

CITY OF JOSHUA, TEXAS
ANNUAL FINANCIAL REPORT
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2019

**CITY OF JOSHUA, TEXAS
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YEAR ENDED SEPTEMBER 30, 2019**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and
Members of the City Council
City of Joshua, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Joshua, Texas as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Joshua, Texas' 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 opinion.

Honorable Mayor and
Members of the City Council
City of Joshua, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Joshua, Texas as of September 30, 2019, and the respective changes in financial position 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, budgetary comparison information, schedule of changes in net pension liability and related ratios, and the schedule of contributions on pages 4 through 10 and 43 through 45 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

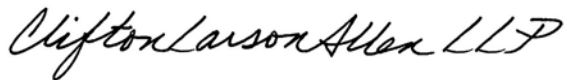
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Joshua, Texas' basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Honorable Mayor and
Members of the City Council
City of Joshua, Texas

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2020, on our consideration of the City of Joshua, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Joshua, Texas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Joshua, Texas' internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Fort Worth, Texas
April 7, 2020

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**CITY OF JOSHUA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

As management of the City of Joshua (the City), we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2019. We encourage readers to consider the information presented here in conjunction with the City's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources for the City of Joshua exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$10,089,400. Of this amount, \$731,005 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City of Joshua's net position increased by \$561,328. This increase is due to an increase in property and sales taxes.
- As of the close of the current fiscal year, the City of Joshua's governmental funds reported combined ending fund balances of \$2,683,033, an increase of \$409,386 in comparison with the prior year. Approximately 48% of this amount, \$1,296,812 is available for spending at the City's discretion (unassigned fund balance).
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$1,322,398 or 32% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City of Joshua, Texas' basic financial statements. City of Joshua's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Joshua's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City of Joshua's assets, liabilities, and deferred inflows/outflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Joshua is improving or deteriorating.

**CITY OF JOSHUA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net position and the statement of activities are prepared utilizing the full accrual basis of accounting.

The government-wide financial statements of the City include the *governmental activities*. Most of the City's basic services are included here, such as administration, police and fire, municipal courts, and public works. Property taxes, sales taxes, charges for services, and grants finance most of these activities.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. City of Joshua, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Joshua can be divided into one category: governmental funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Joshua maintains 8 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, Capital Improvement Fund, Type A Economic Development Corporation Fund, and Type B Community Development Corporation Fund, which are considered to be major funds. Data from the other 3 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Joshua adopts an annual appropriated budget for its General Fund, Debt Service Fund, Type A Economic Development Corporation Fund and Type B Community Development Corporation Fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with the budget.

**CITY OF JOSHUA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in the financial section.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time net position may serve as a useful indicator of a government's financial position. In the case of the City of Joshua, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$10,089,400 the close of the most recent fiscal year. By far the largest portion of the City's net position (\$7,952,691 or 79%) reflects its investment in capital assets (e.g. land, building, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Joshua, Texas' Net Position

	Governmental Activities	
	2019	2018
Current Assets	\$ 3,032,190	\$ 2,631,387
Noncurrent Assets	18,318,075	18,588,392
Total Assets	<u>21,350,265</u>	<u>21,219,779</u>
 Total Deferred Outflows of Resources	<u>267,217</u>	<u>189,655</u>
 Current Liabilities	1,206,399	1,074,090
Noncurrent Liabilities	10,207,420	10,681,164
Total Liabilities	<u>11,413,819</u>	<u>11,755,254</u>
 Total Deferred Inflows of Resources	<u>114,264</u>	<u>126,108</u>
 Net Position		
Net Investment in Capital Assets	7,952,691	7,798,312
Restricted	1,431,289	1,091,490
Unrestricted	705,419	638,270
Total Net Position	<u>\$ 10,089,399</u>	<u>\$ 9,528,072</u>

An additional portion of the City of Joshua's net position (\$1,405,704 or 14%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$731,005 or 7%) may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF JOSHUA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

At the end of the current fiscal year, the City reported a positive balance in all three categories of net position.

During the current fiscal year, the City's net position increased by \$561,328. This increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This increase follows a prior year increase of \$119,063 due to increases in ongoing revenues that were not outpaced by increases in ongoing expenses.

City of Joshua, Texas' Changes in Net Position

	Governmental Activities	
	2019	2018
Revenues		
Program Revenues:		
Charges for Services	\$ 814,415	\$ 742,249
Operating Grant and Contributions	18,170	7,346
Capital Grants and Contributions	8,277	140,857
General Revenues:		
Taxes	4,619,630	4,358,494
Franchise Fees	368,678	347,500
Interest	11,837	4,018
Other	96,326	124,388
Total Revenues	<u>5,937,333</u>	<u>5,724,852</u>
Expenditures		
General Government	1,104,448	1,044,531
Public Safety	1,081,720	1,186,491
Public Works	836,690	891,952
Municipal Court	140,907	157,107
Development Services	286,277	251,727
Animal Control	162,986	166,145
Fire Department	574,639	555,346
Economic Development	57,203	77,981
Parks and Recreation	372,089	501,829
Garbage and Recycling Service	410,483	520,160
Interest on Long-Term	348,564	252,520
Total Expenditures	<u>5,376,006</u>	<u>5,605,789</u>
Change In Net Position	561,327	119,063
Net Position - Beginning of Year	<u>9,528,072</u>	<u>9,409,009</u>
Net Position - End of Year	<u><u>\$ 10,089,399</u></u>	<u><u>\$ 9,528,072</u></u>

**CITY OF JOSHUA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balances may serve as a useful measure of a government's net resources at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,683,033. \$1,386,221 is restricted to indicate constraints placed on the use of the resources either externally imposed by creditors, by laws or regulations of other governments imposed or imposed by law through constitutional provisions or enabling legislation. The remaining balance of \$1,296,812 constitutes unassigned fund balance.

Of the \$2,683,033 ending fund balance, \$216,548 is accounted for in nonmajor governmental funds. The General Fund balance is \$1,669,227 at year-end - an increase of \$89,997. This increase was more due to an increase in property tax revenues.

The Debt Service Fund balance increased \$82,271 to \$331,790 at year-end. This increase is primarily the result of increased property tax revenues for debt service. The Capital Improvement Fund balance decreased \$37,820 to a year-end total of \$(25,586). This decrease is caused by capital outlay expenditures from prior debt issuances. The Type A Economic Development Corporation Fund balance increased \$91,529 to a year-end total of \$322,937. This increase is related sales taxes collected during the year that were offset by payments on debt. The Type B Community Development Corporation Fund balance increased \$135,474 to a year-end total of \$168,117. This increase is primarily related to sales tax revenues off set by transfers out of the fund.

General Fund Budgetary Highlights. The actual expenditures for the year were \$4,125,476, which was \$58,661 over budget. This is due to not budgeting for capital outlay expenditures.

For FY 2019, actual revenues were \$4,247,588 as compared to the budgeted amount of \$4,215,860. Contributing to the variance was higher than anticipated fire district charges of \$145,512, which are not budgeted for which is offset by lower than expected charges for services of \$125,971.

With both revenues and expenditures above appropriations, the fund balance in the General Fund increased by \$89,997, which was \$29,818 less than the final budgeted increase.

