

*REPORT OF EXAMINATION*

**CITY OF  
JOHNSON CITY**

*Johnson City, Texas*

**For the Year Ended  
September 30, 2016**

CITY OF JOHNSON CITY, TEXAS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2016

CITY OF JOHNSON CITY  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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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, the business-type activities, each major fund, and the aggregate remaining fund information of City of Johnson City, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements. These financial statements 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 qualified audit opinion.

## **Basis for Qualified Opinion on the Financial Statements**

In conducting our audit we encountered the following scope limitations with the governmental activities and business-type activities: The City had not maintained adequate financial accounting records and supporting documents relating to the occurrence of the transactions (over three years). The system of internal control was not adequate to provide safeguards of assets and proper recording of transactions. We were not able to obtain sufficient appropriate audit evidence through alternate procedures.

## **Qualified Opinion**

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on the Financial Statements" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position 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 September 30, 2016, and the respective changes in financial position and cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–8 and 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

March 3, 2020

## 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, 2016. Please read it in conjunction with the independent auditors' report on page 1, and the 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 \$5,666,163 (net position). Of this amount, \$387,778 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position decreased by \$292,243 as a result of this year's operations.
- At September 30, 2016, the City's governmental funds reported combined ending fund balances of \$1,389,537, an increase of \$604,622 in comparison with the prior year (prior period adjustment of \$843,222).
- At September 30, 2016, the City's Water and Sewer Fund reported net position of \$3,759,142, a decrease of \$401,639 in comparison with the prior year (prior period adjustment of \$179,441).

### 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 22) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (general 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 \$1,672,461 to \$1,907,021. 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 \$145,130 at September 30, 2016. This increase in governmental net position was the result of three factors. First, the City's expenditures exceeded the revenues by \$238,600. Second, the City paid principal on long-term debt in the amount of \$105,000 and acquired capital assets in the amount of \$546,827. Third, the City recorded depreciation in the amounts of \$124,328. Fourth, the City recorded a prior period adjustment of \$(54,277).

Net position of the City's business-type activities decreased from \$4,160,781 to \$3,759,142. Unrestricted net position was \$242,648 at September 30, 2016. This decrease in business-type net position was the result of net loss of \$581,080 and recording a prior period adjustment of \$179,441.

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

### NET POSITION in thousands

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 1,512	\$ 852	\$ 496	\$ 1,796	\$ 2,008	\$ 2,648
Capital Assets	2,868	2,446	3,517	3,525	6,385	5,971
Total Assets	\$ 4,380	\$ 3,298	\$ 4,013	\$ 5,321	\$ 8,393	\$ 8,619
Deferred Outflow of Resources	\$ 131	\$ 54	\$ 76	\$ 23	\$ 207	\$ 77
Long-Term Liabilities	\$ 2,462	\$ 1,477	\$ 160	\$ 984	\$ 2,622	\$ 2,461
Other Liabilities	111	158	148	169	259	327
Total Liabilities	\$ 2,573	\$ 1,635	\$ 308	\$ 1,153	\$ 2,881	\$ 2,788
Deferred Inflow of Resources	\$ 31	\$ 45	\$ 22	\$ 30	\$ 53	\$ 75
Net Position:						
Invested in Capital Assets	\$ 634	\$ 1,000	\$ 3,516	\$ 3,525	\$ 4,150	\$ 4,525
Net of Related Debt						
Restricted	1,128	246	-	-	1,128	246
Unrestricted	145	426	243	636	388	1,062
Total Net Position	\$ 1,907	\$ 1,672	\$ 3,759	\$ 4,161	\$ 5,666	\$ 5,833



