

**OFFICIAL STATEMENT**

**Dated January 10, 2022**

**Ratings:**  
**S&P: “AA” (AGM Insured)/“A+” (Underlying)**  
**(see “OTHER INFORMATION -**  
**Rating” and “BOND INSURANCE” herein)**

**NEW ISSUE - Book-Entry-Only**

In the opinion of Bond Counsel, interest on the Certificates is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date hereof, subject to the matters described herein. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel.

**THE CERTIFICATES HAVE NOT BEEN DESIGNATED**  
**AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS**

**\$5,065,000**

**CITY OF JOSEPHINE, TEXAS**  
**(Collin and Hunt Counties)**

**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022**

**Dated Date: January 15, 2022**

**Due: February 15, as shown on page 2**

**Interest accrues from the Delivery Date (defined herein)**

**PAYMENT TERMS.** . . Interest on the \$5,065,000 City of Josephine, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2022 (the “Certificates”) will accrue from the date of initial delivery to the initial purchaser of the Certificates (the “Delivery Date”, anticipated to be on or about February 15, 2022), and will be payable February 15 and August 15 of each year commencing February 15, 2023, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company New York, New York (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see “THE CERTIFICATES - Book-Entry-Only System” herein). The initial Paying Agent/Registrar is Wilmington Trust, NA, Dallas Texas (see “THE CERTIFICATES - Paying Agent/Registrar”).

**AUTHORITY FOR ISSUANCE.** . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and constitute direct obligations of the City of Josephine, Texas, (the “City”), payable from a combination of (i) the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, upon all taxable property within the City, and (ii) a pledge of the surplus revenues of the City’s Waterworks and Sewer System (the “System”), as provided in the ordinance authorizing the Certificates (the “Ordinance”) (see “THE CERTIFICATES – Authority for Issuance of the Certificates”).

**PURPOSE.** . . Proceeds from the sale of the Certificates will be used for paying all or a portion of the City’s contractual obligations incurred in connection with (i) acquiring, constructing, installing, and equipping additions, improvements, extensions, and equipment for the City’s waterworks and sewer system, including water wells, water treatment plant, water lines, sewer lines, pumps, valves, manholes, lift stations, and related infrastructure improvements, including the acquisition of land and rights-of-way therefore, and (ii) legal, fiscal and engineering fees in connection with such projects.

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**CUSIP PREFIX: 48102A**  
**MATURITY SCHEDULE & 9 DIGIT CUSIP**  
**See Schedule on Page 2**

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**INSURANCE.** . . The scheduled payment of principal of and interest on the Certificates when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Certificates by ASSURED GUARANTY MUNICIPAL CORP. (“AGM”) (see “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS”).



**LEGALITY.** . . The Certificates are offered for delivery when, as and if issued and received by the initial purchaser of the Certificates (the “Initial Purchaser”) and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas, (see Appendix C, “Form of Bond Counsel’s Opinion”). McCall, Parkhurst & Horton L.L.P. will act as Disclosure Counsel for the City.

**DELIVERY.** . . It is expected that the Certificates will be available for delivery through the facilities of DTC on February 15, 2022.

**SAMCO CAPITAL MARKETS**

## MATURITY SCHEDULE

CUSIP Prefix: 48102A <sup>(1)</sup>

Amount	Maturity 15-Feb	Initial Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>
\$ 30,000	2023	5.000%	0.400%	AQ6
125,000	2024	5.000%	0.550%	AR4
130,000	2025	5.000%	0.700%	AS2
140,000	2026	5.000%	0.850%	AT0
145,000	2027	5.000%	1.000%	AU7
155,000	2028	5.000%	1.200%	AV5
160,000	2029	5.000%	1.300%	AW3
170,000	2030	5.000%	1.400%	AX1
180,000	2031	5.000%	1.450%	AY9

\$380,000 4.000% Term Certificate due February 15, 2033 at a Price of 122.614% to Yield 1.550% <sup>(2)</sup> - CUSIP No. <sup>(1)</sup>BA0  
 \$410,000 3.000% Term Certificate due February 15, 2035 at a Price of 110.937% to Yield 1.800% <sup>(2)</sup> - CUSIP No. <sup>(1)</sup>BC6  
 \$435,000 3.000% Term Certificate due February 15, 2037 at a Price of 109.402% to Yield 1.960% <sup>(2)</sup> - CUSIP No. <sup>(1)</sup>BE2  
 \$460,000 3.000% Term Certificate due February 15, 2039 at a Price of 108.833% to Yield 2.020% <sup>(2)</sup> - CUSIP No. <sup>(1)</sup>BG7  
 \$490,000 3.000% Term Certificate due February 15, 2041 at a Price of 108.267% to Yield 2.080% <sup>(2)</sup> - CUSIP No. <sup>(1)</sup>BJ1  
 \$520,000 3.000% Term Certificate due February 15, 2043 at a Price of 107.705% to Yield 2.140% <sup>(2)</sup> - CUSIP No. <sup>(1)</sup>BL6  
 \$550,000 3.000% Term Certificate due February 15, 2045 at a Price of 107.146% to Yield 2.200% <sup>(2)</sup> - CUSIP No. <sup>(1)</sup>BN2  
 \$585,000 3.000% Term Certificate due February 15, 2047 at a Price of 106.867% to Yield 2.230% <sup>(2)</sup> - CUSIP No. <sup>(1)</sup>BQ5

**(Interest to accrue from the Delivery Date.)**

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- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data set forth herein is provided by CUSIP Global Services managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP services. None of the City, the Financial Advisor or the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (2) Yield calculated based on the assumption that the Certificates denoted and sold at a premium will be redeemed on February 15, 2032, the first optional call date for such Certificates, at a redemption price of par, plus accrued interest to the redemption date.

**OPTIONAL REDEMPTION . . .** The City reserves the right, at its option, to redeem Certificates having stated maturities on or after February 15, 2033, in whole or in part, in principal amounts of \$5,000, or any integral multiple thereof, on February 15, 2032, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – Optional Redemption of the Certificates”).

**MANDATORY SINKING FUND REDEMPTION. . .** The Certificates maturing on February 15 in the years 2033, 2035, 2037, 2039, 2041, 2043, 2045 and 2047 are subject to mandatory redemption in part prior to maturity at a price of par plus accrued interest to the redemption date as described under “THE CERTIFICATES – Mandatory Sinking Fund Redemption.”

No dealer, broker, salesman or other person has been authorized by the City or the Initial Purchaser to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Initial Purchaser. This Official Statement does not constitute an offer to sell Certificates in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the City and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "Bond Insurance" and "Appendix D - Specimen Municipal Bond Insurance Policy".

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE CERTIFICATES ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE CERTIFICATES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE CERTIFICATES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NONE OF THE CITY, THE INITIAL PURCHASER, OR THE FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY, AS SUCH INFORMATION HAS BEEN PROVIDED BY THE DEPOSITORY TRUST COMPANY.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE, AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

The agreements of the City and others related to the Certificates are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Certificates is to be construed as constituting an agreement with the purchasers of the Certificates. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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The cover page hereof, this page, the schedule and the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

## OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Certificates to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

**THE CITY** ..... The City of Josephine, Texas (the “City”) is a political subdivision and Type A general law municipal corporation of the State of Texas, located in Collin and Hunt Counties, Texas (see “Introduction - Description of the City”).

**THE CERTIFICATES** ..... The Certificates are issued as \$5,065,000 Combination Tax and Revenue Certificates of Obligation, Series 2022 (the “Certificates”). The Certificates are issued as serial certificates maturing February 15 in each of the years 2023 through 2031, inclusive, and as term certificates maturing on February 15 in the years 2033, 2035, 2037, 2039, 2041, 2043, 2045 and 2047 (see “THE CERTIFICATES - Description of the Certificates”).

### PAYMENT OF INTEREST

**ON THE CERTIFICATES** ..... Interest on the Certificates accrues from the Delivery Date (anticipated to be February 15, 2022), and is payable February 15 and August 15 of each year, commencing February 15, 2023, until maturity or prior redemption (see “THE CERTIFICATES - Description of the Certificates”).

### AUTHORITY FOR ISSUANCE

**FOR THE CERTIFICATES** ..... The Certificates are issued pursuant to the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance (the “Ordinance”) passed by the City Council (see “THE CERTIFICATES - Authority for Issuance of the Certificates”).

### SECURITY FOR THE

**CERTIFICATES** ..... The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, upon all taxable property located within the City, and (ii) a pledge of the surplus revenues of the City’s Waterworks and Sewer System (the “System”), as provided in the Ordinance (see “THE CERTIFICATES – Security and Source of Payment of the Certificates”).

### REDEMPTION OF

**THE CERTIFICATES** ..... The City reserves the right, at its option, to redeem Certificates having stated maturities on or after February 15, 2033, in whole or in part, in principal amounts of \$5,000, or any integral multiple thereof, on February 15, 2032, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – Optional Redemption of the Certificates”).

The Certificates maturing on February 15 in the years 2033, 2035, 2037, 2039, 2041, 2043, 2045 and 2047 are subject to mandatory redemption in part prior to maturity at a price of par plus accrued interest to the redemption date as described under “THE CERTIFICATES – Mandatory Sinking Fund Redemption.”

**TAX EXEMPTION** ..... In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption “TAX MATTERS”.

### NOT QUALIFIED TAX-EXEMPT

**OBLIGATIONS** ..... The City will NOT designate the Certificates as “Qualified Tax-Exempt Obligations” for financial institutions.

### USE OF PROCEEDS FOR THE

**CERTIFICATES** ..... Proceeds from the sale of the Certificates will be used for paying all or a portion of the City’s contractual obligations incurred in connection with (i) acquiring, constructing, installing, and equipping additions, improvements, extensions, and equipment for the City’s waterworks and sewer system, including water wells, water treatment plant, water lines, sewer lines, pumps, valves, manholes, lift stations, and related infrastructure improvements, including the acquisition of land and rights-of-way therefore, and (ii) legal, fiscal and engineering fees in connection with such projects.

**RATINGS FOR THE**

**CERTIFICATES** ..... The Certificates have been rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) by virtue of a municipal bond insurance policy to be issued by AGM, the Insurer, upon delivery of the Certificates to the Initial Purchaser. In addition, the underlying, unenhanced rating on the Certificates is “A+” (stable outlook) by S&P (see “Other Information – Ratings”, “BOND INSURANCE” and “BOND INSURANCE RISKS”).

**INSURANCE** ..... The scheduled payment of principal of and interest on the Certificates when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Certificates by Assured Guaranty Municipal Corp. (“AGM”) (see “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS”).

**BOOK-ENTRY-ONLY**

**SYSTEM**..... The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see “THE CERTIFICATES - Book-Entry-Only System”).

