

**CITY OF JOSHUA, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**YEAR ENDED SEPTEMBER 30, 2018**

**CITY OF JOSHUA, TEXAS  
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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, 2018, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2018, 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.

### ***Emphasis of a Matter***

For the Year ended September 30, 2018, the City of Joshua, Texas restated net position in Governmental Activities to correct error in previously issued financial statements (see Note 1). Our auditors' opinion was not modified with respect to this restatement.

### ***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 May 15, 2019, 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  
May 15, 2019

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**CITY OF JOSHUA, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2018**

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, 2018. 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 \$9,528,072. Of this amount, \$638,270 (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 \$119,063. 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 \$2,273,647, an increase of \$116,266 in comparison with the prior year. Approximately 54% of this amount, \$1,231,879 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 \$1,232,401 or 30% 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, 2018**

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, 2018**

**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 \$9,528,072 at the close of the most recent fiscal year. By far the largest portion of the City's net position (\$7,798,312 or 82%) 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	
	2018	2017, Restated
Current Assets	\$ 2,631,387	\$ 2,468,314
Noncurrent Assets	18,588,392	17,250,312
Total Assets	<u>21,219,779</u>	<u>19,718,626</u>
 Total Deferred Outflows of Resources	<u>189,655</u>	<u>247,568</u>
 Current Liabilities	1,074,090	964,925
Noncurrent Liabilities	10,681,164	9,526,026
Total Liabilities	<u>11,755,254</u>	<u>10,490,951</u>
 Total Deferred Inflows of Resources	<u>126,108</u>	<u>66,234</u>
 <b>Net Position</b>		
Net Investment in Capital Assets	7,798,312	7,765,734
Restricted	1,091,490	745,654
Unrestricted	638,270	897,621
Total Net Position	<u><u>\$ 9,528,072</u></u>	<u><u>\$ 9,409,009</u></u>

An additional portion of the City of Joshua's net position (\$1,091,490 or 11%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$638,270 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, 2018**

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 \$119,063. 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 \$165,022 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	
	2018	2017, Restated
<b>Revenues</b>		
Program Revenues:		
Charges for Services	\$ 742,249	\$ 692,257
Operating Grant and Contributions	7,346	5,315
Capital Grants and Contributions	140,857	97,195
General Revenues:		
Taxes	4,358,494	3,799,944
Franchise Fees	347,500	321,034
Interest	4,018	3,534
Other	124,388	82,849
Total Revenues	5,724,852	5,002,128
<b>Expenditures</b>		
General Government	1,044,531	947,165
Public Safety	1,186,491	1,065,816
Public Works	891,952	907,500
Municipal Court	157,107	155,971
Development Services	251,727	270,392
Animal Control	166,145	173,759
Fire Department	555,346	562,096
Economic Development	77,981	279,663
Parks and Recreation	501,829	134,152
Garbage and Recycling Service	520,160	-
Interest on Long-Term	252,520	340,592
Total Expenditures	5,605,789	4,837,106
<b>Change In Net Position</b>	119,063	165,022
Net Position - Beginning of Year	9,881,193	9,761,519
Prior Period Adjustment	(472,184)	(45,348)
Net Position - Beginning of Year, as Restated	9,409,009	9,716,171
<b>Net Position - End of Year</b>	\$ 9,528,072	\$ 9,881,193

**CITY OF JOSHUA, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2018**

**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 \$2,273,647. \$1,041,768 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 \$1,231,879 constitutes unassigned fund balance.

Of the \$2,273,647 ending fund balance, \$168,613 is accounted for in nonmajor governmental funds. The General Fund balance is \$1,579,230 at year-end - an increase of \$49,957. This increase was more due to an increase in property tax and was offset by an increase in public works and garbage and recycling service expenditures.

The Debt Service Fund balance increased \$81,357 to \$249,519 at year-end. This increase is primarily the result of increased property tax revenues for debt service. The Capital Improvement Fund balance decreased \$132,310 to a year-end total of \$12,234. This decrease is caused by capital outlay expenditures from prior debt issuances. The Type A Economic Development Corporation Fund balance increased \$160,409 to a year-end total of \$231,408. This increase is related proceeds from debt issued during the year. The Type B Community Development Corporation Fund balance decreased \$72,787 to a year-end total of \$32,643. This decrease is primarily related to the transfers out from the fund.

**General Fund Budgetary Highlights.** The actual expenditures for the year were \$4,147,048, which was \$454,808 over budget. This is due to not budgeting for garbage and recycling expenses.

For FY 2018, actual revenues were \$3,958,485 as compared to the budgeted amount of \$3,404,430. Contributing to the variance was higher than anticipated charges for services and not budgeting for garbage and recycling charges (\$462,430 more than the budget) and higher than expected miscellaneous revenues (\$56,547 more than budget).

With both revenues and expenditures above appropriations, the fund balance in the General Fund increased by \$49,957, which was \$98,282 better than the final budgeted decrease.

