

*REPORT OF EXAMINATION*

**CITY OF  
JOHNSON CITY**

*Johnson City, Texas*

**For the Year Ended  
September 30, 2013**

CITY OF JOHNSON CITY, TEXAS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2013

CITY OF JOHNSON CITY  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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**NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.**  
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**Report on Basic Financial Statements Accompanied by Required Supplementary Information,  
Supplementary Information, and Other Information**

**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Members of the City Council  
City of Johnson City, Texas  
Johnson City, TX 78636

We have audited the accompanying financial statements of the governmental activities and the business-type activities of City of Johnson City, Texas, as of and for the year ended September 30, 2013, 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 and the business-type activities of the City of Johnson City, Texas, as of September 30, 2013, 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 information on pages 3–8 and 35 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.

*Neffendorf, Knopp, Doss & Company, P.C.*

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.  
Fredericksburg, Texas

July 25, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Johnson City, we offer readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the year ended September 30, 2013. Please read it in conjunction with the independent auditors' report on page 1, and City's Basic Financial Statements which begin on page 9.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5,858,831 (net position). Of this amount, \$1,560,318 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position increased by \$551,280 as a result of this year's operations.
- At September 30, 2013, the City's governmental funds reported combined ending fund balances of \$906,667, an increase of \$174,180 in comparison with the prior year.
- At September 30, 2013, the City's Water and Sewer Fund reported net position of \$4,600,715, an increase of \$44,916 in comparison with the prior year.
- The City advanced refunded the Series 2003 and Series 2005 Certificates of Obligation by issuing \$1,675,000 Refunding Bonds – Series 2012. This refunding resulted in gross debt service savings of \$387,787 and a net present value savings of \$328,961.

### 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 (on pages 9 and 10). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (beginning on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these 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 tax levies and the appropriations budget.

The notes to the financial statements (starting on page 21) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (operating fund) is presented as required supplementary information on page 35.

## **Reporting the City as a Whole**

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

The analysis of the City's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (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 position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider other factors as well, such as changes in the City's customers or its property tax base 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 activity:

- Governmental activity - Most of the City's basic services are reported here, including the public safety, public works, municipal court and administration. Property taxes, user charges, sales tax and franchise tax finance most of these activities.
- Business-type activity - The City's water and sewer system is reported as a business-type activity since the fees charged to customers cover the cost of services provided.

## **Reporting the City's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has two kinds of funds:

- Governmental funds - All of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in Note II to the financial statements.
- Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. The City's enterprise fund (Water and Sewer) is a business-type activity and provides both long and short-term financial information.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities.

Net position of the City's governmental activities increased from \$777,054 to \$906,667. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$585,481 at September 30, 2013. This increase in governmental net position was the result of three factors. First, the City's revenues exceeded the expenditures by \$174,180. Second, the City paid principal on long-term debt in the amount of \$124,364 and acquired capital assets in the amount of \$426,811. Third, the City recorded depreciation in the amounts of \$74,915.

Net position of the City's business-type activities decreased from \$4,555,799 to \$4,600,715. Unrestricted net position were \$974,837 at September 30, 2013. This increase in business-type net position was the result of net income of \$44,916.

**Table I**  
**City of Johnson City**

### NET POSITION in thousands

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2013	2012	2013	2012	2013	2012
Current and Other Assets	\$ 991	\$ 850	\$ 1,092	\$ 945	\$ 2,083	\$ 1,795
Capital Assets	1,990	1,649	3,626	3,824	5,616	5,473
Total Assets	\$ 2,981	\$ 2,499	\$ 4,718	\$ 4,769	\$ 7,699	\$ 7,268
Deferred Outflow of Resources	\$ 22	\$ -	\$ -	\$ -	\$ 22	\$ -
Long-Term Liabilities	\$ 1,523	\$ 1,565	\$ -	\$ -	\$ 1,523	\$ 1,565
Other Liabilities	221	157	117	213	338	370
Total Liabilities	\$ 1,744	\$ 1,722	\$ 117	\$ 213	\$ 1,861	\$ 1,935
Deferred Inflow of Resources	\$ 1	\$ -	\$ -	\$ -	\$ 1	\$ -
Net Position:						
Invested in Capital Assets						
Net of Related Debt	\$ 417	\$ 116	\$ 3,626	\$ 3,719	\$ 4,043	\$ 3,835
Restricted	256	305	-	110	256	415
Unrestricted	585	356	975	727	1,560	1,083
Total Net Position	\$ 1,258	\$ 777	\$ 4,601	\$ 4,556	\$ 5,859	\$ 5,333