**CITY OF JOSHUA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

CAPITAL ASSETS

At year-end, the City had invested \$18,318,075 (net of accumulated depreciation) in a broad range of capital assets, including land, construction in progress, equipment, buildings, and vehicles. Additional information on the City's capital assets is presented in the notes to the financial statements.

City of Joshua, Texas' Capital Assets

	Governmental Activities	
	2019	2018
Land	\$ 4,184,089	\$ 4,184,089
Construction in Progress	64,166	279,768
Buildings and Improvements	12,496,378	12,496,378
Furniture and Equipment	2,164,118	2,164,118
Streets and Improvements	7,125,340	6,845,573
Vehicles	2,647,522	2,085,480
Totals at Historical Cost	28,681,613	28,055,406
Total Accumulated Depreciation	10,363,538	9,467,014
Total Net Assets	<u>\$ 18,318,075</u>	<u>\$ 18,588,392</u>

LONG-TERM DEBT

At year-end, the City had \$10,727,636 in outstanding debt as shown in the table below. Of this amount, \$10,260,000 represents bonded debt backed by the full faith and credit of the City. The City's capitalized obligations of \$467,636 pertain to the purchase of various pieces of equipment and vehicles for the City. More detailed information about the City's long-term debt is presented in the notes to the financial statements.

**Table A-4
City of Joshua, Texas' Long-Term Debt**

	Governmental Activities	
	2019	2018
Bonds Payable	\$ 10,409,515	\$ 11,218,140
Capital Leases	467,636	137,946
Total Long-Term Debt	<u>\$ 10,877,151</u>	<u>\$ 11,356,086</u>

**CITY OF JOSHUA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- Total certified appraised values for the fiscal year 2020 budget preparation increased significantly by 5.35% from 2019. Real property, personal property and mineral rights assessed values all increased by 4.32%, 16.7% and 1.11%, respectively. Assessed property value lost to local exemptions increased by 3.86%
- The City's ad valorem tax rate for 2020 was lowered from \$0.77527 to \$0.76527 per \$100 of assessed value. The 2020 rate is based on maintenance and operations tax of \$0.550877, and an interest and sinking rate of \$0.214393.
- Sales tax revenues are expected to increase by approximately 4.0% compared to the fiscal year 2019 budget.
- Increased residential and commercial development over the last year is expected to continue within the City.

These indicators were taken into account when adopting the General Fund Budget for fiscal year 2020. Funds available for appropriation in the General Fund budget are \$4,795,500 which is a \$399,755, or a 9.34% increase from the prior year. General Fund expenditures for FY 2020, including transfers, are expected to total \$4,961,645. This represents an overall increase of approximately 16.31% compared to expenditures for the previous year. In the previous fiscal year, the City realized savings in many personnel line items due to inconsistent staffing levels. The adopted budget for 2020 accounts for full staffing of existing budget positions and also includes the addition of personnel in the Fire Department via a grant and the related costs associated with those hires. Additional spending to update the City's Zoning Ordinance and Engineering Design Specs and Standards in the Administration Department and significant use of unrestricted reserves account for the remainder of the increase.

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 demonstrate the City's accountability for the funds it receives. If you have questions about this report, or need additional financial information, please contact the City Manager at City Hall, 101 S. Main Street, Joshua, Texas 76058.

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BASIC FINANCIAL STATEMENTS

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**CITY OF JOSHUA, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2019**

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash And Cash Equivalents	\$ 993,341
Receivables, Net	196,680
Due from Other Governments	242,708
Restricted Cash and Cash Equivalents	<u>1,599,461</u>
Total Current Assets	3,032,190
Noncurrent Assets:	
Capital Assets:	
Nondepreciable Assets	4,248,255
Depreciable Assets, Net	<u>14,069,820</u>
Total Noncurrent Assets	<u>18,318,075</u>
Total Assets	21,350,265
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows related to TMRS	<u>267,217</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	133,851
Intergovernmental Payables	16,535
Accrued Payroll Liabilities	49,110
Accrued Interest Payable	70,497
Current Portion of Long-Term Debt, Due Within One Year	<u>936,406</u>
Total Current Liabilities	1,206,399
Noncurrent Liabilities:	
Long-Term Debt, Due in More Than One Year	9,791,230
Accreted Bond Premium Payable	149,515
Net Pension Liability	97,123
Compensated Absences	<u>169,552</u>
Total Noncurrent Liabilities	<u>10,207,420</u>
Total Liabilities	11,413,819
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows Related to TMRS	<u>114,264</u>
NET POSITION	
Net Investment in Capital Assets	7,952,691
Restricted for Specific Purposes	1,431,289
Unrestricted	<u>705,419</u>
Total Net Position	<u><u>\$ 10,089,399</u></u>

See accompanying Notes to Basic Financial Statements

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**CITY OF JOSHUA, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Government Activities:					
General Government	\$ 1,104,448	\$ 17,769	\$ 10,270	\$ 8,277	\$ (1,068,132)
Public Safety	1,081,720	28,621	-	-	(1,053,099)
Public Works	836,690	321,532	-	-	(515,158)
Municipal Court	140,907	130,011	-	-	(10,896)
Development Services	286,277	-	-	-	(286,277)
Animal Control	162,986	750	-	-	(162,236)
Fire Department	574,639	5,940	7,900	-	(560,799)
Economic Development	57,203	-	-	-	(57,203)
Parks and Recreation	372,089	-	-	-	(372,089)
Garbage and Recycling Service	410,483	309,792	-	-	(100,691)
Interest on Long-Term Debt	348,564	-	-	-	(348,564)
Total Governmental Activities	<u>\$ 5,376,006</u>	<u>\$ 814,415</u>	<u>\$ 18,170</u>	<u>\$ 8,277</u>	<u>(4,535,144)</u>

GENERAL REVENUES

Taxes:	
Property, Levied for General Purposes	2,012,323
Property, Levied for Debt Service	898,511
Sales	1,516,996
Other	191,800
Franchise Fees	368,678
Interest	11,837
Other	96,326
Total General Revenues	<u>5,096,471</u>
Change in Net Assets	561,327
Net Position - Beginning of Year	<u>9,528,072</u>
NET POSITION - END OF YEAR	<u><u>\$ 10,089,399</u></u>

See accompanying Notes to Basic Financial Statements

**CITY OF JOSHUA, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019**

	General	Debt Service	Capital Improvement
ASSETS			
Cash and Cash Equivalents	\$ 976,606	16,735	\$ -
Receivables, Net	144,986	47,772	-
Due From Other Governments	121,354	-	-
Due From Other Funds	241,224	438,625	7,096
Restricted:			
Cash and Cash Equivalents	489,698	-	82,062
Total Assets	<u>\$ 1,973,868</u>	<u>\$ 503,132</u>	<u>\$ 89,158</u>
LIABILITIES:			
Liabilities:			
Accounts Payable	\$ 130,054	\$ -	\$ 923
Intergovernmental Payables	16,535	-	-
Accrued Payroll Liabilities	49,110	-	-
Due to Other Funds	7,052	123,570	113,821
Total Liabilities	<u>202,751</u>	<u>123,570</u>	<u>114,744</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	60,430	47,772	-
Unavailable Revenue - Court Fines	41,460	-	-
Total Deferred Inflows of Resources	<u>101,890</u>	<u>47,772</u>	<u>-</u>
FUND BALANCES			
Fund Balances:			
Restricted For:			
TIF	346,829	-	-
Debt Service	-	331,790	-
Economic Development	-	-	-
Court Security	-	-	-
Court Technology	-	-	-
Tourism	-	-	-
Unassigned	1,322,398	-	(25,586)
Total Fund Balances	<u>1,669,227</u>	<u>331,790</u>	<u>(25,586)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,973,868</u>	<u>\$ 503,132</u>	<u>\$ 89,158</u>

