

REPORT OF EXAMINATION

**CITY OF
JOHNSON CITY**

Johnson City, Texas

**For the Year Ended
September 30, 2015**

**CITY OF JOHNSON CITY, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015**

CITY OF JOHNSON CITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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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, 2015, 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, 2015, 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.

Emphasis of Matter

As discussed in Note K to the financial statements, in 2015, the City adopted new accounting guidance prescribed by GASB Statement No. 68 for its pension plan a nontraditional defined benefit pension plan. Because GASB Statement No. 68 implements new measurement criteria and reporting provisions, significant information has been added to the Government Wide Statements, Statement of Net Position and Governmental Funds Balance Sheet discloses the City's Net Pension Asset and some deferred resource inflows and deferred resource outflows related to the City's pension plan. The Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balance discloses the adjustment to the City's Beginning Net Position. Our opinion is not modified with respect to the matter.

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 39 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, P.C.

NEFFENDORF & KNOPP, P.C.
Fredericksburg, Texas

January 27, 2017

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, 2015. 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 \$5,833,242 (net position). Of this amount, \$1,062,347 (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 \$65,632 as a result of this year's operations.
- At September 30, 2015, the City's governmental funds reported combined ending fund balances of \$784,915, a decrease of \$63,201 in comparison with the prior year.
- At September 30, 2015, the City's Water and Sewer Fund reported net position of \$4,160,781, a decrease of \$262,901 in comparison with the prior year.

The City issued \$895,000 Tax and Surplus Revenue Certificates of Obligation, Series 2015 for wastewater system improvements.

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 23) 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 39.

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 \$1,504,530 to \$1,672,461. 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 \$426,634 at September 30, 2015. This increase in governmental net position was the result of three factors. First, the City's expenditures exceeded the revenues by \$63,201. Second, the City paid principal on long-term debt in the amount of \$95,000 and acquired capital assets in the amount of \$397,996. Third, the City recorded depreciation in the amounts of \$104,175.

Net position of the City's business-type activities decreased from \$4,534,000 to \$4,160,781. Unrestricted net position were \$635,713 at September 30, 2015. This decrease in business-type net position was the result of net loss of \$262,901.

Table I
City of Johnson City

NET POSITION in thousands

| | Governmental Activities | | Business Type Activities | | TOTALS Primary Government | |
|-------------------------------|----------------------------|----------|-----------------------------|----------|------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Current and Other Assets | \$ 852 | \$ 903 | \$ 1,796 | \$ 1,213 | \$ 2,648 | \$ 2,116 |
| Capital Assets | 2,446 | 2,164 | 3,525 | 3,470 | 5,971 | 5,634 |
| Total Assets | \$ 3,298 | \$ 3,067 | \$ 5,321 | \$ 4,683 | \$ 8,619 | \$ 7,750 |
| Deferred Outflow of Resources | \$ 54 | \$ 21 | \$ 23 | \$ - | \$ 77 | \$ 21 |
| Long-Term Liabilities | \$ 1,477 | \$ 1,444 | \$ 984 | \$ - | \$ 2,461 | \$ 1,444 |
| Other Liabilities | 158 | 140 | 169 | 149 | 327 | 289 |
| Total Liabilities | \$ 1,635 | \$ 1,584 | \$ 1,153 | \$ 149 | \$ 2,788 | \$ 1,733 |
| Deferred Inflow of Resources | \$ 45 | \$ - | \$ 30 | \$ - | \$ 75 | \$ - |
| Net Position: | | | | | | |
| Invested in Capital Assets | | | | | | |
| Net of Related Debt | \$ 1,000 | \$ 641 | \$ 3,525 | \$ 3,470 | \$ 4,525 | \$ 4,111 |
| Restricted | 246 | 200 | - | - | 246 | 200 |
| Unrestricted | 426 | 663 | 636 | 1,064 | 1,062 | 1,727 |
| Total Net Position | \$ 1,672 | \$ 1,504 | \$ 4,161 | \$ 4,534 | \$ 5,833 | \$ 6,038 |

Table II
City of Johnson City

CHANGES IN NET POSITION
in thousands

| | Governmental Activities | | Business Type Activities | | TOTALS Primary Government | |
|--|----------------------------|-----------------|-----------------------------|-----------------|------------------------------|-----------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Revenues: | | | | | | |
| Charges for Services | \$ 321 | \$ 336 | \$ 720 | \$ 775 | \$ 1,041 | \$ 1,111 |
| Municipal Court Fines | 82 | 92 | - | - | 82 | 92 |
| Property Taxes | 481 | 437 | - | - | 481 | 437 |
| Sales Tax | 333 | 340 | - | - | 333 | 340 |
| Franchise Tax | 163 | 137 | - | - | 163 | 137 |
| Other Taxes | 6 | 8 | - | - | 6 | 8 |
| Operating and Capital Grants | - | 215 | - | - | - | 215 |
| Investment Earnings | 1 | 2 | 1 | 1 | 2 | 3 |
| Miscellaneous | 30 | 51 | 4 | 5 | 34 | 56 |
| Total Revenue | \$ 1,417 | \$ 1,618 | \$ 725 | \$ 781 | \$ 2,142 | \$ 2,399 |
| Expenses: | | | | | | |
| Financial Administration | \$ 360 | \$ 377 | \$ - | \$ - | \$ 360 | \$ 377 |
| Police | 289 | 252 | - | - | 289 | 252 |
| Highways and Streets | 97 | 73 | - | - | 97 | 73 |
| Sanitation | 303 | 280 | - | - | 303 | 280 |
| Parks | 55 | 111 | - | - | 55 | 111 |
| Municipal Court | 57 | 64 | - | - | 57 | 64 |
| Hotel Motel | 52 | 65 | - | - | 52 | 65 |
| Community Service | 23 | 23 | - | - | 23 | 23 |
| Water and Sewer | - | - | 952 | 878 | 952 | 878 |
| Debt Service | 34 | 36 | 4 | - | 38 | 36 |
| Total Expenses | \$ 1,270 | \$ 1,281 | \$ 956 | \$ 878 | \$ 2,226 | \$ 2,159 |
| Increase in Net Position Before | | | | | | |
| Capital Contributions & Transfers | \$ 147 | \$ 337 | \$ (231) | \$ (97) | \$ (84) | \$ 240 |
| Capital Contributions | - | - | 212 | 35 | 212 | 35 |
| Special Item | - | (96) | (62) | - | (62) | (96) |
| Transfers | 182 | 5 | (182) | (5) | - | - |
| Net Position - Beginning | 1,504 | 1,258 | 4,534 | 4,601 | 6,038 | 5,859 |
| Prior Period Adjustment | (161) | - | (110) | - | (271) | - |
| Net Position - Ending | \$ 1,672 | \$ 1,504 | \$ 4,161 | \$ 4,534 | \$ 5,833 | \$ 6,038 |

The cost of all governmental activities this year was \$1,270,320. 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 \$486,077 because the other costs were paid by sales tax (\$333,355), franchise tax (\$77,729), hotel/motel tax (\$85,722), user charges (\$403,143), investment interest (\$774) and other miscellaneous (\$30,508).