**Table II**  
**City of Johnson City**

**CHANGES IN NET POSITION**  
in thousands

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues:						
Charges for Services	\$ 323	\$ 285	\$ 813	\$ 733	\$ 1,136	\$ 1,018
Municipal Court Fines	90	78	-	-	90	78
Property Taxes	380	333	-	-	380	333
Sales Tax	302	300	-	-	302	300
Franchise Tax	148	134	-	-	148	134
Other Taxes	6	8	-	-	6	8
Operating and Capital Grants	319	88	-	-	319	88
Investment Earnings	4	5	4	6	8	11
Miscellaneous	158	18	5	6	163	24
Total Revenue	<u>\$ 1,730</u>	<u>\$ 1,249</u>	<u>\$ 822</u>	<u>\$ 745</u>	<u>\$ 2,552</u>	<u>\$ 1,994</u>
Expenses:						
Financial Administration	\$ 358	\$ 356	\$ -	\$ -	\$ 358	\$ 356
Police	240	241	-	-	240	241
Highways and Streets	79	65	-	-	79	65
Sanitation	255	260	-	-	255	260
Parks	77	85	-	-	77	85
Municipal Court	48	16	-	-	48	16
Hotel Motel	54	52	-	-	54	52
Community Service	12	7	-	-	12	7
Water and Sewer	-	-	781	730	781	730
Debt Service	91	85	6	13	97	98
Total Expenses	<u>\$ 1,214</u>	<u>\$ 1,167</u>	<u>\$ 787</u>	<u>\$ 743</u>	<u>\$ 2,001</u>	<u>\$ 1,910</u>
Increase in Net Position Before						
Capital Contributions & Transfers	\$ 516	\$ 82	\$ 35	\$ 2	\$ 551	\$ 84
Capital Contributions	-	(19)	-	19	-	-
Transfers	(10)	39	10	(39)	-	-
Net Position - Beginning	777	675	4,556	4,574	5,333	5,249
Prior Period Adjustment	(25)	-	-	-	(25)	-
Net Position - Ending	<u>\$ 1,258</u>	<u>\$ 777</u>	<u>\$ 4,601</u>	<u>\$ 4,556</u>	<u>\$ 5,859</u>	<u>\$ 5,333</u>

The cost of all governmental activities this year was \$1,214,045. However, as shown in the Statement of Activities on page 10, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$379,579 because the other costs were paid by sales tax (\$302,160), franchise tax (\$74,768), hotel/motel tax (\$72,675), grants (\$319,436), user charges (\$413,090), investment interest (\$3,849) and other miscellaneous (\$164,318).

## THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 9) reported a combined fund balance of \$906,667, which is more than last year's total of \$732,487. Included in this year's total change in fund balance is an increase of \$222,990 in the City's General Fund.

The City adopted the General Fund Budget. However, actual expenditures were more than the budgeted amounts and actual revenues were more than the budgeted amounts.

## CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2013, the City had the following amounts invested in capital assets:

### CAPITAL ASSETS in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2013	2012	2013	2012	2013	2012
Land	\$ 485	\$ 495	\$ 41	\$ 41	\$ 526	\$ 536
Construction in Progress	394	101	-	-	394	101
Distribution & Collection Systems	-	-	6,576	6,554	6,576	6,554
Buildings & Improvements	1,507	1,477	85	85	1,592	1,562
Equipment	630	551	345	345	975	896
Total Capital Assets	<u>\$ 3,016</u>	<u>\$ 2,624</u>	<u>\$ 7,047</u>	<u>\$ 7,025</u>	<u>\$ 10,063</u>	<u>\$ 9,649</u>

This year's major additions included:

	Governmental Activities	Business Type Activities
System Improvements	\$ 31	\$ 22
SRTS Grant	293	-
Machinery & Equipment	103	-
TOTALS	<u>\$ 427</u>	<u>\$ 22</u>

More detailed information about the City's capital assets is presented in Note E and F to the financial statements.

## DEBT

At September 30, 2013, the City had the following outstanding debt:

### OUTSTANDING DEBT in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2013	2012	2013	2012	2013	2012
Bonds Payable	\$ -	\$ -	\$ -	\$ 105	\$ -	\$ 105
Notes Payable	43	-	-	-	43	-
Certificates of Obligation Payable	1,633	1,635	-	-	1,633	1,635
Total Outstanding Debt	<u>\$ 1,676</u>	<u>\$ 1,635</u>	<u>\$ -</u>	<u>\$ 105</u>	<u>\$ 1,676</u>	<u>\$ 1,740</u>

For governmental activities, the City paid \$14,364 in principal on the outstanding notes and paid \$110,000 in principal on the outstanding certificates of obligation.

For business-type activities, the City paid \$105,000 in principal on the outstanding long-term debt.

More detailed information about the City's long-term liabilities is presented in Notes G, H, I, J and K to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2014 budget and tax rates. The major factors are the assessed property valuation, economy and population growth. These indicators were taken into account when adopting the General Fund budget for 2014. Amounts available for appropriation in the General Fund budget are \$1,244,770 and expenditures are estimated to be \$1,244,770.

