

CITY OF JOSEPHINE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**CITY OF JOSEPHINE, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2021**

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**City of Josephine, Texas
List of Principal Officials
September 30, 2021**

OFFICIALS

Mayor Jason Turney
Council Member Place 1 Doug Ewing (Mayor Pro-Tem)
Council Member Place 2 Jane Ridgway
Council Member Place 3 Brad Ahlfinger
Council Member Place 4 Doug Thomas
Council Member Place 5 Joyce Holley
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, 2021, 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, 2021, 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 7, 2022

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, 2021. 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 \$12,245,270. Of this amount \$6,316,970 is invested in capital assets or restricted for debt service, leaving \$5,928,300 of unrestricted net assets.
- Government-wide net assets increased by \$3,530,378 during 2021.
- Each of the City's fund financial statements reported changes in equity as follows:
 - General Fund – \$1,355,018 increase
 - Debt Service Fund - \$229,187 increase
 - Water Fund - \$847,022 increase
 - Sewer Fund - \$446,661 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 \$12,245,270 and \$8,714,892 at the close of FY 2021 and 2020, respectively.

The combined net assets of the City's activities increased from \$8,714,892 to \$12,245,270 or \$3,530,378 during 2021. 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 \$5,928,300.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS:

As the City completed the year, its governmental funds, \$2,248,532 and proprietary funds \$8,265,340 reported combined fund balance and net assets of \$12,245,270, a \$3,530,378 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 \$1,862,447 and \$4,017,675, 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 \$637,084 and \$347,836 in each of the respective activities.

Long-term Debt – at year-end the City had \$246,000 in bonds outstanding which represents a decrease of \$78,000 from the prior year.

BUDGETARY HIGHLIGHTS & ECONOMIC FACTORS:

Retail establishments, Dollar General and Valero/HYW 6 Market, opened for business during this FY which increased the city's sales tax revenue, while also providing resources and jobs in Josephine. The Magnolia Point housing development completed building in phases 4-5 and pulled permits early on phase 7. Shepherd Place Homes built 18 more homes in the High Meadows development. In total 615 building permits were issued in the 2021 FY and 413 permits have already been issued in the 2022 FY. Seven new developments have been approved and are in different phases of construction, they include: De Berry Heritage which will have final build out of 100 homes (infrastructure completed with ten permits expected to be pulled this year), Bradley Estates with 26 homes, Murray Manor will have 50 homes (infrastructure is in process), Waverly Estates Phase 1a and 1b has a total of 217 homes (infrastructure is in process), Riverfield phase 1 has a total of 841 homes with a planned complete build out of 4,110 homes (infrastructure is in process), Liberty Ranch has sold their 187 lots to builder Ashton Woods, and Morningside Addition is in the final zoning process for their phase 1 with 200 homes and phase 2 will be 400 homes. Construction of the new Elementary School in Magnolia Point will be completed opening in August 2022. A bond has been issued to build a new wastewater treatment plant to accommodate Josephine's growth and grants have been approved for Parks, Streets, and drainage projects to begin in 2022.

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 Finance Director at (469) 717-0055.

CITY OF JOSEPHINE, TEXAS
COMPARATIVE STATEMENTS OF NET POSITION

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
ASSETS						
Current and other assets	\$ 2,393,451	\$ 812,142	\$ 4,434,596	\$ 3,253,928	\$ 6,828,047	\$ 4,066,070
Capital assets, net	<u>2,086,197</u>	<u>1,585,014</u>	<u>4,310,188</u>	<u>3,960,822</u>	<u>6,396,385</u>	<u>5,545,836</u>
Total Assets	<u>4,479,648</u>	<u>2,397,156</u>	<u>8,744,784</u>	<u>7,214,750</u>	<u>13,224,432</u>	<u>9,611,906</u>
Deferred outflows of resources	56,433	40,862	29,254	22,237	85,687	63,099
LIABILITIES						
Other liabilities	294,043	295,297	488,812	243,622	782,855	538,919
Long-term debt	<u>223,750</u>	<u>359,651</u>	<u>-</u>	<u>-</u>	<u>223,750</u>	<u>359,651</u>
Total Liabilities	<u>517,793</u>	<u>654,948</u>	<u>488,812</u>	<u>243,622</u>	<u>1,006,605</u>	<u>898,570</u>
Deferred Inflows of Resources						
Deferred inflows from pensions	36,851	38,266	19,103	20,704	55,954	58,970
Deferred inflows OPEB	<u>1,507</u>	<u>1,570</u>	<u>783</u>	<u>1,003</u>	<u>2,290</u>	<u>2,573</u>
Total deferred inflows of resources	<u>38,358</u>	<u>39,836</u>	<u>19,886</u>	<u>21,707</u>	<u>58,244</u>	<u>61,543</u>
NET POSITION						
Net investment in capital assets	1,862,447	1,225,363	4,017,675	3,669,839	5,880,122	4,895,202
Restricted for debt service	436,981	207,794	(133)	(133)	436,848	207,661
Unrestricted	<u>1,680,502</u>	<u>310,078</u>	<u>4,247,798</u>	<u>3,301,951</u>	<u>5,928,300</u>	<u>3,612,029</u>
Total Net Position	<u>\$ 3,979,930</u>	<u>\$ 1,743,235</u>	<u>\$ 8,265,340</u>	<u>\$ 6,971,657</u>	<u>\$ 12,245,270</u>	<u>\$ 8,714,892</u>