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 \$784,915, which is less than last year's total of \$848,117. Included in this year's total change in fund balance is a decrease of \$101,221 in the City's General Fund.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2015, the City had the following amounts invested in capital assets:

| | CAPITAL ASSETS in thousands | | | | | |
|-----------------------------------|---------------------------------------|-----------------|-----------------------------|-----------------|------------------------------|------------------|
| | Governmental Activities | | Business-Type Activities | | TOTALS Primary Government | |
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Land | \$ 485 | \$ 485 | \$ 41 | \$ 41 | \$ 526 | \$ 526 |
| Construction in Progress | - | - | 4 | 51 | 4 | 51 |
| Distribution & Collection Systems | - | - | 6,693 | 6,589 | 6,693 | 6,589 |
| Buildings & Improvements | 2,499 | 2,143 | 100 | 85 | 2,599 | 2,228 |
| Equipment | 649 | 628 | 317 | 345 | 966 | 973 |
| Total Capital Assets | <u>\$ 3,633</u> | <u>\$ 3,256</u> | <u>\$ 7,155</u> | <u>\$ 7,111</u> | <u>\$ 10,788</u> | <u>\$ 10,367</u> |

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

DEBT

At September 30, 2015, the City had the following outstanding debt:

OUTSTANDING DEBT in thousands

| | Governmental Activities | | Business-Type Activities | | TOTALS Primary Government | |
|-----------------------------------|----------------------------|-----------------|-----------------------------|-------------|------------------------------|-----------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| <u>Certificates of Obligation</u> | \$ - | \$ - | \$ 895 | \$ - | \$ 895 | \$ - |
| <u>Refunding Bonds</u> | <u>1,440</u> | <u>1,539</u> | <u>-</u> | <u>-</u> | <u>1,440</u> | <u>1,539</u> |
| Total Outstanding Debt | \$ 1,440 | \$ 1,539 | \$ 895 | \$ - | \$ 2,335 | \$ 1,539 |

For governmental activities, the City paid \$95,000 in principal on the outstanding refunding bonds.

For business type activities, the City issued \$895,000 in certificates of obligation.

More detailed information about the City's long-term liabilities is presented in Notes F, G, H and I 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 2016 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 2016. Amounts available for appropriation in the General Fund budget are \$1,196,260 and expenditures are estimated to be \$1,196,260.

If these estimates are realized, the City's budgetary General fund balance is expected to be about the same by the close of 2016.

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, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

EXHIBIT A-1

| | Primary Government | | |
|---|----------------------------|--------------------------------|---------------------|
| | Governmental Activities | Business Type Activities | Total |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 293,469 | \$ 203,775 | \$ 497,244 |
| Investments - Current | 500,585 | 575,107 | 1,075,692 |
| Receivables (net of allowance for uncollectibles) | 92,589 | 83,495 | 176,084 |
| Due from State | - | 4,413 | 4,413 |
| Internal Balances | (34,057) | 34,057 | - |
| Capitalized Debt Issuance Costs | - | 51,636 | 51,636 |
| Restricted Assets: | | | |
| Restricted Asset-TWDB Escrow | - | 843,222 | 843,222 |
| Capital Assets: | | | |
| Land | 484,501 | 41,402 | 525,903 |
| Buildings, net | 99,999 | 23,217 | 123,216 |
| Improvements other than Buildings, net | 1,772,253 | 3,404,020 | 5,176,273 |
| Machinery and Equipment, net | 88,862 | 52,738 | 141,600 |
| Construction in Progress | - | 3,690 | 3,690 |
| Other Assets | - | 200 | 200 |
| Total Assets | <u>3,298,201</u> | <u>5,320,972</u> | <u>8,619,173</u> |
| DEFERRED OUTFLOW OF RESOURCES | | | |
| Deferred Charge for Refunding | \$ 19,682 | \$ - | \$ 19,682 |
| Deferred Outflow Related to Pension Plan | 34,212 | 23,501 | 57,713 |
| Total Deferred Outflows of Resources | <u>53,894</u> | <u>23,501</u> | <u>77,395</u> |
| LIABILITIES | | | |
| Accounts Payable | 46,176 | 57,030 | 103,206 |
| Intergovernmental Payable | 6,226 | - | 6,226 |
| Accrued Interest Payable | 5,633 | 2,499 | 8,132 |
| Meter Deposits | - | 104,427 | 104,427 |
| Noncurrent Liabilities | | | |
| Due Within One Year | 100,000 | 5,000 | 105,000 |
| Due in More Than One Year | 1,340,006 | 890,000 | 2,230,006 |
| Net Pension Liability | 137,279 | 94,296 | 231,575 |
| Total Liabilities | <u>1,635,320</u> | <u>1,153,252</u> | <u>2,788,572</u> |
| DEFERRED INFLOW OF RESOURCES | | | |
| Deferred Inflow Related to Pension Plan | 44,314 | 30,440 | 74,754 |
| Total Deferred Inflows of Resources | <u>44,314</u> | <u>30,440</u> | <u>74,754</u> |
| NET POSITION | | | |
| Net Investment in Capital Assets | 999,666 | 3,525,068 | 4,524,734 |
| Restricted for: | | | |
| Restricted for Special Revenue | 127,026 | - | 127,026 |
| Restricted for Debt Service | 119,135 | - | 119,135 |
| Unrestricted Net Position | 426,634 | 635,713 | 1,062,347 |
| Total Net Position | <u>\$ 1,672,461</u> | <u>\$ 4,160,781</u> | <u>\$ 5,833,242</u> |