If these estimates are realized, the City's budgetary General fund balance is expected to remain about the same by the close of 2014.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 financial information, contact the City's business office, at City of Johnson City, Johnson City, Texas.

## BASIC FINANCIAL STATEMENTS

CITY OF JOHNSON CITY  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2013

EXHIBIT A-1

	Primary Government		
	Governmental	Business	Total
	Activities	Type	
	Activities	Activities	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 351,638	\$ 223,087	\$ 574,725
Investments - Current	569,950	639,142	1,209,092
Receivables (net of allowance for uncollectibles)	210,884	66,227	277,111
Internal Balances	(163,435)	163,435	-
Due from Employee-Fraud (Note T)	21,894	-	21,894
Capital Assets:			
Land	484,501	41,402	525,903
Buildings, net	114,815	12,194	127,009
Improvements other than Buildings, net	893,686	3,504,326	4,398,012
Machinery and Equipment, net	102,834	67,956	170,790
Construction in Progress	394,381	-	394,381
Other Assets	-	200	200
Total Assets	<u>2,981,148</u>	<u>4,717,969</u>	<u>7,699,117</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Deferred Charge for Refunding	\$ 22,321	\$ -	\$ 22,321
Total Deferred Outflows of Resources	<u>22,321</u>	<u>-</u>	<u>22,321</u>
<b>LIABILITIES</b>			
Accounts Payable	48,851	21,457	70,308
Intergovernmental Payable	12,788	-	12,788
Accrued Interest Payable	6,236	-	6,236
Customer Deposits	-	95,797	95,797
Noncurrent Liabilities			
Due Within One Year	153,120	-	153,120
Due in More Than One Year	1,523,006	-	1,523,006
Total Liabilities	<u>1,744,001</u>	<u>117,254</u>	<u>1,861,255</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	1,352	-	1,352
Total Deferred Inflows of Resources	<u>1,352</u>	<u>-</u>	<u>1,352</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	416,801	3,625,878	4,042,679
Restricted for:			
Restricted for Special Revenue	89,020	-	89,020
Restricted for Debt Service	166,814	-	166,814
Unrestricted Net Position	585,481	974,837	1,560,318
Total Net Position	<u>\$ 1,258,116</u>	<u>\$ 4,600,715</u>	<u>\$ 5,858,831</u>

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (334,540)	\$ -	\$ (334,540)
(239,935)	-	(239,935)
(78,944)	-	(78,944)
(12,052)	-	(12,052)
(54,289)	-	(54,289)
41,927	-	41,927
53,562	-	53,562
(59,590)	-	(59,590)
(15,123)	-	(15,123)
(1,210)	-	(1,210)
(74,348)	-	(74,348)
293,023	-	293,023
(481,519)	-	(481,519)
-	26,620	26,620
-	26,620	26,620
(481,519)	26,620	(454,899)
317,545	-	317,545
62,034	-	62,034
302,160	-	302,160
147,533	-	147,533
6,295	-	6,295
158,023	4,814	162,837
3,849	3,926	7,775
(9,556)	9,556	-
987,883	18,296	1,006,179
506,364	44,916	551,280
777,054	4,555,799	5,332,853
(25,302)	-	(25,302)
<u>\$ 1,258,116</u>	<u>\$ 4,600,715</u>	<u>\$ 5,858,831</u>

Hotel/Motel Fund	Total Governmental Funds
\$ -	\$ 351,638
-	569,950
-	17,488
-	(877)
15,091	66,540
-	121,721
73,929	240,745
-	21,894
<u>\$ 89,020</u>	<u>\$ 1,389,099</u>
\$ -	\$ 45,868
-	2,983
-	12,788
-	404,180
<u>-</u>	<u>465,819</u>
-	16,613
<u>-</u>	<u>16,613</u>
89,020	89,020
-	115,830
-	166,814
-	535,003
<u>89,020</u>	<u>906,667</u>
<u>\$ 89,020</u>	<u>\$ 1,389,099</u>

CITY OF JOHNSON CITY  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2013

<b>Total Fund Balances - Governmental Funds</b>	\$ 906,667
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$2,623,953 and the accumulated depreciation was \$974,760. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	14,193
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2013 capital outlays and debt principal payments is to increase net position.	551,175
The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(74,915)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.	(139,004)
<b>Net Position of Governmental Activities</b>	<u>\$ 1,258,116</u>

The notes to the financial statements are an integral part of this statement.