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

**CHANGES IN NET POSITION**  
in thousands

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
Charges for Services	\$ 361	\$ 321	\$ 782	\$ 720	\$ 1,143	\$ 1,041
Municipal Court Fines	7	82	-	-	7	82
Property Taxes	501	481	-	-	501	481
Sales Tax	365	333	-	-	365	333
Franchise Tax	173	163	-	-	173	163
Other Taxes	4	6	-	-	4	6
Operating and Capital Grants	77	-	-	-	77	-
Investment Earnings	2	1	3	1	5	2
Miscellaneous	28	30	7	4	35	34
<b>Total Revenue</b>	<b>\$ 1,518</b>	<b>\$ 1,417</b>	<b>\$ 792</b>	<b>\$ 725</b>	<b>\$ 2,310</b>	<b>\$ 2,142</b>
<b>Expenses:</b>						
Financial Administration	\$ 519	\$ 360	\$ -	\$ -	\$ 519	\$ 360
Police	294	289	-	-	294	289
Highways and Streets	96	97	-	-	96	97
Sanitation	328	303	-	-	328	303
Parks	56	55	-	-	56	55
Municipal Court	41	57	-	-	41	57
Hotel Motel	54	52	-	-	54	52
Community Service	13	23	-	-	13	23
Water and Sewer	-	-	1,112	952	1,112	952
Debt Service	48	34	-	4	48	38
Capital Outlay	173	-	-	-	173	-
<b>Total Expenses</b>	<b>\$ 1,622</b>	<b>\$ 1,270</b>	<b>\$ 1,112</b>	<b>\$ 956</b>	<b>\$ 2,734</b>	<b>\$ 2,226</b>
<b>Increase in Net Position Before</b>	<b>\$ (104)</b>	<b>\$ 147</b>	<b>\$ (320)</b>	<b>\$ (231)</b>	<b>\$ (424)</b>	<b>\$ (84)</b>
Capital Contributions & Transfers						
Capital Contributions	-	-	132	212	132	212
Special Item	-	-	-	(62)	-	(62)
Transfers	393	182	(393)	(182)	-	-
<b>Net Position - Beginning</b>	<b>1,672</b>	<b>1,504</b>	<b>4,161</b>	<b>4,534</b>	<b>5,833</b>	<b>6,038</b>
Prior Period Adjustment	(54)	(161)	179	(110)	125	(271)
<b>Net Position - Ending</b>	<b>\$ 1,907</b>	<b>\$ 1,672</b>	<b>\$ 3,759</b>	<b>\$ 4,161</b>	<b>\$ 5,666</b>	<b>\$ 5,833</b>

The cost of all governmental activities this year was \$1,621,760. 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 \$500,720 because the other costs were paid by sales tax (\$365,101), franchise tax (\$173,036), hotel/motel tax (\$7,117), user charges (\$360,446), grants and contributions (\$76,940), investment interest (\$2,424) and other miscellaneous (\$32,127).

## 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 \$1,389,537, which is more than last year's total of \$784,915. Included in this year's total change in fund balance is a decrease of \$277,052 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 less than the budgeted amounts.

## CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2016, the City had the following amounts invested in capital assets:

### CAPITAL ASSETS in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2016	2015	2016	2015	2016	2015
Land	\$ 485	\$ 485	\$ 41	\$ 41	\$ 526	\$ 526
Construction in Progress	17	-	58	4	75	4
Distribution & Collection Systems	-	-	6,733	6,693	6,733	6,693
Buildings & Improvements	2,972	2,499	100	100	3,072	2,599
Equipment	706	649	399	317	1,105	966
Total Capital Assets	<u>\$ 4,180</u>	<u>\$ 3,633</u>	<u>\$ 7,331</u>	<u>\$ 7,155</u>	<u>\$ 11,511</u>	<u>\$ 10,788</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, 2016, the City had the following outstanding debt:

### OUTSTANDING DEBT in thousands

	Governmental		Business-Type		TOTALS	
	Activities		Activities		Primary Government	
	2016	2015	2016	2015	2016	2015
Certificates of Obligation	\$ 890	\$ -	\$ -	\$ 895	\$ 890	\$ 895
Refunding Bonds	1,336	1,440	-	-	1,336	1,440
Total Outstanding Debt	\$ 2,226	\$ 1,440	\$ -	\$ 895	\$ 2,226	\$ 2,335

For governmental activities, the City paid \$100,000 in principal on the outstanding refunding bonds and \$5,000 on the outstanding 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 2017 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 2017. Amounts available for appropriation in the General Fund budget are \$1,376,838 and expenditures are estimated to be \$1,376,838.