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

CITY OF JOHNSON CITY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

| | | Program Revenues | |
|----------------------------------|---------------------|-------------------------|--|
| | | Charges for Services | Capital Grants and Contributions |
| | Expenses | | |
| Primary Government: | | | |
| GOVERNMENTAL ACTIVITIES: | | | |
| Financial Administration | \$ 360,281 | \$ 25,928 | \$ - |
| Police | 289,313 | - | - |
| Highways and Streets | 97,171 | - | - |
| Community Services | 23,154 | - | - |
| Hotel Motel | 51,571 | - | - |
| Municipal Court | 57,078 | 82,122 | - |
| Sanitation | 303,441 | 292,438 | - |
| Parks | 54,645 | 2,655 | - |
| Bond Interest | 33,666 | - | - |
| Total Governmental Activities: | 1,270,320 | 403,143 | - |
| BUSINESS-TYPE ACTIVITIES: | | | |
| Water and Sewer | 956,189 | 720,666 | 211,699 |
| Total Business-Type Activities: | 956,189 | 720,666 | 211,699 |
| TOTAL PRIMARY GOVERNMENT: | \$ 2,226,509 | \$ 1,123,809 | \$ 211,699 |

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Gross Receipts Business Tax

Penalty and Interest

Grants and Contributions Not Restricted

Miscellaneous Revenue

Investment Earnings

Special Item (Use)

Transfers In (Out)

Total General Revenues, Special Items, and Transfers

Change in Net Position

Net Position - Beginning

Prior Period Adjustment

Net Position--Ending

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 |
| \$ (334,353) | \$ - | \$ (334,353) |
| (289,313) | - | (289,313) |
| (97,171) | - | (97,171) |
| (23,154) | - | (23,154) |
| (51,571) | - | (51,571) |
| 25,044 | - | 25,044 |
| (11,003) | - | (11,003) |
| (51,990) | - | (51,990) |
| (33,666) | - | (33,666) |
| (867,177) | - | (867,177) |
| - | (23,824) | (23,824) |
| - | (23,824) | (23,824) |
| (867,177) | (23,824) | (891,001) |
| 347,824 | - | 347,824 |
| 132,715 | - | 132,715 |
| 333,355 | - | 333,355 |
| 163,451 | - | 163,451 |
| 5,538 | - | 5,538 |
| 156 | - | 156 |
| 30,352 | 3,737 | 34,089 |
| 774 | 731 | 1,505 |
| - | (62,000) | (62,000) |
| 181,545 | (181,545) | - |
| 1,195,710 | (239,077) | 956,633 |
| 328,533 | (262,901) | 65,632 |
| 1,504,526 | 4,534,000 | 6,038,526 |
| (160,599) | (110,318) | (270,917) |
| \$ 1,672,460 | \$ 4,160,781 | \$ 5,833,241 |

CITY OF JOHNSON CITY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

| | General Fund | Debt Service Fund | Capital Projects |
|---|-------------------|----------------------|---------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 293,469 | \$ - | \$ - |
| Investments - Current | 500,585 | - | - |
| Taxes Receivable | 6,773 | 2,959 | - |
| Allowance for Uncollectible Taxes (credit) | (339) | (148) | - |
| Receivables (Net) | 55,288 | - | - |
| Due from Other Funds | - | 119,135 | - |
| Total Assets | <u>\$ 855,776</u> | <u>\$ 121,946</u> | <u>\$ -</u> |
| LIABILITIES | | | |
| Accounts Payable | \$ 27,301 | \$ - | \$ - |
| Wages and Salaries Payable | 18,875 | - | - |
| Intergovernmental Payable | 6,226 | - | - |
| Due to Other Funds | 258,185 | - | - |
| Total Liabilities | <u>310,587</u> | <u>-</u> | <u>-</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable Revenue - Property Taxes | 6,435 | 2,811 | - |
| Total Deferred Inflows of Resources | <u>6,435</u> | <u>2,811</u> | <u>-</u> |
| FUND BALANCES | | | |
| Restricted for Special Revenue | - | - | - |
| Retirement of Long-Term Debt | - | 119,135 | - |
| Unassigned Fund Balance | 538,754 | - | - |
| Total Fund Balances | <u>538,754</u> | <u>119,135</u> | <u>-</u> |
| Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 855,776</u> | <u>\$ 121,946</u> | <u>\$ -</u> |

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

| Hotel/Motel Fund | Total Governmental Funds |
|---------------------|--------------------------------|
| \$ - | \$ 293,469 |
| - | 500,585 |
| - | 9,732 |
| - | (487) |
| 22,033 | 77,321 |
| 104,993 | 224,128 |
| <u>\$ 127,026</u> | <u>\$ 1,104,748</u> |
| \$ - | \$ 27,301 |
| - | 18,875 |
| - | 6,226 |
| - | 258,185 |
| <u>-</u> | <u>310,587</u> |
| - | 9,246 |
| <u>-</u> | <u>9,246</u> |
| 127,026 | 127,026 |
| - | 119,135 |
| - | 538,754 |
| <u>127,026</u> | <u>784,915</u> |
| <u>\$ 127,026</u> | <u>\$ 1,104,748</u> |

CITY OF JOHNSON CITY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015

EXHIBIT C-2

| | |
|---|---------------------|
| Total Fund Balances - Governmental Funds | \$ 784,915 |
| The implementation of GASB 68 for this fiscal year required that the City report their net pension liability in the Government Wide Statement of Net Position. The items reported as a result of this implementation included a net pension liability of \$137,279, a deferred resource outflow of \$34,212 and a deferred resource inflow of \$44,314. The net effect of these is to decrease net position by \$147,381. | (147,381) |
| 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 \$3,256,227 and the accumulated depreciation was \$1,091,723. 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. | 625,498 |
| 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 2015 capital outlays and debt principal payments is to increase net position. | 492,996 |
| The 2015 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. | (104,175) |
| 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 increase net position. | 20,608 |
| Net Position of Governmental Activities | \$ 1,672,461 |

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

CITY OF JOHNSON CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

| | General Fund | Debt Service Fund | Capital Projects |
|--|-----------------|----------------------|---------------------|
| REVENUES: | | | |
| Taxes: | | | |
| Property Taxes | \$ 347,902 | \$ 132,745 | \$ - |
| General Sales and Use Taxes | 333,355 | - | - |
| Gross Receipts Business Tax | 77,679 | - | - |
| Penalty and Interest on Taxes | 5,538 | - | - |
| Licenses and Permits | 27,003 | - | - |
| Charges for Services | 295,093 | - | - |
| Fines | 82,122 | - | - |
| Investment Earnings | 774 | - | - |
| Rents and Royalties | 19,479 | - | - |
| Contributions & Donations from Private Sources | 156 | - | - |
| Other Revenue | 10,269 | - | - |
| Total Revenues | 1,199,370 | 132,745 | - |
| EXPENDITURES: | | | |
| Current: | | | |
| General Government: | | | |
| Financial Administration | 353,770 | - | - |
| Public Safety: | | | |
| Police | 263,141 | - | - |
| Public Works: | | | |
| Highways and Streets | 87,397 | - | - |
| Community Services | 21,931 | - | - |
| Hotel Motel | - | - | - |
| Municipal Court | 54,063 | - | - |
| Sanitation | 275,374 | - | - |
| Culture and Recreation: | | | |
| Parks | 28,464 | - | - |
| Debt Service: | | | |
| Bond Principal | - | 95,000 | - |
| Bond Interest | - | 36,650 | - |
| Capital Outlay: | | | |
| Capital Outlay | 99,018 | - | 298,978 |
| Total Expenditures | 1,183,158 | 131,650 | 298,978 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 16,212 | 1,095 | (298,978) |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfers In | - | - | 298,978 |
| Transfers Out (Use) | (117,433) | - | - |
| Total Other Financing Sources (Uses) | (117,433) | - | 298,978 |
| Net Change in Fund Balances | (101,221) | 1,095 | - |
| Fund Balance - October 1 (Beginning) | 639,975 | 118,040 | - |
| Fund Balance - September 30 (Ending) | \$ 538,754 | \$ 119,135 | \$ - |