Hotel/Motel Fund	Total Governmental Funds
\$ -	\$ 380,867
-	302,160
72,765	147,533
-	4,860
-	24,260
-	310,436
-	299,350
-	90,113
-	3,849
-	11,068
-	9,000
-	6,297
72,765	1,589,793
-	353,659
-	224,689
-	75,786
-	11,900
53,568	53,568
-	47,580
-	241,414
-	43,643
-	110,000
-	14,364
-	26,967
-	1,210
-	74,348
-	423,021
53,568	1,702,149
19,197	(112,356)
-	1,675,000
-	147,963
-	57,484
-	71,032
-	2,921
-	(9,556)
-	(1,658,308)
-	286,536
19,197	174,180
69,823	732,487
\$ 89,020	\$ 906,667

CITY OF JOHNSON CITY  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$ 174,180
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2013 capital outlays and debt principal payments is to increase the change in net position.	551,175
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.	(74,915)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease the change in net position.	(144,076)
<b>Change in Net Position of Governmental Activities</b>	<u>\$ 506,364</u>

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2013

	Business Type Activities
<hr/>	
ASSETS	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 223,087
Investments - Current	639,142
Accounts Receivable-Net of Uncollectible Allowance	66,227
Due from Other Funds	163,435
Total Current Assets	<u>1,091,891</u>
<b>Noncurrent Assets:</b>	
Capital Assets:	
Land Purchase and Improvements	41,402
Buildings	84,963
Accumulated Depreciation - Buildings	(72,769)
Improvements other than Buildings	6,575,916
Accumulated Depreciation - Other Improvements	(3,071,590)
Machinery and Equipment	345,413
Accumulated Depreciation - Machinery & Equipment	(277,457)
Other Asset	200
Total Noncurrent Assets	<u>3,626,078</u>
Total Assets	<u>4,717,969</u>
LIABILITIES	
<b>Current Liabilities:</b>	
Accounts Payable	19,509
Wages and Salaries Payable	1,948
Customer Deposits	95,797
Total Liabilities	<u>117,254</u>
NET POSITION	
Net Investment in Capital Assets	3,625,878
Unrestricted Net Position	974,837
Total Net Position	<u><u>\$ 4,600,715</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business Type Activities
<hr/>	
OPERATING REVENUES:	
Charges for Services	\$ 813,543
Other Revenue	4,814
Total Operating Revenues	<u>818,357</u>
OPERATING EXPENSES:	
Water & Sewer Fund	
Personnel Services - Salaries and Wages	256,326
Personnel Services - Employee Benefits	68,439
Purchased Professional & Technical Services	37,440
Purchased Property Services	71,552
Other Operating Expenses	119,407
Supplies	7,381
Total Water & Sewer Fund	<u>560,545</u>
Depreciation	<u>220,129</u>
Total Operating Expenses	<u>780,674</u>
Operating Income	<u>37,683</u>
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	3,926
Interest Expense - Non-Operating	<u>(6,249)</u>
Total Non-operating Revenue (Expenses)	<u>(2,323)</u>
Income Before Transfers	35,360
Non-Operating Transfer In	<u>9,556</u>
Change in Net Position	44,916
Total Net Position -October 1 (Beginning)	<u>4,555,799</u>
Total Net Position September 30 (Ending)	<u>\$ 4,600,715</u>

The notes to the financial statements are an integral part of this statement.

CITY OF JOHNSON CITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business Type Activities
	Water & Sewer Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 813,904
Cash Received Other Services	4,814
Cash Payments to Employees for Services	(324,393)
Cash Payments for Suppliers	(75,690)
Cash Payments for Other Operating Expenses	(156,847)
Cash Payments to Other Funds	(134,999)
Net Cash Provided by Operating Activities	126,789
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfers In	9,556
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>	
Acquisition of Capital Assets	(21,968)
Use of Restricted Funds	110,000
Interest Paid	(7,150)
Principal Payments - Certificates of Obligation	(105,000)
Net Cash Provided by (Used for) Capital & Related Financing Activities	(24,118)
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	3,926
Net Increase in Cash and Cash Equivalents	116,153
Cash and Cash Equivalents at Beginning of the Year:	746,076
Cash and Cash Equivalents at the End of the Year:	\$ 862,229
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income:	\$ 37,683
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	220,129
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase in Due From Other Funds	(134,999)
Increase in Receivables	(5,119)
Increase in Accounts Payable	3,243
Increase in Accrued Wages	372
Increase in Customer Deposits	5,480
Net Cash Provided by Operating Activities	\$ 126,789

The notes to the Financial Statements are an integral part of this statement.

CITY OF JOHNSON CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Johnson City, Texas, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The *Government Accounting Standards Board* (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

A. Reporting Entity

In evaluating how to define the government, for financial purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement 14. The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. Based on the foregoing criteria, there were no component units identified that would require inclusion in this report.

B. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Johnson City nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, sales tax, franchise tax, municipal court fines, charges for services and other miscellaneous revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for services.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

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

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e. revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes, sales tax, charges for services and fines. Property tax revenues and other revenues are recognized under the "susceptible to accrual" concept; that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the City to refund all or part of the unused amount.

D. Fund Accounting

The City reports the following major governmental funds:

1. **The General Fund** - The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Additionally, the City reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds** - The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.
2. **Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
3. **Capital Projects Fund** - The Capital Projects Fund is used to account for the financial resources used for acquisition of major capital improvements.