**CITY OF JOSHUA, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2018**

**CAPITAL ASSETS**

At year-end, the City had invested \$18,588,392 (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	
	2018	2017
Land	\$ 4,184,089	\$ 2,346,117
Construction in Progress	279,768	97,165
Buildings and Improvements	12,496,378	12,449,108
Furniture and Equipment	2,164,118	2,080,970
Streets and Improvements	6,845,573	6,845,573
Vehicles	2,085,480	2,049,679
Totals at Historical Cost	<u>28,055,406</u>	<u>25,868,612</u>
Total Accumulated Depreciation	<u>9,467,014</u>	<u>8,618,298</u>
Total Net Assets	<u><u>\$ 18,588,392</u></u>	<u><u>\$ 17,250,314</u></u>

**LONG-TERM DEBT**

At year-end, the City had \$11,192,946 in outstanding debt as shown in the table below. Of this amount, \$11,055,000 represents bonded debt backed by the full faith and credit of the City. The City's capitalized obligations of \$137,946 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	
	2018	2017
Bonds Payable	\$ 11,055,000	\$ 9,810,000
Capital Leases	<u>137,946</u>	<u>62,535</u>
Total Long-Term Debt	<u><u>\$ 11,192,946</u></u>	<u><u>\$ 9,872,535</u></u>

**CITY OF JOSHUA, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2018**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

- Total certified appraised values for the fiscal year 2019 budget preparation increased significantly by 12.06% from 2018. Both real property and personal property assessed values increased by 1.16% and 14.03%, respectively. Mineral rights assessed values, however, decreased in value by 1.22%.
- The City's ad valorem tax rate for 2018 remained at \$0.77527 per \$100 of assessed value. The 2018 rate is based on maintenance and operations tax of \$0.53501, and an interest and sinking rate of \$0.240255.
- Sales tax revenues are expected to increase by approximately 2.0% compared to the fiscal year 2018 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 2018. Amounts available for appropriation in the General Fund budget are \$3,708,415 which is a \$303,985, or an 8.9% increase from the prior year. General Fund expenditures for FY 2019, before transfers, are expected to total \$3,927,515. This represents an overall increase of approximately 11% compared to expenditures for the previous year. The increase is predominantly due to the addition of personnel in the Building and Code Compliance department will be added to facilitate the review and inspection process of residential and commercial development that has increased over the last year, new debt service to finance heavy street maintenance equipment for the Public Works Department and the use of significant unrestricted reserves.

**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, 2018**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current Assets:	
Cash And Cash Equivalents	\$ 1,062,031
Receivables, Net	195,992
Due from Other Governments	264,230
Restricted Cash and Cash Equivalents	<u>1,109,134</u>
Total Current Assets	2,631,387
Noncurrent Assets:	
Capital Assets:	
Nondepreciable Assets	4,463,857
Depreciable Assets, Net	<u>14,124,535</u>
Total Noncurrent Assets	<u>18,588,392</u>
Total Assets	21,219,779
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Outflows related to TMRS	<u>189,655</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	116,216
Intergovernmental Payables	11,376
Accrued Payroll Liabilities	47,113
Accrued Interest Payable	60,473
Current Portion of Long-Term Debt, Due Within One Year	<u>838,912</u>
Total Current Liabilities	1,074,090
Noncurrent Liabilities:	
Long-Term Debt, Due in More Than One Year	10,354,034
Accreted Bond Premium Payable	163,140
Net Pension Liability	102,467
Compensated Absences	<u>61,523</u>
Total Noncurrent Liabilities	<u>10,681,164</u>
Total Liabilities	11,755,254
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Inflows Related to TMRS	<u>126,108</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	7,798,312
Restricted for Specific Purposes	1,091,490
Unrestricted	<u>638,270</u>
Total Net Position	<u><u>\$ 9,528,072</u></u>

See accompanying Notes to Basic Financial Statements

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**CITY OF JOSHUA, TEXAS  
STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2018**

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	\$ 1,044,531	\$ 21,332	\$ 2,398	\$ 140,857	\$ (879,944)
Public Safety	1,186,491	30,600	-	-	(1,155,891)
Public Works	891,952	252,696	-	-	(639,256)
Municipal Court	157,107	110,444	-	-	(46,663)
Development Services	251,727	-	-	-	(251,727)
Animal Control	166,145	590	-	-	(165,555)
Fire Department	555,346	900	4,948	-	(549,498)
Economic Development	77,981	-	-	-	(77,981)
Parks and Recreation	501,829	-	-	-	(501,829)
Garbage and Recycling Service	520,160	325,687	-	-	(194,473)
Interest on Long-Term Debt	252,520	-	-	-	(252,520)
Total Governmental Activities	<u>\$ 5,605,789</u>	<u>\$ 742,249</u>	<u>\$ 7,346</u>	<u>\$ 140,857</u>	<u>(4,715,337)</u>

**GENERAL REVENUES**

Taxes:

Property, Levied for General Purposes	1,918,872
Property, Levied for Debt Service	875,269
Sales	1,330,551
Other	233,802
Franchise Fees	347,500
Interest	4,018
Other	124,388
Total General Revenues	<u>4,834,400</u>

Change in Net Assets 119,063

Net Position - Beginning of Year	9,881,193
Prior Period Adjustment, See Note 1	(472,184)
Net Position - Beginning of Year, as Restated	<u>9,409,009</u>
Net Position - End of Year	<u>\$ 9,528,072</u>