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

| Hotel/Motel Fund | Total Governmental Funds |
|---------------------|--------------------------------|
| \$ - | \$ 480,647 |
| - | 333,355 |
| 85,772 | 163,451 |
| - | 5,538 |
| - | 27,003 |
| - | 295,093 |
| - | 82,122 |
| - | 774 |
| - | 19,479 |
| - | 156 |
| - | 10,269 |
| 85,772 | 1,417,887 |
| - | 353,770 |
| - | 263,141 |
| - | 87,397 |
| - | 21,931 |
| 48,847 | 48,847 |
| - | 54,063 |
| - | 275,374 |
| - | 28,464 |
| - | 95,000 |
| - | 36,650 |
| - | 397,996 |
| 48,847 | 1,662,633 |
| 36,925 | (244,746) |
| - | 298,978 |
| - | (117,433) |
| - | 181,545 |
| 36,925 | (63,201) |
| 90,101 | 848,116 |
| \$ 127,026 | \$ 784,915 |

CITY OF JOHNSON CITY, TEXAS
 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, 2015

| | |
|--|--------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ (63,201) |
| The implementation of GASB 68 for this fiscal year resulted in a prior period adjustment to record the retroactive impact. This is NOT included in the explanation as to why the change in net position is different on Exhibit B-1 than the change in fund balance on Exhibit C-3. the entries required by GASB 68 did require that some expenses on B-1 be adjusted. Total credits to expense were \$35,445 and total debits to expense were \$22,227. The net effect of this change is to increase the change in net position by \$13,218. | 13,218 |
| 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 2015 capital outlays and debt principal payments is to increase the change in net position. | 492,996 |
| 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. | (104,175) |
| 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. | (10,305) |
| Change in Net Position of Governmental Activities | \$ 328,533 |

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

CITY OF JOHNSON CITY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2015

EXHIBIT D-1 (Cont'd)

| | Business Type Activities |
|--|-----------------------------|
| | Water & Sewer Fund |
| ASSETS | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 203,775 |
| Investments - Current | 575,107 |
| Restricted Assets - Current: | |
| Temporarily Restricted Asset-TWDB Escrow | 843,222 |
| Accounts Receivable-Net of Uncollectible Allowance | 83,495 |
| Due from Other Governments | 4,413 |
| Due from Other Funds | 34,057 |
| Total Current Assets | 1,744,069 |
| Noncurrent Assets: | |
| Capitalized Debt Issuance Costs | 51,636 |
| Capital Assets: | |
| Land Purchase and Improvements | 41,402 |
| Buildings | 100,163 |
| Accumulated Depreciation - Buildings | (76,946) |
| Improvements other than Buildings | 6,693,131 |
| Accumulated Depreciation - Other Improvements | (3,289,111) |
| Machinery and Equipment | 317,027 |
| Accumulated Depreciation - Machinery & Equipment | (264,289) |
| Construction in Progress | 3,690 |
| Other Asset | 200 |
| Total Noncurrent Assets | 3,576,903 |
| Total Assets | 5,320,972 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred Outflow Related to Pension Plan | 23,501 |
| Total Deferred Outflows of Resources | 23,501 |

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

CITY OF JOHNSON CITY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2015

| | Business Type Activities |
|---|-----------------------------|
| | Water & Sewer Fund |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | 24,080 |
| Wages and Salaries Payable | 32,950 |
| Accrued Interest Payable | 2,499 |
| Bonds Payable - Current: | |
| Revenue Bonds Payable | 5,000 |
| Meter Deposits | 104,427 |
| Total Current Liabilities | <u>168,956</u> |
| NonCurrent Liabilities: | |
| Bonds Payable - Noncurrent | 890,000 |
| Net Pension Liability | 94,296 |
| Total Noncurrent Liabilities | <u>984,296</u> |
| Total Liabilities | <u>1,153,252</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred Inflow Related to Pension Plan | 30,440 |
| Total Deferred Inflows of Resources | <u>30,440</u> |
| NET POSITION | |
| Net Investment in Capital Assets | 3,525,068 |
| Unrestricted Net Position | 635,713 |
| Total Net Position | <u><u>\$ 4,160,781</u></u> |

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

CITY OF JOHNSON CITY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

EXHIBIT D-2

| | Business Type Activities |
|---|-----------------------------|
| | Water & Sewer Fund |
| OPERATING REVENUES: | |
| Charges for Services | \$ 720,666 |
| Other Revenue | 3,737 |
| Total Operating Revenues | <u>724,403</u> |
| OPERATING EXPENSES: | |
| Water and Sewer | |
| Personnel Services - Salaries and Wages | 270,945 |
| Personnel Services - Employee Benefits | 92,570 |
| Purchased Professional & Technical Services | 15,799 |
| Purchased Property Services | 138,504 |
| Other Operating Expenses | 211,690 |
| Supplies | 4,456 |
| Total Water and Sewer | <u>733,964</u> |
| Depreciation | <u>218,041</u> |
| Total Operating Expenses | <u>952,005</u> |
| Operating Income (Loss) | <u>(227,602)</u> |
| NON-OPERATING REVENUES (EXPENSES): | |
| Investment Earnings | 731 |
| Interest Expense - Non-Operating | <u>(4,184)</u> |
| Total Non-operating Revenue (Expenses) | <u>(3,453)</u> |
| Income Before Transfers, Contributions, Gains or Losses | <u>(231,055)</u> |
| Capital Contributions | 211,699 |
| Transfers Out | (181,545) |
| Special Item (Use) | <u>(62,000)</u> |
| Change in Net Position | <u>(262,901)</u> |
| Total Net Position October 1 (Beginning) | 4,534,000 |
| Prior Period Adjustment | <u>(110,318)</u> |
| Total Net Position September 30 (Ending) | <u>\$ 4,160,781</u> |