Proprietary Fund:

1. **Enterprise Fund** - The Water and Sewer Fund is operated as an Enterprise Fund.

E. Other Accounting Policies

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

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

2. Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	20-40
Buildings	30
Improvements	30
Equipment	7
Vehicles	5



Pursuant to GASB Statement Number 34, an extended period of deferral is available before the requirement to record and depreciate infrastructure assets (e.g., roads, bridges, and similar items) acquired before the implementation date becomes effective. Therefore, infrastructure assets acquired prior to October 1, 2001 have not yet been capitalized.

3. Beginning with fiscal year end September 30, 2013, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:
  - Non-spendable fund balance – amounts that are not in non-spendable form (such as inventory) or are required to be maintained intact.
  - Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
  - Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
  - Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
  - Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or other purposes).

4. Vacation and sick leave expenses are charged to operations when taken by the employees of the City. Accordingly, no accruals are reflected in the accounts for unpaid amounts of vacation and sick leave earned by employees. Employees are allowed to carry over up to 40 hours of vacation leave and up to 720 hours of sick leave. Upon termination, employees are entitled for payment of the vacation they have earned but not for any sick leave. The liabilities for accumulated vacation and sick leave at September 30, 2013 are estimated to be insignificant and are not reflected in the accompanying financial statements.
5. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
6. The original budget is adopted by the City Council prior to the beginning of the fiscal year through passage of an ordinance. The budget includes proposed expenditures and the means of financing them.

Budgeted amounts for expenditures from the various funds may not exceed the beginning balances of those funds plus the anticipated revenues for the fiscal year. The final amended budget has been presented in this report. Unencumbered appropriations lapse at the end of each year.

7. The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

### A. DEPOSITS AND INVESTMENTS

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2013, the carrying amount of the City's deposits was \$574,425 and the bank balance was \$614,562. The City's cash deposits at September 30, 2013 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. The City's deposits were secured by pledged securities and FDIC coverage.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

The City's temporary investments at September 30, 2013 are shown below:

	Carrying Amount	Market Value	FDIC Coverage	Pledged Securities
Investment Pool -				
TexPool	\$ 74,459	\$ 74,459	\$ -	\$ -
Certificates of Deposit -				
Johnson City Bank	1,134,633	1,134,633	250,000	2,000,000

Government pool investments are not categorized in accordance with GASB Statement No. 3, because they are not evidenced by securities that exist in physical or book entry form. Also, investments in government investment pools are not required to disclose custodial credit risk, concentration of credit risk and interest rate risk in accordance with GASB Statement No. 40.

**Credit Risk** - Government pool investments have low market (credit) risk due to restrictions on weighted average maturity and maximum maturity of any one investment. The investment manager is required to maintain a stable \$1.00 net asset value and must take immediate action if the net asset value of the portfolio falls below \$.995 or rises above \$1.005.

#### Policies Governing Deposits and Investments

In compliance with the **Public Funds Investment Act**, the City has adopted a deposit and investment policy. That policy does address the following risks:

**Custodial Credit Risk - Deposits:** This is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City was not exposed to custodial credit risk since its deposits at year-end were covered by depository insurance or by pledged collateral held by the City's agent bank in the City's name.

**Custodial Credit Risk - Investments:** This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments (certificates of deposit) were secured by FDIC insurance and pledged securities.

**Other Credit Risk:** There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2013, the City was not exposed to concentration of credit risk, interest rate risk or foreign currency risk.

#### B. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the City fiscal year.

The Johnson City County Appraisal District appraises and collects taxes for the City. For 2013, the City of Johnson City had property with an assessed valuation of \$115,568,970. The tax rate was \$0.3551 (General Fund .3052 and Debt Service .0499) per \$100 valuation.

#### C. Court Fines and Fees Receivable

With the implementation of GASB Statement Number 34, the City has determined the amount of court fines and fees receivable to be \$8,931. Based on historical collection rates for the various courts, the City has booked an allowance for uncollectible court fines and fees of \$2,919, resulting in a net receivable of \$6,012.

D. Property, Plant and Equipment

A summary of fixed assets for the Water and Sewer Fund appears below:

	Balance 10/01/12	Additions	Deletions	Balance 9/30/13
Land	\$ 41,402	\$ -	\$ -	\$ 41,402
Buildings	84,963	-	-	84,963
Improvements	6,553,948	21,968	-	6,575,916
Machinery and Equipment	345,413	-	-	345,413
Total Fixed Assets	\$ 7,025,726	\$ 21,968	\$ -	\$ 7,047,694
Less: Reserve for Depreciation	(3,201,687)	(220,129)	-	(3,421,816)
Net Fixed Assets	\$ 3,824,039	\$ (198,161)	\$ -	\$ 3,625,878

E. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2013, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 495,373	\$ -	\$ 10,872	\$ 484,501
Building	427,927	-	-	427,927
Machinery & Equipment	550,929	102,809	23,574	630,164
Improvements	1,048,462	30,883	-	1,079,345
Construction in Progress	101,262	293,119	-	394,381
Totals at Historic Cost	\$ 2,623,953	\$ 426,811	\$ 34,446	\$ 3,016,318
Less Accumulated Depreciation For:				
Building & Improvements	\$ (453,148)	\$ (45,624)	\$ -	\$ 498,772
Machinery & Equipment	(521,612)	(29,291)	23,574	527,329
Total Accumulated Depreciation	\$ (974,760)	\$ (74,915)	\$ 23,574	\$ 1,026,101
Governmental Activities Capital Assets, Net	\$ 1,649,193	\$ 351,896	\$ 10,872	\$ 1,990,217

Depreciation expense was charged to the following governmental functions:

Financial Administration	\$ 4,508
Police	19,036
Streets	3,158
Community Service	152
Hotel/Motel	721
Municipal Court	606
Parks	33,240
Sanitation	13,494
TOTAL	\$ 74,915

F. Revenue Bonds Payable and Certificates of Obligation

A summary of revenue bonds payable and certificates of obligation appears below:

	Balance 10/01/12	Issued	Retired	Balance 9/30/13	Due Within One Year
Waterworks and Sewer System					
Subordinate Lien Revenue & Refunding					
Bonds, Series 1999 (6.0%)	\$ 105,000	\$ -	\$ 105,000	\$ -	\$ -
Total	<u>\$ 105,000</u>	<u>\$ -</u>	<u>\$ 105,000</u>	<u>\$ -</u>	<u>\$ -</u>

During 1999, the City issued the Waterworks and Sewer System Subordinate Lien Revenue and Refunding Bonds - Series 1999 for \$995,000. The bonds were issued (1) to effect the current refunding of a portion of the City's outstanding obligations, (2) construct, improve and extend the City's utility system, (3) pay the costs of issuance, and (4) fund a portion of the reserve fund. The Bonds constitute special obligations of the City and are payable and secured by lien on and pledge of the net revenues of the City's waterworks and sewer system.

G. General Long Term Debt

A summary of changes in General Long Term Debt follows:

	Balance 10/01/12	Issued	Retired	Balance 9/30/13	Due Within One Year
Certificates of Obligation -					
Series 2003 (4.55%)	\$ 115,000	\$ -	\$ 115,000	\$ -	\$ -
Series 2005 (4.95%)	1,520,000	-	1,520,000	-	-
General Obligation Refunding -					
Series 2012 (2.00-3.00%)	-	1,675,000	110,000	1,565,000	90,000
Premium on Refunding Bonds	-	71,032	3,026	68,006	-
Total Certificates of Obligation	<u>\$ 1,635,000</u>	<u>\$ 1,746,032</u>	<u>\$ 1,748,026</u>	<u>\$ 1,633,006</u>	<u>\$ 90,000</u>
Notes Payable -					
Johnson City Bank	\$ -	\$ 57,484	\$ 14,364	\$ 43,120	\$ 43,120
Total Notes Payable	<u>\$ -</u>	<u>\$ 57,484</u>	<u>\$ 14,364</u>	<u>\$ 43,120</u>	<u>\$ 43,120</u>
Total Long Term Debt	<u>\$ 1,635,000</u>	<u>\$ 1,803,516</u>	<u>\$ 1,762,390</u>	<u>\$ 1,676,126</u>	<u>\$ 133,120</u>

H. Certificates of Obligation

During 2003, the City advance refunded the Series 2003 and Series 2005 Certificates of Obligation by issuing \$1,675,000 general obligation refunding bonds – Series 2012. The refunding bonds mature on August 1 in each of the years 2013 through 2030, at interest rates from 2.0% to 3.0%.

The refunding bonds are payable from the collections of an ad valorem tax levied on taxable property, and further payable by a limited pledge of the surplus revenues of the water and sewer system in an amount not to exceed \$1,000.

Debt service requirements for the refunding bonds as of September 30, 2013 are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Requirements</u>
2014	\$ 90,000	\$ 38,250	\$ 128,250
2015	95,000	36,450	131,450
2016	100,000	34,550	134,550
2017	95,000	32,550	127,550
2018	100,000	30,650	130,650
2019 – 2023	435,000	126,275	561,275
2024 – 2028	460,000	69,100	529,100
2029 – 2033	190,000	8,550	198,550
Totals	<u>\$ 1,565,000</u>	<u>\$ 376,375</u>	<u>\$ 1,941,375</u>

