounts presented for governmental activities in the statement of net assets are different because:			
Capital assets reported in the statement of net assets are not current financial resources and are not reported in the fund balance sheet.			1,585,014
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 \$28,180 and fines receivable of \$6,401.			34,581
Deferred inflow/outflow of resources for pensions are not reported in the fund financial statements			1,291
Deferred inflow/outflow of resources for OPEB are not reported in the fund financial statements			(264)
Net pension liability is not due and payable in the current period and, therefore, is not reported in the fund financial statements			11,724
Net OPEB liability is not due and payable in the current period and, therefore, is not reported in the fund financial statements			(4,878)
Long-term liabilities are reported in the statement of net position but they are not due and payable in the current period.			(548,560)
Net Assets of Governmental Activities			\$ 1,743,235

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, 2020

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES:			
Ad valorem taxes	\$ 602,361	\$ 105,391	\$ 707,752
Franchise taxes	50,678	-	50,678
Sales tax	111,579	-	111,579
Garbage fees	303,983	-	303,983
Permits	220,264	-	220,264
Fines	91,726	-	91,726
Intergovernmental	18,495	-	18,495
Capital Grants and contributions revenue	413,455	-	413,455
Other income	282,764	-	282,764
Interest income	2,314	-	2,314
Total Revenues	<u>2,097,619</u>	<u>105,391</u>	<u>2,203,010</u>
EXPENDITURES:			
Current:			
Administration	526,712	-	526,712
Sanitation services	150,962	-	150,962
Public works	37,100	-	37,100
Park	18,091	-	18,091
Street department	109,293	-	109,293
Police department/municipal court	622,376	-	622,376
Debt Service:			
Principal	134,586	76,000	210,586
Interest and other costs	11,571	9,000	20,571
Capital outlay	140,816	-	140,816
Total Expenditures	<u>1,751,508</u>	<u>85,000</u>	<u>1,836,508</u>
Excess of Revenues Over Expenditures	<u>346,111</u>	<u>20,391</u>	<u>366,502</u>
Other Revenues and Financing Sources (uses)			
Transfers in	-	84,000	84,000
Total Other Revenues and Financing Sources (uses)	<u>-</u>	<u>84,000</u>	<u>84,000</u>
Net change in fund balances	346,111	104,391	450,502
Fund balance, October 1	<u>110,422</u>	<u>103,403</u>	<u>213,825</u>
Fund balance, September 30	<u><u>\$ 456,533</u></u>	<u><u>\$ 207,794</u></u>	<u><u>\$ 664,327</u></u>

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, 2020

Net change in fund balance - Governmental funds	\$ 450,502
 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 \$140,816 exceeded depreciation expense of \$166,944.	(17,113)
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 (\$ -0-) and long-term debt repayments (\$210,586).	210,586
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.	(13,262)
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.	19,371
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 \$5,508 and court fines of \$1,174	<u>6,682</u>
Change in net assets of governmental activities	\$ <u><u>656,766</u></u>

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

CITY OF JOSEPHINE, TEXAS
Statement of Fund Net Position
Proprietary Fund
September 30, 2020

	<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>
ASSETS			
Cash and cash equivalents	\$ 2,230,156	\$ 732,455	\$ 2,962,611
Accounts receivable, net	231,966	58,746	290,712
Prepays	5	600	605
Total current assets	2,462,127	791,801	3,253,928
Capital Assets:			
Land	143,841	8,841	152,682
Buildings & other improvements	106,411	99,887	206,298
Water and sewer infrastructure	4,318,979	451,816	4,770,795
Equipment	248,804	213,119	461,923
Less accumulated depreciation	(1,148,329)	(482,547)	(1,630,876)
Capital Assets, net	3,669,706	291,116	3,960,822
Total assets	6,131,833	1,082,917	7,214,750
Deferred Outflows of Resources			
Deferred outflows from pensions	10,644	10,760	21,404
Total deferred outflows of resources	10,644	10,760	21,404
LIABILITIES			
Accounts payable	43,492	17,388	60,880
Compensated absences	11,290	-	11,290
Meter deposits payable	174,516	-	174,516
Pension liability (Asset)	(3,315)	(2,867)	(6,182)
OPEB Liability	1,599	1,519	3,118
Total current liabilities	227,582	16,040	243,622
Total liabilities	227,582	16,040	243,622
Deferred Inflows of Resources			
Deferred inflows from pensions	10,296	10,408	20,704
Deferred inflows OPEB	87	84	171
Total deferred inflows of resources	10,383	10,492	20,875
NET POSITION			
Invested in capital assets, net of related debt	3,669,839	-	3,669,839
Restricted for debt service	(133)	-	(133)
Unrestricted	2,234,806	1,067,145	3,301,951
Total Net Position	\$ 5,904,512	\$ 1,067,145	\$ 6,971,657