**PAYMENT RECORD** ..... The City has never defaulted in payment of its general obligation tax debt.

**PAYING AGENT/REGISTRAR**..... The initial Paying Agent/Registrar for the Certificates is Wilmington Trust, NA, Dallas, Texas.

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 9/30	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Net G.O. Tax Debt Outstanding at End of Year <sup>(3)</sup>	Ratio of Net G.O. Tax Debt to Taxable Assessed Valuation	Net G.O. Tax Debt Per Capita
2018	1,506	\$ 91,816,266	\$ 60,967	\$ 550,000	0.60%	\$ 365
2019	1,550	107,996,260	69,675	400,000	0.37%	258
2020	1,595	124,114,768	77,815	324,000	0.26%	203
2021	1,641	136,133,189	82,957	246,000	0.18%	150
2022	1,689	160,718,230	95,156	166,000 <sup>(4)</sup>	0.10%	98

(1) Derived from US Census Bureau data.

(2) As reported by the Appraisal Districts (defined herein) on the City’s annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Does not include self-supporting debt from the City’s water and sewer system (the “System”). The City’s policy to pay its self-supporting general obligation debt from other revenues is subject to change in the future at the City’s discretion; although the City has no current plans to do so (see Tables 1 and 10 herein for more detailed information on the City’s general obligation self-supporting debt). In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

(4) Includes a portion of the Certificates.

For additional information regarding the City, please contact:

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## CITY OFFICIALS, STAFF AND CONSULTANTS

### ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Jason Turney Mayor	6 Months	Nov. 2023	Owner of excavation company
Doug Ewing Mayor Pro-Tem, Place 2	8 Years	Nov. 2023	AT&T
Jane Ridgeway Councilmember, Place 2	2 Months	Nov. 2023	Retired
Brad Ahlfinger Councilmember - Place 3	2 Years	Nov. 2022	H & R Block
Doug Thomas Councilmember - Place 4	6 Months	Nov. 2023	North Texas Municipal Water District
Joyce Holley Councilmember - Place 5	1 Month	Nov. 2022	Retired

### SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service to City	Total Governmental Service
Lisa Palomba	City Administrator	1 Month	10 Years
Melissa Stillwell	Finance Director	17 Months	17 Months
Patti Brooks	City Secretary	17 Years	17 Years

### CONSULTANTS AND ADVISORS

Auditors ..... Fox, Byrd & Company, P.C.  
Dallas, Texas

Bond Counsel ..... McCall, Parkhurst & Horton L.L.P.  
Dallas, Texas

Financial Advisor.....Hilltop Securities Inc.  
Dallas, Texas

**OFFICIAL STATEMENT**  
**RELATING TO**  
**\$5,065,000**  
**CITY OF JOSEPHINE, TEXAS**  
**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2022**

**INTRODUCTION**

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the \$5,065,000 City of Josephine, Texas Combination Tax and Revenue Certificates of Obligation, Series 2022 (the “Certificates”) being offered herein. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted on the date of sale of the Certificates (the “Ordinance”) which authorized the issuance of the Certificates, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City of Josephine, Texas (the “City”) and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City’s Financial Advisor, Hilltop Securities, Inc. (“HilltopSecurities”), Dallas, Texas.

**DESCRIPTION OF THE CITY.** . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the general laws of the State Type A. The City operates under a Council/Administrator form of government with a City Council comprised of the Mayor and five Council members. The term of office is two years with the terms of the Mayor and two of the Councilmembers’ terms expiring in odd-numbered years and the other terms of the two Councilmembers expiring in even-numbered years. The City Administrator is the chief administrative officer for the City. Some of the services that the City provides are: public safety, public works, streets, public improvements, planning and zoning, and general administrative services. The estimated 2022 population is 1,689. The City covers approximately 3 square miles.

**PLAN OF FINANCING**

**PURPOSE.** . . Proceeds from the sale of the Certificates will be used for paying all or a portion of the City’s contractual obligations incurred in connection with (i) acquiring, constructing, installing, and equipping additions, improvements, extensions, and equipment for the City’s waterworks and sewer system, including water wells, water treatment plant, water lines, sewer lines, pumps, valves, manholes, lift stations, and related infrastructure improvements, including the acquisition of land and rights-of-way therefore, and (ii) legal, fiscal and engineering fees in connection with such projects.

**SOURCES AND USES OF CERTIFICATE PROCEEDS** . . . The proceeds from the sale of the Certificates are expected to be expended as follows:

**SOURCES OF FUNDS**

Par Amount of the Certificates	\$ 5,065,000.00
Net Premium	625,745.15
<b>TOTAL SOURCES</b>	<b><u>\$ 5,690,745.15</u></b>

**USES OF FUNDS**

Project Fund	\$ 5,483,120.00
Initial Purchaser's Discount <sup>(1)</sup>	86,245.71
Cost of Issuance	121,379.44
<b>TOTAL USES</b>	<b><u>\$ 5,690,745.15</u></b>

<sup>(1)</sup> Includes the municipal bond insurance premium.

## THE CERTIFICATES

**DESCRIPTION OF THE CERTIFICATES.** . . The Certificates are dated January 15, 2022 (the “Dated Date”), and mature on February 15 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from the date of initial delivery (the “Delivery Date”, anticipated to be February 15, 2022), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year commencing February 15, 2023, until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see “THE CERTIFICATES - Book-Entry-Only System”).

**AUTHORITY FOR ISSUANCE OF THE CERTIFICATES** . . . The Certificates are being issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government, as amended, and the Ordinance passed by City Council.

**SECURITY AND SOURCE OF PAYMENT OF THE CERTIFICATES.** . . The Certificates are payable from the proceeds of a continuing and direct annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property located within the City and from a pledge of the Surplus Revenues (as defined in the Ordinance) of the City’s combined Waterworks and Sewer System (the “System”) (as defined and identified in the Ordinance).

**TAX RATE LIMITATION.** . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 4, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$1.50 per \$100 Taxable Assessed Valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.00 of the \$1.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance and based on a 90% collection rate.

**OPTIONAL REDEMPTION OF THE CERTIFICATES** . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on or after February 15, 2033, in whole or in part, in principal amounts of \$5,000, or any integral multiple thereof, on February 15, 2032, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of such Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificate, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**MANDATORY SINKING FUND REDEMPTION.** . . The Certificates maturing on February 15 in the years 2033, 2035, 2037, 2039, 2041, 2043, 2045 and 2047 (collectively, the “Term Certificates”) are subject to mandatory sinking fund redemption on the dates and in the principal amounts shown below at the price of par plus accrued interest to the date of redemption:

<u>Term Certificates Due February 15, 2033</u>		<u>Term Certificates Due February 15, 2035</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
February 15, 2032	\$185,000	February 15, 2034	\$200,000
February 15, 2033 (maturity)	\$195,000	February 15, 2035 (maturity)	\$210,000
<u>Term Certificates Due February 15, 2037</u>		<u>Term Certificates Due February 15, 2039</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
February 15, 2036	\$215,000	February 15, 2038	\$225,000
February 15, 2037 (maturity)	\$220,000	February 15, 2039 (maturity)	\$235,000
<u>Term Certificates Due February 15, 2041</u>		<u>Term Certificates Due February 15, 2043</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
February 15, 2040	\$240,000	February 15, 2042	\$255,000
February 15, 2041 (maturity)	\$250,000	February 15, 2043 (maturity)	\$265,000
<u>Term Certificates Due February 15, 2045</u>		<u>Term Certificates Due February 15, 2047</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
February 15, 2044	\$270,000	February 15, 2046	\$290,000
February 15, 2045 (maturity)	\$280,000	February 15, 2047 (maturity)	\$295,000



Approximately forty-five (45) days prior to each mandatory redemption date for the Term Certificates, the Paying Agent/Registrar shall select by lot the numbers of the Term Certificates within the applicable stated maturity to be redeemed on the next following March 1 from moneys set aside for that purpose in the Certificates Fund (as defined in the Ordinance). Any Term Certificates not selected for prior redemption shall be paid on the date of its stated maturity.

The principal amount of the Term Certificates required to be redeemed on any mandatory redemption date pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the City, by the principal amount of any Term Certificates which, at least 45 days prior to a mandatory redemption date (1) shall have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

**NOTICE OF REDEMPTION.** . . Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY OBLIGATION OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH OBLIGATION OR PORTION THEREOF SHALL CEASE TO ACCRUE.

With respect to any optional redemption of the Certificates, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may, at the option of the City, state that said redemption is conditional upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient moneys are not received or such prerequisites are not satisfied, such notice shall be of no force and effect, the City shall not redeem such Certificates and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Certificates have not been redeemed.

The Paying Agent/Registrar and the City, so long as a book-entry-only system is used for the Certificates, will send any notice of redemption relating to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemptions of portions of the Certificates by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the Beneficial Owners. Any such selection of Certificates within a maturity to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Certificates for redemption (see "THE CERTIFICATES – Book-Entry-Only System" herein).

**DEFEASANCE . . .** The Ordinance provides for the defeasance of the Certificates when the payment of the principal of and premium, if any, on the Certificates (the "Defeased Certificates"), plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or authorized escrow agent, in trust (1) lawful money of the United States of America sufficient to make such payment or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, and when proper arrangements have been made by the Issuer with the Paying Agent/Registrar for the payment of its services until all Defeased Certificates shall have become due and payable, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such Defeased Certificates, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the defeasance is approved by the City Council of the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the defeasance is approved by the City Council of the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has the right, subject to satisfying the requirements of (1) and (2) above, to substitute

other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Certificates. Because the Ordinance does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or that for any other Defeasance Security will be maintained at any particular rating category.

Upon defeasance, all rights of the City to initiate proceedings to call the Certificates for redemption or take any other action amending the terms of the Certificates are extinguished; provided, however, that the right to call the Certificates for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Upon making such deposit in the manner described, such defeased Certificates shall no longer be deemed outstanding obligations secured by the Ordinance, but will be payable only from the funds and Defeasance Securities deposited in escrow and will not be considered debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose.

**BOOK-ENTRY-ONLY SYSTEM.** . . This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by DTC while the Certificates are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Certificates), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission (the "SEC"), and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Certificates in the aggregate principal amount of each such maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, is the holding company of DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of: AA+. The DTC Rules applicable to its Direct and Indirect Participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Certificates under the DTC system must be made by or through direct Participants, which will receive a credit for such purchases on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct or Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. **Beneficial Owners will not receive**

**certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system described herein is discontinued.**

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices relating to the Certificates shall be sent to DTC. If less than all of the Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the Record Date (hereinafter defined). The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor securities depository is not obtained, Certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, security certificates will be printed and delivered.