See accompanying Notes to Basic Financial Statements

**CITY OF JOSHUA, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2018**

	General	Debt Service	Capital Improvement
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,062,032	\$ -	\$ -
Receivables, Net	274,462	49,722	-
Due From Other Funds	210,978	438,625	7,096
Restricted:			
Cash and Cash Equivalents	346,829	-	22,352
	<u>1,894,301</u>	<u>488,347</u>	<u>29,448</u>
Total Assets	<u>\$ 1,894,301</u>	<u>\$ 488,347</u>	<u>\$ 29,448</u>
<b>LIABILITIES:</b>			
Liabilities:			
Accounts Payable	\$ 116,216	\$ -	\$ -
Intergovernmental Payables	11,376	-	-
Accrued Payroll Liabilities	47,113	-	-
Due to Other Funds	7,052	189,106	17,214
Total Liabilities	<u>181,757</u>	<u>189,106</u>	<u>17,214</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	91,854	49,722	-
Unavailable Revenue - Court Fines	41,460	-	-
Total Deferred Inflows of Resources	<u>133,314</u>	<u>49,722</u>	<u>-</u>
<b>FUND BALANCES</b>			
Fund Balances:			
Restricted For:			
TIF	346,829	-	-
Debt Service	-	249,519	-
Economic Development	-	-	-
Capital Improvements	-	-	12,234
Court Security	-	-	-
Tourism	-	-	-
Unassigned	1,232,401	-	-
Total Fund Balances	<u>1,579,230</u>	<u>249,519</u>	<u>12,234</u>
	<u>\$ 1,894,301</u>	<u>\$ 488,347</u>	<u>\$ 29,448</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,894,301</u>	<u>\$ 488,347</u>	<u>\$ 29,448</u>

See accompanying Notes to Basic Financial Statements

**CITY OF JOSHUA, TEXAS  
BALANCE SHEET (CONTINUED)  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2018**

Type A Economic Development Corporation	Type B Community Development Corporation	Other Governmental	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 1,062,032
66,058	66,058	3,922	460,222
3,640	-	3,412	663,751
165,289	409,078	165,586	1,109,134
<u>\$ 234,987</u>	<u>\$ 475,136</u>	<u>\$ 172,920</u>	<u>\$ 3,295,139</u>
\$ -	\$ -	\$ -	\$ 116,216
-	-	-	11,376
-	-	-	47,113
3,579	442,493	4,307	663,751
<u>3,579</u>	<u>442,493</u>	<u>4,307</u>	<u>838,456</u>
-	-	-	141,576
-	-	-	41,460
<u>-</u>	<u>-</u>	<u>-</u>	<u>183,036</u>
-	-	-	346,829
-	-	-	249,519
231,408	32,643	-	264,051
-	-	-	12,234
-	-	18,439	18,439
-	-	150,696	150,696
-	-	(522)	1,231,879
<u>231,408</u>	<u>32,643</u>	<u>168,613</u>	<u>2,273,647</u>
<u>\$ 234,987</u>	<u>\$ 475,136</u>	<u>\$ 172,920</u>	<u>\$ 3,295,139</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, 2018**

Total Fund Balances - Governmental Funds Balance Sheet	\$ 2,273,647
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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.	18,588,391
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Revenues earned but not available within 60 days of the year-end are not recognized as revenue on the fund financial statements.	183,036
--	---------

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	\$ (102,467)	
Deferred Outflows	189,655	
Deferred Inflows	<u>(126,108)</u>	(38,920)

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	(11,055,000)	
Capital Leases	(137,946)	
Accrued Interest Payable	(60,473)	
Unamortized Premiums	(163,140)	
Compensated Absences	<u>(61,523)</u>	<u>(11,478,082)</u>

Net Position of Governmental Activities	<u><u>\$ 9,528,072</u></u>
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**CITY OF JOSHUA, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2018**

	General	Debt Service	Capital Improvement
<b>REVENUES</b>			
Property Taxes	\$ 1,876,711	\$ 844,674	\$ -
Sales Taxes	665,275	-	-
Hotel Occupancy Taxes	-	-	-
Alcoholic Beverage Taxes	432	-	-
Fire District Taxes	198,554	-	-
Franchise Fees	347,500	-	-
Fines and Forfeitures	127,316	-	-
Grants and Contributions	7,346	-	140,856
Charges For Services	631,805	-	-
Investment Earnings	1,999	-	1,027
Miscellaneous	101,547	-	-
Total Revenues	<u>3,958,485</u>	<u>844,674</u>	<u>141,883</u>
<b>EXPENDITURES</b>			
General Government	910,104	-	-
Public Safety	1,049,615	-	-
Public Works	703,019	-	-
Municipal Court	137,101	-	-
Development Services	244,671	-	-
Animal Control	155,141	-	-
Fire Department	394,604	-	-
Economic Development	-	-	-
Garbage and Recycling Service	520,160	-	-
Debt Service:			
Principal	30,334	625,000	-
Interest	2,299	286,812	-
Capital Outlay	-	-	414,949
Total Expenditures	<u>4,147,048</u>	<u>911,812</u>	<u>414,949</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(188,563)	(67,138)	(273,066)
<b>OTHER FINANCING SOURCES (USES)</b>			
Lease Proceeds	-	-	120,041
Bond Proceeds	-	-	-
Transfers In	259,235	148,495	20,715
Transfers Out	(20,715)	-	-
Total Other Financing Sources (Uses)	<u>238,520</u>	<u>148,495</u>	<u>140,756</u>
<b>NET CHANGE IN FUND BALANCES</b>	49,957	81,357	(132,310)
Fund Balances - Beginning of Year	<u>1,529,273</u>	<u>168,162</u>	<u>144,544</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 1,579,230</u>	<u>\$ 249,519</u>	<u>\$ 12,234</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, 2018**