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, 2020

	<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>
OPERATING REVENUES:			
Water sales	\$ 1,409,840	\$ -	\$ 1,409,840
Sewer sales	-	462,826	462,826
Tap and reconnect fees	239,172	173,975	413,147
Total Operating Revenues	<u>1,649,012</u>	<u>636,801</u>	<u>2,285,813</u>
OPERATING EXPENSES:			
Salaries, taxes, and benefits	176,966	166,562	343,528
Contract labor	28,829	42,722	71,551
Professional fees	5,750	5,750	11,500
Water purchases	240,966	-	240,966
Repairs and facility maintenance	16,999	3,527	20,526
Vehicle expense	4,778	4,778	9,556
Utilities and telephone	22,320	39,029	61,349
Water/Sewer testing	1,175	-	1,175
Depreciation and amortization	118,776	38,502	157,278
Other expense	60,396	100,915	161,311
Total Operating Expenses	<u>676,955</u>	<u>401,785</u>	<u>1,078,740</u>
Operating Income (Loss)	<u>972,057</u>	<u>235,016</u>	<u>1,207,073</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	5,627	-	5,627
Miscellaneous income	3	-	3
Interest and fiscal charges	(20)	-	(20)
Total Nonoperating Revenues (Expenses)	<u>5,610</u>	<u>-</u>	<u>5,610</u>
Income before transfers	977,667	235,016	1,212,683
Capital contributions	1,804,114	-	1,804,114
Transfers Out	(84,000)	-	(84,000)
Change in net position	2,697,781	235,016	2,932,797
Net position, October 1	<u>3,206,731</u>	<u>832,129</u>	<u>4,038,860</u>
Net position, September 30	<u>\$ 5,904,512</u>	<u>\$ 1,067,145</u>	<u>\$ 6,971,657</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, 2020

	Enterprise Fund
	Water and Sewer Fund
Cash flows from operating activities:	
Cash received from customers and users	\$ 2,240,002
Cash paid to suppliers	(536,869)
Cash paid to employees	(342,418)
Net cash provided by operating activities	1,360,715
Cash flows from noncapital financing activities:	
Transfers	(84,000)
Net cash used by noncapital financing activities	(84,000)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(183,624)
Interest paid on bonds and certificates of obligation	(20)
Net cash used by capital and related financing activities	(183,644)
Cash flows from investing activities:	
Proceeds from other income	3
Interest on deposits and investments	5,627
Net cash provided by investing activities	5,630
Net increase in cash and cash equivalents	1,098,701
Cash and cash equivalents, October 1	1,863,910
Cash and cash equivalents, September 30	\$ 2,962,611

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

	Enterprise Fund
	Water and Sewer Fund
Operating income	\$ 1,207,073
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	157,278
Change in accounts receivable (net)	(96,610)
Change in customer deposits	50,799
Change in prepaids	(5)
Change in accounts payable	41,070
Change in compensated absences	2,214
Change in pension liabilities	(1,884)
Change in OPEB liabilities	780
Total Adjustments	153,642
Net cash provided by operating activities	\$ 1,360,715

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

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2020

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, 2020.

(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, 2020:

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, 2020

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, 2020

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, 2020

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 (\$207,794) 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, 2020

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, 2020

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, 2020

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, 2020

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, 2020

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, 2020

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, 2020

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, 2020, 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, 2020

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	\$ 298,366
Less: allowance for uncollectible accounts	<u>(7,654)</u>
Net accounts receivable	<u><u>\$ 290,712</u></u>

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2020

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 1st 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, 2019, all real property was assessed at a net taxable value of \$123,624,553.