If these estimates are realized, the City's budgetary General fund balance is expected to be about the same by the close of 2017.

## 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, 2016

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 342,736	\$ 100,624	\$ 443,360
Investments - Current	292,802	293,491	586,293
Receivables (net of allowance for uncollectibles)	96,529	62,905	159,434
Internal Balances	(38,971)	38,971	-
Restricted Assets:			
Temp. Restricted Asset (specify)	818,723	-	818,723
Capital Assets:			
Land	484,501	41,402	525,903
Buildings, net	90,098	19,966	110,064
Improvements other than Buildings, net	2,167,791	3,272,575	5,440,366
Machinery and Equipment, net	108,449	124,443	232,892
Construction in Progress	17,275	58,108	75,383
Other Assets	-	200	200
Total Assets	<u>4,379,933</u>	<u>4,012,685</u>	<u>8,392,618</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Deferred Charge for Refunding	18,356	-	18,356
Deferred Outflow Related to Pension Plan	112,781	75,880	188,661
Total Deferred Outflows of Resources	<u>131,137</u>	<u>75,880</u>	<u>207,017</u>
<b>LIABILITIES</b>			
Accounts Payable	89,222	32,706	121,928
Intergovernmental Payable	14,194	-	14,194
Accrued Interest Payable	7,806	-	7,806
Meter Deposits	-	115,106	115,106
Noncurrent Liabilities			
Due Within One Year	100,000	-	100,000
Due in More Than One Year	2,125,926	159,973	2,285,899
Net Pension Liability	235,790	-	235,790
Total Liabilities	<u>2,572,938</u>	<u>307,785</u>	<u>2,880,723</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Deferred Inflow Related to Pension Plan	31,111	21,638	52,749
Total Deferred Inflows of Resources	<u>31,111</u>	<u>21,638</u>	<u>52,749</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	634,056	3,516,494	4,150,550
Restricted for:			
Restricted for Special Revenue	166,356	-	166,356
Restricted for Capital Projects	818,723	-	818,723
Restricted for Debt Service	142,756	-	142,756
Unrestricted Net Position	145,130	242,648	387,778
Total Net Position	<u>\$ 1,907,021</u>	<u>\$ 3,759,142</u>	<u>\$ 5,666,163</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, 2016

		Program Revenues	
	Expenses	Charges for Services	Operating Grants and Contributions
<b>Primary Government:</b>			
GOVERNMENTAL ACTIVITIES:			
Financial Administration	\$ 519,435	\$ 2,107	\$ -
Police	293,541	-	-
Highways and Streets	96,059	-	-
Community Services	13,121	-	21,302
Hotel Motel	54,553	-	-
Municipal Court	40,886	7,117	-
Sanitation	327,992	303,881	-
Parks	55,725	54,458	55,638
Bond Interest	47,898	-	-
Capital Outlay	172,550	-	-
Total Governmental Activities:	1,621,760	367,563	76,940
BUSINESS-TYPE ACTIVITIES:			
Water & Sewer Fund	1,112,307	782,153	132,236
Total Business-Type Activities:	1,112,307	782,153	132,236
<b>TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 2,734,067</b>	<b>\$ 1,149,716</b>	<b>\$ 209,176</b>

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Gross Receipts Business Tax

Penalty and Interest

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues 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
\$ (517,328)	\$ -	\$ (517,328)
(293,541)	-	(293,541)
(96,059)	-	(96,059)
8,181	-	8,181
(54,553)	-	(54,553)
(33,769)	-	(33,769)
(24,111)	-	(24,111)
54,371	-	54,371
(47,898)	-	(47,898)
(172,550)	-	(172,550)
<u>(1,177,257)</u>	<u>-</u>	<u>(1,177,257)</u>
-	(197,918)	(197,918)
-	(197,918)	(197,918)
<u>(1,177,257)</u>	<u>(197,918)</u>	<u>(1,375,175)</u>
325,468	-	325,468
175,252	-	175,252
365,101	-	365,101
173,036	-	173,036
3,878	-	3,878
28,249	6,959	35,208
2,424	2,565	4,989
392,686	(392,686)	-
<u>1,466,094</u>	<u>(383,162)</u>	<u>1,082,932</u>
288,837	(581,080)	(292,243)
1,672,461	4,160,781	5,833,242
(54,277)	179,441	125,164
<u>\$ 1,907,021</u>	<u>\$ 3,759,142</u>	<u>\$ 5,666,163</u>