Type A Economic Development Corporation	Type B Community Development Corporation	Other Governmental	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 2,721,385
332,638	332,638	-	1,330,551
-	-	34,816	34,816
-	-	-	432
-	-	-	198,554
-	-	-	347,500
-	-	10,209	137,525
1	-	-	148,203
-	-	-	631,805
318	674	-	4,018
2,984	19,857	-	124,388
<u>335,941</u>	<u>353,169</u>	<u>45,025</u>	<u>5,679,177</u>
-	-	-	910,104
-	-	-	1,049,615
-	-	-	703,019
-	-	15,385	152,486
-	-	-	244,671
-	-	-	155,141
-	-	-	394,604
34,755	43,226	-	77,981
75,000	-	-	730,334
157,102	-	-	446,213
1,828,675	-	-	2,243,624
<u>2,095,532</u>	<u>43,226</u>	<u>15,385</u>	<u>7,627,952</u>
(1,759,591)	309,943	29,640	(1,948,775)
-	-	-	120,041
1,945,000	-	-	1,945,000
-	-	-	428,445
(25,000)	(382,730)	-	(428,445)
<u>1,920,000</u>	<u>(382,730)</u>	<u>-</u>	<u>2,065,041</u>
160,409	(72,787)	29,640	116,266
70,999	105,430	138,973	2,157,381
<u>\$ 231,408</u>	<u>\$ 32,643</u>	<u>\$ 168,613</u>	<u>\$ 2,273,647</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, 2018**

Net Change in Fund Balances - Total Governmental Funds	\$ 116,266
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.	(853,302)
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	2,191,381
Capital Asset Disposals	-
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.	45,675
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.	(149,916)
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.	(6,927)
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.	13,007
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.	
Bonds Issued, Net	(1,945,000)
Leases Issued	(120,041)
Principal Repayments	744,630
Loss on Refunding	83,290
	<hr/>
Change in Net Position of Governmental Activities	<u><u>\$ 119,063</u></u>

See accompanying Notes to Basic Financial Statements

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**CITY OF JOSHUA, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**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, 2018**

**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, 2018**

**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, 2018**

**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, 2018**

**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, 2018, the City had a tax rate of \$0.77527 per \$100 of which \$0.515896 was allocated for general government and \$0.259374 was allocated for payment of principal and interest on general long-term debt.

**Inventories and Prepaid Items**

The City records purchases of utility parts and supplies as inventories, utilizing the lower of cost or market method of accounting for inventory. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

**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, 2018**

**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, 2018**

**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	299,241
Restricted for Economic Development	264,051
Capital Improvements	12,234
Restricted for Court Security	18,439
Restricted for Tourism	150,696
Total	<u><u>\$ 1,091,490</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, 2018**

**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, 2018**

**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.

**Prior Period Adjustment**

During the current year, it was determined that the City did not capitalized \$919,128 in capital assets purchased in prior years. The accumulated depreciation on these assets amounted to \$705,932. It was also determined that depreciation expense had not been taken on a building since its purchase. The accumulated depreciation as of September 30, 2017 on this asset was \$685,380. Therefore, a prior period adjustment of \$472,182 was recorded to properly state beginning net position.

**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, 2018**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**A. Deposits and Investments (Continued)**

**Cash Deposits**

At September 30, 2018, 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 \$2,171,165 and the bank balances were \$2,255,353. The City's cash deposits at September 30, 2018 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, 2018**

**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, 2018**

**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, 2018, receivables were as follows:

	Governmental Funds					Total
	General	Debt Service	Type A Economic Development Corporation	Type B Community Development Corporation	Other Governmental	
Receivables:						
Property Tax	\$ 98,896	\$ 49,722	\$ -	\$ -	\$ -	\$ 148,618
Sales Tax	132,114	-	66,058	66,058	-	264,230
Other Taxes	-	-	-	-	3,922	3,922
Accounts	253,048	-	-	-	-	253,048
Gross Receivables	484,058	49,722	66,058	66,058	3,922	669,818
Less: Allowance for Uncollectibles	209,596	-	-	-	-	209,596
Net Total Receivables	<u>\$ 274,462</u>	<u>\$ 49,722</u>	<u>\$ 66,058</u>	<u>\$ 66,058</u>	<u>\$ 3,922</u>	<u>\$ 460,222</u>

**B. Restricted Assets**

At September 30, 2018, restricted assets consisted of the following:

	Governmental Activities
Cash and Cash Equivalents:	
TIF 1	\$ 346,829
Capital Improvements	22,352
Type A Sales Tax	165,289
Type B Sales Tax	409,078
Court Security	18,439
Hotel Occupancy	147,147
Total Restricted Cash and Cash Equivalents	<u>\$ 1,109,134</u>