So long as Cede & Co. is the registered owner of the Certificates, the City will have no obligation or responsibility to the Direct Participants or Indirect Participants, or the persons for which they act as nominees, with respect to the payment to or providing of notice to such Direct Participants, Indirect Participants or the persons for which they act as nominees.

*Use of Certain Terms in Other Sections of this Official Statement.* In reading this Official Statement it should be understood that while the Certificates are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor or the Initial Purchaser.

**PAYING AGENT/REGISTRAR.** . . The initial Paying Agent/Registrar for the Certificates is Wilmington Trust, NA, Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a

commercial bank, trust company, financial institution or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of such Certificates by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of the Certificates will be payable to the registered owner at maturity or prior redemption upon presentation and surrender at the principal office of the Paying Agent/Registrar. Interest on the Certificates shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (see "THE CERTIFICATES – Record Date for Interest Payment" herein), and such interest shall be paid (i) by check sent by United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar, or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, legal holiday or day when banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. So long as Cede & Co. is the registered owner of the Certificates, payments of principal and interest on the Certificates will be made as described in "THE CERTIFICATES - Book-Entry-Only System" herein.

**TRANSFER, EXCHANGE AND REGISTRATION.** . . In the event the Book-Entry-Only System should be discontinued, printed Certificate certificates will be delivered to the registered owners of the Certificates and thereafter the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be of the same series, in denominations of \$5,000 or integral multiples thereof for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See "THE CERTIFICATES - Book-Entry-Only System" for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

**RECORD DATE FOR INTEREST PAYMENT.** . . The record date (the "Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the last business day of the month next preceding each interest payment date for the Certificates.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (the "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

**MUTILATED, DESTROYED, LOST AND STOLEN CERTIFICATES.** . . If any Certificate is mutilated, destroyed, stolen or lost, a new Certificate in the same principal amount as the Certificate so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Certificate, such new Certificate will be delivered only upon surrender and cancellation of such mutilated Certificate. In the case of any Certificate issued in lieu of and substitution for any Certificate which has been destroyed, stolen or lost, such new Certificate will be delivered only (a) upon filing with the Paying Agent/Registrar evidence satisfactory to the Paying Agent/Registrar to the effect that such Certificate has been destroyed, stolen or lost and authenticity of ownership thereof, and (b) upon furnishing the Paying Agent/Registrar with indemnity satisfactory to hold the City and the Paying Agent/Registrar harmless. The person requesting the authentication and delivery of a new Certificate must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

**CERTIFICATEHOLDERS' REMEDIES.** . . The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance,

and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On June 30, 2006 Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous language.” Because it is unclear whether the Texas legislature has effectively waived the City’s sovereign immunity from a suit for money damages, holders of the Certificates may not be able to bring such a suit against the City for breach of the covenants in the Certificates or in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151 through .160, Texas Local Government Code (the “Local Government Immunity Waiver Act”), which, according to the Court, waives “immunity from suit for contract claims against most local governmental entities under certain circumstances.” The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods and services to cities.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“*Wasson I*”), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests LTD. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) (“*Wasson II*”), and together with *Wasson I* (“*Wasson*”), ruling that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the State’s immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

As noted above, the Ordinance provides that holders of the Certificates may exercise the remedy of mandamus to enforce the Certificates of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Certificates of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce remedies would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors, principles of governmental immunity, and general principles of equity that permit the exercise of judicial discretion.

**AMENDMENTS ...** The City may amend the Ordinance without the consent of or notice to any registered owner in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity, inconsistency, formal defect, or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Certificates then outstanding and affected thereby, amend, add to, or rescind any of the provisions of Ordinance; except that, without

the consent of the registered owners of all of the Certificates then outstanding, no such amendment, addition, or rescission may (1) make any change in the maturity of any of the outstanding Certificates; (2) reduce the rate of interest borne by any of the outstanding Certificates; (3) reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Certificates; (4) modify the terms of payment of principal of, or interest or redemption premium on, outstanding Certificates or any of them or impose any condition with respect to such payment; or (5) change the minimum percentage of the principal amount of any series of Certificates necessary for consent to such amendment.

## **BOND INSURANCE**

### **BOND INSURANCE POLICY**

Concurrently with the issuance of the Certificates, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Certificates (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Certificates when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **ASSURED GUARANTY MUNICIPAL CORP.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

#### *Current Financial Strength Ratings*

On October 20, 2021, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On July 8, 2021, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On August 13, 2019, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

#### *Capitalization of AGM*

At September 30, 2021:

- The policyholders' surplus of AGM was approximately \$2,910 million.
- The contingency reserve of AGM was approximately \$963 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,124 million. Such amount includes (i) 100% of the net unearned premium reserve and

deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiaries Assured Guaranty UK Limited ("AGUK") and Assured Guaranty (Europe) SA ("AGE").

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

#### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (filed by AGL with the SEC on February 26, 2021);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2021 (filed by AGL with the SEC on May 7, 2021); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021 (filed by AGL with the SEC on August 6, 2021).
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021 (filed by AGL with the SEC on November 5, 2021).

All information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Certificates shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

#### *Miscellaneous Matters*

AGM makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE".

### **BOND INSURANCE RISKS**

**BOND INSURANCE RISK FACTORS.** . . In the event of default of the scheduled payment of principal of or interest on the Certificates when all or a portion thereof becomes due, any owner of the Certificates shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Certificates by the City which is recovered by the City from the bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the City (unless the Insurer chooses to pay such amounts at an earlier date).

Payment of principal of and interest on the Certificates will not be subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE CERTIFICATES – Certificateholders' Remedies"). The Insurer may reserve the right to direct the pursuit of available remedies, and, in addition, may reserve the right to consent to any remedies available to and requested by the Certificateholders.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable solely from ad valorem taxes levied, within the limited prescribed by law, as further described in "THE

**CERTIFICATES – Security and Source of Payment of the Certificates**”. In the event the Insurer becomes obligated to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Certificates.

If a Policy is acquired, the long-term ratings on the Certificates will be dependent in part on the financial strength of the Insurer and its claims-paying ability. The Insurer’s financial strength and claims-paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the ratings on the Certificates, whether or not subject to a Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) of the Certificates (see “OTHER INFORMATION – Rating”).

The obligations of the Insurer under a Policy are general obligations of the Insurer and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law. None of the City, the City’s Financial Advisor or the Initial Purchaser has made independent investigation into the claims-paying ability of any potential insurer and no assurance or representation regarding the financial strength or projected financial strength of any potential insurer is given.

**CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS** . . . Moody’s Investor Services, Inc., S&P and Fitch Ratings (collectively, the “Rating Agencies”) have downgraded and/or placed on negative watch the claims-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible. In addition, recent events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Certificates. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Certificates and the claims-paying ability of any such bond insurer, particularly over the life of the Certificates.

## **TAX INFORMATION**

*The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title I of the Texas Tax Code, as amended (the “Property Tax Code”), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.*

**VALUATION OF TAXABLE PROPERTY** . . . The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the “Appraisal Review Board”) responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Collin Central Appraisal District and the Hunt County Appraisal District (the “Appraisal District”). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner’s principal residence (“homestead” or “homesteads”) to be based solely on the property’s value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the “10% Homestead Cap”). See “Table 1 – Assessed Valuation and Exemption” for the reduction in taxable valuation attributable to the 10% Homestead Cap.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity (“Productivity Value”). The same land may not be qualified as both agricultural and open-space land. See “Table 1 – Assessed Valuation and Exemption” for the reduction in taxable valuation attributable to valuation by Productivity Value.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. See “TAX INFORMATION – Issuer and Taxpayer Remedies.”

**STATE MANDATED HOMESTEAD EXEMPTIONS** . . . State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action, and surviving spouses of first responders killed or fatally wounded in the line of duty. See “Table 1 – Assessed Valuation and Exemption” for the



reduction, if any, attributable to state mandated homestead exemptions.

**LOCAL OPTION HOMESTEAD EXEMPTIONS . . .** The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit. See “Table 1 – Assessed Valuation and Exemption” for the reduction, if any, attributable to local option homestead exemptions.

**LOCAL OPTION FREEZE FOR THE ELDERLY AND DISABLED . . .** The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded. See “Table 1 – Assessed Valuation and Exemption” for the reduction, if any, attributable to the local option freeze for the elderly and disabled.

**PERSONAL PROPERTY . . .** Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the “production of income” is taxed based on the property’s market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

**FREEPORT AND GOODS-IN-TRANSIT EXEMPTIONS . . .** Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication (“Freeport Property”) are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

Certain goods that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days (“Goods-in-Transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer’s motor vehicle, boat, or heavy equipment inventory.

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

See “Table 1 – Assessed Valuation and Exemption” for the reduction, if any, attributable to Freeport Property and/or Goods-in-Transit exemptions.

**OTHER EXEMPT PROPERTY . . .** Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

**TAX INCREMENT FINANCING ZONES . . .** A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment financing zones (“TIRZ”) within its boundaries, and other overlapping taxing units may agree to contribute taxes levied against the “Incremental Value” in the TIRZ to finance or pay for project costs, as defined in Chapter 311, Texas Government Code, general located within the TIRZ. At the time of the creation of the TIRZ, a “base value” for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the “Incremental Value”, and during the existence of the TIRZ, all or a portion of the taxes levied by each participating taxing unit against the Incremental Value in the TIRZ are restricted to paying project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units. See “TAX INFORMATION – City Application of Property Tax Code” for descriptions of any TIRZ created in the City.

**TAX ABATEMENT AGREEMENTS . . .** Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. See “TAX INFORMATION – City Application of Property Tax Code for descriptions of any of the City’s tax abatement agreements.

For a discussion of how the various exemptions described above are applied by the City, See “TAX INFORMATION – City Application of Property Tax Code” herein.

**PUBLIC HEARING AND MAINTENANCE AND OPERATION TAX RATE LIMITATIONS.** . . The Following terms as used in this section have the meanings provided below:

“adjusted” means lost values are not included in the calculation of the prior year’s taxes and new values are not included in the current year’s taxable values.

“de minimis rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax levy (adjusted) from the current year’s values (adjusted), plus the rate that produces an additional \$500,000 in tax revenue when applied to the current year’s taxable value, plus the debt service tax rate.

“no-new-revenue tax rate” means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year’s total tax levy (adjusted) from the current year’s total taxable values (adjusted).

“special taxing unit” means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per \$100 of taxable value.

“unused increment rate” means the cumulative difference between a city’s voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city’s tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.

“voter-approval tax rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax levy (adjusted) from the current year’s values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the “unused increment rate”.

The City’s tax rate consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the “maintenance and operations tax rate”), and (2) a rate for funding debt service in the current year (the “debt service tax rate”). Under State law, the assessor for the City must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the City to the City Council by August 1 or as soon as practicable thereafter.