CITY OF JOHNSON CITY, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2016

	General Fund	Debt Service Fund	Capital Projects
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 35,822	\$ -	\$ 306,914
Investments - Current	292,802	-	-
Taxes Receivable	6,864	3,520	-
Allowance for Uncollectible Taxes (credit)	(343)	(176)	-
Receivables (Net)	55,630	-	-
Due from Other Funds	302,000	142,756	-
Temporarily Restricted Asset- TWDB Escrow	-	-	818,723
Total Assets	<u>\$ 692,775</u>	<u>\$ 146,100</u>	<u>\$ 1,125,637</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 44,098	\$ -	\$ -
Wages and Salaries Payable	20,624	-	-
Intergovernmental Payable	14,194	-	-
Due to Other Funds	345,636	-	306,914
Total Liabilities	<u>424,552</u>	<u>-</u>	<u>306,914</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	6,521	3,344	-
Total Deferred Inflows of Resources	<u>6,521</u>	<u>3,344</u>	<u>-</u>
<b>FUND BALANCES</b>			
Restricted for Special Revenue	-	-	-
Capital Acquisition & Contractual Obligation	-	-	818,723
Retirement of Long-Term Debt	-	142,756	-
Unassigned Fund Balance	261,702	-	-
Total Fund Balances	<u>261,702</u>	<u>142,756</u>	<u>818,723</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 692,775</u>	<u>\$ 146,100</u>	<u>\$ 1,125,637</u>

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



Hotel/Motel Fund	Total Governmental Funds
\$ -	\$ 342,736
-	292,802
-	10,384
-	(519)
22,033	77,663
168,823	613,579
-	818,723
<u>\$ 190,856</u>	<u>\$ 2,155,368</u>
\$ 24,500	\$ 68,598
-	20,624
-	14,194
-	652,550
<u>24,500</u>	<u>755,966</u>
-	9,865
-	9,865
166,356	166,356
-	818,723
-	142,756
-	261,702
<u>166,356</u>	<u>1,389,537</u>
<u>\$ 190,856</u>	<u>\$ 2,155,368</u>

CITY OF JOHNSON CITY, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2016

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 1,389,537</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. 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.	122,159
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 2016 capital outlays and debt principal payments is to increase net position.	651,827
This is the second year of the implementation of GASB 68 for the TMRS Pension plan. 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 \$235,790, a Deferred Resource Outflow of \$112,781 and a Deferred Resource Inflow of \$31,111. The net effect of these was to decrease the ending net position by \$154,120.	(154,120)
The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(124,328)
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, 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.	21,946
<b>Net Position of Governmental Activities</b>	<b>\$ 1,907,021</b>