CITY OF JOSEPHINE, TEXAS
COMPARATIVE STATEMENTS OF ACTIVITIES

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Program revenues:						
Charges for services	\$ 746,199	\$ 617,147	\$ 3,103,390	\$ 2,285,813	\$ 3,849,589	\$ 2,902,960
Operating grants/contributions	283,756	19,045	-	-	283,756	19,045
Capital grants/contributions	1,644,214	412,905	-	1,804,114	1,644,214	2,217,019
General revenues:						
Ad valorem taxes	746,737	713,260	-	-	746,737	713,260
Sales taxes	142,950	111,579	-	-	142,950	111,579
Franchise taxes	52,592	50,678	-	-	52,592	50,678
Other	445,999	285,078	9,729	5,610	455,728	290,688
Total revenues	<u>4,062,447</u>	<u>2,209,692</u>	<u>3,113,119</u>	<u>4,095,537</u>	<u>7,175,566</u>	<u>6,305,229</u>
Expenses:						
Administration	672,318	568,973	-	-	672,318	568,973
Sanitation services	254,566	150,962	-	-	254,566	150,962
Public works	25,585	37,100	-	-	25,585	37,100
Park	51,505	27,869	-	-	51,505	27,869
Police department/municipal court	873,313	708,744	-	-	873,313	708,744
Streets	177,465	143,276	-	-	177,465	143,276
Water and sewer services	-	-	1,590,436	1,078,740	1,590,436	1,078,740
Total Expenses	<u>2,054,752</u>	<u>1,636,925</u>	<u>1,590,436</u>	<u>1,078,740</u>	<u>3,645,188</u>	<u>2,715,665</u>
Excess before transfers	2,007,695	572,767	1,522,683	3,016,797	3,530,378	3,589,564
Transfers	<u>229,000</u>	<u>84,000</u>	<u>(229,000)</u>	<u>(84,000)</u>	<u>-</u>	<u>-</u>
Change in Net Position	2,236,695	656,767	1,293,683	2,932,797	3,530,378	3,589,564
Net position - October 1	<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>
Net position - September 30	\$ <u>3,979,930</u>	\$ <u>1,743,235</u>	\$ <u>8,265,340</u>	\$ <u>6,971,657</u>	\$ <u>12,245,270</u>	\$ <u>8,714,892</u>

**CITY OF JOSEPHINE, TEXAS
COMPARATIVE BALANCE SHEETS
GOVERNMENTAL FUNDS
September 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 2,207,049	\$ 700,094
Ad valorem taxes	23,758	28,180
Other	63,805	57,895
Prepaid items	97,741	19,572
Total Assets	\$ <u>2,392,353</u>	\$ <u>805,741</u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable and accrued liabilities	\$ <u>120,063</u>	\$ <u>113,234</u>
Total Liabilities	<u>120,063</u>	<u>113,234</u>
 DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue	<u>23,758</u>	<u>28,180</u>
Total deferred inflows of resources	<u>23,758</u>	<u>28,180</u>
 FUND BALANCES		
Non-spendable:		
Prepaid items	97,741	19,572
Restricted for debt service	436,981	207,794
Unassigned	<u>1,713,810</u>	<u>436,961</u>
Total Fund Balances	<u>2,248,532</u>	<u>664,327</u>
 Total Liabilities and Fund Balances	\$ <u>2,392,353</u>	\$ <u>805,741</u>

CITY OF JOSEPHINE, TEXAS
Comparative Statements of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
REVENUES:		
Ad valorem taxes	\$ 751,159	\$ 707,752
Franchise taxes	52,592	50,678
Sales tax	142,950	111,579
Garbage fees	391,188	303,983
Permits	298,052	220,264
Fines	62,262	91,726
Intergovernmental	283,756	18,495
Grant revenue	1,644,214	413,455
Other income	444,508	282,764
Interest	1,491	2,314
Total Revenues	<u>4,072,172</u>	<u>2,203,010</u>
EXPENDITURES:		
Administration	635,353	526,712
Sanitation services	261,529	150,962
Public works	25,585	37,100
Park	33,876	18,091
Street department	97,114	109,293
Police department/municipal court	809,071	622,376
Debt Service:		
Principal	132,359	210,586
Interest	11,429	20,571
Capital Outlay	710,651	140,816
Total Expenditures	<u>2,716,967</u>	<u>1,836,508</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,355,205</u>	<u>366,502</u>
Other Revenues and Financing Sources (uses)		
Transfers in	229,000	84,000
Total Other Revenues and Financing Sources (uses)	<u>229,000</u>	<u>84,000</u>
Net change in fund balances	1,584,205	450,502
Fund balance, October 1	664,327	213,825
Fund balance, September 30	<u><u>\$ 2,248,532</u></u>	<u><u>\$ 664,327</u></u>