**CITY OF JOSHUA, TEXAS
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019**

Type A Economic Development Corporation	Type B Community Development Corporation	Other Governmental	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 993,341
43	-	4,455	197,256
60,677	60,677	-	242,708
3,640	-	3,412	693,997
<u>262,155</u>	<u>550,383</u>	<u>215,163</u>	<u>1,599,461</u>
<u>\$ 326,515</u>	<u>\$ 611,060</u>	<u>\$ 223,030</u>	<u>\$ 3,726,763</u>
\$ -	\$ 450	\$ 3,000	\$ 134,427
-	-	-	16,535
-	-	-	49,110
<u>3,579</u>	<u>442,493</u>	<u>3,482</u>	<u>693,997</u>
<u>3,579</u>	<u>442,943</u>	<u>6,482</u>	<u>894,069</u>
-	-	-	108,202
-	-	-	41,460
<u>-</u>	<u>-</u>	<u>-</u>	<u>149,662</u>
-	-	-	346,829
-	-	-	331,790
322,936	168,117	-	491,053
-	-	17,789	17,789
-	-	3,225	3,225
-	-	195,534	195,534
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,296,812</u>
<u>322,936</u>	<u>168,117</u>	<u>216,548</u>	<u>2,683,032</u>
<u>\$ 326,515</u>	<u>\$ 611,060</u>	<u>\$ 223,030</u>	<u>\$ 3,726,763</u>

See accompanying Notes to Basic Financial Statements

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**CITY OF JOSHUA, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
YEAR ENDED DECEMBER 31, 2019**

Total Fund Balances - Governmental Funds Balance Sheet **\$ 2,683,032**

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. 18,318,075

Revenues earned but not available within 60 days of the year-end are not recognized as revenue on the fund financial statements. 149,662

The statement of net position includes the City's proportionate share of the TMRS net pension liability as well as certain pension related transactions accounted for as Deferred Inflows and Outflows of resources.

Net Pension Liability	\$ (97,123)	
Deferred Outflows	267,217	
Deferred Inflows	<u>(114,264)</u>	55,830

Long-term liabilities, including capital leases and the related interest payable, and compensated absences are not due and payable in the current period and, therefore, are not reported in the fund financial statements.

Bonds Payable	(10,260,000)	
Capital Leases	(467,636)	
Accrued Interest Payable	(70,497)	
Unamortized Premiums	(149,515)	
Compensated Absences	<u>(169,552)</u>	<u>(11,117,200)</u>

Net Position of Governmental Activities **\$ 10,089,399**

**CITY OF JOSHUA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019**

	General	Debt Service	Capital Improvement
REVENUES			
Property Taxes	\$ 2,002,287	\$ 900,461	\$ -
Sales Taxes	761,684	-	-
Hotel Occupancy Taxes	-	-	-
Alcoholic Beverage Taxes	1,450	-	-
Fire District Taxes	145,512	-	-
Franchise Fees	368,678	-	-
Fines and Forfeitures	162,486	-	-
Grants and Contributions	18,170	-	-
Charges For Services	684,404	-	-
Investment Earnings	6,934	-	2,627
Miscellaneous	95,983	-	-
Total Revenues	<u>4,247,588</u>	<u>900,461</u>	<u>2,627</u>
EXPENDITURES			
General Government	956,789	-	-
Public Safety	1,053,935	-	-
Public Works	606,283	-	-
Municipal Court	136,792	-	-
Development Services	696,751	-	-
Animal Control	157,605	-	-
Fire Department	389,313	-	-
Economic Development	-	-	-
Debt Service:			
Principal	28,242	650,000	-
Interest	2,790	268,765	-
Capital Outlay	96,976	-	611,447
Total Expenditures	<u>4,125,476</u>	<u>918,765</u>	<u>611,447</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	122,112	(18,304)	(608,820)
OTHER FINANCING SOURCES (USES)			
Lease Proceeds	-	-	372,000
Transfers In	166,885	100,575	199,000
Transfers Out	(199,000)	-	-
Total Other Financing Sources (Uses)	<u>(32,115)</u>	<u>100,575</u>	<u>571,000</u>
NET CHANGE IN FUND BALANCES	89,997	82,271	(37,820)
Fund Balances - Beginning of Year	<u>1,579,230</u>	<u>249,519</u>	<u>12,234</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 1,669,227</u></u>	<u><u>\$ 331,790</u></u>	<u><u>\$ (25,586)</u></u>

See accompanying Notes to Basic Financial Statements

CITY OF JOSHUA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019

Type A Economic Development Corporation	Type B Community Development Corporation	Other Governmental	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 2,902,748
377,656	377,656	-	1,516,996
-	-	44,838	44,838
-	-	-	1,450
-	-	-	145,512
-	-	-	368,678
-	-	8,985	171,471
8,277	-	-	26,447
-	-	-	684,404
807	1,469	-	11,837
-	16,381	-	112,364
<u>386,740</u>	<u>395,506</u>	<u>53,823</u>	<u>5,986,745</u>
4,935	26	-	961,750
-	-	-	1,053,935
-	-	-	606,283
-	-	5,888	142,680
-	-	-	696,751
-	-	-	157,605
-	-	-	389,313
34,657	22,546	-	57,203
145,000	-	-	823,242
80,620	-	-	352,175
-	-	-	708,423
<u>265,212</u>	<u>22,572</u>	<u>5,888</u>	<u>5,949,360</u>
121,528	372,934	47,935	37,385
-	-	-	372,000
-	-	-	466,460
<u>(30,000)</u>	<u>(237,460)</u>	<u>-</u>	<u>(466,460)</u>
<u>(30,000)</u>	<u>(237,460)</u>	<u>-</u>	<u>372,000</u>
91,528	135,474	47,935	409,385
<u>231,408</u>	<u>32,643</u>	<u>168,613</u>	<u>2,273,647</u>
<u>\$ 322,936</u>	<u>\$ 168,117</u>	<u>\$ 216,548</u>	<u>\$ 2,683,032</u>

See accompanying Notes to Basic Financial Statements

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**CITY OF JOSHUA, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

Net Change in Fund Balances - Total Governmental Funds	\$ 409,385
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense on capital assets is reported in the statement of activities and does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(954,554)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives.	
Capital Outlays	700,273
Capital Asset Disposals	(16,036)
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	(33,374)
Net pension liabilities as well as the related deferred inflows and outflows of resources generated from those assets are not payable from current resources and, therefore, are not reported in the governmental funds. These balances increased (decreased) by this amount.	94,750
Current year changes in accrued interest payable do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(10,024)
Current year changes in compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(108,029)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.	
Leases Issued	(372,000)
Principal Repayments	837,311
Loss on Refunding	13,625
Change in Net Position of Governmental Activities	<u>\$ 561,327</u>

See accompanying Notes to Basic Financial Statements

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CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Joshua, Texas (the City) is a Home Rule city which citizens elect the mayor and six Council members at large. The City operates under the Council-City Manager form of government and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety, and convenience of the City and its inhabitants.