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, 2016

	General Fund	Debt Service Fund	Capital Projects
<b>REVENUES:</b>			
Taxes:			
Property Taxes	\$ 328,166	\$ 171,935	\$ -
General Sales and Use Taxes	365,101	-	-
Gross Receipts Business Tax	81,808	-	-
Penalty and Interest on Taxes	3,878	-	-
Licenses and Permits	2,107	-	-
Intergovernmental Revenue and Grants	43,413	-	33,527
Charges for Services	310,997	-	-
Fines	54,458	-	-
Investment Earnings	2,341	-	83
Rents and Royalties	17,276	-	-
Other Revenue	7,996	-	-
Total Revenues	<u>1,217,541</u>	<u>171,935</u>	<u>33,610</u>
<b>EXPENDITURES:</b>			
Current:			
General Government:			
Financial Administration	504,374	-	-
Public Safety:			
Police	269,817	-	-
Public Works:			
Highways and Streets	89,611	-	-
Community Services	11,962	-	-
Hotel Motel	-	-	-
Municipal Court	37,274	-	-
Sanitation	300,650	-	-
Culture and Recreation:			
Parks	50,803	-	-
Debt Service:			
Bond Principal	-	105,000	-
Bond Interest	-	50,978	-
Capital Outlay:			
Capital Outlay	-	-	673,233
Total Expenditures	<u>1,264,491</u>	<u>155,978</u>	<u>673,233</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(46,950)</u>	<u>15,957</u>	<u>(639,623)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers In	-	7,664	615,124
Transfers Out (Use)	(230,102)	-	-
Total Other Financing Sources (Uses)	<u>(230,102)</u>	<u>7,664</u>	<u>615,124</u>
Net Change in Fund Balances	<u>(277,052)</u>	<u>23,621</u>	<u>(24,499)</u>
Fund Balance - October 1 (Beginning)	538,754	119,135	-
Prior Period Adjustment	-	-	843,222
Fund Balance - September 30 (Ending)	<u>\$ 261,702</u>	<u>\$ 142,756</u>	<u>\$ 818,723</u>

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

Hotel/Motel Fund	Total Governmental Funds
\$ -	\$ 500,101
-	365,101
91,228	173,036
-	3,878
-	2,107
-	76,940
-	310,997
-	54,458
-	2,424
-	17,276
-	7,996
91,228	1,514,314
-	504,374
-	269,817
-	89,611
-	11,962
51,898	51,898
-	37,274
-	300,650
-	50,803
-	105,000
-	50,978
-	673,233
51,898	2,145,600
39,330	(631,286)
-	622,788
-	(230,102)
-	392,686
39,330	(238,600)
127,026	784,915
-	843,222
\$ 166,356	\$ 1,389,537

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, 2016

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ (238,600)</b>
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 2016 capital outlays and debt principal payments is to increase the change in net position.	651,827
The entries required by GASB 68 did require that some expenses on B-1 be adjusted. Total credits to expenses were \$53,838 and total debits to expenses were \$60,577. The net effect on the change in net position on Exhibit B-1 is an decrease of \$6,739.	(6,739)
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.	(124,328)
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, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase the change in net position.	6,677
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 288,837</b>

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, 2016

EXHIBIT D-1

	Business Type Activities
	Water & Sewer Fund
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 100,624
Investments - Current	293,491
Accounts Receivable-Net of Uncollectible Allowance	62,905
Due from Other Funds	38,971
Total Current Assets	<u>495,991</u>
<b>Noncurrent Assets:</b>	
Capital Assets:	
Land	41,402
Buildings	100,163
Accumulated Depreciation - Buildings	(80,197)
Improvements other than Buildings	6,744,829
Accumulated Depreciation - Other Improvements	(3,472,254)
Machinery and Equipment	368,866
Accumulated Depreciation - Machinery & Equipment	(244,423)
Construction in Progress	58,108
Other Asset	200
Total Noncurrent Assets	<u>3,516,694</u>
Total Assets	<u>4,012,685</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pension Plan	75,880
Total Deferred Outflows of Resources	<u>75,880</u>
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable	24,580
Wages and Salaries Payable	8,126
Meter Deposits	115,106
Total Current Liabilities	<u>147,812</u>
<b>NonCurrent Liabilities:</b>	
Net Pension Liability	159,973
Total Noncurrent Liabilities	<u>159,973</u>
Total Liabilities	<u>307,785</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pension Plan	21,638
Total Deferred Inflows of Resources	<u>21,638</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	3,516,494
Unrestricted Net Position	242,648
Total Net Position	<u><u>\$ 3,759,142</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, 2016