CITY OF JOSEPHINE, TEXAS
COMPARATIVE STATEMENTS OF FUND NET POSITION
PROPRIETARY FUND
September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	<u>Enterprise Fund</u>	<u>Enterprise Fund</u>
	<u>Water and Sewer</u>	<u>Water and Sewer</u>
	<u>Activities</u>	<u>Activities</u>
ASSETS		
Cash and cash equivalents	\$ 4,134,102	\$ 2,962,611
Accounts receivable, net	300,494	290,712
Prepays	-	605
Total current assets	<u>4,434,596</u>	<u>3,253,928</u>
Capital Assets:		
Land	152,682	152,682
Buildings & other improvements	1,875,411	206,298
Water and sewer infrastructure	3,607,508	4,770,795
Equipment	547,393	461,923
Less accumulated depreciation	(1,872,806)	(1,630,876)
Capital Assets, net	<u>4,310,188</u>	<u>3,960,822</u>
Total assets	<u>8,744,784</u>	<u>7,214,750</u>
Deferred Outflows of Resources		
Deferred outflows from pensions	30,897	21,404
Total deferred outflows of resources	<u>30,897</u>	<u>21,404</u>
LIABILITIES		
Accounts payable	178,342	60,880
Compensated absences	17,946	11,290
Meter deposits payable	287,478	174,516
Total current liabilities	<u>483,766</u>	<u>246,686</u>
Pension liability	530	(6,182)
OPEB liability	4,516	3,118
Total non-current liabilities	<u>5,046</u>	<u>(3,064)</u>
Total liabilities	<u>488,812</u>	<u>243,622</u>
Deferred Inflows of Resources		
Deferred inflows from pensions	22,418	20,704
Deferred inflows OPEB	(889)	171
Total deferred inflows of resources	<u>21,529</u>	<u>20,875</u>
NET POSITION		
Invested in capital assets, net of related debt	4,017,675	3,669,839
Restricted for debt service	(133)	(133)
Unrestricted	4,247,798	3,301,951
Total Net Position	<u>\$ 8,265,340</u>	<u>\$ 6,971,657</u>

CITY OF JOSEPHINE, TEXAS
Comparative Statements of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
	<u>Enterprise Fund</u>	<u>Enterprise Fund</u>
	<u>Water and</u>	<u>Water and</u>
	<u>Sewer</u>	<u>Sewer</u>
OPERATING REVENUES:		
Water sales	\$ 1,584,840	\$ 1,409,840
Sewer sales	689,687	462,826
Grant income	1,390	-
Tap and reconnect fees	827,473	413,147
Total Operating Revenues	<u>3,103,390</u>	<u>2,285,813</u>
OPERATING EXPENSES:		
Salaries, taxes, and benefits	436,491	343,528
Contract labor	137,094	71,551
Professional fees	14,000	11,500
Water purchases	381,144	240,966
Repairs and facility maintenance	26,547	20,526
Vehicle expense	10,342	9,556
Utilities and telephone	65,717	61,349
Water/Sewer testing	1,082	1,175
Depreciation and amortization	241,930	157,278
Other expense	276,089	161,311
Total Operating Expenses	<u>1,590,436</u>	<u>1,078,740</u>
Operating Income	<u>1,512,954</u>	<u>1,207,073</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	3,646	5,627
Interest and fiscal charges	-	(20)
Miscellaneous income	6,083	3
Total Non-operating Revenues (Expenses)	<u>9,729</u>	<u>5,610</u>
Income before capital grants and transfers	1,522,683	1,212,683
Developer contributions	-	1,804,114
Transfers out	(229,000)	(84,000)
Change in net position	1,293,683	2,932,797
Net position, October 1	<u>6,971,657</u>	<u>4,038,860</u>
Net position, September 30	<u>\$ 8,265,340</u>	<u>\$ 6,971,657</u>

BASIC FINANCIAL STATEMENTS

CITY OF JOSEPHINE, TEXAS
STATEMENT OF NET POSITION
September 30, 2021

	Primary Government			
	Governmental Activities	Business-type Activities	Total Primary Government	Component Unit
ASSETS				
Cash and cash equivalents	\$ 2,207,049	\$ 4,134,102	\$ 6,341,151	\$ 151,626
Receivables				
Taxes, net of allowance	23,758	-	23,758	-
Accounts, net of allowance	64,903	300,494	365,397	
Prepays	97,741	-	97,741	-
Capital assets:				
Capital assets, not being depreciated	2,300	152,682	154,982	-
Capital assets, net of accumulated depreciation	2,083,897	4,157,506	6,241,403	-
Total Assets	4,479,648	8,744,784	13,224,432	151,626
DEFERRED OUTFLOWS OF RESOURCES				
Difference in expected and actual pension experience	2,092	1,085	3,177	-
Pension contributions after measurement date	39,620	20,538	60,158	-
Difference in projected and actual earnings on pension assets	8,970	4,650	13,620	-
Changes in actuarial assumptions used to determine pension assets	2,526	1,309	3,835	-
Changes in actuarial assumptions used to determine OPEB liability	3,225	1,672	4,897	-
Total deferred outflows of resources	56,433	29,254	85,687	-
LIABILITIES				
Accounts payable	120,063	178,342	298,405	-
Meter deposits payable	-	287,478	287,478	-
Noncurrent Liabilities:				
Due within one year:				
Compensated absences	28,144	17,946	46,090	-
Notes payable	135,901	-	135,901	-
Due in more than one year:				
Pension liability	1,223	530	1,753	-
OPEB liability	8,712	4,516	13,228	-
Notes payable	223,750	-	223,750	-
Total Liabilities	517,793	488,812	1,006,605	-
Deferred Inflows of Resources				
Difference in projected and actual earnings on pension assets	18,018	9,340	27,358	-
Changes in actuarial assumptions used to determine pension liabilities	317	164	481	-
Difference between actuarial assumptions and actual experience on pensions	18,517	9,598	28,115	-
Difference between actuarial assumptions and actual experience on OPEB	1,251	649	1,900	-
Changes in actuarial assumptions used to determine OPEB liabilities	256	134	390	-
Total deferred inflows of resources	38,358	19,886	58,244	-
NET POSITION				
Net investment in capital assets	1,862,447	4,017,675	5,880,122	-
Restricted for debt service	436,981	(133)	436,848	-
Unrestricted	1,680,502	4,247,798	5,928,300	151,626
Total Net position	\$ 3,979,930	\$ 8,265,340	\$ 12,245,270	\$ 151,626