**CITY OF JOSHUA, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**C. Capital Assets**

Capital asset activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Restatement See Note 1	Increases	Decreases	Ending Balance
Governmental Activities:					
Capital Assets not Being Depreciated:					
Land	\$ 2,346,117	\$ -	\$ 1,837,972	\$ -	\$ 4,184,089
Construction in Progress	97,165	-	182,603	-	279,768
Total Capital Assets Not Being Depreciated	2,443,282	-	2,020,575	-	4,463,857
Capital Assets Being Depreciated:					
Buildings and Improvements	12,449,108	-	47,270	-	12,496,378
Furniture and Equipment	2,080,970	-	83,148	-	2,164,118
Streets and Improvements	6,795,599	49,974	-	-	6,845,573
Vehicles and Work Equipment	1,180,523	869,156	40,414	4,613	2,085,480
Total Capital Assets Being Depreciated	22,506,200	919,130	170,832	4,613	23,591,549
Less: Accumulated Depreciation for:					
Buildings and Improvements	1,971,249	685,380	255,380	-	2,912,009
Furniture and Equipment	1,826,294	-	84,558	-	1,910,852
Streets and Improvements	2,511,074	-	345,803	-	2,856,877
Vehicles and Work Equipment	918,396	705,932	167,561	4,613	1,787,276
Total Accumulated Depreciation	7,227,013	1,391,312	853,302	4,613	9,467,014
Total Capital Assets Being Depreciated, Net	15,279,187	(472,182)	(682,470)	-	14,124,535
Governmental Activities Capital Assets, Net	<u>\$ 17,722,469</u>	<u>\$ (472,182)</u>	<u>\$ 1,338,105</u>	<u>\$ -</u>	<u>\$ 18,588,392</u>

At September 30, 2018, depreciation was charged to functions as follows:

General Government	\$ 105,328
Public Safety	71,472
Public Works	314,213
Development Services	4,009
Animal Control	6,864
Fire Department	167,648
Parks and Recreation	183,768
Total Depreciation Expense	<u>\$ 853,302</u>

**CITY OF JOSHUA, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**D. Long-Term Obligations**

At September 30, 2018, 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%	\$ 160,000
2008 General Obligation Bonds due in annual installments through 2020, bearing interest at a rate of 3.74%	310,000
2010 General Obligation Bonds due in annual installments through 2030, bearing interest at a rate of 3.50%	2,795,000
2012 Combination Tax and Revenues Certificates of Obligation due in annual installments through 2023, bearing interest at a rate of 2.00%	4,075,000
2012 General Obligation Bonds due in annual installments through 2032, bearing interest at a rate of 2.00%	1,770,000
2018 Sales Tax Revenue Bonds due in annual installments through 2039, bearing interest at a rate of 2.59%	<u>1,945,000</u>
Total	<u><u>\$ 11,055,000</u></u>

Changes in long-term obligations for the year ended September 30, 2018 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Certificates of Obligation	\$ 4,510,000	\$ 1,945,000	\$ 275,000	\$ 6,180,000	\$ 350,000
General Obligation Bonds	5,300,000	-	425,000	4,875,000	445,000
Unamortized Bond Premiums	246,430	-	83,290	163,140	-
Capital Leases	62,535	120,041	44,630	137,946	43,912
Compensated Absences	74,530	-	13,007	61,523	-
Total	<u>\$ 10,193,495</u>	<u>\$ 2,065,041</u>	<u>\$ 840,927</u>	<u>\$ 11,417,609</u>	<u>\$ 838,912</u>

**CITY OF JOSHUA, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**E. Long-Term Obligations (Continued)**

Debt service requirements on long-term debt at September 30, 2018, are as follows:

**Bonds and Notes Payable**

Certificates of Obligation Due Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 350,000	\$ 173,596	\$ 523,596
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
2024-2028	1,745,000	597,902	2,342,902
2029-2033	2,090,000	342,122	2,432,122
2034-2038	600,000	96,343	696,343
2039	135,000	2,923	137,923
Totals	<u>\$ 6,180,000</u>	<u>\$ 1,827,913</u>	<u>\$ 8,007,913</u>

General Obligation Bonds Due Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 445,000	\$ 175,789	\$ 620,789
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
2024-2028	1,850,000	425,155	2,275,155
2029-2032	1,165,000	73,015	1,238,015
Totals	<u>\$ 4,875,000</u>	<u>\$ 1,244,357</u>	<u>\$ 6,119,357</u>

The effective interest rate on outstanding bonds and notes ranged from 0.70% - 4.00% at September 30, 2018.

**Capital Leases**

The City has entered into capital lease agreements. The total capitalized cost of equipment under capital leases is \$190,239 and the amortized value is \$133,428 at September 30, 2018. Amortization expense has been included in depreciation expense for the year ended September 30, 2018.