EXHIBIT D-2

	Business Type Activities
	Water & Sewer Fund
OPERATING REVENUES:	
Charges for Services	\$ 782,153
Other Revenue	5,115
Total Operating Revenues	<u>787,268</u>
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	269,472
Personnel Services - Employee Benefits	117,610
Purchased Professional & Technical Services	22,032
Purchased Property Services	131,918
Other Operating Expenses	330,510
Supplies	7,596
Depreciation	233,169
Total Operating Expenses	<u>1,112,307</u>
Operating Income (Loss)	<u>(325,039)</u>
NON-OPERATING REVENUES (EXPENSES):	
Grants (Not Capital grants)	1,844
Investment Earnings	2,565
Total Non-operating Revenue (Expenses)	<u>4,409</u>
Income (Loss) Before Contributions & Transfers	(320,630)
Capital Contributions	132,236
Transfers Out	(392,686)
Change in Net Position	<u>(581,080)</u>
Total Net Position -October 1 (Beginning)	4,160,781
Prior Period Adjustment	179,441
Total Net Position September 30 (Ending)	<u>\$ 3,759,142</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, 2016

	Business Type Activities
	Water & Sewer Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 802,743
Cash Received from Others	5,115
Cash Payments to Employees for Services	(411,906)
Cash Payments for Suppliers	(139,014)
Cash Payments for Other Operating Expenses	(348,547)
Net Cash Provided by (Used for) Operating Activities	(91,609)
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Increase(decrease) in Non Capital Grants	1,844
Operating Transfer Out	(202,708)
Net Cash Provided by (Used for) Non-Capital Financing Activities	(200,864)
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>	
Acquisition of Capital Assets	(224,596)
Capital Contributed by Other Funds	132,236
Interest Paid	(2,499)
Net Cash Provided by (Used for) Capital & Related Financing Activities	(94,859)
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	2,565
Net Increase(Decrease) in Cash and Cash Equivalents	(384,767)
Cash and Cash Equivalents at Beginning of the Year:	778,882
Cash and Cash Equivalents at the End of the Year:	\$ 394,115

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, 2016

	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):	\$ (325,039)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:	
Depreciation	233,169
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	25,003
Increase (decrease) in Accounts Payable	500
Increase (decrease) in Wages Payable	(24,824)
Increase (decrease) in Due from Others	(4,914)
Increase (decrease) in Net Pension Liability	4,496
Net Cash Provided by (Used for)	
Operating Activities	<u>\$ (91,609)</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

CITY OF JOHNSON CITY, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

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, 2016 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, 2016, the carrying amount of the City's deposits was \$442,960 and the bank balance was \$442,960. The City's cash deposits at September 30, 2016 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, 2016 are shown below:

Bank	Carrying Amount	Market Value	FDIC Coverage	Pledged Securities
<u>Certificates of Deposit-</u>				
Financial Northeastern	\$ 576,000	\$ 576,258	\$ 576,000	\$ -
<u>Liquid Asset Portfolio</u>				
TexPool	10,293	10,293	*	*
	<u>\$ 586,293</u>	<u>\$ 586,551</u>	<u>\$ 576,000</u>	<u>\$ -</u>

TexPool is a Local Government Investment Pool established in conformity with the Inter-local Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool is structured similar to money market mutual funds. Such funds allow shareholders the ability to deposit or



withdraw funds on a daily basis. Interest rates are adjusted daily and the fund seek to maintain a constant net asset value of \$1.00, although this cannot be guaranteed. TexPool is rated AAAM and must maintain a weighted average maturity not to exceed 60 days.

At September 30, 2016, TexPool had a weighted average maturity of 48 days. The City considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, short of a significant change in value. The State Comptroller oversees TexPool with a third party managing the daily operations of the pool under contract.

#### 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 Capital Projects Fund for future payment of capital improvements.

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
TWDB Escrow	\$ 818,723	\$ -	\$ 818,723

#### 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 the 2015 tax roll, the City of Johnson City had property with an assessed valuation of \$126,797,987. The tax rate was \$0.426 (General Fund \$0.2794 and Debt Service \$0.1466) 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 \$36,003. Based on historical collection rates for the various courts, the City has booked an allowance for uncollectible court fines and fees of \$27,002, resulting in a net receivable of \$9,001.