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

CITY OF JOSEPHINE, TEXAS
STATEMENT OF ACTIVITIES
Year Ended September 30, 2021

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	\$ 672,318	\$ 298,052	\$ 283,756	\$ 1,644,214	\$ 1,553,704	\$ -	\$ 1,553,704	\$ -
Sanitation services	254,566	391,188	-	-	136,622	-	136,622	-
Public works	25,585	-	-	-	(25,585)	-	(25,585)	-
Park	51,505	-	-	-	(51,505)	-	(51,505)	-
Police department/municipal court	873,313	56,959	-	-	(816,354)	-	(816,354)	-
Street department	177,465	-	-	-	(177,465)	-	(177,465)	-
Total governmental activities	2,054,752	746,199	283,756	1,644,214	619,417	-	619,417	-
Business-type activities:								
Water services	978,635	2,044,928	-	-	-	1,066,293	1,066,293	-
Sewer services	611,801	1,058,462	-	-	-	446,661	446,661	-
Total business-type activities	1,590,436	3,103,390	-	-	-	1,512,954	1,512,954	-
Total primary government	\$ 3,645,188	\$ 3,849,589	\$ 283,756	\$ 1,644,214	619,417	1,512,954	2,132,371	-
Component Unit:								
Economic Development Corporation	\$ 15,324	\$ -	\$ -	\$ -	-	-	-	(15,324)
Total component unit	\$ 15,324	\$ -	\$ -	\$ -	-	-	-	(15,324)
General revenues:								
Ad valorem taxes					746,737	-	746,737	-
Sales taxes					142,950	-	142,950	71,475
Franchise taxes					52,592	-	52,592	-
Miscellaneous					444,508	6,083	450,591	-
Unrestricted investment earnings					1,491	3,646	5,137	-
Transfers					229,000	(229,000)	-	-
Total general revenues and transfers					1,617,278	(219,271)	1,398,007	71,475
Change in net position					2,236,695	1,293,683	3,530,378	56,151
Net position - beginning of year					1,743,235	6,971,657	8,714,892	95,475
Net position - end of year					\$ 3,979,930	\$ 8,265,340	\$ 12,245,270	\$ 151,626

The accompanying notes are an integral part of these financial statements

**CITY OF JOSEPHINE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2021**

	<u>General</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 1,770,068	\$ 436,981	\$ 2,207,049
Receivables			
Ad valorem taxes, net	23,758	-	23,758
Other	63,805	-	63,805
Prepays	97,741	-	97,741
Total assets	<u><u>\$ 1,955,372</u></u>	<u><u>\$ 436,981</u></u>	<u><u>\$ 2,392,353</u></u>
LIABILITIES			
Accounts payable	\$ 120,063	\$ -	\$ 120,063
Total liabilities	<u><u>120,063</u></u>	<u><u>-</u></u>	<u><u>120,063</u></u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	23,758	-	23,758
Total deferred inflows of resources	<u><u>23,758</u></u>	<u><u>-</u></u>	<u><u>23,758</u></u>
FUND BALANCES			
Non spendable -Prepays	97,741	-	97,741
Restricted for debt service	-	436,981	436,981
Unassigned	1,713,810	-	1,713,810
Total fund balances	<u><u>1,811,551</u></u>	<u><u>436,981</u></u>	<u><u>2,248,532</u></u>
Total liabilities deferred inflows of resources and fund balances	<u><u>\$ 1,955,372</u></u>	<u><u>\$ 436,981</u></u>	<u><u>\$ 2,392,353</u></u>

Governmental fund balance as presented above: **\$ 2,248,532**

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.	2,086,197
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 \$23,758 and fines receivable of \$1,098.	24,856
Deferred inflow/outflow of resources for pensions are not reported in the fund financial statements	16,357
Deferred inflow/outflow of resources for OPEB are not reported in the fund financial statements	1,718
Net pension liability is not due and payable in the current period and, therefore, is not reported in the fund financial statements	(1,223)
Net OPEB liability is not due and payable in the current period and, therefore, is not reported in the fund financial statements	(8,712)
Long-term liabilities are reported in the statement of net position but they are not due and payable in the current period.	(387,795)

Net Assets of Governmental Activities **\$ 3,979,930**

CITY OF JOSEPHINE, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Year Ended September 30, 2021

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES:			
Ad valorem taxes	\$ 665,682	\$ 85,477	\$ 751,159
Franchise taxes	52,592	-	52,592
Sales tax	142,950	-	142,950
Garbage fees	391,188	-	391,188
Permits	298,052	-	298,052
Fines	62,262	-	62,262
Intergovernmental	283,756	-	283,756
Capital Grants and contributions revenue	1,644,214	-	1,644,214
Other income	444,508	-	444,508
Interest income	1,491	-	1,491
Total Revenues	<u>3,986,695</u>	<u>85,477</u>	<u>4,072,172</u>
EXPENDITURES:			
Current:			
Administration	635,353	-	635,353
Sanitation services	261,529	-	261,529
Public works	25,585	-	25,585
Park	33,876	-	33,876
Street department	97,114	-	97,114
Police department/municipal court	809,071	-	809,071
Debt Service:			
Principal	54,359	78,000	132,359
Interest and other costs	4,139	7,290	11,429
Capital outlay	710,651	-	710,651
Total Expenditures	<u>2,631,677</u>	<u>85,290</u>	<u>2,716,967</u>
Excess of Revenues Over Expenditures	<u>1,355,018</u>	<u>187</u>	<u>1,355,205</u>
Other Revenues and Financing Sources (uses)			
Transfers in	-	229,000	229,000
Total Other Revenues and Financing Sources (uses)	<u>-</u>	<u>229,000</u>	<u>229,000</u>
Net change in fund balances	<u>1,355,018</u>	<u>229,187</u>	<u>1,584,205</u>
Fund balance, October 1	<u>456,533</u>	<u>207,794</u>	<u>664,327</u>
Fund balance, September 30	<u>\$ 1,811,551</u>	<u>\$ 436,981</u>	<u>\$ 2,248,532</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, 2021

Net change in fund balance - Governmental funds **\$ 1,584,205**

**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 \$710,651 exceeded depreciation expense of \$209,468.

501,183

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 (\$132,359).