A city must annually calculate its “voter-approval tax rate” and “no-new-revenue tax rate” (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

As described below, the Property Tax Code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its “de minimis rate”, an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

For cities with a population of 30,000 or more as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the voter-approval tax rate, that city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

For cities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a city has a population of less than 30,000 as of the most recent federal decennial census and does not qualify as a special taxing unit, if a city’s adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue tax rate, multiplied by 1.08, plus the debt service tax rate or (b) the city’s voter-approval tax rate, then a valid petition signed by at least three percent of the registered voters in the city would require that an election be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

Any city located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its “voter-approval tax rate” using a 1.08 multiplier, instead of 1.035, until the earlier

of (i) the second tax year in which such city's total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the no-new-revenue tax rate and voter-approval tax rate must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year.

The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the City's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the City's tax-supported debt obligations, including the Certificates.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

**ISSUER AND TAX PAYER REMEDIES...** Under certain circumstances, the City and its taxpayers may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the City may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Owners of certain property with a taxable value of at least \$50 million and situated in a county with a population of one million or more as of the most recent federal decennial census may additionally protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, selected by a State district judge, consisting of highly qualified professionals in the field of property tax appraisal.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda that could result in the repeal of certain tax increases (See "– Public Hearing and Maintenance and Operation Tax Rate Limitations".) The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

The foregoing sections represents the City's current understanding of the recently adopted Senate Bill 2, however the City cannot represent at this time what impact such legislation may have on the City. The City may revise and update this information as more information about Senate Bill 2 and its specific impact on the City becomes available.

**ISSUER'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES . . .** Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes. At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

**PENALTIES AND INTEREST . . .** Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest increases at the rate of one-percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to incur interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

**CITY APPLICATION OF TAX CODE . . .** The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$10,000; the disabled are also granted an exemption of \$10,000. Also, there is a freeze on the taxable value of the residence homesteads of persons 65 years of age and older and disabled persons.

See Table 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property; and the City taxes are collected by the Collin County Tax Assessor Collector.

The City does not permit split payments, and discounts are not allowed.

The City does not tax freepoint property.

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**TABLE 1 – ASSESSED VALUATION AND EXEMPTION**

2021/22 Market Valuation Established by Collin and Hunt County Appraisal Districts (excluding totally exempt property)		\$ 173,065,897
Less Exemptions/Reductions at 100% Market Value:		
Over Age 65 and Disabled	\$ 1,248,702	
Disabled Veterans	2,862,572	
Homestead Cap	3,646,559	
Productivity Loss	4,524,034	
Misc.	65,800	12,347,667
2021/22 Taxable Assessed Valuation		<u>\$ 160,718,230</u>
Outstanding General Obligation Debt Payable from Ad Valorem Taxes (as of 1/1/2022)		\$ 246,000
The Certificates		5,065,000
Total General Obligation Debt Payable from Ad Valorem Taxes (as of 1/1/2022)		\$ 5,311,000
Less: Self-Supporting General Obligation Debt (as of 1/1/2022) <sup>(1)</sup>		\$ -
The Certificates (Water & Sewer)	5,065,000	\$ 5,065,000
Net General Obligation Debt Payable from Ad Valorem Taxes (as of 1/1/2022)		<u>\$ 246,000</u>
General Obligation Interest and Sinking Fund (as of December 1, 2021)		\$ 441,180
Ratio of Net General Obligation Tax Debt to Taxable Assessed Valuation		0.15%

2022 Estimated Population - 1,689  
Per Capita Taxable Assessed Valuation - \$95,156  
Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - \$146

- (1) It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future, although the City has no current plans to do so. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligation, the City will be required to levy an ad valorem tax to pay such debt service. See Table 10 herein for more detailed information on the City's general obligation self-supporting debt. Includes the Certificates. Preliminary; Subject to Change.

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**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY**

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2022		2021		2020	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 148,949,537	86.07%	\$ 128,008,034	87.29%	\$ 117,572,237	87.24%
Real, Residential, Multi-Family	106,572	0.06%	78,963	0.05%	83,947	0.06%
Real, Vacant Lots/Tracts	3,582,293	2.07%	1,804,166	1.23%	1,520,377	1.13%
Real, Acreage (Land Only)	4,668,520	2.70%	5,639,344	3.85%	5,755,622	4.27%
Real, Farm and Ranch Improvements	4,295,092	2.48%	4,105,419	2.80%	3,839,432	2.85%
Real, Commercial and Industrial	3,236,438	1.87%	1,107,535	0.76%	1,089,962	0.81%
Real and Tangible Personal, Utilities	1,974,726	1.14%	1,608,344	1.10%	1,418,061	1.05%
Tangible Personal, Business	515,459	0.30%	197,857	0.13%	182,262	0.14%
Tangible Personal, Mobile Homes, Other	485,118	0.28%	235,640	0.16%	124,272	0.09%
Real Property, Inventory	5,252,142	3.03%	3,866,075	2.64%	3,175,268	2.36%
Special Inventory	-	0.00%	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 173,065,897	100.00%	\$ 146,651,377	100.00%	\$ 134,761,440	100.00%
Less: Total Exemptions/Reductions	12,347,667		10,518,188		10,646,672	
Taxable Assessed Value	<u>\$ 160,718,230</u>		<u>\$ 136,133,189</u>		<u>\$ 124,114,768</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2019		2018	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 101,898,860	86.43%	\$ 86,208,487	86.51%
Real, Residential, Multi-Family	95,591	0.08%	80,443	0.08%
Real, Vacant Lots/Tracts	1,086,453	0.92%	1,113,568	1.12%
Real, Acreage (Land Only)	4,911,521	4.17%	4,180,407	4.19%
Real, Farm and Ranch Improvements	3,701,242	3.14%	2,939,748	2.95%
Real, Commercial and Industrial	1,003,556	0.85%	1,179,266	1.18%
Real and Tangible Personal, Utilities	957,237	0.81%	827,430	0.83%
Tangible Personal, Business	175,129	0.15%	188,198	0.19%
Tangible Personal, Mobile Homes, Other	3,948,717	3.35%	133,026	0.13%
Real Property, Inventory	125,500	0.11%	2,801,580	2.81%
Special Inventory	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 117,903,806	100.00%	\$ 99,652,153	100.00%
Less: Total Exemptions/Reductions	9,907,546		7,835,887	
Taxable Assessed Value	<u>\$ 107,996,260</u>		<u>\$ 91,816,266</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Appraisal Districts to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

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**TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY**

Fiscal Year Ended 9/30	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Net G.O. Tax Debt Outstanding at End of Year <sup>(3)</sup>	Ratio of Net G.O. Tax Debt to Taxable Assessed Valuation	Net G.O. Tax Debt Per Capita
2018	1,506	\$ 91,816,266	\$ 60,967	\$ 550,000	0.60%	\$ 365
2019	1,550	107,996,260	69,675	400,000	0.37%	258
2020	1,595	124,114,768	77,815	324,000	0.26%	203
2021	1,641	136,133,189	82,957	246,000	0.18%	150
2022	1,689	160,718,230	95,156	166,000 <sup>(4)</sup>	0.10%	98

(1) Derived from US Census Bureau data.

(2) As reported by the Appraisal Districts (defined herein) on the City's annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Does not include self-supporting debt from the City's water and sewer system (the "System"). The City's policy to pay its self-supporting general obligation debt from other revenues is subject to change in the future at the City's discretion; although the City has no current plans to do so (see Tables 1 and 10 herein for more detailed information on the City's general obligation self-supporting debt). In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

(4) Includes a portion of the Certificates.

**TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ended 9-30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2018	\$ 0.54000	\$ 0.54000	\$ -	\$ 483,054	99.01%	101.00%
2019	0.58000	0.49130	0.08870	604,666	98.69%	99.00%
2020	0.57500	0.48730	0.08770	691,945	98.75%	101.00%
2021	0.55910	0.49480	0.06430	735,108	99.31%	100.99%
2022	0.51670	0.46244	0.05426	808,291	4.81% <sup>(1)</sup>	4.90% <sup>(1)</sup>

(1) Collections as of November 30, 2021.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2021/22 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Shepherd Place Homes Inc.	Builders	\$ 4,180,187	2.60 %
1333-2016 Revocable Trust	Residential	1,392,724	0.87 %
Oncor Electric Delivery Company	Utilities	1,121,400	0.70 %
Martinez Jhony	Residential	963,190	0.60 %
Heritage Land Development LLC	Builders	878,520	0.55 %
Tallant Rentals LLC	Residential	776,267	0.48 %
AB Petroleum Inc.	Utilities	728,317	0.45 %
Route61 Corporation	Business	716,715	0.45 %
Otra Vez Investments Incorporated	Homebuilder	646,430	0.40 %
Martinez Auxiliadora	Residential	592,524	0.37 %
		<u>\$ 11,996,274</u>	<u>7.46 %</u>

Source: Appraisal Districts

**GENERAL OBLIGATION DEBT LIMITATION.** . . No general obligation debt limitation is imposed on the City under current State law (see “THE CERTIFICATES – Tax Rate Limitation”).

**TABLE 6 – ESTIMATED OVERLAPPING DEBT**

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt (“Tax Debt”) was developed from information contained in “Texas Municipal Reports” published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

<u>Taxing Jurisdiction</u>	<u>2021/2022 Taxable Assessed Value</u>	<u>2021/2022 Tax Rate</u>	<u>Total Tax Supported Debt as of 1/1/2022</u>	<u>Estimated % Applicable</u>	<u>District's Overlapping Tax Supported Debt as of 1/1/2022</u>
City of Josephine	\$ 160,718,230	\$ 0.5167	\$ 5,311,000 <sup>(1)</sup>	100.00%	\$ 5,311,000
Collin County	167,755,086,085	0.1681	526,975,000	0.05%	263,488
Collin County CCD	17,100,586,460	0.0812	514,470,000	0.05%	257,235
Community ISD	1,385,474,341	1.4603	118,470,000	7.34%	8,695,698
Hunt County	7,561,510,010	0.4284	11,855,000	0.03%	3,557
Hunt Mem Hosp Dist.	8,457,551,440	0.2358	39,730,000	0.02%	7,946
Total Direct and Overlapping Tax Supported Debt					\$ 14,538,923
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					9.05%
Per Capita Direct and Overlapping Tax Supported Debt					\$ 8,608.01

(1) Includes self-supporting debt. Includes the Certificates.

**TABLE 7 – TAX ADEQUACY <sup>(1)</sup>**

Net Principal and Interest Requirements, 2022	\$ 85,535 <sup>(1)</sup>
\$0.05431 Tax Rate at 98% Collection Produces	\$ 85,540
Net Average Annual Principal and Interest Requirements, 2022-2024	\$ 85,720 <sup>(1)</sup>
\$0.05443 Tax Rate at 98% Collection Produces	\$ 85,729
Net Maximum Principal and Interest Requirements, 2024	\$ 85,890 <sup>(1)</sup>
\$0.05454 Tax Rate at 98% Collection Produces	\$ 85,903

(1) Excludes self-supporting debt (see Tables 1 and 10 herein for more detailed information on the City’s general obligation self-supporting debt).