**CITY OF JOSHUA, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**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, 2018:

<u>Year Ending September 30,</u>	<u>Amount</u>
2019	\$ 46,411
2020	37,237
2021	24,997
2022	24,997
2023	13,956
Total Payments	147,598
Less: Amount Representing Interest	9,652
Present Value of Net Minimum Lease Payments	<u>\$ 137,946</u>

**F. Interfund Balances and Activity**

Balances due to and due from other funds at September 30, 2018, consisted of the following:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
General Fund	Nonmajor Funds	\$ 4,307
General Fund	Debt Service	189,106
General Fund	Type B Economic Development	351
General Fund	Capital Improvements	17,214
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>\$ 663,751</u>

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

**CITY OF JOSHUA, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**NOTE 2 DETAILED NOTES ON ALL FUNDS (CONTINUED)**

**F. Interfund Balances and Activity (Continued)**

Transfers to and from other funds at September 30, 2018 consisted of the following:

Transfers from	Transfers to	Amount
Type A Economic Development	General Fund	\$ 25,000
Type B Economic Development	General Fund	234,235
Type B Economic Development	Debt Service Fund	148,495
General Fund	Capital Improvements Fund	20,715
Total		<u>\$ 428,445</u>

**G. Deficit Fund Balance**

The City has deficit fund balance at September 31, 2018 in the Court Technology Fund in the amount of \$522. The City intends to fund this deficit from future collections of fines and forfeitures.

**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, 2018**

**NOTE 3 OTHER INFORMATION (CONTINUED)**

**B. Defined Benefit Pension Policies**

**Plan Description**

The City participates as one of 872 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.tmr.org](http://www.tmr.org).

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, 2018**

**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, 2017 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	38
Active Employees	36
Total	<u>81</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 5.67% and 5.94% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018 were \$96,073, and were equal to the required contributions.

**CITY OF JOSHUA, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**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, 2016, 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, 2017 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.

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy postretirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering the 2009 through 2011, and the dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

**CITY OF JOSHUA, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**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 expenses 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 arithmetic real rates return for each major assets class in fiscal year 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
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, 2018**

**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 (a)	Plan Fiduciary Net Pension (b)	Net Pension (a) - (b)
Balance - December 31, 2016	\$ 2,963,102	\$ 2,892,764	\$ 70,338
Changes for the Year:			
Service Cost	207,242	-	207,242
Interest	203,201	-	203,201
Change of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	18,030	-	18,030
Changes of Assumptions	-	-	-
Contributions - Employer	-	89,253	(89,253)
Contributions - Employee	-	112,370	(112,370)
Net Investment Income	-	401,837	(401,837)
Benefit Payments, Including Refunds of Employee Contributions	(112,687)	(112,687)	-
Administrative Expense	-	(2,078)	2,078
Other Changes	-	(104)	104
Net Changes	<u>315,786</u>	<u>488,591</u>	<u>(172,805)</u>
Balance - December 31, 2017	<u>\$ 3,278,888</u>	<u>\$ 3,381,355</u>	<u>\$ (102,467)</u>

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	\$ 439,877	\$ (102,467)	\$ (543,120)

**CITY OF JOSHUA, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018**

**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.org](http://www.tmrs.org).

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

For the year ended September 30, 2018, the City recognized pension expense of \$285,412. At September 30, 2018, 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	\$ -	\$ 32,991
Changes in Actuarial Assumptions	40,973	-
Difference Between Projected and Actual Investment Earnings	-	93,117
Contributions Subsequent to the Measurement Date	148,682	-
Total	<u>\$ 189,655</u>	<u>\$ 126,108</u>

\$148,682 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, 2018. 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>
2018	\$ 3,816
2019	308
2020	(49,550)
2021	(39,709)
Total	<u>\$ (85,135)</u>

**CITY OF JOSHUA, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**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.

## **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, 2018**

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
<b>REVENUES</b>				
Taxes:				
Property	\$ 1,846,275	\$ 1,846,275	\$ 1,876,711	\$ 30,436
Sales	645,300	645,300	665,275	19,975
Alcoholic Beverage	500	500	432	(68)
Fire District	175,000	175,000	198,554	23,554
Franchise Fees	318,980	318,980	347,500	28,520
Fines and Forfeitures	200,000	200,000	127,316	(72,684)
Grants and Contributions	2,000	2,000	7,346	5,346
Charges For Services	169,375	169,375	631,805	462,430
Investment Earnings	2,000	2,000	1,999	(1)
Miscellaneous	45,000	45,000	101,547	56,547
Total Revenues	3,404,430	3,404,430	3,958,485	554,055
<b>EXPENDITURES</b>				
Current:				
General Government	846,780	846,780	910,104	(63,324)
Public Safety	1,104,355	1,104,355	1,049,615	54,740
Public Works	646,600	646,600	703,019	(56,419)
Municipal Court	157,795	157,795	137,101	20,694
Development Services	245,370	245,370	244,671	699
Animal Control	153,355	153,355	155,141	(1,786)
Fire Department	403,385	403,385	394,604	8,781
Garbage and Recycling	-	-	520,160	(520,160)
Debt Service	43,110	43,110	32,633	10,477
Capital Outlay	91,490	91,490	-	91,490
Total Expenditures	3,692,240	3,692,240	4,147,048	(454,808)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(287,810)	(287,810)	(188,563)	99,247
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	266,985	266,985	259,235	(7,750)
Transfers Out	(27,500)	(27,500)	(20,715)	6,785
Total Other Financing Sources (Uses)	239,485	239,485	238,520	(965)
<b>NET CHANGE IN FUND BALANCES</b>	(48,325)	(48,325)	49,957	98,282
Fund Balances - Beginning of Year	1,529,273	1,529,273	1,529,273	-
<b>FUND BALANCES - END OF YEAR</b>	\$ 1,480,948	\$ 1,480,948	\$ 1,579,230	\$ 98,282

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, 2018**

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

See accompanying Note to Required Supplementary Information.