132,359

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.

8,763

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.

19,910

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 \$(4,422) and court fines of \$(5,303).

(9,725)

Change in net assets of governmental activities

\$ 2,236,695

CITY OF JOSEPHINE, TEXAS

Statement of Fund Net Position

Proprietary Fund

September 30, 2021

	<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 Funds</u>
ASSETS			
Cash and cash equivalents	\$ 2,840,173	\$ 1,293,929	\$ 4,134,102
Accounts receivable, net	220,511	79,983	300,494
Total current assets	3,060,684	1,373,912	4,434,596
Capital Assets:			
Land	143,841	8,841	152,682
Buildings & other improvements	1,775,524	99,887	1,875,411
Water and sewer infrastructure	3,155,692	451,816	3,607,508
Equipment	279,070	268,323	547,393
Less accumulated depreciation	(1,336,585)	(536,221)	(1,872,806)
Capital Assets, net	4,017,542	292,646	4,310,188
Total assets	7,078,226	1,666,558	8,744,784
Deferred Outflows of Resources			
Deferred outflows from pensions	15,926	14,971	30,897
Total deferred outflows of resources	15,926	14,971	30,897
LIABILITIES			
Accounts payable	23,605	154,737	178,342
Compensated absences	17,946	-	17,946
Meter deposits payable	287,478	-	287,478
Pension liability (Asset)	212	318	530
OPEB Liability	2,373	2,143	4,516
Total current liabilities	331,614	157,198	488,812
Total liabilities	331,614	157,198	488,812
Deferred Inflows of Resources			
Deferred inflows from pensions	11,471	10,947	22,418
Deferred inflows OPEB	(467)	(422)	(889)
Total deferred inflows of resources	11,004	10,525	21,529
NET POSITION			
Invested in capital assets, net of related debt	4,017,675	-	4,017,675
Restricted for debt service	(133)	-	(133)
Unrestricted	2,733,992	1,513,806	4,247,798
Total Net Position	\$ 6,751,534	\$ 1,513,806	\$ 8,265,340

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, 2021

	<u>Enterprise Fund</u>	<u>Enterprise Fund</u>	<u>Total Enterprise Funds</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Water and Sewer Fund</u>
OPERATING REVENUES:			
Water sales	\$ 1,584,840	\$ -	\$ 1,584,840
Sewer sales	-	689,687	689,687
Grant income	1,390	-	1,390
Tap and reconnect fees	458,698	368,775	827,473
Total Operating Revenues	<u>2,044,928</u>	<u>1,058,462</u>	<u>3,103,390</u>
OPERATING EXPENSES:			
Salaries, taxes, and benefits	226,846	209,645	436,491
Contract labor	1,670	135,424	137,094
Professional fees	7,000	7,000	14,000
Water purchases	381,144	-	381,144
Repairs and facility maintenance	16,810	9,737	26,547
Vehicle expense	5,128	5,214	10,342
Utilities and telephone	27,033	38,684	65,717
Water/Sewer testing	1,082	-	1,082
Depreciation and amortization	188,256	53,674	241,930
Other expense	123,666	152,423	276,089
Total Operating Expenses	<u>978,635</u>	<u>611,801</u>	<u>1,590,436</u>
Operating Income	<u>1,066,293</u>	<u>446,661</u>	<u>1,512,954</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	3,646	-	3,646
Miscellaneous income	6,083	-	6,083
Total Nonoperating Revenues (Expenses)	<u>9,729</u>	<u>-</u>	<u>9,729</u>
Income before transfers	1,076,022	446,661	1,522,683
Transfers Out	<u>(229,000)</u>	<u>-</u>	<u>(229,000)</u>
Change in net position	847,022	446,661	1,293,683
Net position, October 1	<u>5,904,512</u>	<u>1,067,145</u>	<u>6,971,657</u>
Net position, September 30	<u>\$ 6,751,534</u>	<u>\$ 1,513,806</u>	<u>\$ 8,265,340</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

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers and users	\$ 3,206,570
Cash paid to suppliers	(793,948)
Cash paid to employees	(430,564)
Net cash provided by operating activities	<u>1,982,058</u>
Cash flows from noncapital financing activities:	
Transfers	(229,000)
Net cash used by noncapital financing activities	<u>(229,000)</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(591,296)
Net cash used by capital and related financing activities	<u>(591,296)</u>
Cash flows from investing activities:	
Proceeds from other income	6,083
Interest on deposits and investments	3,646
Net cash provided by investing activities	<u>9,729</u>
Net increase in cash and cash equivalents	1,171,491
Cash and cash equivalents, October 1	<u>2,962,611</u>
Cash and cash equivalents, September 30	<u>\$ 4,134,102</u>

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

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
Operating income	\$ 1,512,954
Adjustments to reconcile net income to net cash provided	
by operating activities:	
Depreciation	241,930
Change in accounts receivable (net)	(9,782)
Change in customer deposits	112,962
Change in prepaids	605
Change in accounts payable	117,462
Change in compensated absences	6,656
Change in pension liabilities	(2,127)
Change in OPEB liabilities	1,398
Total Adjustments	<u>469,104</u>
Net cash provided by operating activities	<u>\$ 1,982,058</u>

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

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2021

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, 2021.