The property tax rate for the year ended September 30, 2020 was .575 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	.487266
Interest and Sinking – Debt Service Fund	.087734

The property tax levy for the year ending September 30, 2020 was \$666,245. Collections of the current year property tax levy were \$657,661 or 98.71% 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, 2020

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	\$	28,180
Less: allowance for uncollectible accounts		-
Net accounts receivable	\$	28,180

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, 2020

5. Capital Assets

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

	Balance October 1, 2019	Increases	Decreases	Balance September 30, 2020
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 2,300	\$ -	\$ -	\$ 2,300
Total capital assets not being depreciated	<u>2,300</u>	<u>-</u>	<u>-</u>	<u>2,300</u>
Other capital assets being depreciated:				
Buildings and other improvements	737,901	4,854	-	742,755
Road infrastructure	723,149	106,855	-	830,004
Furniture and equipment	550,209	53,110	-	603,319
Total capital assets being depreciated	<u>2,011,259</u>	<u>164,819</u>	<u>-</u>	<u>2,176,078</u>
Total Capital Assets	<u>2,013,559</u>	<u>164,819</u>	<u>-</u>	<u>2,178,378</u>
Less accumulated depreciation:				
Buildings and other improvements	46,642	31,857	-	78,499
Road infrastructure	149,314	43,755	-	193,069
Furniture and equipment	230,464	91,332	-	321,796
Total accumulated depreciation	<u>426,420</u>	<u>166,944</u>	<u>-</u>	<u>593,364</u>
Governmental Activities Capital Assets, net	<u>\$ 1,587,139</u>	<u>\$ (2,125)</u>	<u>\$ -</u>	<u>\$ 1,585,014</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 17,682	\$ 135,000	\$ -	\$ 152,682
Total capital assets not being depreciated	<u>17,682</u>	<u>135,000</u>	<u>-</u>	<u>152,682</u>
Other capital assets being depreciated:				
Buildings and other improvements	199,774	6,524	-	206,298
Water and sewer infrastructure	3,001,981	1,768,814	-	4,770,795
Furniture and equipment	384,523	77,400	-	461,923
Total capital assets being depreciated	<u>3,586,278</u>	<u>1,852,738</u>	<u>-</u>	<u>5,439,016</u>
Total Capital Assets	<u>3,603,960</u>	<u>1,987,738</u>	<u>-</u>	<u>5,591,698</u>
Less accumulated depreciation	<u>1,473,598</u>	<u>157,278</u>	<u>-</u>	<u>1,630,876</u>
Business-type Activities Capital Assets, net	<u>\$ 2,130,362</u>	<u>\$ 1,830,460</u>	<u>\$ -</u>	<u>\$ 3,960,822</u>
Primary Government Capital Assets, net	<u>\$ 3,717,501</u>	<u>\$ 1,828,335</u>	<u>\$ -</u>	<u>\$ 5,545,836</u>

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2020

5. Capital Assets - continued

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

Administration	\$ 35,578
Parks	9,777
Police Department	77,368
Street Department	44,221

Depreciation expense recorded in business-type activities and the Proprietary Fund was \$157,278.

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 \$88,539. 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, 2020 the principal balance was \$ - 0 -. Interest expense was \$61 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, 2020 the principal balance was \$168,137.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2020

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, 2020 the principal balance was \$ - 0 -. Interest expense was \$1,617 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, 2020 the principal balance was \$324,000. Interest expense was \$9,000 for the year.

On December 17, 2018 the City entered into an agreement with Government Capital Corporation to purchase a 2020 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, 2020 the principal balance was \$19,516. Interest expense was \$2,651 for the year

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2020

6. Long-Term Debt - continued

The following is a summary of changes in long-term debt for the year ended September 30, 2020:

	Balance October 1, <u>2019</u>	<u>Issued</u>	<u>Retired</u>	Balance September 30, <u>2020</u>	Due Within <u>One Year</u>
Description and purpose:					
GOVERNMENTAL ACTIVITIES					
Tax Note Series 2017	\$ 400,000	\$ -	\$ 76,000	\$ 324,000	\$ 78,000
Interlocal Agreement 3.5%	6,980	-	6,980	-	-
Interlocal Agreement 2.8%	221,120	-	52,983	168,137	54,486
Total Notes Payable	<u>628,100</u>	<u>-</u>	<u>135,963</u>	<u>492,137</u>	<u>132,486</u>
Government Capital Corporation	36,436	-	36,436	-	-
Government Capital Corporation	<u>57,500</u>	<u>-</u>	<u>37,984</u>	<u>19,516</u>	<u>19,516</u>
Total Leases Payable	93,936	-	74,420	19,516	19,516
Net Pension liability (Asset)	12,943	-	24,667	(11,724)	-
OPEB liability	3,656	1,222	-	4,878	-
Compensated Absences	<u>23,645</u>	<u>13,262</u>	<u>-</u>	<u>36,907</u>	<u>36,907</u>
 Total Governmental Activities	 <u>762,280</u>	 <u>14,484</u>	 <u>235,050</u>	 <u>541,714</u>	 <u>188,909</u>
 BUSINESS-TYPE ACTIVITIES					
Net Pension liability (Asset)	7,167	-	13,349	(6,182)	-
OPEB liability	2,338	780	-	3,118	-
Compensated Absences	<u>9,076</u>	<u>2,214</u>	<u>-</u>	<u>11,290</u>	<u>-</u>
 Total Business-type Activities	 <u>18,581</u>	 <u>2,994</u>	 <u>13,349</u>	 <u>8,226</u>	 <u>-</u>
 Total Primary Government Long-Term Debt	 <u>\$ 780,861</u>	 <u>\$ 17,478</u>	 <u>\$ 248,399</u>	 <u>\$ 549,940</u>	 <u>\$ 188,909</u>

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

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2020

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:

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>	
2021	\$ 54,486	\$ 4,012	\$ 78,000	\$ 7,290	\$ 19,516	\$ 2,633	\$ 165,937
2022	56,031	2,467	80,000	5,535	-	924	144,957
2023	57,620	878	82,000	3,735	-	-	144,233
2024	-	-	84,000	1,890	-	-	85,890
2025	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-
Totals	<u>\$ 168,137</u>	<u>\$ 7,357</u>	<u>\$ 324,000</u>	<u>\$ 18,450</u>	<u>\$ 19,516</u>	<u>\$ 3,557</u>	<u>\$ 541,017</u>

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2020

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 2020, the City spent \$139,890 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, 2020 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, 2020, 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, 2020 was \$240,966.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2020

10. TMRS Pension Plan

Plan Description

The City participates as one of 886 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.

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, 2020

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, 2019 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 6.76% and 6.76% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2020 was \$81,858 which exceeded the required contributions by \$41,356.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2020

10. TMRS Pension Plan - continued

Net Pension Liability:

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, 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, 2019 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, 2019 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, 2020

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). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

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, 2020

10. TMRS Pension Plan - continued

Changes in the Net Pension Liability –

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2018	\$ 403,967	\$ 383,858	\$ 20,109
Changes for the year:			
Service cost	64,318	-	64,318
Interest	29,288	-	29,288
Change in benefit terms	-	-	-
Difference between expected and actual experience	(5,315)	-	(5,315)
Changes in assumptions	(639)	-	(639)
Contribution - employer	-	34,264	(34,264)
Contribution - employee	-	32,375	(32,375)
Net investment income	-	59,374	(59,374)
Benefit payments, including refunds of employee contributions	(4,459)	(4,459)	-
Administrative expense	-	(335)	335
Other changes	-	(10)	10
Net changes	<u>83,193</u>	<u>121,209</u>	<u>(38,016)</u>
Balance at 12/31/2019	<u>\$ 487,160</u>	<u>\$ 505,067</u>	<u>\$ (17,906)</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 <u>5.75%</u>	Current Single Rate Assumption <u>6.75%</u>	1% Increase in Discount Rate <u>7.75%</u>
City's net pension liability	\$ 54,071	\$ (17,906)	\$ (77,112)

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2020

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.

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

For the year ended September 30, 2020, the City recognized pension expense of \$95,076. This amount is included as part of Personal Services expenses within the functional program activities.