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

CITY OF JOHNSON CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

| | Business Type Activities |
|--|-----------------------------|
| | Water & Sewer Fund |
| <u>Cash Flows from Operating Activities:</u> | |
| Cash Received from User Charges | \$ 731,251 |
| Cash Received from Others | 3,737 |
| Cash Payments to Employees for Services | (363,515) |
| Cash Payments for Suppliers | (142,960) |
| Cash Payments for Other Operating Expenses | (266,550) |
| Net Cash Provided by (Used for) Operating Activities | (38,037) |
| <u>Cash Flows from Non-Capital Financing Activities:</u> | |
| Operating Transfer Out | (181,545) |
| <u>Cash Flows from Capital & Related Financing Activities:</u> | |
| Acquisition of Capital Assets | (279,326) |
| Capital Contributed by Grants | 211,699 |
| Special Item | (62,000) |
| Increase in Restricted Assets | (768,738) |
| Proceeds from Certificates of Obligation | 895,000 |
| Interest Paid | (4,184) |
| Debt Issuance Costs | (51,636) |
| Net Cash Provided by (Used for) Capital & Related Financing Activities | (59,185) |
| <u>Cash Flows from Investing Activities:</u> | |
| Interest on Investments | 731 |
| Net Increase(Decrease) in Cash and Cash Equivalents | (278,036) |
| Cash and Cash Equivalents at Beginning of the Year: | 1,056,918 |
| Cash and Cash Equivalents at the End of the Year: | \$ 778,882 |

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

CITY OF JOHNSON CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

| | Business Type Activities |
|---|-----------------------------|
| | Water & Sewer Fund |
| <u>Reconciliation of Operating Income (Loss) to Net Cash</u> | |
| <u>Provided By (Used For) Operating Activities:</u> | |
| Operating Income (Loss): | \$ (227,602) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities: | |
| Depreciation | 218,041 |
| Effect of Increases and Decreases in Current Assets and Liabilities: | |
| Increase in Receivables | (6,888) |
| Decrease in Accounts Payable | (17,128) |
| Increase in Accrued Wages | 25,900 |
| Increase in Meter Deposits | 3,697 |
| Increase in Due from Other Funds | (34,057) |
| Net Cash Provided by (Used for) Operating Activities | <u>\$ (38,037)</u> |

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, 2015

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, 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. Cash and cash equivalents include cash deposits and local governmental investment pools.
4. Accounts Receivable – Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, and past due after January 31. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior years' levy are shown net of an allowance for uncollectible accounts in the amount of zero.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the City. Program grants are recorded as receivables and revenues, at the time all eligibility requirements established by the provider have been met.

Revenues for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are billable services for certain contracts, and billable services for the City's water utilities, sewer services, and solid waste management. Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements. Receivables are shown net of an allowance for uncollectible accounts.

5. Short-term Interfund Receivables/Payables – During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."
6. Unearned Revenue – Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grant and reimbursement revenues received in advance of expenses/expenditures are reflected as unearned revenue.
7. Pensions. For purposes of measuring the net pension liability/asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
8. The City has 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.

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).

9. Implementation of new GASB Accounting Standard:

The City has implemented new GASB Statement No. 63, *Financial Reporting of Deferred Outflow 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 and deferred amounts from refunded debt have been reported in a separate section as deferred outflows of 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.

10. 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, 2015 are estimated to be insignificant and are not reflected in the accompanying financial statements.
11. 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.
12. 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.

13. 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, 2015, the carrying amount of the City's deposits was \$496,844 and the bank balance was \$583,780. The City's cash deposits at September 30, 2015 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, 2015 are shown below:

| | <u>Carrying Amount</u> | <u>Market Value</u> | <u>FDIC Coverage</u> | <u>Pledged Securities</u> |
|-------------------|----------------------------|-------------------------|--------------------------|-------------------------------|
| Investment Pool - | | | | |
| TexPool (1) | \$ 1,075,692 | \$ 1,075,692 | \$ - | \$ - |

- (1) Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

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. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, TexPool Investment Pool invests only in investments authorized under the Public Funds Investment Act. TexPool's portfolio has 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.

Restricted Assets

Restricted assets represent cash that has been set aside in the Water and Sewer Fund for future payment of capital improvements.

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 Blanco County Appraisal District appraises and collects taxes for the City. For 2015, the City of Johnson City had property with an assessed valuation of \$121,899,554. The tax rate was \$0.426 (General Fund \$0.3009 and Debt Service \$0.1251) 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 \$27,654. Based on historical collection rates for the various courts, the City has booked an allowance for uncollectible court fines and fees of \$21,631, resulting in a net receivable of \$6,023.

D. Property, Plant and Equipment

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

| | Balance 10/01/14 | Additions | Deletions | Balance 9/30/15 |
|--------------------------------|---------------------|------------|------------|--------------------|
| Land | \$ 41,402 | \$ - | \$ - | \$ 41,402 |
| Buildings | 84,963 | 15,200 | - | 100,163 |
| Improvements | 6,588,676 | 298,440 | 193,985 | 6,693,131 |
| Machinery and Equipment | 345,413 | 10,856 | 39,242 | 317,027 |
| Construction in Progress | 51,423 | 3,690 | 51,423 | 3,690 |
| Total Fixed Assets | \$ 7,111,877 | \$ 328,186 | \$ 284,650 | \$ 7,155,413 |
| Less: Reserve for Depreciation | (3,641,511) | (218,041) | 229,206 | 3,630,346 |
| Net Fixed Assets | \$ 3,470,366 | \$ 110,145 | \$ 55,444 | \$ 3,525,067 |

E. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2015, was as follows:

| | Primary Government | | | |
|--|----------------------|------------|-------------|-------------------|
| | Beginning Balance | Additions | Retirements | Ending Balance |
| Governmental Activities: | | | | |
| Land | \$ 484,501 | \$ - | \$ - | \$ 484,501 |
| Building | 427,927 | 4,500 | - | 432,427 |
| Machinery & Equipment | 628,185 | 42,386 | 21,503 | 649,068 |
| Improvements | 1,715,614 | 351,110 | - | 2,066,724 |
| Construction in Progress | - | - | - | - |
| Totals at Historic Cost | \$ 3,256,227 | \$ 397,996 | \$ 21,503 | \$ 3,632,720 |
| Less Accumulated Depreciation For: | | | | |
| Building & Improvements | \$ 553,328 | \$ 73,572 | \$ - | \$ 626,900 |
| Machinery & Equipment | 538,395 | 30,603 | 8,793 | 560,205 |
| Total Accumulated Depreciation | \$ 1,091,723 | \$ 104,175 | \$ 8,793 | \$ 1,187,105 |
| Governmental Activities Capital Assets, Net | \$ 2,164,504 | \$ 293,821 | \$ 12,710 | \$ 2,445,615 |