(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, 2021:

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, 2021

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, 2021

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, 2021

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 (\$436,981) 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, 2021

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	20- 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, 2021

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, 2021

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, 2021

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, 2021

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, 2021

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, 2021

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, 2021, 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, 2021

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	\$ 308,148
Less: allowance for uncollectible accounts	<u>(7,654)</u>
Net accounts receivable	<u>\$ 300,494</u>

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2021

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, 2020, all real property was assessed at a net taxable value of \$135,720,903.

The property tax rate for the year ended September 30, 2021 was .559079 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	.494776
Interest and Sinking – Debt Service Fund	.064303

The property tax levy for the year ending September 30, 2021 was \$732,158. Collections of the current year property tax levy were \$727,118 or 99.31% 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, 2021

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 up to 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	\$ 23,758
Less: allowance for uncollectible accounts	<u>-</u>
Net accounts receivable	<u><u>\$ 23,758</u></u>

Fines and Court Costs Receivable and Related Allowances

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

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

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2021

5. Capital Assets

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

	Balance October 1, 2020	Increases	Decreases	Balance September 30, 2021
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	742,755	164,832	-	907,587
Road infrastructure	830,004	457,999	-	1,288,003
Furniture and equipment	603,319	87,820	-	691,139
Total capital assets being depreciated	<u>2,176,078</u>	<u>710,651</u>	<u>-</u>	<u>2,886,729</u>
Total Capital Assets	<u>2,178,378</u>	<u>710,651</u>	<u>-</u>	<u>2,889,029</u>
Less accumulated depreciation:				
Buildings and other improvements	78,499	39,874	-	118,373
Road infrastructure	193,069	83,981	-	277,050
Furniture and equipment	321,796	85,613	-	407,409
Total accumulated depreciation	<u>593,364</u>	<u>209,468</u>	<u>-</u>	<u>802,832</u>
Governmental Activities Capital Assets, net	<u>\$ 1,585,014</u>	<u>\$ 501,183</u>	<u>\$ -</u>	<u>\$ 2,086,197</u>
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 152,682	\$ -	\$ -	\$ 152,682
Total capital assets not being depreciated	<u>152,682</u>	<u>-</u>	<u>-</u>	<u>152,682</u>
Other capital assets being depreciated:				
Buildings and other improvements	206,298	-	-	206,298
Water and sewer infrastructure	4,770,795	505,826	-	5,276,621
Furniture and equipment	461,923	85,470	-	547,393
Total capital assets being depreciated	<u>5,439,016</u>	<u>591,296</u>	<u>-</u>	<u>6,030,312</u>
Total Capital Assets	<u>5,591,698</u>	<u>591,296</u>	<u>-</u>	<u>6,182,994</u>
Less accumulated depreciation	<u>1,630,876</u>	<u>241,930</u>	<u>-</u>	<u>1,872,806</u>
Business-type Activities Capital Assets, net	<u>\$ 3,960,822</u>	<u>\$ 349,366</u>	<u>\$ -</u>	<u>\$ 4,310,188</u>
Primary Government Capital Assets, net	<u>\$ 5,545,836</u>	<u>\$ 850,549</u>	<u>\$ -</u>	<u>\$ 6,396,385</u>

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2021

5. Capital Assets - continued

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

Administration	\$ 36,965
Parks	17,629
Police Department	65,715
Street Department	89,159

Depreciation expense recorded in business-type activities and the Proprietary Fund was \$241,930.

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 \$107,446. Amortization expense is included in depreciation expense.

6. Long-Term Debt

General Fund – Interlocal Agreement

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, 2021 the principal balance was \$113,651.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2021

6. Long-Term Debt - continued

General Fund – Capital Lease Agreement

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, 2021 the principal balance was \$246,000. Interest expense was \$7,290 for the year.

On December 17, 2018 the City entered into an agreement with Government Capital Corporation to purchase a 2021 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, 2021. At September 30, 2021 the principal balance was \$ -0- . Interest expense was \$1,147 for the year

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2021

6. Long-Term Debt - continued

The following is a summary of changes in long-term debt for the year ended September 30, 2021:

Description and purpose:	Balance October 1, 2020	Issued	Retired	Balance September 30, 2021	Due Within One Year
GOVERNMENTAL ACTIVITIES					
Tax Note Series 2017	\$ 324,000	\$ -	\$ 78,000	\$ 246,000	\$ 80,000
Interlocal Agreement 2.8%	168,137	-	54,486	113,651	55,901
Total Notes Payable	492,137	-	132,486	359,651	135,901
Government Capital Corporation	19,516	-	19,516	-	-
Total Leases Payable	19,516	-	19,516	-	-
Net Pension liability (Asset)	(11,724)	12,947	-	1,223	-
OPEB liability	4,878	3,834	-	8,712	-
Compensated Absences	36,907	-	8,763	28,144	28,144
Total Governmental Activities	541,714	16,781	160,765	397,730	164,045
BUSINESS-TYPE ACTIVITIES					
Net Pension liability (Asset)	(6,182)	6,712	-	530	-
OPEB liability	3,118	1,398	-	4,516	-
Compensated Absences	11,290	6,656	-	17,946	17,946
Total Business-type Activities	8,226	14,766	-	22,992	17,946
Total Primary Government Long-Term Debt	\$ 549,940	\$ 31,547	\$ 160,765	\$ 420,722	\$ 181,991