At September 30, 2020, 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	\$ 31,425	\$ -
Difference between projected and actual investment earnings	20,441	34,434
Differences between actuarial assumptions and actual experience	4,255	23,976
Changes in actuarial assumptions used	4,838	560
Total	<u>\$ 60,959</u>	<u>\$ 58,970</u>

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2020

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 \$31,425 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2020 (i.e. recognized in the City's financial statements as of September 30, 2020). 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
2020	\$ (5,306)
2021	(5,314)
2022	(1,485)
2023	(8,412)
2024	(2,793)
Thereafter	(6,126)
Total	\$ (29,436)

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2020

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, 2019 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>12</u>
- Total	<u><u>13</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, 2020

11. TMRS Supplemental Death Benefits Fund - continued

Total OPEB Liability

The City's total OPEB liability of \$7,996 was measured as of December 31, 2019, and was determined by an actuarial valuation as of that date.

Actuarial assumptions –

The total OPEB liability in the December 31, 2019 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 11.5% including inflation
Discount rate	2.75%
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, 2019.

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, 2020

11. TMRS Supplemental Death Benefits Fund - continued

Changes in the Total OPEB Liability

	2018	2019
Total OPEB Liability - beginning of year	\$ 6,900	\$ 5,994
Changes for the year		
Service Cost	875	1,025
Interest on Total OPEB Liability	243	241
Changes of benefit terms	-	-
Differences between expected and actual experience	(1,482)	(1,024)
Changes in assumptions or other inputs	(542)	1,760
Benefit payments **	-	-
Net Changes	(906)	2,002
Total OPEB Liability - end of year	\$ 5,994	\$ 7,996

** 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 2.75%, 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 (1.75%) or 1 percentage point higher (3.75%) than the current rate:

		Current		
	1% Decrease	Discount Rate	1% Increase	
	(1.75%)	(2.75%)	(3.75%)	
Total OPEB Liability	\$ 10,016	\$ 7,996	\$ 6,386	

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, 2020

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, 2021 (i.e. recognized in the City's financial statements for the year ending September 30, 2020). 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
2020	\$ (50)
2021	(50)
2022	(50)
2023	(50)
2024	(50)
Thereafter	(183)
Total	\$ (433)

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. Risks and Uncertainties

The COVID-19 pandemic developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. The City has taken a number of measures to monitor and mitigate the effects of COVID-19, including safety and health measures such as social distancing, and securing the supply of materials that are essential to the production process.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF JOSEPHINE, TEXAS
BUDGET TO ACTUAL COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<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>
REVENUES:				
Ad valorem taxes	\$ 642,400	\$ 642,400	\$ 602,361	\$ (40,039)
Franchise taxes	50,000	50,000	50,678	678
Sales tax	60,000	60,000	111,579	51,579
Garbage fees	254,000	254,000	303,983	49,983
Permits	198,500	198,500	220,264	21,764
Fines	153,000	153,000	91,726	(61,274)
Intergovernmental	-	-	18,495	18,495
Capital Grants and contributions revenue	-	-	413,455	413,455
Other income	4,500	25,000	282,764	257,764
Interest income	4,000	4,000	2,314	(1,686)
Total Revenues	<u>1,366,400</u>	<u>1,386,900</u>	<u>2,097,619</u>	<u>710,719</u>
EXPENDITURES:				
Current:				
Administration	463,225	445,600	526,712	(81,112)
Sanitation services	122,975	122,975	150,962	(27,987)
Public works	25,700	25,700	37,100	(11,400)
Park	9,950	12,350	18,091	(5,741)
Street department	106,825	74,575	109,293	(34,718)
Police department/municipal court	567,075	538,250	622,376	(84,126)
Capital outlay	140,500	376,500	140,816	235,684
Debt Service:				
Principal	67,075	80,575	134,586	(54,011)
Interest and other costs	2,000	9,400	11,571	(2,171)
Total Expenditures	<u>1,505,325</u>	<u>1,685,925</u>	<u>1,751,508</u>	<u>(65,583)</u>
Excess (deficiency) of revenues over expenditures	<u>(138,925)</u>	<u>(299,025)</u>	<u>346,111</u>	<u>645,136</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from debt	53,000	-	-	-
Total Other Financing Sources (Uses)	<u>53,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(85,925)	(299,025)	346,111	645,136
Fund balance, October 1	<u>110,422</u>	<u>110,422</u>	<u>110,422</u>	<u>-</u>
Fund balance, September 30	<u>\$ 24,497</u>	<u>\$ (188,603)</u>	<u>\$ 456,533</u>	<u>\$ 645,136</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 SIX FISCAL YEARS (PREVIOUS YEARS ARE NOT AVAILABLE)