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The more significant accounting and reporting policies and practices used by the City are described below.

A. Reporting Entity

The City's basic financial statements include all activities, organizations, and functions for which the City is considered to be financially accountable and other organizations for which the nature and significance of their relationship with the City are such that inclusion would cause the City's financial statements to be misleading or incomplete. The criteria considered in determining organizations to be reported as component units within the City's basic financial statements include whether:

- the organization is legally separate (can sue and be sued in their own name);
- the City holds the corporate powers of the organization;
- the City appoints a voting majority of the organization's board;
- the City is able to impose its will on the organization;
- the organization has the potential to impose a financial benefit/burden on the City; and
- there is a fiscal dependency by the organization on the City.

Component units are blended with the balances and transactions of the City if one of the following criterion is met:

- The component unit is substantially the same governing body as the City; or
- The component unit provides services entirely (or almost entirely) to the City or benefits the City exclusively (or almost exclusively); or
- The City is able to impose its will on the component unit.

CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

The above criteria were applied to potential organizations to determine if the entity should be reported as part of the City. The following was determined:

Joshua Economic Development Corporation (JEDC) is a ***blended component unit*** and is reported within the City's primary government. The JEDC was formed to promote economic development within the City and the state of Texas in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, and on behalf of, the City by developing, implementing, providing and financing projects under the Development Corporation Act of 1979 as defined in Section 4A of the Act. A Board of Directors, whose members are appointed by and serve the City's governing body, makes all decisions regarding use of local revenue in undertaking projects, though the City retains oversight authority and must approve all programs and expenditures of the Corporation.

Joshua Community Development Corporation (JCDC) is a ***blended component unit*** and is reported within the City's primary government. The JCDC was formed exclusively for the purposes of benefiting and accomplishing public purposes of, and acting on behalf of, the City in promotion and development of public projects, approved by the voters at an election held, including, but not limited to, tourism facilities, civic center, downtown/main street renovation and/or development, drainage and related improvements, demolition of existing structures and landscaping, parks, youth center, sports facilities, public safety facilities, municipal facilities, library facilities, water, sewer and street extensions, any other project authorized under Section 4B of the Development Act of 1979, and maintenance and operation costs associated with such projects. A Board of Directors, whose members are appointed by and serve the City's governing body, makes all decisions regarding use of local revenue in undertaking projects, though the City retains oversight authority and must approve all programs and expenditures of the Corporation.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been included as part of the program expenses reported for the various functional activities. Program revenue includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds. Major individual Governmental Funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus and the accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and *available*. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

**CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The City reports the following major governmental funds:

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

Debt Service Fund – accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt. The City annually levies ad valorem taxes restricted for the retirement of debt. This fund reports the portion of ad valorem taxes collected for debt purposes only.

Capital Improvement Fund – accounts for the proceeds from long-term financing and revenue and expenditures related to authorized construction and other capital asset acquisitions.

Economic Development Fund – established to account for sales tax revenues collected for the purposes set forth by the Joshua Economic Development Corporation.

Community Development Fund – established to account for sales tax revenues collected for the purposes set forth by the Joshua Community Development Corporation.

D. Assets, Liabilities, and Net Position of Equity

Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes attach as an enforceable lien on property as of October 1. Taxes are levied each October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. The Johnson County Tax Assessor/Collector bills and collects the City's property taxes. Any uncollected property taxes as of September 30, which are not expected to be collected within 60 days, are recorded as taxes receivable and deferred revenue.

CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position of Equity (Continued)

Receivables and Payables (Continued)

As a City that operates under a home-rule charter, the City has a tax rate limitation of \$2.50 per \$100 assessed valuation. For the year ended September 30, 2019, the City had a tax rate of \$0.77527 per \$100 of which \$0.535015 was allocated for general government and \$0.240255 was allocated for payment of principal and interest on general long-term debt.

Capital Assets

The City's capital assets and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Donated assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date. The City generally capitalizes assets with a cost of \$5,000 or more as purchases and outlays occur. The cost 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. For information describing capital assets, see Note IID.

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

Infrastructure	30 years
Buildings	50 years
Buildings improvements	20 years
Vehicles	2 to 15 years
Office equipment	3 to 15 years
Computer equipment	3 to 15 years

Compensated Absences

Compensated absences are reported as accrued in the government-wide financial statements. In the fund level financial statements, only matured compensated absences payable to currently terminated employees are reported.

**CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position of Equity (Continued)

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed during the period of issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 TMRS'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.

Net Position

Net Position represents the difference between assets, deferred inflows/outflows of resources, and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position of Equity (Continued)

Net Position (Continued)

In the government-wide financial statements, the City's restrictions on net position are for amounts that are not available for appropriation. The City's restricted net position is as follows:

Restricted for TIF	\$ 346,829
Restricted for Debt Service	379,562
Restricted for Economic Development	491,053
Restricted for Court Security	17,789
Restricted for Tourism	195,534
Total	<u><u>\$ 1,431,289</u></u>

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent.

The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by board resolution of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.

**CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position of Equity (Continued)

Fund Balance (Continued)

Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Fund Balance Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position 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 the following items that qualify for reporting in this category.

- Pension contributions after measurement date - These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets - This difference is deferred and amortized over a closed five year period.

**CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Position of Equity (Continued)

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements 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, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and court fines. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has one type of item that qualifies for reporting in this category in the government-wide financial statements. The difference in expected and actual pension experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

Estimates

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

NOTE 2 DETAILED NOTES ON ALL FUNDS

A. Deposits and Investment

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

**CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

Cash Deposits

At September 30, 2019, the total carrying amounts of the City's deposits (restricted and unrestricted cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) were \$2,592,803 and the bank balances were \$2,677,023. The City's cash deposits at September 30, 2019 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments

The City is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act (the Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local practices.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. Agencies, and the state of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

Analysis of Specific Deposit and Investment Risks

Professional standards require a determination as to whether the City was exposed to the following specific investment risks at year-end and, if so, the reporting of certain related disclosures:

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year-end, the City was not exposed to a significant amount of credit risk.

Custodial Credit Risk. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

**CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and Investments (Continued)

Analysis of Specific Deposit and Investment Risks

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At year-end, the City was not exposed to custodial credit risk.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end, the City was not exposed to concentration of credit risk.

Interest Rate Risk. This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to interest rate risk.

Foreign Currency Risk. This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to foreign currency risk.

B. Receivables, Uncollectible Accounts, and Deferred Revenue

Sales Taxes Receivable

Sales taxes are collected and remitted to the City by the State Comptroller's office. All sales taxes are collected within 60 days of year-end. At fiscal year-end, the receivables represent taxes collected but not yet received by the City and are recorded as revenue.