Depreciation expense was charged to the following governmental functions:

| | |
|--------------------------|------------|
| Financial Administration | \$ 19,729 |
| Police | 26,172 |
| Streets | 9,774 |
| Community Service | 1,223 |
| Hotel/Motel | 2,724 |
| Municipal Court | 3,015 |
| Parks | 26,181 |
| Sanitation | 15,357 |
| TOTAL | \$ 104,175 |

F. General Long Term Debt

A summary of changes in General Long Term Debt follows:

| | Balance 10/01/14 | Issued | Retired | Balance 9/30/15 | Due Within One Year |
|-----------------------------------|---------------------|-------------------|------------------|---------------------|------------------------|
| <u>Governmental Activities -</u> | | | | | |
| General Obligation Refunding - | | | | | |
| Series 2012 (2.00-3.00%) | \$ 1,475,000 | \$ - | \$ 95,000 | \$ 1,380,000 | \$ 100,000 |
| Premium on Refunding Bonds | 64,006 | - | 4,000 | 60,006 | - |
| Total Certificates of Obligation | <u>\$ 1,539,006</u> | <u>\$ -</u> | <u>\$ 99,000</u> | <u>\$ 1,440,006</u> | <u>\$ 100,000</u> |
| <u>Business Type Activities -</u> | | | | | |
| Series 2016 Certificates | | | | | |
| of Obligation | \$ - | \$ 895,000 | \$ - | \$ 895,000 | \$ 5,000 |
| Total Notes Payable | <u>\$ -</u> | <u>\$ 895,000</u> | <u>\$ -</u> | <u>\$ 895,000</u> | <u>\$ 5,000</u> |
| Total Long Term Debt | <u>\$ 1,539,006</u> | <u>\$ 895,000</u> | <u>\$ 99,000</u> | <u>\$ 2,335,006</u> | <u>\$ 105,000</u> |

G. General Obligation Refunding Bonds

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 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, 2015 are as follows:

| <u>September 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Annual Requirements</u> |
|----------------------|---------------------|-------------------|--------------------------------|
| 2016 | \$ 100,000 | \$ 34,550 | \$ 134,550 |
| 2017 | 95,000 | 32,550 | 127,550 |
| 2018 | 100,000 | 30,650 | 130,650 |
| 2019 | 80,000 | 28,650 | 108,650 |
| 2020 | 80,000 | 27,050 | 107,050 |
| 2021 – 2025 | 460,000 | 106,075 | 566,075 |
| 2026 – 2030 | 465,000 | 42,150 | 507,150 |
| 2031 – 2035 | - | - | - |
| Totals | <u>\$ 1,380,000</u> | <u>\$ 301,675</u> | <u>\$ 1,681,675</u> |

H. 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 City. The refunding bonds resulted in a gross debt service savings of \$378,787 and the net present value savings of \$328,891. The following obligations are considered to be defeased and the liability removed from the accompanying financial statements:

| <u>Description</u> | <u>Refunded Amount</u> | <u>Balance 9/30/15</u> |
|------------------------------|----------------------------|----------------------------|
| Certificates of Obligation - | | |
| Series 2003 | \$ 115,000 | \$ 60,000 |
| Series 2005 | <u>1,520,000</u> | <u>1,350,000</u> |
| TOTAL | <u>\$ 1,635,000</u> | <u>\$ 1,410,000</u> |

I. Certificates of Obligation – Series 2015

The City issued Combination Tax and Surplus Revenue Certificates of Obligation, Series 2015 in the amount of \$895,000. Interest at rates ranging from 0.25 to 2.41% is payable February 1 and August 1 of each year. Principal payments are payable on August 1 of each year with a maturity date of August 1, 2035. The bonds were issued to finance wastewater system improvements. The bonds are payable from and secured by the collection of an ad valorem tax levied on all taxable property and surplus net revenue of the Water & Sewer Fund.

Debt service requirements for the Certificates of Obligation are as follows:

| <u>September 30.</u> | <u>Principal</u> | <u>Interest</u> | <u>Annual Requirements</u> |
|----------------------|-------------------|-------------------|--------------------------------|
| 2016 | \$ 5,000 | \$ 15,328 | \$ 20,328 |
| 2017 | 5,000 | 15,328 | 20,328 |
| 2018 | 5,000 | 15,328 | 20,328 |
| 2019 | 45,000 | 15,328 | 60,328 |
| 2020 | 45,000 | 15,216 | 60,216 |
| 2021 – 2025 | 245,000 | 69,621 | 314,621 |
| 2026 – 2030 | 260,000 | 49,538 | 309,538 |
| 2031 – 2035 | <u>285,000</u> | <u>20,497</u> | <u>305,497</u> |
| Totals | <u>\$ 895,000</u> | <u>\$ 216,184</u> | <u>\$ 1,111,184</u> |

J. 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, 2015 were \$39,126.

K. RETIREMENT PLAN

Plan Description

The City of Johnson City, Texas participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees.

Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

The 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 2013 | Plan Year 2014 |
|--|-------------------------|-------------------------|
| Deposit Rate: | 6% | 6% |
| Matching Ratio (City to Employee): | 1.5 to1 | 1.5 to1 |
| Years required for vesting | 5 yrs | 5 yrs |
| Service retirement eligibility (expressed as age/years of service) | 60/5, 0/25 | 60/5, 0/25 |
| | 100% | 100% |
| Updated Service Credit | Repeating, Transfers | Repeating, Transfers |
| Annuity Increase (to retirees) | 70% of CPI Repeating | 70% of CPI Repeating |

Employees covered by benefit terms.

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 5 |
| Inactive employees entitled to but not yet receiving benefits | 8 |
| Active employees | <u>13</u> |
| | 26 |

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Johnson City, Texas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Johnson City, Texas were 9.17% and 9.26% in calendar years 2014 and 2015, respectively. The city's contributions to TMRS for the year ended September 30, 2015, were \$59,800, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2014, 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, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation 3.0% per year

Overall payroll growth 3.0% per year

Investment Rate of Return 7.0%, 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 male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by a factor of 100%. 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 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. 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. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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.