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## DEBT INFORMATION

**TABLE 8 –GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending	Outstanding Debt Service			The Certificates			Less: Self Supported Debt Service <sup>(1)</sup>	Net Debt Service Requirements	% of Principal Retired
9/30	Principal	Interest	Total	Principal	Interest	Total			
2022	\$ 80,000	\$ 5,535	\$ 85,535	\$ -	\$ -	\$ -	\$ -	\$ 85,535	
2023	82,000	3,735	85,735	30,000	269,925	299,925	299,925	85,735	
2024	84,000	1,890	85,890	125,000	175,825	300,825	300,825	85,890	
2025	-	-	-	130,000	169,450	299,450	299,450	-	
2026	-	-	-	140,000	162,700	302,700	302,700	-	12.63%
2027	-	-	-	145,000	155,575	300,575	300,575	-	
2028	-	-	-	155,000	148,075	303,075	303,075	-	
2029	-	-	-	160,000	140,200	300,200	300,200	-	
2030	-	-	-	170,000	131,950	301,950	301,950	-	
2031	-	-	-	180,000	123,200	303,200	303,200	-	27.89%
2032	-	-	-	185,000	115,000	300,000	300,000	-	
2033	-	-	-	195,000	107,400	302,400	302,400	-	
2034	-	-	-	200,000	100,500	300,500	300,500	-	
2035	-	-	-	210,000	94,350	304,350	304,350	-	
2036	-	-	-	215,000	87,975	302,975	302,975	-	46.81%
2037	-	-	-	220,000	81,450	301,450	301,450	-	
2038	-	-	-	225,000	74,775	299,775	299,775	-	
2039	-	-	-	235,000	67,875	302,875	302,875	-	
2040	-	-	-	240,000	60,750	300,750	300,750	-	
2041	-	-	-	250,000	53,400	303,400	303,400	-	68.84%
2042	-	-	-	255,000	45,825	300,825	300,825	-	
2043	-	-	-	265,000	38,025	303,025	303,025	-	
2044	-	-	-	270,000	30,000	300,000	300,000	-	
2045	-	-	-	280,000	21,750	301,750	301,750	-	
2046	-	-	-	290,000	13,200	303,200	303,200	-	94.45%
2047	-	-	-	295,000	4,425	299,425	299,425	-	100.00%
	<u>\$ 246,000</u>	<u>\$ 11,160</u>	<u>\$ 257,160</u>	<u>\$ 5,065,000</u>	<u>\$ 2,473,600</u>	<u>\$ 7,538,600</u>	<u>\$ 7,538,600</u>	<u>\$ 257,160</u>	

(1) It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future, although the City has no current plans to do so. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligation, the City will be required to levy an ad valorem tax to pay such debt service. See Table 10 herein for more detailed information on the City's general obligation self-supporting debt. Includes the Certificates. Preliminary; Subject to Change.

**TABLE 9 – INTEREST AND SINKING FUND BUDGET PROJECTION**

Net Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/2022		\$ 85,535
Budgeted Interest and Sinking Fund, Fiscal Year Ending 9/30/2021 <sup>(1)</sup>	\$ 366,820	
Calculated Interest and Sinking Fund Tax Levy	<u>77,180</u>	
Estimated Balance, Fiscal Year Ending 9/30/2022		<u>\$ 358,465</u>

(1) Unaudited.

**AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS...** The City has no authorized but unissued bonds.

**ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT.** . . The City does not anticipate issuing any tax supported debt within the next twelve months.

#### EMPLOYEE BENEFITS

**PLAN DESCRIPTION** . . . The City participates as one of 886 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

For a more in depth description, see the City's audit in Appendix A.

**TABLE 10 – COMPUTATION OF SELF-SUPPORTING DEBT**

As of Fiscal Year Ending September 30, 2022

The Certificates (Water & Sewer)	<u>5,065,000</u>
Total Self-Supported Debt	<u>\$ 5,065,000</u>
Net System Revenue Available Fiscal Year Ending September 30, 2020	\$ 1,369,978
Less: Requirements for Revenue Bonds Fiscal Year Ending September 30, 2022	<u>-</u>
Balance Available for Other Purposes	<u>\$ 1,369,978</u>
Requirements for System Tax Bonds Fiscal Year Ending September 30, 2022	\$ -
Percentage of System General Obligation Bonds Self-Supporting	100%

**TABLE 11 – OTHER OBLIGATIONS**

Year Ending September 30,	Balance October 1, 2019	Issued	Retired	Balance September 30, 2020	Due Within One Year
Interlocal Agreement 3.5%	\$ 6,980	\$ -	\$ 6,980	\$ -	\$ -
Interlocal Agreement 2.8%	221,120	-	52,983	168,137	54,486
Government Capital Corporation	36,436	-	36,436	-	-
Government Capital Corporation	<u>57,500</u>	<u>-</u>	<u>37,984</u>	<u>19,516</u>	<u>19,516</u>
Total Notes and Leases Payable	<u>\$ 322,036</u>	<u>\$ -</u>	<u>\$ 250,653</u>	<u>\$ 187,653</u>	<u>\$ 74,002</u>

## FINANCIAL INFORMATION

**TABLE 12 – GENERAL FUND REVENUE AND EXPENDITURE HISTORY**

	Fiscal Year Ended September 30,				
	2020	2019	2018	2017	2016
<b>Revenues:</b>					
Ad valorem taxes	\$ 602,361	\$ 516,228	\$ 499,262	\$ 355,626	\$ 302,342
Franchise taxes	50,678	54,872	36,246	34,979	35,250
Sales Tax	111,579	75,181	65,130	49,255	38,329
Garbage Fees	303,983	229,117	195,048	165,419	132,356
Permits	220,264	147,255	146,105	127,110	131,040
Fines	91,726	122,098	98,366	20,003	29,578
Intergovernmental	18,495	1,925	103,153	47,335	261,325
Grant income	413,455	360,975	98,611	-	-
Other income	282,764	37,999	37,418	29,858	26,280
Interest	2,314	7,955	855	177	141
<b>Total Revenues</b>	<b>\$ 2,097,619</b>	<b>\$ 1,553,605</b>	<b>\$ 1,280,194</b>	<b>\$ 829,762</b>	<b>\$ 956,641</b>
<b>Expenditures:</b>					
Administration	\$ 526,712	\$ 433,820	\$ 429,637	\$ 357,799	\$ 566,257
Sanitation services	150,962	119,308	107,784	99,072	83,287
Public works	37,100	23,835	21,403	6,848	11,671
Park	18,091	11,850	6,293	7,801	2,314
Street department	109,293	70,499	54,245	53,221	48,204
Police department/municipal court	622,376	541,962	336,048	235,273	180,600
Capital Outlay	140,816	430,463	1,054,212	131,933	80,107
Debt Service: Principal	134,586	80,580	23,401	27,455	25,596
Debt Service: Interest	11,571	9,381	13,061	2,836	-
<b>Total Expenditures</b>	<b>\$ 1,751,508</b>	<b>\$ 1,721,698</b>	<b>\$ 2,046,084</b>	<b>\$ 922,238</b>	<b>\$ 998,036</b>
Excess (Deficiency) of Revenues					
Over Expenditures	\$ 346,111	\$ (168,093.00)	\$ (765,890.00)	\$ (92,476.00)	\$ (41,395.00)
Other Financing Sources (Uses):					
Bond Proceeds	\$ -	\$ 118,632	\$ 815,010	\$ -	\$ -
Transfers (Out) In	-	-	-	-	-
<b>Total Other Financing Sources</b>	<b>\$ -</b>	<b>\$ 118,632</b>	<b>\$ 815,010</b>	<b>\$ -</b>	<b>\$ -</b>
Excess (Deficiency) of Revenues and					
other Financing Sources Over Expenditures	\$ 346,111	\$ (49,461)	\$ 49,120	\$ (92,476)	\$ (41,395)
Extraordinary Gain (Loss)					
Beginning Fund Balance	110,422	159,883	110,763	203,239	244,634
Prior Period Adjustment	-	-	-	-	-
<b>Ending Fund Balance</b>	<b>\$ 456,533</b>	<b>\$ 110,422</b>	<b>\$ 159,883</b>	<b>\$ 110,763</b>	<b>\$ 203,239</b>

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**TABLE 13 - MUNICIPAL SALES TAX HISTORY**

The City has adopted the Municipal Sales and Use Tax Act, V.T.C.A., Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. The voters of the City approved the imposition of an additional sales and use tax of one-quarter percent (0.50%) for the benefit of the Josephine 4B Development Corporation (the “Corporation”). The 0.5% sales and use tax for economic development is collected solely for the benefit of the Corporation, and may be pledged to secure payment of sales tax revenue bonds issued by the Corporation, but may not be pledged to payment on the Certificates. The current sales and use tax rates within the City total 1.5%, which is the maximum amount permitted by State law. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. **Sales and use tax proceeds are not pledged to payment of the Certificates and are not available to pay debt service on the Certificates.**

Fiscal Year Ended 9/30	City 1.5% Total Collected <sup>(1)</sup>	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2018	\$ 93,131	19.28%	\$ 0.1455	\$ 56.72
2019	116,875	19.33%	0.1273	77.61
2020	188,911	27.30%	0.1749	121.88
2021	214,425	29.17%	0.1728	134.44
2022	58,329 <sup>(2)</sup>	7.22%	0.0428	35.54

(1) Source: Texas Comptroller of Public Accounts web site.

(2) Collections through December 2021.

## INVESTMENTS

The City invests its investable funds in investments authorized by State law in accordance with investment policies approved by the City Council of the City. Both State law and the City’s investment policies are subject to change.

**LEGAL INVESTMENTS...** Under State law, the City is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the “FDIC”) or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the “NCUSIF”) or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the City in compliance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the “PFIA”), (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the City’s account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the City appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for City deposits, or (ii) certificates of deposit where (a) the funds are invested by the City through a broker or institution that has a main office or branch office in the State and selected by the City in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the City appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) above or clause (12) below, which are pledged to the City, held in the City’s name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11)

certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with SEC Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the SEC that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the City is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party designated by the City, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bear no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

**INVESTMENT POLICIES.** . . Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio and (6) yield.

The investment officer of a local government is allowed to invest bond proceeds or pledged revenue only to the extent permitted by the PFIA and in accordance with (i) statutory provisions governing the debt issuance (or lease, installment sale, or other agreement) and (ii) the local government's investment policy regarding the debt issuance or the agreement.