Property Taxes Receivable and Deferred Revenue

Property taxes are assessed and remitted to the City by the Tarrant County Tax Assessor's office. Taxes, levied annually on October 1, are due by January 31. Major tax payments are received December through March. Lien dates for real property are in July.

Allowances for uncollectible tax receivables reported in the General Fund and Debt Service Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off when deemed uncollectible; however, state statutes prohibit writing off real property taxes without specific authority from the Texas Legislature.

In the governmental fund level financial statements, property taxes receivable are recorded in the General Fund and Debt Service Fund when assessed (October 1). At fiscal year-end, property tax receivables represent delinquent taxes. If delinquent taxes are not paid within 60 days of fiscal year-end, they are recorded as deferred revenue.

In the government-wide financial statements, property tax receivables and related revenues include all amounts due the City regardless of when cash is received.

**CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Receivables, Uncollectible Accounts, and Deferred Revenue (Continued)

Garbage and Recycling Receivables

Garbage and Recycling service is provided by the City to all residents. Residents are billed quarterly for this service. The City allows for 50% of receivables aged more six months and 100% of receivables aged more than twelve months.

Court Receivables

The City allows for all outstanding court receivables aged more than three months.

Governmental Funds Receivables

At September 30, 2019, receivables were as follows:

	Governmental Funds					
			Type A	Type B		
			Economic	Community		
			Development	Development	Other	
	General	Debt	Corporation	Corporation	Governmental	Total
		Service				
Receivables:						
Property Tax	\$ 106,381	\$ 47,772	\$ -	\$ -	\$ -	\$ 154,153
Sales Tax	121,354	-	60,677	60,677	-	242,708
Other Taxes	-	-	-	-	3,923	3,923
Accounts	271,815	-	-	-	532	272,347
Gross Receivables	499,550	47,772	60,677	60,677	4,455	673,131
Less: Allowance						
for Uncollectibles	233,210	-	-	-	-	233,210
Net Total						
Receivables	<u>\$ 266,340</u>	<u>\$ 47,772</u>	<u>\$ 60,677</u>	<u>\$ 60,677</u>	<u>\$ 4,455</u>	<u>\$ 439,921</u>

B. Restricted Assets

At September 30, 2019, restricted assets consisted of the following:

	Governmental
	Activities
Cash and Cash Equivalents:	
TIF 1	\$ 489,698
Capital Improvements	82,062
Type A Sales Tax	262,155
Type B Sales Tax	550,383
Court Security	20,789
Court Technology	2,389
Hotel Occupancy	191,985
Total Restricted Cash and Cash Equivalents	<u>\$ 1,599,461</u>

CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital Assets

Capital asset activity for the year ended September 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not Being Depreciated:				
Land	\$ 4,184,089	\$ -	\$ -	\$ 4,184,089
Construction in Progress	279,768	64,165	279,767	64,166
Total Capital Assets Not Being Depreciated	4,463,857	64,165	279,767	4,248,255
Capital Assets Being Depreciated:				
Buildings and Improvements	12,496,378	-	-	12,496,378
Furniture and Equipment	2,164,118	-	-	2,164,118
Streets and Improvements	6,845,573	279,767	-	7,125,340
Vehicles and Work Equipment	2,085,480	636,108	74,066	2,647,522
Total Capital Assets Being Depreciated	23,591,549	915,875	74,066	24,433,358
Less: Accumulated Depreciation for:				
Buildings and Improvements	2,912,009	255,380	-	3,167,389
Furniture and Equipment	1,910,852	84,558	-	1,995,410
Streets and Improvements	2,856,877	364,478	-	3,221,355
Vehicles and Work Equipment	1,787,276	250,138	58,030	1,979,384
Total Accumulated Depreciation	9,467,014	954,554	58,030	10,363,538
Total Capital Assets Being Depreciated, Net	14,124,535	(38,679)	16,036	14,069,820
Governmental Activities Capital Assets, Net	<u>\$ 18,588,392</u>	<u>\$ 25,486</u>	<u>\$ 295,803</u>	<u>\$ 18,318,075</u>

At September 30, 2019, depreciation was charged to functions as follows:

General Government	\$ 105,328
Public Safety	51,925
Public Works	411,018
Development Services	4,009
Animal Control	6,864
Fire Department	187,692
Parks and Recreation	187,718
Total Depreciation Expense	<u>\$ 954,554</u>

CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations

At September 30, 2019, the City's bonds payable consisted of the following:

<u>Description</u>	<u>Governmental</u>
2008 Combination Tax and Revenues Certificates of Obligation due in annual installments through 2020, bearing interest at a rate of 3.95%	\$ 80,000
2008 General Obligation Bonds due in annual installments through 2020, bearing interest at a rate of 3.74%	155,000
2010 General Obligation Bonds due in annual installments through 2030, bearing interest at a rate of 3.50%	2,610,000
2012 Combination Tax and Revenues Certificates of Obligation due in annual installments through 2023, bearing interest at a rate of 2.00%	3,870,000
2012 General Obligation Bonds due in annual installments through 2032, bearing interest at a rate of 2.00%	1,665,000
2018 Sales Tax Revenue Bonds due in annual installments through 2039, bearing interest at a rate of 2.59%	<u>1,880,000</u>
Total	<u><u>\$ 10,260,000</u></u>

Changes in long-term obligations for the year ended September 30, 2019 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Certificates of Obligation	\$ 6,180,000	\$ -	\$ 350,000	\$ 5,830,000	\$ 360,000
General Obligation Bonds	4,875,000	-	445,000	4,430,000	455,000
Unamortized Bond Premiums	163,140	-	13,625	149,515	-
Capital Leases	137,946	372,000	42,310	467,636	121,406
Compensated Absences	61,523	108,029	-	169,552	-
Total	<u>\$ 11,417,609</u>	<u>\$ 480,029</u>	<u>\$ 850,935</u>	<u>\$ 11,046,703</u>	<u>\$ 936,406</u>

CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Debt service requirements on long-term debt at September 30, 2019, are as follows:

Bonds and Notes Payable

Certificates of Obligation Due Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2020	\$ 360,000	\$ 164,602	\$ 524,602
2021	290,000	156,846	446,846
2022	300,000	150,234	450,234
2023	310,000	143,345	453,345
2024	325,000	136,082	461,082
2025-2029	1,810,000	553,491	2,363,491
2030-2034	1,810,000	279,895	2,089,895
2035-2039	625,000	69,822	694,822
Totals	<u>\$ 5,830,000</u>	<u>\$ 1,654,317</u>	<u>\$ 7,484,317</u>

General Obligation Bonds Due Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2020	\$ 455,000	\$ 160,755	\$ 615,755
2021	310,000	147,806	457,806
2022	320,000	136,856	456,856
2023	330,000	124,981	454,981
2024	340,000	112,731	452,731
2025-2029	1,925,000	351,258	2,276,258
2030-2034	750,000	34,181	784,181
Totals	<u>\$ 4,430,000</u>	<u>\$ 1,068,568</u>	<u>\$ 5,498,568</u>

The effective interest rate on outstanding bonds and notes ranged from 0.70% - 4.00% at September 30, 2019.