I. Long-Term Debt Advance Refunding

During 2013, the City advance refunded the Series 2003 and Series 2005 Certificates of Obligation by issuing \$1,675,000 general obligation refunding bonds – Series 2012. The certificates of obligation were called and were redeemed by depositing \$1,672,380 into an escrow account on December 26, 2012. The certificates of obligation have been defeased and removed as a liability of the County. The refunding bonds resulted in a gross debt service savings of \$387,787 and the net present value savings of \$328,691. The following obligations are considered to be defeased and the liability removed from the accompanying financial statements:

<u>Description</u>	<u>Refunded Amount</u>
Certificates of Obligation -	
Series 2003	\$ 115,000
Series 2005	<u>1,520,000</u>
TOTAL	<u>\$ 1,635,000</u>

J. Notes Payable

The City issued a note payable to Johnson City Bank in October 05, 2012 for \$57,484 to finance the purchase of police equipment. The note is due in 47 monthly payments of \$1,298 beginning October 2012 and maturing August 2016 (interest at 2.50%) The loan was paid off in January, 2014.

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Requirements</u>
2014	<u>\$ 43,120</u>	<u>\$ 326</u>	<u>\$ 43,446</u>

K. Risk Management

The City of Johnson City is exposed to various risks of loss relating to general liability, accidental loss of real and personal property, damage to assets, errors and omissions, acts of God and personnel risks which relate to workers compensation.

The City contracts with the Texas Municipal League (TML) to provide insurance coverage for identified risks. TML is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are sent annually to TML. Liability by the City is generally limited to the contributed amounts. Contributions for the year ended September 30, 2013 were \$33,717.

L. Defined Benefit Pension Plan

***Plan Description***

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2012	Plan Year 2013
Deposit Rate:	6%	6%
Matching Ratio (City to Employee):	1.5 to 1	1.5 to 1
A member is vested after	5 yrs	5 yrs
Service retirement eligibility (expressed as age/years of serve)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

**Trend Information  
for the Retirement Plan for the Annual Pension Cost**

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9-30-08	\$ 29,830	100%	- 0 -
9-30-09	35,936	100%	- 0 -
9-30-10	38,766	100%	- 0 -
9-30-11	41,552	100%	- 0 -
9-30-12	49,953	100%	- 0 -
9-30-13	57,520	100%	- 0 -

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	12/31/2010	12/31/2011	12/31/2012
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	24.2 years; closed period	27.0 years; closed period	25.7 years; closed period
Amortization Period for new Gains/Losses	23 years	24 years	23 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

**Funded Status and Funding Progress**

The funded status as of December 31, 2012, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2012	\$ 1,000,085	\$ 1,225,142	81.6%	\$ 225,057	\$ 582,353	38.6%



Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

M. OPEB – Supplemental Death Benefits

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected by ordinance, to provide group-term life insurance coverage to both current and retired employees. 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 death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual 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.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2013, 2012 and 2011 were \$890, \$865 and \$1,083, respectively, which equaled the required contributions each year.

**Schedule of Contribution Rates:  
(RETIREE – only portion of the rate)**

Plan/ Calendar Year	Annual Required Contribution (Rate)	Annual Contribution Made (Rate)	Percentage of ARC Contributed
2008	0.03%	0.03%	100.00%
2009	0.02%	0.02%	100.00%
2010	0.02%	0.02%	100.00%
2011	0.01%	0.015%	100.00%
2012	0.01%	0.015%	100.00%
2013	0.01%	0.015%	100.00%

N. Employee Insurance Benefits

All regular full time employees of the city are eligible for coverage under the group hospitalization, medical, dental and life insurance program provided by the city through Blue Cross Blue Shield. The city pays the premium for eligible employees and employees, at their option, may authorize payroll withholdings to pay premiums for eligible family members.

O. Cash Flows Statement - Supplemental Disclosure

Since the City is tax exempt, no income tax was paid in 2013 and 2012. The City paid interest in the amount of \$6,300 in 2013 and \$12,300 in 2012 on their outstanding debt.

P. Claims and Contingent Liabilities

The City was involved in a lawsuit which was brought by the City against an individual. Subsequent to the audit period, the City entered in to a mediated settlement agreement to pay the individual \$92,000 in addition to an outstanding judgment of \$3,172.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Q. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2013, is as follows:

**Due to/from other funds:**

	Due To	Due From
General Fund	\$ 265,990	\$ -
Special Revenue Fund	-	73,929
Debt Service Fund	-	166,816
Water/Sewer Fund	-	163,435
Capital Projects Fund	138,190	-
Total	<u>\$ 404,180</u>	<u>\$ 404,180</u>

During the year ended September 30, 2013, the City's transfers between funds consisted of:

	Transfers In	Transfers Out
Capital Projects	\$ -	\$ 9,556
Water/Sewer Fund	9,556	-
Total	<u>\$ 9,556</u>	<u>\$ 9,556</u>

R. Implementation of New GASB Accounting Standards

The City has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as well as the early implementation of GASB Statement No. 65, *Items Previously Reported As Assets and Liabilities*. Under GASB 63 and 65, amounts previously reported as deferred charges as a part of total assets have been reported in a separate section as deferred outflows or resources and amounts previously reported as deferred revenue as a part of total liabilities have been reported in a separate section as deferred inflows of resources.