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, ending market value and the fully accrued interest of each pooled fund group for the reporting period, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest City funds without express written authority from the City Council.

**ADDITIONAL PROVISIONS.** . . Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's

investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority) and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the City's designated Investment Officer; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

**TABLE 14 - CURRENT INVESTMENTS**

As of November 30, 2021 the City's investable funds were invested in the following categories:

Description	% of Portfolio	Market Value
Checking Account	100.00%	\$ 5,955,640
Total	100.00%	\$ 5,955,640

### THE SYSTEM

The City contracts with the North Texas Municipal Water District ("NTMWD") to meet the City's water supply needs. The City owns and operates a small wastewater treatment plant and collects and treats wastewater for its residents. The Certificates are being issued to construct a second wastewater treatment plant with a capacity to treat up to 500,000 gallons of wastewater per day, and also to make improvements to the City's existing sewer collection and treatment facilities. The City also owns various facilities including storage and pump facilities, water distribution and sewage collection lines, meters, valves, and other facilities necessary to provide water and sewer service to its customers. The City then charges its customers such rates that are sufficient for pay the City's obligations to NTMWD and to pay for the maintenance, operation, and improvement of the City's water and sewer facilities

**TABLE 15 – MONTHLY WATER RATES**

Meter Size	Notes	Monthly Minimum Less than 3000 gallons	Water Usage between 3,001 - 10,000 gallons	Water Usage Over 10,000 gallons
5/8"	Inside City Limits	\$40.66	\$6.95/Per 1,000 gallon	\$9.11/Per 1,000 gallon
5/8"	Outside City Limits	\$44.73	\$7.80/Per 1,000 gallon	\$10.22/Per 1,000 gallon
1"	Inside City Limits	\$65.14	\$6.95/Per 1,000 gallon	\$9.11/Per 1,000 gallon
1"	Multi Meter	\$78.29	\$6.95/Per 1,000 gallon	\$9.11/Per 1,000 gallon
1"	"MUD" Monthly Minimum Water Bill	\$44.73	\$7.80/Per 1,000 gallon	\$10.22/Per 1,000 gallon

**TABLE 16 – MONTHLY SEWER RATES**

Notes	Service Gallons Between 0 - 1,000 gallons	Service Gallons Between 1,001 and 5,000 gallons	Service Gallons Between 5,001 and 9,899 gallons	Maximum Monthly Bill
Inside City Limits	\$23.34	\$2.47/Per 1,000 gallon	\$2.77/Per 1,000 gallon	\$46.79
Outside City Limits	\$26.96	\$2.85/Per 1,000 gallon	\$3.20/Per 1,000 gallon	\$51.48

**TABLE 17 – WATER AND SEWER SYSTEM STATEMENT OF OPERATIONS**

	Fiscal Year Ended September 30,				
	2020	2019	2018	2017	2016
Operating Revenues					
Water Sales	\$ 1,409,840	\$ 1,072,662	\$ 691,636	\$ 590,330	\$ 475,449
Sewer Sales	462,826	275,127	250,863	276,728	169,460
Grant Income	-	65,375	-	-	-
Tap and Reconnect Fees	413,147	256,205	378,364	262,426	261,917
Total Operating Revenues	\$ 2,285,813	\$ 1,669,369	\$ 1,320,863	\$ 1,129,484	\$ 906,826
Operating Expenses					
Salaries, Taxes and Benefits	\$ 343,528	\$ 279,232	\$ 279,686	\$ 183,307	\$ 148,198
Contract Labor	71,551	46,719	-	36,000	44,420
Professional Fees	11,500	4,875	-	-	-
Water Purchases	240,966	207,045	177,778	160,061	146,557
Repairs and Facility Maintenance	20,526	13,083	28,663	21,306	15,063
Vehicle Expense	9,556	11,276	8,559	8,528	11,232
Utilities and Telephone	61,349	33,553	27,629	22,587	28,315
Water/Sewer Testing	1,175	1,697	8,211	6,927	6,499
Depreciation and Amortization	157,278	126,241	114,839	97,277	83,400
Grant Expense	-	90,686	-	-	-
Other Expenses	161,311	153,686	92,247	78,164	97,747
Total Operating Expenses	\$ 1,078,740	\$ 968,093	\$ 737,612	\$ 614,157	\$ 581,431
Non Operating Revenues					
Interest Income	\$ 5,627	\$ 15,419	\$ 4,014	\$ 423	\$ 348
Interest and Fiscal Charges	(20)	-	(1,767)	(3,624)	(5,028)
Gain on Sale of Asset	3	392	-	18,593	-
Total Non Operating Revenues (Expenses)	\$ 5,610	\$ 15,811	\$ 2,247	\$ 15,392	\$ (4,680)
Income Before Capital Grants and Transfers					
Developer Contributions	\$ 1,804,114	\$ -	\$ -	\$ -	\$ -
Transfers Out	(84,000)	(84,000)	(98,159)	-	-
Change in Net Position	\$ 2,932,797	\$ 633,087	\$ 487,339	\$ 530,719	\$ 320,715
Net Position, October 1	\$ 4,038,860	\$ 3,405,773	\$ 2,918,434	\$ 2,390,172	\$ 2,069,457
Net Position, September 30	\$ 6,971,657	\$ 4,038,860	\$ 3,405,773	\$ 2,920,891	\$ 2,390,172
Net Revenue Available for Debt Service	\$ 1,369,978	\$ 842,936	\$ 702,104	\$ 613,027	\$ 409,143

**RECENT FINANCIAL DEVELOPMENTS – Infectious Disease Outbreak – COVID-19**

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the “Pandemic”) by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President’s Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

The Governor of Texas (the “Governor”) declared a state of disaster for all counties in the State in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19

preparedness, mitigation, and reopening. However, on July 29, 2021, the Governor issued Executive Order GA-38, which supersedes all pre-existing executive orders related to COVID-19 and rescinds them in their entirety, except for Executive Order GA-13 (relating to detention in county and municipal jails) and Executive Order GA-37 (related to migrant transport). Executive Order GA-38 combines several previous executive orders into one order and continues the prohibition against governmental entities in Texas, including counties, cities, school districts, public health authorities, and government officials from requiring or mandating any person to wear a face covering and subjects a governmental entity or official to a fine of up to \$1,000 for noncompliance. It also prohibits governmental entities from: (i) compelling any individual to receive a COVID-19 vaccine administered under emergency use authorization, and (ii) enforcing any requirements to show proof of vaccination before receiving a service or entering any place (other than nursing homes, hospitals, and similar facilities) if the public or private entity that has adopted such requirement receives public funds through any means. Executive Order GA-38 remains in effect until amended, rescinded, or superseded by the Governor.

Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values and/or the collection of sales tax revenues, ad valorem tax revenues and other revenues within the City. See “TAX INFORMATION”. The Certificates are secured by an ad valorem tax (within the limits prescribed by law), and a limited pledge (not to exceed \$1,000) of Surplus Revenues of the System and a reduction in the receipt of such revenues or in the property values within the City may require an increase in the ad valorem tax rate required to pay the Certificates as well as the City’s operations and maintenance expenses. See “TAX INFORMATION”. Additionally, the City collects a sales and use tax on all taxable transactions within the City’s boundaries. A reduction in the collection of sales tax revenues may negatively impact the City’s operating budget and overall financial condition.

The City continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic on the City cannot be quantified at this time, the continued spread of COVID-19 could have an adverse effect on the City’s operations and financial condition.

## **TAX MATTERS**

**OPINION . . .** On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (1) interest on the Certificates for federal income tax purposes will be excludable from the “gross income” of the holders thereof and (2) the Certificates will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Bond Counsel to the City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Certificates. See “Appendix C - Form Bond Counsel’s Opinion”.

In rendering its opinion, Bond Counsel to the City will rely upon (a) the City’s federal tax certificate, and (b) covenants of the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Certificates and certain other matters. Failure of the City to comply with these representations or covenants could cause the interest on the Certificates to become includable in gross income retroactively to the date of issuance of the Certificates.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Certificates in order for interest on the Certificates to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Certificates to be included in gross income retroactively to the date of issuance of the Certificates. The opinion of Bond Counsel to the City are conditioned on compliance by the City with the covenants and the requirements described in the preceding paragraph, and Bond Counsel to the City has not been retained to monitor compliance with these requirements subsequent to the issuance of the Certificates.

Bond Counsel’s opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel’s opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Certificates.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Certificates or the facilities financed or refinanced with the proceeds of the Certificates. Bond Counsel’s opinion represents its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Certificates, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.



**FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . .** The initial public offering price to be paid for one or more maturities of the Certificates may be less than the principal amount thereof or one or more periods for the payment of interest on the Certificates may not be equal to the accrual period or be in excess of one year (the “Original Issue Discount Bonds”). In such event, the difference between (i) the “stated redemption price at maturity” of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The “stated redemption price at maturity” means the sum of all payments to be made on the Certificates less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Certificates and ratably within each such six-month period) and the accrued amount is added to an initial owner’s basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

**COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . .** The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Certificates. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt Certificates.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE CERTIFICATES.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Certificates, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation. Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Certificates, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such Certificates; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

**STATE, LOCAL AND FOREIGN TAXES . . .** Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Certificates under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

**INFORMATION REPORTING AND BACKUP WITHHOLDING . . .** Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Certificates will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

**FUTURE AND PROPOSED LEGISLATION . . .** Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Certificates under Federal or state law and could affect the market price or marketability of the Certificates. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Certificates should consult their own tax advisors regarding the foregoing matters.

### **CONTINUING DISCLOSURE OF INFORMATION**

The offering of the Certificates qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the City's continuing disclosure obligation, because the City does not currently have outstanding more than \$10,000,000 in aggregate amount of outstanding municipal securities (excluding securities offered in transactions that were exempt from the Rule 15c2-12) and no person is committed by contract or other arrangement with respect to payment of the Certificates. Pursuant to the exemption, in the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains an "obligated person" with respect to the Certificates, within the meaning of the Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS . . .** The City will provide to the MSRB updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the City of the general type included in this Official Statement to the extent such information is customarily prepared by the City and is publicly available, which currently consists of the City's annual audited financial statements. The City will update and provide this information within twelve (12) months after the end of each fiscal year ending in and after 2022. If the audit of such financial statements is not complete within such time frame after any such fiscal year end, then the City shall file unaudited financial statements within such time period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

The City's current fiscal year end is September 30. Accordingly, updated unaudited information included in the above-referenced tables, and audited financial statements, must be provided by September 30 of each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data.

**NOTICE OF CERTAIN EVENTS. . .** The City will also provide to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of any of the following events with respect to the Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5702-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the

termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional paying agent/registrant or the change of name of a paying agent/registrant, if material; (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. In addition, the City will provide to the MSRB, in a timely manner, notice of any failure by the City to provide the required annual financial information described above under "Annual Reports" and any notices of events in accordance with this section.