Capital Leases

The City has entered into capital lease agreements. The total capitalized cost of equipment under capital leases is \$605,388 and the amortized value is \$443,695 at September 30, 2019. Amortization expense has been included in depreciation expense for the year ended September 30, 2019.

**CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Long-Term Obligations (Continued)

Capital Leases (Continued)

The following is a schedule of future minimum payments under the capital leases together with the present value of the minimum lease payments as of September 30, 2019:

<u>Year Ending September 30,</u>	<u>Amount</u>
2020	\$ 141,113
2021	128,873
2022	128,873
2023	117,832
Total Payments	516,691
Less: Amount Representing Interest	49,055
Present Value of Net Minimum Lease Payments	<u>\$ 467,636</u>

F. Interfund Balances and Activity

Balances due to and due from other funds at September 30, 2019, consisted of the following:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
General Fund	Nonmajor Funds	\$ 3,482
General Fund	Debt Service	123,570
General Fund	Type B Economic Development	351
General Fund	Capital Improvements	113,821
Type A Economic Development	General Fund	3,640
Capital Improvements	Type A Economic Development	3,579
Capital Improvements	Type B Economic Development	3,517
Debt Service Fund	Type B Economic Development	438,625
Nonmajor Funds	General Fund	3,412
Total		<u>\$ 693,997</u>

All amounts due are scheduled to be repaid within one year.

**CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Interfund Balances and Activity (Continued)

Transfers to and from other funds at September 30, 2019 consisted of the following:

Transfers from	Transfers to	Amount
Type A Economic Development	General Fund	\$ 30,000
Type B Economic Development	General Fund	136,885
Type B Economic Development	Debt Service Fund	100,575
General Fund	Capital Improvements Fund	199,000
Total		<u>\$ 466,460</u>

G. Deficit Fund Balance

The City has deficit fund balance at September 31, 2019 in the Capital Improvement Fund in the amount of \$25,586. The City intends to fund this deficit from future transfers from the general fund.

NOTE 3 OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage, or destruction of assets, error and omissions, injuries to employees, and natural disasters. During fiscal year 2015, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the state as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 3 OTHER INFORMATION (CONTINUED)

B. Defined Benefit Pension Policies

Plan Description

The City participates as one of 883 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 agency 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 Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.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 over of seven payments options. Members may also 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.

The City grants monetary credits for service rendered of a theoretical amount equal to two times what would have been contributed by the employee, with interest. 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 2010, the City granted an annually repeating (automatic) basis monetary credit referred to as an updated service credit (USC) which is a theoretical amount that 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 2010, the City provided on 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 JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 3 OTHER INFORMATION (CONTINUED)

B. Defined Benefit Pension Policies (Continued)

Benefits Provided (Continued)

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

Employee Deposit Rate	7%
Matching Ratio (City to Employee)	2 to 1
Years Required for Vesting	5
Service Retirement Eligibility	20 Years to Any Age 5 Years at Age 60 and Above
Updated Service Credit	0%
Annuity Increase to Retirees	0% of CPI

The City does not participate in Social Security.

Employees Covered by Benefit Terms

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

Inactive Employees or Beneficiaries Currently Receiving Benefits	7
Inactive Employees Entitled to But Not Yet Receiving Benefits	44
Active Employees	36
Total	<u>87</u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are with 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contributions rate for each city is determined annually by the 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 were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 5.94% and 6.07% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019 were \$107,693, and were equal to the required contributions.

**CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 3 OTHER INFORMATION (CONTINUED)

B. Defined Benefit Pension Policies (Continued)

Net Pension Liability

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

Actuarial Assumptions

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

Inflation	2.5% Per Year
Overall Payroll Growth	3.0% 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 Tables 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 males 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.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and the Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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 JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 3 OTHER INFORMATION (CONTINUED)

B. Defined Benefit Pension Policies (Continued)

Net Pension Liability (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 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5 %	4.55 %
International Equity	17.5	6.35
Core Fixed Income	10.0	1.00
Noncore Fixed Income	20.0	3.90
Real Return	10.0	3.80
Real Estate	10.0	4.50
Absolute Return	10.0	3.75
Private Equity	5.0	7.50
Total	<u>100.0 %</u>	

Discount Rate

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

CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 3 OTHER INFORMATION (CONTINUED)

B. Defined Benefit Pension Policies (Continued)

Net Pension Liability (Continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Pension	Net Pension
	(a)	(b)	(a) - (b)
Balance - December 31, 2017	\$ 3,278,888	\$ 3,381,355	\$ (102,467)
Changes for the Year:			
Service Cost	217,867	-	217,867
Interest	224,113	-	224,113
Change of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	(126,923)	-	(126,923)
Changes of Assumptions	-	-	-
Contributions - Employer	-	100,554	(100,554)
Contributions - Employee	-	118,498	(118,498)
Net Investment Income	-	(101,524)	101,524
Benefit Payments, Including Refunds of Employee Contributions	(135,258)	(135,258)	-
Administrative Expense	-	(1,958)	1,958
Other Changes	-	(103)	103
Net Changes	179,799	(19,791)	199,590
Balance - December 31, 2018	\$ 3,458,687	\$ 3,361,564	\$ 97,123

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%) of 1-percentage-higher (7.75%) than the current rate:

	1% Decrease In Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase In Discount Rate (7.75%)
City's Net Pension Liability	\$ 641,273	\$ 97,123	\$ (347,049)

CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 3 OTHER INFORMATION (CONTINUED)

B. Defined Benefit Pension Policies (Continued)

Net Pension Liability (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. The report may be obtained on the Internet at www.tmrs.com.

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

For the year ended September 30, 2019, the City recognized pension expense of \$26,035. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Economic Experience	\$ -	\$ 114,264
Changes in Actuarial Assumptions	19,522	-
Difference Between Projected and Actual Investment Earnings	173,118	-
Contributions Subsequent to the Measurement Date	74,577	-
Total	<u>\$ 267,217</u>	<u>\$ 114,264</u>

\$74,577 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expenses as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2019	\$ 35,824
2020	(14,034)
2021	(4,193)
2022	60,779
Total	<u>\$ 78,376</u>

**CITY OF JOSHUA, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 3 OTHER INFORMATION (CONTINUED)

C. Commitments and Contingencies

Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for contingencies.

Litigation

The City is subject to certain legal proceedings in the normal course of operations. In the opinion of management, the aggregate liability, if any, with respect to potential legal actions will not materially adversely affect the City's financial position, results of operations, or cash flows.