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. The target allocation and best estimates of arithmetic real rates of return for each major asset class.

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|----------------------|-------------------|---|
| Domestic Equity | 17.5% | 4.80% |
| International Equity | 17.5% | 6.05% |
| Core Fixed Income | 30.0% | 1.50% |

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|-----------------------|-------------------|---|
| Non-Core Fixed Income | 10.0% | 3.50% |
| Real Return | 5.0% | 1.75% |
| Real Estate | 10.0% | 5.25% |
| Absolute Return | 5.0% | 4.25% |
| Private Equity | 5.0% | 8.50% |
| TOTAL | 100.0% | |

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. 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.

| | Total Pension Liability | Increase/(Decrease) Fiduciary Net Position | Net Pension Liability/(Asset) |
|---|-------------------------|--|-------------------------------|
| | (a) | (b) | (a)-(b) |
| Balances as of December 31, 2013 | \$ 1,500,141 | \$ 1,189,316 | \$ 310,825 |
| Changes for the year: | | | |
| Service Cost | 68,572 | - | 68,572 |
| Interest | 105,293 | - | 105,293 |
| Changes of Benefit Terms | - | - | - |
| Difference between Expected & Actual Experience | (96,759) | - | (96,759) |
| Changes in Assumptions | - | - | - |
| Contributions – Employer | - | 54,156 | (54,156) |
| Contributions – Employee | - | 34,921 | (34,921) |
| Net Investment Income | - | 68,051 | (68,051) |
| Benefit Payments, Including Refunds of Employee Contributions | (60,478) | (60,478) | - |
| Administrative Expense | - | (710) | 710 |
| Other Charges | - | (58) | 58 |
| Net Changes | 16,628 | 95,882 | (79,254) |
| Balances as of December 31, 2014 | \$ 1,516,769 | \$ 1,285,198 | \$ 231,571 |

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 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

| 1% Decrease 6.00% | Current Single Rate Assumption 7.00% | 1% Increase 8.00% |
|----------------------|---|----------------------|
| <u>\$ 457,267</u> | <u>\$ 231,571</u> | <u>\$ 46,597</u> |

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.tmrs.com.

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

For the year ended September 30, 2015, the City recognized pension expense of \$37,495.

At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Inflows of Resources | Deferred Outflows of Resources |
|--|----------------------------------|-----------------------------------|
| Differences between expected & actual experience | \$ 74,754 | \$ - |
| Changes of assumptions | - | - |
| Net difference between projected & actual earnings | - | 12,161 |
| Contributions made subsequent to measurement date | - | 45,552 |

\$45,552 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended December 31</u> | |
|-------------------------------|---------------------------|
| 2015 | \$ (18,965) |
| 2016 | (18,965) |
| 2017 | (18,965) |
| 2018 | (5,698) |
| 2019 | - |
| Thereafter | <u>-</u> |
| TOTAL | <u>\$ (62,593)</u> |

L. Supplemental Death Benefits Fund

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 the employees' entire careers.

The City's contributions for the TMRS SDBF for the years ended 2015, 2014 and 2013 were \$1,254, \$950 and \$890, respectively, which equaled the required contributions each year.

M. 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.

N. Cash Flows Statement - Supplemental Disclosure

Since the City is tax exempt, no income tax was paid in 2015 and 2014. The City paid interest in the amount of \$4,184 in 2015 and \$-0- in 2014 on their outstanding debt.

O. Claims and Contingent Liabilities

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.

P. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2015, is as follows:

Due to/from other funds:

| | Due To | Due From |
|----------------------|-------------------|-------------------|
| General Fund | \$ 258,185 | \$ - |
| Special Revenue Fund | - | 104,993 |
| Debt Service Fund | - | 119,135 |
| Water & Sewer Fund | - | 34,057 |
| Total | <u>\$ 258,185</u> | <u>\$ 258,185</u> |

During the year ended September 30, 2015, the City's transfers between funds consisted of:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|-------------------|---------------------|----------------------|
| Capital Projects | \$ 298,978 | \$ - |
| Water/Sewer Fund | - | 181,545 |
| General Fund | - | 117,433 |
| Debt Service Fund | - | - |
| Total | <u>\$ 298,978</u> | <u>\$ 298,978</u> |

Q. Special Item

The City entered in to a mediated settlement agreement to pay the former City Administrator and Public Works Director \$62,000.

R. Prior Period Adjustment

During fiscal year 2015, the City adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. Adoption of GASB No. 68 required a prior period adjustment to report the effect of GASB No. 68 retroactively. For Governmental Activities, the amount of the prior period adjustment is \$160,599 and the restated beginning net position is \$1,343,927. For Business Type Activities, the amount of the prior period adjustment is \$110,318 and the restated net position is \$4,423,682.

S. Subsequent Events

The City has evaluated subsequent events through January 27, 2017, the date which the financial statements were available to be issued. The City is not aware of any subsequent events that would materially impact the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF JOHNSON CITY, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

| | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|---|------------------|------------|--------------------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| Taxes: | | | | |
| Property Taxes | \$ 346,045 | \$ 346,045 | \$ 347,902 | \$ 1,857 |
| General Sales and Use Taxes | 294,000 | 294,000 | 333,355 | 39,355 |
| Gross Receipts Business Tax | 78,400 | 78,400 | 77,679 | (721) |
| Penalty and Interest on Taxes | 5,500 | 5,500 | 5,538 | 38 |
| Licenses and Permits | 20,700 | 20,700 | 27,003 | 6,303 |
| Charges for Services | 235,700 | 235,700 | 295,093 | 59,393 |
| Fines | 102,582 | 102,582 | 82,122 | (20,460) |
| Investment Earnings | 500 | 500 | 774 | 274 |
| Rents and Royalties | 16,200 | 16,200 | 19,479 | 3,279 |
| Contributions & Donations from Private Sources | - | - | 156 | 156 |
| Other Revenue | 5,510 | 5,510 | 10,269 | 4,759 |
| Total Revenues | 1,105,137 | 1,105,137 | 1,199,370 | 94,233 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government: | | | | |
| Financial Administration | 354,449 | 354,449 | 353,770 | 679 |
| Public Safety: | | | | |
| Police | 267,250 | 267,250 | 263,141 | 4,109 |
| Public Works: | | | | |
| Highways and Streets | 99,297 | 99,297 | 87,397 | 11,900 |
| Community Services | 21,000 | 21,000 | 21,931 | (931) |
| Municipal Court | 96,929 | 96,929 | 54,063 | 42,866 |
| Sanitation | 291,812 | 291,812 | 275,374 | 16,438 |
| Culture and Recreation: | | | | |
| Parks | 25,800 | 25,800 | 28,464 | (2,664) |
| Capital Outlay: | | | | |
| Capital Outlay | 92,500 | 92,500 | 99,018 | (6,518) |
| Total Expenditures | 1,249,037 | 1,249,037 | 1,183,158 | 65,879 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (143,900) | (143,900) | 16,212 | 160,112 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers Out (Use) | - | - | (117,433) | (117,433) |
| Total Other Financing Sources (Uses) | - | - | (117,433) | (117,433) |
| Net Change | (143,900) | (143,900) | (101,221) | 42,679 |
| Fund Balance - October 1 (Beginning) | 639,975 | 639,975 | 639,975 | - |
| Fund Balance - September 30 (Ending) | \$ 496,075 | \$ 496,075 | \$ 538,754 | \$ 42,679 |