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. For the purposes of the above describe event (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a financial obligation shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

**AVAILABILITY OF INFORMATION.** . . The City has agreed to provide the foregoing financial and operating information only as described above. Investors may access continuing disclosure information filed with the MSRB free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

**LIMITATIONS AND AMENDMENTS** . . . The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Certificates may seek a writ of mandamus to compel the City to comply with its agreement. The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted the Initial Purchaser, to purchase or sell Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Certificates consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Certificates. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent the Initial Purchaser from lawfully purchasing or selling Certificates in the primary offering of the Certificates. If the City so amends its continuing disclosure agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

**COMPLIANCE WITH PRIOR UNDERTAKINGS.** . . The City has not previously entered into any undertaking pursuant to the Rule.

## **OTHER INFORMATION**

### **RATING**

The Certificates have been rated "AA" by S&P Global Ratings ("S&P") by virtue of a municipal bond insurance policy to be issued by AGM upon delivery of the Certificates to the Initial Purchaser. See "BOND INSURANCE" herein. The Certificates have been rated "A+" with a stable outlook by S&P without regard to credit enhancement. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the views of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment such company, circumstances so warrant. Any such downward revision or withdrawal of such rating, may have an adverse effect on the market price or marketability of the Certificates.

## **LITIGATION**

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

## **REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE**

The sale of the Certificates has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

## **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments and investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State, the PIFA, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency (see "OTHER INFORMATION - Rating" herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

No representation is made that the Certificates will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Certificates for such purposes.

## **LEGAL OPINION**

The delivery of the Certificates is subject to the approval of the Attorney General of Texas, who will deliver its opinion, to the effect that the Certificates are valid and legally binding Certificates of the City payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the City, and, with respect to the Certificates, from a pledge of the Surplus Revenues of the System, and based upon examination of such transcript of proceedings, the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City ("Bond Counsel"), to like effect and to the effect that the interest on the Certificates will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as APPENDIX C.

Though it may represent the Initial Purchaser from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the City in the issuance of the Certificates. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Notice of Sale and Bidding Instructions, the Official Bid Form or the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance.

The legal opinion will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System. The legal opinions to be delivered concurrently with the delivery of the Certificates express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## **AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION**

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and ordinances contained in this Official Statement are made

subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

#### **FINANCIAL ADVISOR**

HilltopSecurities is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. HilltopSecurities, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

#### **INITIAL PURCHASER FOR THE CERTIFICATES**

After requesting competitive bids for the Certificates, the City accepted the bid of SAMCO Capital Markets (the "Initial Purchaser") to purchase the Certificates at the interest rates shown on page 2 of the Official Statement at a price of par plus a cash premium of \$539,499.44. The Initial Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Initial Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the sole responsibility of the Initial Purchaser.

#### **FORWARD-LOOKING STATEMENTS DISCLAIMER**

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

#### **CERTIFICATION OF THE OFFICIAL STATEMENT**

At the time of payment for and delivery of the Certificates, the City will furnish a certificate, executed by a proper officer, acting in such officer's official capacity, to the effect that to the best of his or her knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in the Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

The Ordinance authorizing the issuance of the Certificates has also approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorizes its further use in the reoffering of the Certificates by the Initial Purchaser.

/s/ Jason Turney  
Mayor  
City of Josephine, Texas

**APPENDIX A**

GENERAL INFORMATION REGARDING THE CITY

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## THE CITY

The City of Josephine is located in southeastern Collin County. It is located 35 miles northeast of Dallas. It is close in proximity to the Dallas metroplex making for an short commute to downtown Dallas, Garland, Richardson, Mesquite and Plano. The City is located eight miles north of Interstate 30 between Greenville and Rockwall. T

## COLLIN COUNTY CHARACTERISTICS

Collin County was created in 1846 from Fannin County. Many residents commute to jobs in Dallas, Garland, and Richardson. Popular recreational attractions include water sports on Lake Lavon, the McKinney Historical District, and the South Fork Ranch of the "Dallas" television series

## LABOR FORCE

Collin County Employment figures, as reflected by the Texas Workforce Commission, are as follows:

	Average Annual				
	2021 <sup>(1)</sup>	2020	2019	2018	2017
Civilian Labor Force	581,543	570,623	571,831	551,297	532,035
Total Employed	556,014	534,617	554,215	532,841	513,526
Total Unemployed	25,529	36,006	17,616	18,456	18,509
Unemployment Rate	4.4%	6.3%	3.1%	3.3%	3.5%

(1) Average as of September 2021.

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**APPENDIX B**

EXCERPTS FROM THE  
CITY OF JOSEPHINE, TEXAS  
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2020

The information contained in this Appendix consists of excerpts from the City of Josephine, Texas, Annual Financial Report for the Year Ended September 30, 2020, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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## Independent Auditor's Report

To the City Council  
City of Josephine, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the remaining aggregate funds of the City of Josephine, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Josephine, Texas, as of September 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule – General Fund and the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios – Texas Municipal Retirement System and the Schedule of Funding Progress on pages 4–13 and 53-56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Josephine, Texas' basic financial statements. The Historical Schedule of Assessed Property Valuation and the Historical Schedule of Property Tax Rates are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Fox, Byrd & Company, P.C.  
March 1, 2021

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

## **Management's Discussion and Analysis**

As management for the City of Josephine, Texas, we offer readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2020. This discussion should be read in conjunction with the financial statements and related notes.

### **FINANCIAL HIGHLIGHTS:**

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

### **Fund Financial Statements**

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

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

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

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

In the government-wide financial statements, net assets serve as one useful indicator of a government's financial position. In the case of the City, combined net assets exceed liabilities by \$8,714,892 and \$5,125,328 at the close of FY 2020 and 2019, respectively.

The combined net assets of the City's activities increased from \$5,125,328 to \$8,714,892 or \$3,589,564 during 2020. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements were \$3,612,029.

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

As the City completed the year, its governmental funds, \$664,327 and proprietary funds \$6,971,657 reported combined fund balance and net assets of \$7,635,984, a \$3,383,299 increase from last year.

### **CAPITAL ASSET AND DEBT ADMINISTRATION:**

*Capital Assets* – the City's investment in capital assets, net of related debt, reported in governmental activities and business-type activities was \$1,225,363 and \$3,669,839, respectively. This investment in capital assets includes land, buildings and improvements, equipment and vehicles. The change in the City's net investment in capital assets for the current fiscal year was \$188,165 and \$1,822,304 in each of the respective activities.

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

### **BUDGETARY HIGHLIGHTS & ECONOMIC FACTORS:**

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

## **BASIC FINANCIAL STATEMENTS**

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

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

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

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

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

The accompanying notes are an integral part of these financial statements

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

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

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

**CITY OF JOSEPHINE, TEXAS**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**Year Ended September 30, 2020**

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

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

**CITY OF JOSEPHINE, TEXAS**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balance of Governmental Funds**  
**to the Statement of Activities**  
**Year Ended September 30, 2020**

<b>Net change in fund balance - Governmental funds</b>	<b>\$ 450,502</b>
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Governmental funds report capital outlays as expenditures, while in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital expenditures of \$140,816 exceeded depreciation expense of \$166,944.	(17,113)
The issuance of long-term debt (e.g. bonds and capital leases) provides current financial resources to governmental funds, while repayment of long-term debt is reported as an expenditure for governmental funds but is reported as a reduction of debt in the statement of activities. This amount represents the net of long-term debt proceeds (\$ -0- ) and long-term debt repayments (\$210,586).	210,586
Changes in the liability for compensated absences are reported as an increase or decrease to expense in the government-wide financial statements but are not reported in governmental funds if the amounts are not expected to be paid from current resources.	(13,262)
Expenditures are recognized in the governmental funds when paid. However, the statement of activities is presented on the accrual basis and expenses are reported when incurred. The following is the net difference in pension and OPEB costs.	19,371
Revenues in the statement of activities that do not provide current resources are not reported as revenues in the funds. This includes the change in unavailable revenue of \$5,508 and court fines of \$1,174	6,682
<b>Change in net assets of governmental activities</b>	<b>\$ <u>656,766</u></b>

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

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

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

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



**CITY OF JOSEPHINE, TEXAS**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Fund**  
**Year Ended September 30, 2020**

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

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

**CITY OF JOSEPHINE, TEXAS**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**Year Ended September 30, 2020**

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

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

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

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

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

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

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

The accounting and reporting framework and the more significant accounting principles and practices of the City are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ending September 30, 2020.

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

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

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

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GASB Statements No. 14 and 39. These statements define the reporting entity as the primary government and those component units for which the primary government is financially accountable. In addition, component units may be included in the reporting entity based on the nature and significance of the relationship with the primary government, or based on being closely related or financially integrated with the primary government. Based on these criteria, the City has the following component units at September 30, 2020:

Discretely Presented Component Units

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

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

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

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

*Government-wide financial statements*

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

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

*Fund financial statements*

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

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

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

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

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

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

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

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

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

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

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

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

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

*Governmental Funds*

The City reports the following major governmental funds:

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

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

*Proprietary Funds*

The City reports the following major proprietary funds:

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

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

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

**Cash and Investments**

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

Restricted cash and cash equivalents are restricted for debt service requirements (\$207,794) or for capital projects (\$133) at year-end.

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

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

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

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

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

**Inventories and Prepaids**

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

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

**Capital Assets, Depreciation, and Amortization**

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

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

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

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

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

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

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

**Deferred Outflows of Resources**

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

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

**Deferred Inflows of Resources**

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Pensions**

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

**Compensated Absences**

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

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

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

**Fund Equity**

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

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

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

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

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

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

**Fund Equity - continued**

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

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

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

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

**(F) Risk Management**

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

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

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

**(G) Estimates**

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

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

**Budgetary Information**

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

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

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

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

**3. Deposits and Investments**

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

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

**Investments**

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

**Investment Policies**

**Credit risk** is the risk that an issuer or other counter party to an investment will not fulfill its obligations. Generally, the City's investing activities are managed under the custody of the Mayor, City Secretary and two members of City Council. Investing is performed in accordance with investment policies adopted by the City Council complying with state statutes. City investment policy and state statute generally permit the City to invest in certificates of deposit, fully collateralized repurchase agreements, public funds investment pools, obligations of the United States of America or its agencies, direct obligations of the State of Texas or its agencies, other obligations which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, and obligations of states, agencies, counties, cities and other political subdivisions having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent. During the year ended September 30, 2020, the City did not own any types of securities other than those permitted by statute.