D. Subsequent Events

On November 5, 2019, the City issued City of Joshua, Texas General Obligation Refunding Bonds, Series 2019 in the amount of \$\$2,505,000 which refunded the outstanding amounts on the General Obligation Bonds, Series 2010. These bonds mature in annual installments from 2020 to 2030.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF JOSHUA, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE –BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED DECEMBER 31, 2019

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Taxes:				
Property	\$ 2,071,925	\$ 2,003,010	\$ 2,002,287	\$ (723)
Sales	679,945	771,850	761,684	(10,166)
Alcoholic Beverage	400	1,450	1,450	-
Fire District	141,000	141,000	145,512	4,512
Franchise Fees	349,235	365,170	368,678	3,508
Fines and Forfeitures	148,525	137,200	162,486	25,286
Grants and Contributions	2,000	15,185	18,170	2,985
Charges For Services	244,955	669,375	684,404	15,029
Investment Earnings	2,000	6,500	6,934	434
Miscellaneous	68,430	105,120	95,983	(9,137)
Total Revenues	3,708,415	4,215,860	4,247,588	31,728
EXPENDITURES				
Current:				
General Government	901,310	947,735	956,789	(9,054)
Public Safety	1,133,465	1,074,770	1,053,935	20,835
Public Works	683,725	619,815	606,283	13,532
Municipal Court	155,200	137,415	136,792	623
Development Services	284,945	621,895	696,751	(74,856)
Animal Control	160,400	157,250	157,605	(355)
Fire Department	415,030	388,025	389,313	(1,288)
Debt Service	121,310	31,035	31,032	3
Capital Outlay	72,130	88,875	96,976	(8,101)
Total Expenditures	3,927,515	4,066,815	4,125,476	(58,661)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(219,100)	149,045	122,112	(26,933)
OTHER FINANCING SOURCES (USES)				
Transfers In	261,970	169,885	166,885	(3,000)
Transfers Out	(199,115)	(199,115)	(199,000)	115
Total Other Financing Sources (Uses)	62,855	(29,230)	(32,115)	(2,885)
NET CHANGE IN FUND BALANCES	(156,245)	119,815	89,997	(29,818)
Fund Balances - Beginning of Year	1,579,230	1,579,230	1,579,230	-
FUND BALANCES - END OF YEAR	<u>\$ 1,422,985</u>	<u>\$ 1,699,045</u>	<u>\$ 1,669,227</u>	<u>\$ (29,818)</u>

See accompanying Note to Required Supplementary Information.

CITY OF JOSHUA, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
YEAR ENDED DECEMBER 31, 2019

Plan Year	2015	2016	2017	2018
A. Total Pension Liability				
Service Cost	\$ 207,231	\$ 222,255	\$ 207,242	\$ 217,867
Interest (on the Total Pension Liability)	164,060	186,581	203,201	224,113
Difference Between Expected and Actual Experience	(4,751)	(61,172)	18,030	(126,923)
Change of Assumptions	105,326	-	-	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(42,673)</u>	<u>(75,189)</u>	<u>(112,687)</u>	<u>(135,258)</u>
Net Change in Total Pension Liability	429,193	272,475	315,786	179,799
Total Pension Liability - Beginning	<u>2,261,434</u>	<u>2,690,627</u>	<u>2,963,102</u>	<u>3,278,888</u>
Total Pension Liability - Ending (a)	<u><u>\$ 2,690,627</u></u>	<u><u>\$ 2,963,102</u></u>	<u><u>\$ 3,278,888</u></u>	<u><u>\$ 3,458,687</u></u>
B. Plan Fiduciary Net Position				
Contributions - Employer	\$ 75,539	\$ 87,382	\$ 89,253	\$ 100,554
Contributions - Employee	116,985	120,885	112,370	118,498
Net Investment Income	3,595	174,931	401,837	(101,524)
Benefit Payments, Including Refunds of Employee Contributions	(42,673)	(75,189)	(112,687)	(135,258)
Administrative Expenses	(2,189)	(1,974)	(2,078)	(1,958)
Other	<u>(109)</u>	<u>(106)</u>	<u>(104)</u>	<u>(103)</u>
Net Change in Plan Fiduciary Net Position	151,148	305,929	488,591	(19,791)
Plan Fiduciary Net Position – Beginning	<u>2,435,687</u>	<u>2,586,835</u>	<u>2,892,764</u>	<u>3,381,355</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 2,586,835</u></u>	<u><u>\$ 2,892,764</u></u>	<u><u>\$ 3,381,355</u></u>	<u><u>\$ 3,361,564</u></u>
C. Net Pension Liability - Ending (a) - (b)	<u><u>\$ 103,792</u></u>	<u><u>\$ 70,338</u></u>	<u><u>\$ (102,467)</u></u>	<u><u>\$ 97,123</u></u>
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	96.14%	96.14%	103.13%	97.19%
E. Covered Payroll	1,671,215	1,726,924	1,605,284	1,692,826
F. Net Position Liability as a Percentage of Covered Employee Payroll	6.21%	4.07%	6.38%	5.74%

See accompanying Note to Required Supplementary Information.

**CITY OF JOSHUA, TEXAS
SCHEDULE OF CONTRIBUTIONS
YEAR ENDED DECEMBER 31, 2019**

Fiscal Year	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarial Determined Contribution	\$ 70,288	\$ 79,966	\$ 86,697	\$ 96,073
Contributions in Relation to the Actuarially Determined Contribution	<u>70,288</u>	<u>79,966</u>	<u>86,697</u>	<u>96,073</u>
Contribution Deficiency (Excess)	-	-	-	-
Covered Employee Payroll	1,657,468	1,652,285	1,726,924	1,662,081
Contributions as a Percentage of Covered Employee Payroll	4.28%	4.84%	5.02%	5.78%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: 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	25 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	Experience-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 2010-2014.
Mortality	RP2000 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 of with BB.

Other Information

Notes: There were no benefit changes during the year.

See accompanying Note to Required Supplementary Information.

**CITY OF JOSHUA, TEXAS
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)
SEPTEMBER 30, 2019**

NOTE 1 GENERAL FUND BUDGETARY ANALYSIS

Budgetary Information

The City Council adopts an annual budget prepared on a non-GAAP basis. City management may transfer part or all of any unencumbered appropriation balance within specific categories (i.e., personnel, operations, supplies, or capital outlay) within programs; however, any revisions that alter the total expenditures of the categories must be approved by the City Council. The City, for management purposes, adopts budgets for all funds. Legal budgets are also adopted for all funds, and the legal level of control is the fund level.

All unused appropriations, except appropriations for capital expenditures, lapse at the close of the fiscal year to the extent they have not been expended or encumbered. An appropriation for capital expenditures shall continue in force until the purpose for which it was made is accomplished or abandoned. No supplemental budgetary appropriations occurred in the Debt Service Fund or in the General Fund. Revised budgets, if any, are used for budget versus actual comparisons.