Plan Year	2014	2015	2016	2017	2018	2019
A. Total Pension Liability						
Service cost	\$ 19,345	\$ 24,663	\$ 30,557	\$ 36,466	\$ 51,786	\$ 64,318
Interest (on the Total Pension Liability)	12,337	15,417	18,490	21,217	24,988	29,288
Changes of benefit terms	-	-	-	-	-	-
Difference between expected and actual experience	9,840	801	(11,601)	(4,285)	(11,920)	(5,315)
Change of assumptions	-	9,853	-	-	-	(639)
Benefits payments, including refunds of employee contributions	(366)	-	-	-	(10,379)	(4,459)
Net Change in Total Pension Liability	41,156	50,734	37,446	53,398	54,475	83,193
Total Pension Liability - Beginning	166,758	207,914	258,648	296,094	349,492	403,967
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>	<u>\$ 487,160</u>
B. Plan Fiduciary Net Position						
Contributions - employer	\$ 10,136	\$ 11,073	\$ 16,155	\$ 22,675	\$ 29,149	\$ 34,264
Contributions - employee	11,585	12,801	15,317	18,510	26,221	32,375
Net investment income	9,710	295	15,116	37,462	(10,459)	59,374
Benefit payments, including refunds of employee contributions	(366)	-	-	-	(10,379)	(4,459)
Administrative expense	(101)	(180)	(171)	(195)	(202)	(335)
Other	(8)	(9)	(9)	(9)	(11)	(10)
Net Change in Plan Fiduciary Net Position	30,956	23,980	46,408	78,443	34,319	121,209
Plan Fiduciary Net Position - Beginning	169,752	200,708	224,688	271,096	349,539	383,858
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>	<u>\$ 505,067</u>
C. Net Pension Liability - Ending (a) - (b)	\$ 7,206	\$ 33,960	\$ 24,998	\$ (47)	\$ 20,110	\$ (17,906)
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	96.53%	86.87%	91.56%	100.01%	95.02%	103.68%
E. Covered Employee Payroll	\$ 193,077	\$ 213,351	\$ 255,281	\$ 308,508	\$ 437,014	\$ 539,584
F. Net Pension Liability as a Percentage of Covered Payroll	3.73%	15.92%	9.79%	-0.02%	4.60%	-3.32%

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 SIX FISCAL YEARS (PREVIOUS YEARS ARE NOT AVAILABLE)**

Plan Year	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially Determined Contribution	\$ 10,136	\$ 11,073	\$ 16,155	\$ 22,675	\$ 29,149	\$ 34,264
Contributions in relation to the actuarially determined contribution	10,136	11,328	16,155	22,675	29,149	34,264
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (255)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 193,077	\$ 213,351	\$ 255,281	\$ 308,508	\$ 437,014	\$ 539,584
Contributions as a percentage of covered employee payroll	5.25%	5.31%	6.33%	7.35%	6.67%	6.35%

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 THREE FISCAL YEARS (PREVIOUS YEARS ARE NOT AVAILABLE)**

Measurement Year	<u>2017</u>	<u>2018</u>	<u>2019</u>
Changes in the Total OPEB Liability			
Total OPEB Liability - beginning of year	\$ 5,405	\$ 6,900	\$ 5,994
Changes for the year			
Service Cost	524	875	1,025
Interest on Total OPEB Liability	214	243	241
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	(1,482)	(1,024)
Changes in assumptions or other inputs	757	(542)	1,760
Benefit payments **	<u>-</u>	<u>-</u>	<u>-</u>
Net Changes	<u>1,495</u>	<u>(906)</u>	<u>2,002</u>
Total OPEB Liability - end of year	<u>\$ 6,900</u>	<u>\$ 5,994</u>	<u>\$ 7,996</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, 2020 (Unaudited)

<u>Tax Roll Year</u>	<u>Fiscal Year Ended September 30</u>	<u>Net Taxable Valuation</u>
2019	2020	\$ 123,624,553
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

**CITY OF JOSEPHINE, TEXAS
HISTORICAL SCHEDULE OF PROPERTY TAX RATES
YEAR ENDED SEPTEMBER 30, 2020 (Unaudited)**

<u>Tax Roll Year</u>	<u>Fiscal Year Ended September 30</u>	<u>Tax Rates</u>
2019	2020	0.575000
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