The implementation of GASB 63 resulted in the reclassification of \$16,613 (deferred ad valorem tax revenue which is expected to be collected in future years) to a deferred inflow of resources on the Governmental Funds Balance Sheet.

The implementation of GASB 65 resulted in a prior period adjustment of \$25,302 (expensing bond issuance costs) in the Government Wide Statement of Net Position.

S. Prior Period Adjustment

A prior period adjustment of \$25,302 was made to the Government Wide Statement of Net Position and the Government Wide Statement of Activities. This adjustment was to expense all capitalized bond issue costs with the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

T. Receivable from Employee Due to Fraud

In August, 2013, the City Secretary was arrested for theft of property greater than \$21,000 but less than \$100,000. The employee had written two checks to herself with forged signatures and given herself a retroactive pay increase also with a forged signature. The total amounted to \$36,894 of which the City was reimbursed by the employee for \$15,000. Subsequent to the audit period, the City received from the Texas Municipal League Intergovernmental Risk Pool a claim settlement of \$43,484.

U. Excess of Expenditures over Appropriations

Expenditures in the General Fund exceeded the budgeted appropriations by \$48,092.

V. Subsequent Events

The City has evaluated subsequent events through July 25, 2014, the date which the financial statements were available to be issued. In November, 2013, the City agreed to pay \$92,000 in a settlement of a lawsuit.

In March, 2014, the City received \$43,484 from the Texas Municipal League Intergovernmental Risk Pool for settlement of claim filed for employee theft.

In November, 2013, the City received a Community Development Block Grant from the Texas Department of Agriculture for \$275,000 for wastewater improvements.

The City is not aware of any other subsequent events that materially impact the financial statements.

## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF JOHNSON CITY  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT G-1

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 293,621	\$ 293,621	\$ 318,623	\$ 25,002
General Sales and Use Taxes	308,000	308,000	302,160	(5,840)
Gross Receipts Business Tax	78,000	78,000	74,768	(3,232)
Penalty and Interest on Taxes	5,800	5,800	4,860	(940)
Licenses and Permits	26,925	26,925	24,260	(2,665)
Intergovernmental Revenue and Grants	-	-	17,413	17,413
Charges for Services	257,556	257,556	299,350	41,794
Fines	105,613	105,613	90,113	(15,500)
Investment Earnings	6,000	6,000	3,778	(2,222)
Rents and Royalties	10,680	10,680	11,068	388
Contributions & Donations from Private Sources	2,300	2,300	9,000	6,700
Other Revenue	1,500	1,500	6,297	4,797
Total Revenues	1,095,995	1,095,995	1,161,690	65,695
EXPENDITURES:				
Current:				
General Government:				
Financial Administration	370,208	370,208	353,659	16,549
Public Safety:				
Police	234,809	234,809	224,689	10,120
Highways and Streets	87,317	87,317	75,786	11,531
Community Service	14,400	14,400	11,900	2,500
Municipal Court	85,543	85,543	47,580	37,963
Sanitation	233,537	233,537	241,414	(7,877)
Culture and Recreation:				
Parks	54,601	54,601	43,643	10,958
Debt Service:				
Other Debt Principal	14,614	14,614	14,364	250
Other Debt Interest	966	966	1,210	(244)
Capital Outlay:				
Capital Outlay	-	-	129,902	(129,902)
Total Expenditures	1,095,995	1,095,995	1,144,147	(48,152)
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	17,543	17,543
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	-	-	147,963	147,963
Non-Current Loans	-	-	57,484	57,484
Transfers In	-	105,000	-	(105,000)
Total Other Financing Sources (Uses)	-	105,000	205,447	100,447
Net Change in Fund Balances	-	105,000	222,990	117,990
Fund Balance - October 1 (Beginning)	312,013	312,013	312,013	-
Fund Balance - September 30 (Ending)	\$ 312,013	\$ 417,013	\$ 535,003	\$ 117,990

CITY OF JOHNSON CITY  
REQUIRED SUPPLEMENTARY INFORMATION  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SCHEDULE OF FUNDING PROGRESS  
SEPTEMBER 30, 2013  
(Unaudited)

**SCHEDULE OF FUNDING PROGRESS FOR THE RETIREMENT PLAN  
FOR THE EMPLOYEES OF THE CITY OF JOHNSON CITY**

*Texas Municipal Retirement System*

*Schedule of Funding Progress:*

(unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2010	\$ 782,340	\$ 988,867	79.1%	\$ 206,527	\$ 577,627	35.8%
12/31/2011	897,730	1,136,825	79.0%	239,095	580,941	41.2%
12/31/2012	1,000,085	1,225,142	81.6%	225,057	582,353	38.6%