OTHER SUPPLEMENTARY INFORMATION

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CITY OF JOSHUA, TEXAS
BUDGETARY COMPARISON SCHEDULE – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS)
DEBT SERVICE FUND
YEAR ENDED DECEMBER 31, 2019

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES				
Property Taxes	\$ 769,780	\$ 899,615	\$ 900,461	\$ 846
EXPENDITURES				
Current:				
Debt Service - Principal	650,000	650,000	650,000	-
Debt Service - Interest	<u>268,765</u>	<u>268,765</u>	<u>268,765</u>	<u>-</u>
Total Expenditures	<u>918,765</u>	<u>918,765</u>	<u>918,765</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(148,985)	(19,150)	(18,304)	846
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>100,575</u>	<u>100,575</u>	<u>100,575</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>100,575</u>	<u>100,575</u>	<u>100,575</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(48,410)	81,425	82,271	846
Fund Balances - Beginning of Year	<u>249,519</u>	<u>249,519</u>	<u>249,519</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 201,109</u>	<u>\$ 330,944</u>	<u>\$ 331,790</u>	<u>\$ 846</u>

CITY OF JOSHUA, TEXAS
BUDGETARY COMPARISON SCHEDULE – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS)
TYPE A ECONOMIC DEVELOPMENT CORPORATION
YEAR ENDED SEPTEMBER 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Sales Tax	\$ 339,975	\$ 385,925	\$ 377,656	\$ (8,269)
Investment Earnings	250	700	807	107
Miscellaneous	-	8,280	-	(8,280)
Total Revenues	340,225	394,905	378,463	(16,442)
EXPENDITURES				
Current:				
Economic Development	63,250	14,545	34,657	(20,112)
Debt Service	225,625	225,625	225,620	5
Total Expenditures	288,875	240,170	260,277	(20,107)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	51,350	154,735	118,186	3,665
OTHER FINANCING SOURCES (USES)				
Transfers Out	(30,000)	(30,000)	(30,000)	-
Total Other Financing Sources (Uses)	(30,000)	(30,000)	(30,000)	-
NET CHANGE IN FUND BALANCES	21,350	124,735	88,186	3,665
Fund Balances - Beginning of Year	231,408	231,408	231,408	231,408
FUND BALANCES - END OF YEAR	<u>\$ 252,758</u>	<u>\$ 356,143</u>	<u>\$ 319,594</u>	<u>\$ 235,073</u>

CITY OF JOSHUA, TEXAS
BUDGETARY COMPARISON SCHEDULE – BUDGET AND ACTUAL
(NON-GAAP BUDGETARY BASIS)
TYPE B ECONOMIC DEVELOPMENT CORPORATION
YEAR ENDED SEPTEMBER 30, 2019

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
REVENUES				
Sales Tax	\$ 339,975	\$ 385,925	\$ 377,656	\$ (8,269)
Investment Earnings	500	1,315	1,469	154
Miscellaneous	20,000	16,270	16,381	111
Total Revenues	<u>360,475</u>	<u>403,510</u>	<u>395,506</u>	<u>(8,004)</u>
EXPENDITURES				
Economic Development	<u>26,500</u>	<u>20,500</u>	<u>22,546</u>	<u>(2,046)</u>
Total Expenditures	<u>26,500</u>	<u>20,500</u>	<u>22,546</u>	<u>(2,046)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	333,975	383,010	372,960	(5,958)
OTHER FINANCING SOURCES (USES)				
Transfers Out	<u>(332,545)</u>	<u>(240,460)</u>	<u>(237,460)</u>	<u>3,000</u>
Total Other Financing Sources (Uses)	<u>(332,545)</u>	<u>(240,460)</u>	<u>(237,460)</u>	<u>3,000</u>
NET CHANGE IN FUND BALANCES	1,430	142,550	135,500	(2,958)
Fund Balances - Beginning of Year	<u>32,643</u>	<u>32,643</u>	<u>32,643</u>	<u>32,643</u>
FUND BALANCES - END OF YEAR	<u>\$ 34,073</u>	<u>\$ 175,193</u>	<u>\$ 168,143</u>	<u>\$ 29,685</u>

**CITY OF JOSHUA, TEXAS
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019**

	<u>Court Security</u>	<u>Court Technology</u>	<u>Hotel Occupancy</u>	<u>Total Other Governmental Funds</u>
ASSETS				
Receivables, Net	\$ -	532	\$ 3,923	\$ 4,455
Restricted Cash and Cash Equivalents	20,789	2,389	191,985	215,163
Due from Other Funds	-	3,412	-	3,412
	<u>-</u>	<u>3,412</u>	<u>-</u>	<u>3,412</u>
Total Assets	<u>\$ 20,789</u>	<u>\$ 6,333</u>	<u>\$ 195,908</u>	<u>\$ 223,030</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	3,000	\$ -	\$ -	\$ 3,000
Due to Other Funds	-	3,108	374	3,482
Total Liabilities	<u>3,000</u>	<u>3,108</u>	<u>374</u>	<u>6,482</u>
FUND BALANCES				
Restricted for:				
Court Security	17,789	-	-	17,789
Court Technology	-	3,225	-	3,225
Tourism	-	-	195,534	195,534
Unassigned	-	-	-	-
Total Fund Balances	<u>17,789</u>	<u>3,225</u>	<u>195,534</u>	<u>216,548</u>
Total Liabilities and Fund Balances	<u>\$ 20,789</u>	<u>\$ 6,333</u>	<u>\$ 195,908</u>	<u>\$ 223,030</u>

**CITY OF JOSHUA, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019**

	Court Security	Court Technology	Hotel Occupancy	Total Other Governmental Funds
REVENUES				
Hotel Occupancy Taxes	\$ -	\$ -	\$ 44,838	\$ 44,838
Fines and Forfeitures	3,850	5,135	-	8,985
Total Revenues	3,850	5,135	44,838	53,823
EXPENDITURES				
Current:				
Municipal Court	3,000	2,888	-	5,888
Total Expenditures	3,000	2,888	-	5,888
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	850	2,247	44,838	47,935
OTHER FINANCING SOURCES (USES)				
Transfers In	-	1,500	-	1,500
Transfers Out	(1,500)	-	-	(1,500)
Total Other Financing Sources (Uses)	(1,500)	1,500	-	-
NET CHANGE IN FUND BALANCES	(650)	3,747	44,838	47,935
Fund Balances - Beginning of Year	18,439	(522)	150,696	168,613
FUND BALANCES - END OF YEAR	<u>\$ 17,789</u>	<u>\$ 3,225</u>	<u>\$ 195,534</u>	<u>\$ 216,548</u>

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INTERNAL CONTROL REPORT



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

Honorable Mayor and
Members of the City Council
City of Joshua, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Joshua, Texas, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise City of Joshua, Texas's basic financial statements, and have issued our report thereon dated April 7, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Joshua's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a significant deficiency.

Honorable Mayor and
Members of the City Council
City of Joshua, Texas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Joshua's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Fort Worth, Texas
April 7, 2020

**CITY OF JOSHUA, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2019**

FINDING 2019-001

Type of Finding: Significant Deficiency in Internal Control

Criteria or specific requirement: The City did not prepare its own financial statements.

Condition: CLA prepared the financial statements of the City in conformance with accounting principles generally accepted in the United States of America.

Context: The City does not currently prepare its own financial statements, including all of the required financial statement disclosures and reporting entries to properly reflect restrictions on net position. However, staff has sufficient skills, knowledge, and experience to review the financial statements and note disclosures to determine their accuracy and completeness.

Cause: As part of a time/cost savings the City requested the auditor to prepare the financial statements.

Effect: The design of the internal controls over the financial reporting process could affect the ability of the City to report their financial data consistently with the assertions of management in the financial statements.

Repeat Finding: This is a prior year finding that has not been remedied.

Recommendation: The City should weigh the costs and benefits involved with training personnel to draft its own financial statements in conformance with accounting principles generally accepted in the United States of America.

Views of responsible officials: There is no disagreement with the audit finding.