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

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2021

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>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2022	\$ 55,901	\$ 2,597	\$ 80,000	\$ 5,535	\$ 144,033
2023	57,620	1,012	82,000	3,735	144,367
2024	-	-	84,000	1,890	85,890
2025	-	-	-	-	-
2026	-	-	-	-	-
2027	-	-	-	-	-
Totals	<u>\$ 113,521</u>	<u>\$ 3,609</u>	<u>\$ 246,000</u>	<u>\$ 11,160</u>	<u>\$ 374,290</u>

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2021

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 2021, the City spent \$249,212 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, 2021 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, 2021, there were transfers of \$229,000 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, 2021 was \$381,144.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2021

10. TMRS Pension Plan

Plan Description

The City participates as one of 895 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, 2021

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)	2 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, 2020 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	7
Active employees	15
	<u>22</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 2020 and 2021, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2021 was \$114,782 which exceeded the required contributions by \$41,356.

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2021

10. TMRS Pension Plan - continued

Net Pension Liability:

The City's Net Pension Liability (NPL) was measured as of December 31, 2020, 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, 2020 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, 2020 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, 2021

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 2021 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, 2021

10. TMRS Pension Plan - continued

Changes in the Net Pension Liability –

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) - (b)
Balance at 12/31/2019	\$ 487,160	\$ 505,067	\$ (17,907)
Changes for the year:			
Service cost	108,282	-	108,282
Interest	42,465	-	42,465
Change in benefit terms	87,806	-	-
Difference between expected and actual experience	(8,635)	-	(8,635)
Changes in assumptions	-	-	-
Contribution - employer	-	127,213	(127,213)
Contribution - employee	-	44,899	(44,899)
Net investment income	-	38,405	(38,405)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	(248)	248
Other changes	-	(10)	10
Net changes	229,918	210,259	19,659
Balance at 12/31/2020	\$ 717,078	\$ 715,326	\$ 1,753

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

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

	1% Decrease in Discount Rate 5.75%	Current Single Rate Assumption 6.75%	1% Increase in Discount Rate 7.75%
City's net pension liability	\$ 109,213	\$ 1,753	\$ (86,557)

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2021

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, 2021, the City recognized pension expense of \$152,758. This amount is included as part of Personal Services expenses within the functional program activities.

At September 30, 2021, 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	\$ 60,158	\$ -
Difference between projected and actual investment earnings	13,620	27,358
Differences between actuarial assumptions and actual experience	3,177	28,115
Changes in actuarial assumptions used	3,835	481
Total	<u>\$ 80,790</u>	<u>\$ 55,954</u>

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2021

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 \$60,158 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2021 (i.e. recognized in the City's financial statements as of September 30, 2021). 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
2021	\$ (7,070)
2022	(3,241)
2023	(10,168)
2024	(4,547)
2025	(4,342)
Thereafter	(5,954)
Total	\$ <u>(35,322)</u>

CITY OF JOSEPHINE, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2021

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, 2020 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	2
- Active employees	<u>15</u>
- Total	<u><u>17</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, 2021

11. TMRS Supplemental Death Benefits Fund - continued

Total OPEB Liability

The City's total OPEB liability of \$13,228 was measured as of December 31, 2020, and was determined by an actuarial valuation as of that date.

Actuarial assumptions –

The total OPEB liability in the December 31, 2020 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	2.00%
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, 2020.

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, 2021

11. TMRS Supplemental Death Benefits Fund - continued

Changes in the Total OPEB Liability

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Total OPEB Liability - beginning of year	\$ 6,900	\$ 5,994	\$ 7,995
Changes for the year			
Service Cost	875	1,025	1,721
Interest on Total OPEB Liability	243	241	244
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(1,482)	(1,024)	923
Changes in assumptions or other inputs	(542)	1,760	2,344
Benefit payments **	-	-	-
Net Changes	<u>(906)</u>	<u>2,002</u>	<u>5,232</u>
Total OPEB Liability - end of year	<u>\$ 5,994</u>	<u>\$ 7,995</u>	<u>\$ 13,227</u>

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

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 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:

	1% Decrease	Current	1% Increase
	(1.00%)	Discount Rate (2.00%)	(3.00%)
Total OPEB Liability	\$ 17,297	\$ 13,227	\$ 10,182

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, 2021

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, 2021). 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
2021	\$ 225
2022	225
2023	225
2024	225
2025	225
Thereafter	<u>1,484</u>
Total	<u>\$ 2,609</u>

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 2021, 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.

14. Subsequent Events

Subsequent to the year ended September 30, 2021, the City authorized Combination Tax and Revenue Certificates of Obligation, Series 2022 in the amount of \$5,065,000 for a waste water treatment plan.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF JOSEPHINE, TEXAS
BUDGET TO ACTUAL COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Ad valorem taxes	\$ 665,625	\$ 665,625	\$ 665,682	\$ 57
Franchise taxes	50,000	50,000	52,592	2,592
Sales tax	159,300	159,300	142,950	(16,350)
Garbage fees	316,535	316,535	391,188	74,653
Permits	258,800	258,800	298,052	39,252
Fines	81,200	81,200	62,262	(18,938)
Intergovernmental	-	-	283,756	283,756
Capital Grants and contributions revenue	365,500	559,500	1,644,214	1,084,714
Other income	30,950	30,950	444,508	413,558
Interest income	2,500	2,500	1,491	(1,009)
Total Revenues	1,930,410	2,124,410	3,986,695	1,862,285
EXPENDITURES:				
Current:				
Administration	551,127	597,827	635,353	(37,526)
Sanitation services	186,930	234,930	261,529	(26,599)
Public works	29,550	29,550	25,585	3,966
Park	32,836	42,336	33,876	8,460
Street department	107,070	110,070	97,114	12,956
Police department/municipal court	838,401	876,126	809,071	67,055
Capital outlay	269,000	738,900	710,651	28,249
Debt Service:				
Principal	133,000	133,000	54,359	78,641
Interest and other costs	11,490	11,490	4,139	7,351
Total Expenditures	2,159,404	2,774,229	2,631,677	142,552
Excess (deficiency) of revenues over expenditures	(228,994)	(649,819)	1,355,018	2,004,837
OTHER FINANCING SOURCES (USES):				
Proceeds from debt	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	(228,994)	(649,819)	1,355,018	2,004,837
Fund balance, October 1	456,533	456,533	456,533	-
Fund balance, September 30	\$ 227,539	\$ (193,286)	\$ 1,811,551	\$ 2,004,837