D. Property, Plant and Equipment

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

	Balance 10/1/2015	Additions	Deletions	Balance 9/30/2016
Land	\$ 41,402	\$	\$	\$ 41,402
Buildings	100,163			100,163
Improvements	6,693,131	80,776	(29,078)	6,744,829
Machinery & Equipment	317,027	89,402	(37,563)	368,866
Construction in Progress	3,690	58,108	(3,690)	58,108
Total Fixed Assets	\$ 7,155,413	\$ 228,286	\$ (70,331)	\$ 7,313,368
Less Reserve for Depreciation	(3,630,346)	(233,169)	66,641	(3,796,874)
Net Fixed Assets	\$ 3,525,067	\$ (4,883)	\$ (3,690)	\$ 3,516,494

E. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2016, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Land	\$ 484,501	\$	\$	\$ 484,501
Building	432,427			432,427
Machinery & Equipment	649,068	56,682		705,750
Improvements	2,066,724	472,870		2,539,594
Construction in Progress	-	17,275		17,275
Totals at Historic Cost	\$ 3,632,720	\$ 546,827	\$ -	\$ 4,179,547
Less Accumulated Depreciation				
Buildings & Improvements	\$ (626,900)	\$ (87,234)	\$	\$ (714,134)
Machinery & Equipment	(560,205)	(37,094)		(597,299)
Total Accumulated Depreciation	\$ (1,187,105)	\$ (124,328)	\$ -	\$ (1,311,433)
Governmental Activities Capital Assets, Net	\$ 2,445,615	\$ 422,499	\$ -	\$ 2,868,114

Depreciation expense was charged to the following governmental functions:

Financial Administration	\$ 48,038
Police	26,143
Streets	8,683
Community Service	1,159
Hotel/Motel	2,655
Municipal Court	3,612
Parks	4,922
Sanitation	29,116
	\$ 124,328

F. General Long-Term Debt

A summary of changes in General Long-Term Debt follows:

	Balance 10/1/2015	Issued	Retired	Balance 9/30/2016	Due Within One Year
<u>Governmental Activities-</u>					
General Obligation Refunding-					
Series 2012 (2.00-3.00%)	\$ 1,380,000	\$ -	\$ 100,000	\$ 1,280,000	\$ 95,000
Series 2015 Certificates					
of Obligation	\$ 895,000	\$ -	\$ 5,000	\$ 890,000	\$ 5,000
Premium on Refunding Bonds	60,006	-	4,080	55,926	-
Total Governmental Activities	\$ 2,335,006	\$ -	\$ 109,080	\$ 2,225,926	\$ 100,000

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, 2016 are as follows:

September 30	Principal	Interest	Annual Requirements
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	85,000	25,450	110,450
2022-2026	465,000	94,575	559,575
2027-2031	375,000	28,200	403,200
	\$ 1,280,000	\$ 267,125	\$ 1,547,125

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:

Description	Refunded Amount	Balance 9/30/16
Certificates of Obligation -		
Series 2003	\$ 115,000	\$ 40,000
Series 2005	1,520,000	1,285,000
TOTAL	\$ 1,635,000	\$ 1,325,000

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:

September 30	Principal	Interest	Annual Requirements
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	45,000	14,977	59,977
2022-2026	250,000	59,443	309,443
2027-2031	265,000	44,349	309,349
2032-2036	230,000	13,867	243,867
	<u>\$ 890,000</u>	<u>\$ 193,836</u>	<u>\$ 1,083,836</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, 2016 were \$40,515.

K. RETIREMENT PLAN

Plan Description

The City of Johnson City, Texas participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

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 2014	Plan Year 2015
Deposit Rate:	6%	6%
Matching Ratio (City to Employee):	1.5 to 1	1.5 to 1
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, 2015 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	9
Active employees	15
	<hr/> 29

**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 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Johnson City, Texas were 9.26% and 9.40% in calendar years 2015 and 2016, respectively. The city's contributions to TMRS for the year ended September 30, 2016, were \$67,718, and were equal to the required contributions.