**CITY OF JOSHUA, TEXAS  
SCHEDULE OF CONTRIBUTIONS  
YEAR ENDED DECEMBER 31, 2018**

<b>Fiscal Year</b>	<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, 2018**

**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, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property Taxes	\$ 763,320	\$ 763,320	\$ 844,674	\$ 81,354
<b>EXPENDITURES</b>				
Current:				
Debt Service	<u>911,815</u>	<u>911,815</u>	<u>911,812</u>	<u>3</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(148,495)	(148,495)	(67,138)	81,351
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	<u>148,495</u>	<u>148,495</u>	<u>148,495</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>148,495</u>	<u>148,495</u>	<u>148,495</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	-	81,357	81,351
Fund Balances - Beginning of Year	<u>168,162</u>	<u>168,162</u>	<u>168,162</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ 168,162</u></u>	<u><u>\$ 168,162</u></u>	<u><u>\$ 249,519</u></u>	<u><u>\$ 81,351</u></u>

**CITY OF JOSHUA, TEXAS**  
**BUDGETARY COMPARISON SCHEDULE – BUDGET AND ACTUAL**  
**(NON-GAAP BUDGETARY BASIS)**  
**TYPE A ECONOMIC DEVELOPMENT CORPORATION**  
**YEAR ENDED SEPTEMBER 30, 2018**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
<b>REVENUES</b>				
Sales Tax	\$ 322,650	\$ 331,680	\$ 332,638	\$ 958
Investment Earnings	500	290	318	28
Miscellaneous	-	3,000	2,984	(16)
Total Revenues	<u>323,150</u>	<u>334,970</u>	<u>335,940</u>	<u>970</u>
<b>EXPENDITURES</b>				
Current:				
Economic Development	63,250	58,835	34,755	24,080
Debt Service:				
Principal	75,000	75,000	75,000	-
Interest	7,805	39,775	157,102	(117,327)
Capital Outlay	-	1,812,975	1,828,675	(15,700)
Total Expenditures	<u>146,055</u>	<u>1,986,585</u>	<u>2,095,532</u>	<u>(108,947)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	177,095	(1,651,615)	(1,759,592)	109,917
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond Proceeds	-	1,827,670	1,945,000	(117,330)
Transfers Out	(20,000)	(25,000)	(25,000)	-
Total Other Financing Sources (Uses)	<u>(20,000)</u>	<u>1,802,670</u>	<u>1,920,000</u>	<u>(117,330)</u>
<b>NET CHANGE IN FUND BALANCES</b>	157,095	151,055	160,408	(7,413)
Fund Balances - Beginning of Year	<u>70,999</u>	<u>70,999</u>	<u>70,999</u>	<u>70,999</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 228,094</u>	<u>\$ 222,054</u>	<u>\$ 231,407</u>	<u>\$ 63,586</u>



**CITY OF JOSHUA, TEXAS**  
**BUDGETARY COMPARISON SCHEDULE – BUDGET AND ACTUAL**  
**(NON-GAAP BUDGETARY BASIS)**  
**TYPE B ECONOMIC DEVELOPMENT CORPORATION**  
**YEAR ENDED SEPTEMBER 30, 2018**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
<b>REVENUES</b>				
Sales Tax	\$ 322,650	\$ 322,650	\$ 332,638	\$ 9,988
Investment Earnings	680	680	674	(6)
Miscellaneous	22,000	22,000	19,857	(2,143)
Total Revenues	<u>345,330</u>	<u>345,330</u>	<u>353,169</u>	<u>7,839</u>
<b>EXPENDITURES</b>				
Current:				
Economic Development	<u>126,450</u>	<u>126,450</u>	<u>43,226</u>	<u>83,224</u>
Total Expenditures	<u>126,450</u>	<u>126,450</u>	<u>43,226</u>	<u>83,224</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	218,880	218,880	309,943	(75,385)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	<u>(385,480)</u>	<u>(385,480)</u>	<u>(382,730)</u>	<u>2,750</u>
Total Other Financing Sources (Uses)	<u>(385,480)</u>	<u>(385,480)</u>	<u>(382,730)</u>	<u>2,750</u>
<b>NET CHANGE IN FUND BALANCES</b>	(166,600)	(166,600)	(72,787)	(72,635)
Fund Balances - Beginning of Year	<u>105,430</u>	<u>105,430</u>	<u>105,430</u>	<u>105,430</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ (61,170)</u>	<u>\$ (61,170)</u>	<u>\$ 32,643</u>	<u>\$ 32,795</u>