CITY OF JOHNSON CITY, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2015

EXHIBIT G-2

| | <u>2015</u> |
|--|---------------------|
| A. Total Pension Liability | |
| Service Cost | \$ 68,572 |
| Interest (on the Total Pension Liability) | 105,293 |
| Changes of Benefit Terms | -0- |
| Difference between Expected and Actual Experience | (96,759) |
| Changes of Assumptions | -0- |
| Benefit Payments, including refunds of employee contributions | (60,478) |
| Net change in Total Pension Liability | \$ -0- |
| Total Pension Liability - Beginning | 1,500,141 |
| Total Pension Liability - Ending | <u>\$ 1,500,141</u> |
| B. Total Fiduciary Net Position | |
| Contributions - Employer | \$ 54,156 |
| Contributions - Employee | 34,921 |
| Net Investment Income | 68,051 |
| Benefit Payments, including refunds of employee contributions | (60,478) |
| Administrative Expense | (710) |
| Other | (58) |
| Net Change in Plan Fiduciary Net Position | \$ 95,882 |
| Plan Fiduciary Net Position - Beginning | 1,189,316 |
| Plan Fiduciary Net Position - Ending | <u>\$ 1,285,198</u> |
| C. Net Pension Liability | <u>\$ 231,571</u> |
| D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 84.73% |
| E. Covered Employee Payroll | \$ 582,010 |
| F. Net Pension Liability as a Percentage of Covered Employee Payroll | 39.79% |

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only one year of data is presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF JOHNSON CITY, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2015

EXHIBIT G-3

| | <u>2015</u> |
|---|---------------|
| Actuarially Determined Contribution | \$ 59,800 |
| Contributions in Relation to the Actuarially Determined Contributions | (59,800) |
| Contribution Deficiency (Excess) | <u>\$ -0-</u> |
| Covered Employee Payroll | \$ 627,045 |
| Contributions as a Percentage of Covered Employee Payroll | 9.54% |

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's current fiscal year as opposed to the time period covered by the measurement date.

Note: Only one year of data is presented in accordance with GASB 68, Paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

**CITY OF JOHNSON CITY, TEXAS
NOTES TO THE SCHEDULE OF CONTRIBUTIONS
SEPTEMBER 30, 2015**

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31, and become effective in January 13 months later.

Methods and assumptions used to determine contribution rates:

| | |
|----------------------------------|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Closed |
| Remaining Amortization Period | 24 years |
| Asset Valuation Method | 10 Year smoothed market; 15% soft corridor |
| Inflation | 3.0% |
| Salary Increases | 3.5% to 12.00% including inflation |
| Investment Rate of Return | 7.00% |
| Retirement Age | Experience-based tables of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009 |
| Mortality | 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 |

Other Information:

Notes There were no benefit changes during the year.

NEFFENDORF & KNOPP, P.C.

Certified Public Accountants

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Johnson City, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Johnson City, Texas' basic financial statements, and have issued our report thereon dated January 27, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did identify deficiencies in internal control that we consider to be material weaknesses.

Significant journal entries were necessary to correct beginning balances, record accrual adjustments, record fixed assets and accumulated depreciation balances, record the certificates of obligation liability and record the TWDB escrow account. Management has reviewed and agreed to record all audit adjustments.

Compliance and Other Matters

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

Purpose of this Report

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

Neffendorf + Knopp, P.C.

NEFFENDORF & KNOPP, P.C.
Fredericksburg, Texas

January 27, 2017

NEFFENDORF & KNOPP, P.C.
Certified Public Accountants

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January 27, 2017

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Johnson City for the year ended September 30, 2015, and have issued our report thereon dated January 27, 2017. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Johnson City are described in Note 1 to the financial statements. GASB Statement No. 68, *Accounting and Reporting for Pensions* was adopted and the application of existing policies was not changed during the year ended September 30, 2015. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Significant journal entries (some of which were material) were made to correct and record balances to the financial statements. Management has agreed and corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 27, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Recommendations

Bank Reconciliations

The bank reconciliations for the General and Utility funds had a large amount of outstanding deposits and several old checks that had not cleared the bank. We recommend that all reconciling items be researched and cleared on a timely basis.

Invoices and Approvals

During our test of transactions for expenditures, we noted several invoices that did not indicate proper approval and several invoices were missing. We recommend that all invoices have the proper approval noted on the invoice and that all disbursements be supported by an invoice or approved document.

Debt Service Fund

The City collects taxes for both general and debt service purposes. We noted that the City does not have a separate debt service fund in their new accounting software. We recommend that a debt service fund be recorded in the new general ledger to show the property tax collections for debt service and the related payments on the refunding bonds.

Bank Accounts

We noted that the bank accounts for construction and the TWDB reserve were not recorded in the general ledger. We recommend that all bank accounts be recorded in the general ledger.

Prior Year Recommendations

Separate Funds in General Ledger

Currently the City uses two main funds (General and Water & Sewer) due to the software (Quickbooks). However, the City should also maintain separate funds for debt service, hotel/motel tax and capital projects. When the City sets up the general ledger with its new software, we recommend that the separate funds for debt service, hotel/motel tax and capital projects be maintained.

Investments

We again recommend the City prepare an investment report to include the following:

1. A listing of accounts by fund showing the type of investment (money market account, certificate of deposit, etc.), balance, interest rate and maturity date as applicable.
2. A summary which shows the FDIC coverage and the amount of pledged securities by the bank.

Journal Entries

Numerous journal entries were again made to adjust various account balances in the general ledger. We again recommend that the general ledger account balances be reviewed monthly and the appropriate journal entries be made.

This information is intended solely for the use of the City Council and management of City of Johnson City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Neffendorf & Knopp, P.C.

NEFFENDORF & KNOPP, P.C.
Fredericksburg, Texas