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 SEVEN FISCAL YEARS (PREVIOUS YEARS ARE NOT AVAILABLE)

Plan Year	2014	2015	2016	2017	2018	2019	2020
A. Total Pension Liability							
Service cost	\$ 19,345	\$ 24,663	\$ 30,557	\$ 36,466	\$ 51,786	\$ 64,318	\$ 108,282
Interest (on the Total Pension Liability)	12,337	15,417	18,490	21,217	24,988	29,288	42,465
Changes of benefit terms	-	-	-	-	-	-	87,806
Difference between expected and actual experience	9,840	801	(11,601)	(4,285)	(11,920)	(5,315)	(8,635)
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	229,918
Total Pension Liability - Beginning	166,758	207,914	258,648	296,094	349,492	403,967	487,160
Total Pension Liability - Ending (a)	\$ 207,914	\$ 258,648	\$ 296,094	\$ 349,492	\$ 403,967	\$ 487,160	\$ 717,078
B. Plan Fiduciary Net Position							
Contributions - employer	\$ 10,136	\$ 11,073	\$ 16,155	\$ 22,675	\$ 29,149	\$ 34,264	\$ 127,213
Contributions - employee	11,585	12,801	15,317	18,510	26,221	32,375	44,899
Net investment income	9,710	295	15,116	37,462	(10,459)	59,374	38,405
Benefit payments, including refunds of employee contributions	(366)	-	-	-	(10,379)	(4,459)	-
Administrative expense	(101)	(180)	(171)	(195)	(202)	(335)	(248)
Other	(8)	(9)	(9)	(9)	(11)	(10)	(10)
Net Change in Plan Fiduciary Net Position	30,956	23,980	46,408	78,443	34,319	121,209	210,259
Plan Fiduciary Net Position - Beginning	169,752	200,708	224,688	271,096	349,539	383,858	505,067
Plan Fiduciary Net Position - Ending (b)	\$ 200,708	\$ 224,688	\$ 271,096	\$ 349,539	\$ 383,858	\$ 505,067	\$ 715,326
C. Net Pension Liability - Ending (a) - (b)	\$ 7,206	\$ 33,960	\$ 24,998	\$ (47)	\$ 20,110	\$ (17,906)	\$ 1,752
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	96.53%	86.87%	91.56%	100.01%	95.02%	103.68%	99.76%
E. Covered Employee Payroll	\$ 193,077	\$ 213,351	\$ 255,281	\$ 308,508	\$ 437,014	\$ 539,584	\$ 748,323
F. Net Pension Liability as a Percentage of Covered Payroll	3.73%	15.92%	9.79%	-0.02%	4.60%	-3.32%	0.23%

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 SEVEN FISCAL YEARS (PREVIOUS YEARS ARE NOT AVAILABLE)

Plan Year	2014	2015	2016	2017	2018	2019	2020
Actuarially Determined Contribution	\$ 10,136	\$ 11,073	\$ 16,155	\$ 22,675	\$ 29,149	\$ 34,264	\$ 127,213
Contributions in relation to the actuarially determined contribution	10,136	11,328	16,155	22,675	29,149	34,264	127,213
Contribution deficiency (excess)	\$ -	\$ (255)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 193,077	\$ 213,351	\$ 255,281	\$ 308,508	\$ 437,014	\$ 539,584	\$ 748,323
Contributions as a percentage of covered employee payroll	5.25%	5.31%	6.33%	7.35%	6.67%	6.35%	17.00%

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 FOUR FISCAL YEARS (PREVIOUS YEARS ARE NOT AVAILABLE)

Measurement Year	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Changes in the Total OPEB Liability				
Total OPEB Liability - beginning of year	\$ 5,405	\$ 6,900	\$ 5,994	\$ 7,996
Changes for the year				
Service Cost	524	875	1,025	1,721
Interest on Total OPEB Liability	214	243	241	244
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	-	(1,482)	(1,024)	923
Changes in assumptions or other inputs	757	(542)	1,760	2,344
Benefit payments **	-	-	-	-
Net Changes	<u>1,495</u>	<u>(906)</u>	<u>2,002</u>	<u>5,232</u>
Total OPEB Liability - end of year	<u>\$ 6,900</u>	<u>\$ 5,994</u>	<u>\$ 7,996</u>	<u>\$ 13,228</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>
2020	2021	\$ 135,720,903
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

CITY OF JOSEPHINE, TEXAS
HISTORICAL SCHEDULE OF PROPERTY TAX RATES
YEAR ENDED SEPTEMBER 30, 2021 (Unaudited)

<u>Tax Roll Year</u>	<u>Fiscal Year Ended September 30</u>	<u>Tax Rates</u>
2020	2021	0.559079
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