**CITY OF JOSHUA, TEXAS  
COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2018**

	<u>Court Security</u>	<u>Court Technology</u>	<u>Hotel Occupancy</u>	<u>Total Other Governmental Funds</u>
<b>ASSETS</b>				
Receivables, Net	\$ -	\$ -	\$ 3,922	\$ 3,922
Restricted Cash and Cash Equivalents	18,439	-	147,147	165,586
Due from Other Funds	-	3,412	-	3,412
	<u>-</u>	<u>3,412</u>	<u>-</u>	<u>3,412</u>
Total Assets	<u>\$ 18,439</u>	<u>\$ 3,412</u>	<u>\$ 151,069</u>	<u>\$ 172,920</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Due to Other Funds	\$ -	\$ 3,934	\$ 373	\$ 4,307
<b>FUND BALANCES</b>				
Restricted for:				
Court Security	18,439	-	-	18,439
Tourism	-	-	150,696	150,696
Unassigned	-	(522)	-	(522)
Total Fund Balances	<u>18,439</u>	<u>(522)</u>	<u>150,696</u>	<u>168,613</u>
Total Liabilities and Fund Balances	<u>\$ 18,439</u>	<u>\$ 3,412</u>	<u>\$ 151,069</u>	<u>\$ 172,920</u>

**CITY OF JOSHUA, TEXAS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2018**

	Court Security	Court Technology	Hotel Occupancy	Total Other Governmental Funds
<b>REVENUES</b>				
Hotel Occupancy Taxes	\$ -	\$ -	\$ 34,816	\$ 34,816
Fines and Forfeitures	4,375	5,834	-	10,209
Total Revenues	4,375	5,834	34,816	45,025
<b>EXPENDITURES</b>				
Current:				
Municipal Court	3,000	12,385	-	15,385
Total Expenditures	3,000	12,385	-	15,385
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	1,375	(6,551)	34,816	29,640
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	5,725	-	5,725
Transfers Out	(5,725)	-	-	(5,725)
Total Other Financing Sources (Uses)	(5,725)	5,725	-	-
<b>NET CHANGE IN FUND BALANCES</b>	(4,350)	(826)	34,816	29,640
Fund Balances - Beginning of Year	22,789	304	115,880	138,973
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 18,439</u>	<u>\$ (522)</u>	<u>\$ 150,696</u>	<u>\$ 168,613</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, 2018, 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 May 15, 2019.

**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.

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. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-1 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2018-2 through 2018-3 to be significant deficiencies.

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*.

### **City of Joshua's Response to Findings**

The City of Joshua's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.



**CliftonLarsonAllen LLP**

Fort Worth, Texas  
May 15, 2019

**CITY OF JOSHUA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2018**

**FINDING 2018-1**

**Type of Finding:** Material Weakness in Internal Control

**Criteria or specific requirement:** City management is responsible for establishing maintaining internal controls for the proper recording of all the City's accounting transactions, including accounting coding, reporting of accruals, net position, and cash flow reporting.

**Condition:** During our testing, we posted several material audit adjustments.

**Context:** As part of the audit, we proposed adjustments to the City's general ledger to accounts receivable, allowance for doubtful accounts, property tax revenues, pension, and related deferred inflows and outflows of resources and fixed assets.

**Cause:** The City has historically relied on the auditors to post such adjustments.

**Effect:** The financial statements could be materially misstated.

**Repeat Finding:** No

**Recommendation:** We recommend City management and finance personnel continue to increase their awareness and knowledge of all procedures and processes involved in recording transactions and develop internal control policies to ensure proper recording of these items.

**Views of Responsible Officials:** City management and finance personnel will continue to work on their understanding of the proper accounting for certain transactions and will work to strengthen their internal control system.

**FINDING 2018-2**

**Type of Finding:** Significant Deficiency in Internal Control

**Criteria or specific requirement:** All manual journal entries should be reviewed and approved by a responsible employee.

**Condition:** During our testing, we noted manual journal entries are not reviewed.

**Context:** During our testing, we noted an improper reconciling item in a cash reconciliation that was due to a journal entry being posted backwards.

**Cause:** Lack of segregation of duties.

**Effect:** The financial statements could be misstated due to erroneous or fraudulent journal entries.



**CITY OF JOSHUA**  
**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)**  
**YEAR ENDED SEPTEMBER 30, 2018**

**FINDING 2018-2 (CONTINUED)**

**Repeat Finding:** No

**Recommendation:** We recommend the adoption of a policy whereby all journal entries will be approved by the City Manager. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals.

**Views of Responsible Officials:** City management and finance personnel will institute a policy of reviewing all manual journal entries to ensure they are proper and posted accurately.

**FINDING 2018-3**

**Type of Finding:** Significant Deficiency in Internal Control

**Criteria or specific requirement:** Proper segregation of duties in the payroll process decreases the risk that an error or irregularity could occur and go undetected.

**Condition:** There is not proper segregation of duties in the payroll process.

**Context:** During our review of internal controls over payroll, we noted that Joanna McClenny, HR/Finance Manager, has the ability to enter employees, process payroll, and cut payroll checks. It was also noted that there was no approval of the payroll register prior to checks being cut.

**Cause:** Lack of segregation of duties.

**Effect:** It is possible that an employee's pay rate could be adjusted improperly or a fictitious employee could be set up and paid.

**Repeat Finding:** No

**Recommendation:** We recommend the adoption of a policy whereby the payroll register is reviewed prior to cutting payroll checks. We also recommend segregating the duties of adding/editing employees, processing payroll, and cutting checks.

**Views of Responsible Officials:** City management and finance personnel will review their payroll policy and segregate duties accordingly. The City Manager will also start reviewing the payroll register before checks are cut and evidencing his review.