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

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

**3. Deposits and Investments - continued**

**Investment Policies - continued**

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

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

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

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

*Enterprise Receivables and Uncollectible Accounts*

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

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

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

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

*Property Taxes Receivable and Property Tax Calendar*

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1<sup>st</sup> for all real property located within the City. Appraised values are established by the Collin County Central Appraisal District at 100% of market value. As of January 1, 2019, all real property was assessed at a net taxable value of \$123,624,553.

The property tax rate for the year ended September 30, 2020 was .575 per \$100 of the assessed valuation on taxable property. The following is a summary of the overall tax rate as levied by fund type:

Maintenance and Operations - General Fund	.487266
Interest and Sinking – Debt Service Fund	.087734

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

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

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

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

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

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

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

*Allowance for Uncollectible Taxes*

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

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

Accounts receivable, gross	\$ 28,180
Less: allowance for uncollectible accounts	<u>-</u>
Net accounts receivable	<u><u>\$ 28,180</u></u>

*Fines and Court Costs Receivable and Related Allowances*

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

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



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

**5. Capital Assets**

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

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

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

**5. Capital Assets - continued**

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

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

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

The gross amount of assets included in the equipment category above, which were recorded under capital lease obligations is \$150,823. Accumulated amortization of these assets is \$88,539. Amortization expense is included in depreciation expense.

**6. Long-Term Debt**

*General Fund – Interlocal Agreement*

On November 6, 2012 the City entered into an interlocal agreement with Collin County, Texas to reconstruct mutual boundary roads CR1003 and CR689. The County agreed to arrange for the road improvements. Funds were expended on the road reconstruction beginning in late 2017. The City agreed to reimburse their share of the costs over a five year period. Terms of the agreement include an annual interest rate of 3.50% and 60 monthly payments of \$1,408.22, with the first payment due March 1, 2017. At September 30, 2020 the principal balance was \$ - 0 -. Interest expense was \$61 for the year and was included in the street department functional expense in the Statement of Activities.

On October 8, 2018 the City entered into an interlocal agreement with Collin County, Texas to reconstruct CR596 (Hubbard). The County agreed to arrange for the road improvements. The City agreed to reimburse their share of the costs over a five year period. Terms of the agreement include an annual interest rate of 2.80% and 60 monthly payments of \$4,875, with the first payment due November 1, 2018. At September 30, 2020 the principal balance was \$168,137.

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

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

*General Fund – Capital Lease Agreement*

On April 5, 2018 the City entered into an agreement with Government Capital Corporation to purchase a 2018 Ford Explorer, with an interest rate of 4.44% and a maturity date of April 5, 2021. Terms of the agreement include annual payments of \$19,439.86 with the initial payment due April 5, 2019. At September 30, 2020 the principal balance was \$ - 0 -. Interest expense was \$1,617 for the year.

On October 31, 2018 the City issued Tax Note Series 2018 for the construction and equipping of a new City Hall. The Tax Notes will mature on September 1, 2024. They carry an interest rate of 2.25% based on a 360-day year. Annual principal and interest payments will be due beginning September 1, 2018 and will continue to maturity. The amounts due graduate over the term of the notes, with the initial principal payment of \$75,000 and the final payment in 2024 of \$84,000. At September 30, 2020 the principal balance was \$324,000. Interest expense was \$9,000 for the year.

On December 17, 2018 the City entered into an agreement with Government Capital Corporation to purchase a 2020 Ford Explorer Interceptor, with an interest rate of 4.61% and a maturity date of January 3, 2022. Terms of the agreement include annual payments of \$20,960.37 with the initial payment due January 3, 2020. At September 30, 2020 the principal balance was \$19,516. Interest expense was \$2,651 for the year

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

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

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

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

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

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

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

*Debt Service Requirements to Maturity*

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

Fiscal Year Ending September 30,	<u>Governmental Activities</u>						
	<u>Interlocal Agreements</u>		<u>Tax Note Series 2017</u>		<u>Government Capital Corp</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Required</u>
2021	\$ 54,486	\$ 4,012	\$ 78,000	\$ 7,290	\$ 19,516	\$ 2,633	\$ 165,937
2022	56,031	2,467	80,000	5,535	-	924	144,957
2023	57,620	878	82,000	3,735	-	-	144,233
2024	-	-	84,000	1,890	-	-	85,890
2025	-	-	-	-	-	-	-
2026	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 168,137</u>	<u>\$ 7,357</u>	<u>\$ 324,000</u>	<u>\$ 18,450</u>	<u>\$ 19,516</u>	<u>\$ 3,557</u>	<u>\$ 541,017</u>

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

**7. Commitments/Contingencies**

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

The City has entered into a contract for garbage collection services with Republic Services. Contract period is from 12/1/17 to 11/30/24. The contract has up to five one-year renewals with a 180 day notice prior to the end of the initial term. During fiscal year 2020, the City spent \$139,890 on garbage collection services.

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

*Receivables and Payables*

Generally, outstanding balances between funds reported as "due to/from other funds" in the governmental fund financial statements include outstanding charges by one fund to another for services or goods, and other miscellaneous receivables/payables between funds. Activity between funds that are representative of lending/borrowing arrangements that are outstanding at the end of the fiscal year are described as "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Outstanding balances between the City's General Fund and its Proprietary Fund include funds for operating expenditures that will be transferred after the end of the year. At September 30, 2020 the outstanding balance between the General Fund and the Proprietary Fund is \$ - 0 -.

*Transfers and Payments*

Transfers and payments within the reporting entity are substantially for the purposes of funding capital projects and asset acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs. During the year ending September 30, 2020, there were transfers of \$84,000 between funds.

**9. Economic Dependence**

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

The City is currently obligated under a 30-year water purchase contract with the North Texas Municipal Water District until December 31, 2025. Total water cost for the year ended September 30, 2020 was \$240,966.

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

**10. TMRS Pension Plan**

Plan Description

The City participates as one of 886 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

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

**Benefits Provided:**

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

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

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

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

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

**10. TMRS Pension Plan - continued**

Plan Description - continued

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

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

Employees covered by benefit terms –

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

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

Contributions

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

Employees for the City of Josephine were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Josephine were 6.76% and 6.76% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2020 was \$81,858 which exceeded the required contributions by \$41,356.



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

**10. TMRS Pension Plan - continued**

Net Pension Liability:

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions –

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

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

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

Actuarial assumptions used in the December 31, 2019 valuation were based on the results of actuarial experience studies. This experience study was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

**10. TMRS Pension Plan - continued**

Actuarial assumptions – continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

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

Discount Rate –

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

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

**10. TMRS Pension Plan - continued**

Changes in the Net Pension Liability –

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

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

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

	1% Decrease in Discount Rate 5.75%	Current Single Rate Assumption 6.75%	1% Increase in Discount Rate 7.75%
City's net pension liability	\$ 54,071	\$ (17,906)	\$ (77,112)

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

**10. TMRS Pension Plan - continued**

Pension Plan Fiduciary Net Position –

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

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

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

At September 30, 2020, the City reported deferred outflow and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	\$ 31,425	\$ -
Difference between projected and actual investment earnings	20,441	34,434
Differences between actuarial assumptions and actual experience	4,255	23,976
Changes in actuarial assumptions used	4,838	560
Total	<u>\$ 60,959</u>	<u>\$ 58,970</u>

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

**10. TMRS Pension Plan - continued**

Pension Plan Fiduciary Net Position – continued

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$31,425 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2020 (i.e. recognized in the City's financial statements as of September 30, 2020). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ended December 31,	Amount
2020	\$ (5,306)
2021	(5,314)
2022	(1,485)
2023	(8,412)
2024	(2,793)
Thereafter	(6,126)
Total	\$ <u>(29,436)</u>

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

**11. TMRS Supplemental Death Benefits Fund**

Post-Employment Benefits Other Than Pensions

Benefit Plan Description

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

Benefits Provided

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

Employees Covered by Benefit Terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Membership \*

Number of

- Inactive employees or beneficiaries currently receiving benefits	-
- Inactive employees entitled to but not yet receiving benefits	1
- Active employees	<u>12</u>
- Total	<u>13</u>

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

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

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

Total OPEB Liability

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

Actuarial assumptions –

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 11.5% including inflation
Discount rate	2.75%
Retirees' share of benefit related costs	\$ 0

The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

Mortality rates – service retirees

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

Mortality rates – disabled retirees

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

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

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

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

Changes in the Total OPEB Liability

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

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

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.75%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.75%) or 1 percentage point higher (3.75%) than the current rate:

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

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



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

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

Deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the measurement year ending December 31, 2021 (i.e. recognized in the City's financial statements for the year ending September 30, 2020). Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year	Net deferred outflows (inflows) of resources
2020	\$ (50)
2021	(50)
2022	(50)
2023	(50)
2024	(50)
Thereafter	(183)
Total	\$ <u>(433)</u>

**12. Litigation**

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

**13. Risks and Uncertainties**

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

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**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

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*An opinion in substantially the following form will be delivered by McCall,  
Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the  
Certificates, assuming no material changes in facts or law.*

**CITY OF JOSEPHINE, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION, SERIES 2022  
DATED JANUARY 15, 2022  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$5,065,000**

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AS BOND COUNSEL FOR THE CITY OF JOSEPHINE, TEXAS (the "Issuer") in connection with the issuance of the Combination Tax and Revenue Certificates of Obligation, Series 2022, described above (the "Certificates of Obligation"), we have examined into the legality and validity of the Certificates of Obligation, which bear interest from the dates and mature and are subject to redemption on the dates, in accordance with the terms and conditions stated in the text of the Certificates of Obligation. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the Issuer authorizing the issuance and sale of the Certificates of Obligation (the "Ordinance").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Certificates of Obligation, including one of the executed Certificates of Obligation (Certificate of Obligation Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates of Obligation have been duly authorized, issued, and delivered in accordance with law, and that the Certificates of Obligation, except as may be limited by laws applicable to the Issuer relating to principles of governmental immunity, bankruptcy, reorganization and other similar matters affecting creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates of Obligation have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates of Obligation are additionally secured by and payable from a pledge of surplus revenues of the Issuer's waterworks and sewer system, remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the Issuer's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the Issuer's waterworks and sewer system, as provided in the Ordinance.



IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates of Obligation is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates of Obligation are not "specified private activity bonds" and that, accordingly, interest on the Certificates of Obligation will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Certificates of Obligation and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the Issuer to comply with such covenants, interest on the Certificates of Obligation may become includable in gross income retroactively to the date of issuance of the Certificates of Obligation.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Certificates, including the amount, accrual or receipt of interest on, the Certificates. Owners of the Certificates should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Certificates.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Certificates, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within, and the sufficiency of the pledged revenues of, the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.



OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

Respectfully,

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**APPENDIX D**

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
1633 Broadway, New York, N.Y. 10019  
(212) 974-0100



Financial Advisory Services  
Provided By