**Net Pension Liability**

The city's Net Pension Liability (NPL) was measured as of December 31, 2015, 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, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 98%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy 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. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
TOTAL	100.0%	

#### Discount Rate

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Position Liability (a) - (b)
Balance at December 31, 2014	\$ 1,516,769	\$ 1,285,198	\$ 231,571
Changes for the year:			
Service Cost	83,797	-	83,797
Interest	107,368	-	107,368
Change of benefit terms	-	-	-
Difference between expected and actuarial experience	58,568	-	58,568
Change of assumptions	17,464	-	17,464
Contributions- employer	-	62,066	(62,066)
Contributions- employee	-	40,255	(40,255)
Net investment income	-	1,897	(1,897)
Benefit payments, including refunds of employee contributions	(49,667)	(49,667)	-
Administrative expense	-	(1,155)	1,155
Other changes	-	(58)	58
Net Changes	217,530	53,338	164,192
Balance at December 31, 2015	\$ 1,734,299	\$ 1,338,536	\$ 395,763

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 656,543	\$ 395,763	\$ 181,658

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

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

For the year ended September 30, 2016, the City recognized pension expense of \$77,087.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 46,027	\$ 52,749
Changes in actuarial assumptions	13,724	
Difference between projected and actual investment earnings	79,575	
Contributions subsequent to the measurement date	49,335	
Total	\$ 188,661	\$ 52,749

\$49,335 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, 2016. 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>		
2016	\$	14,929
2017		14,929
2018		28,196
2019		28,523
2020		-
Thereafter		-
Total	\$	<u>86,577</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 2016, 2015 and 2014 were \$1,007, \$1,254 and \$950, 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 2016 and 2015. The City paid interest in the amount of \$-0- in 2016 and \$4,184 in 2015 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, 2016, is as follows:

##### **Due to/from other funds:**

	Due To	Due From
General Fund	\$ 345,636	\$ 302,000
Special Revenue Fund	-	168,823
Debt Service Fund	-	142,756
Capital Projects Fund	306,914	-
Water & Sewer Fund	-	38,971
Total	<u>\$ 652,550</u>	<u>\$ 652,550</u>

During the year ended September 30, 2016, the City's transfers between funds consisted of:

	Transfers In	Transfers Out
Capital Projects	\$ 615,124	\$ -
Water/Sewer Fund	-	392,686
General Fund	-	230,102
Debt Service Fund	7,664	-
Total	<u>\$ 622,788</u>	<u>\$ 622,788</u>

Q. Prior Period Adjustment

The prior period adjustment in the fund financial statements for the capital projects fund was made to record the beginning balance in the Restricted Asset- TWDB Escrow account. The prior period adjustment of \$843,222 restated the beginning balance of the capital projects from \$-0- to \$843,222 on Exhibit C-3.

The following prior period adjustments were made of the Statement of Activities (Exhibit B-1):

	Governmental Activities	Business-Type Activities
Record beginning balance of restricted assets (TWDB Escrow)	\$ 843,222	\$ (843,222)
Write off bond insurance costs in compliance with GASB 65	-	(51,636)
Record beginning balance of bonds payable (secured by taxes)	(895,000)	895,000
Record beginning balance of accrued interest payable (related to bonds)	(2,499)	2,499
Correct prior years errors for Utility Fund liability accounts (General Fund Deposit and Credit Card Liability)		176,800
	<u>\$ (54,277)</u>	<u>\$ 179,441</u>

The restated beginning net position for the governmental activities changed from \$1,672,461 to \$1,618,184. The restated beginning net position for the business-type activities (Water & Sewer Fund) changed from \$4,160,781 to \$4,340,222.

R. Subsequent Events

The City has evaluated subsequent events through March 3, 2020, the date which the financial statements were available to be issued.

In February 2020, the City learned that a document purporting to be a city audit report for the year ended September 30, 2016 was submitted for filing with the Municipal Securities Rulemaking Board (MSRB) on the Electronic Municipal Market Access (EMMA) website. EMMA posted the document on its website in 2019. This "audit report" was sent by the USCA Municipal Advisors LLC which stated it had downloaded the "audit report" from the City's website. To the City's knowledge, no such document was ever posted on its website. As of March 2020, the City is investigating the background of the filing.

In January 2020, the Texas Water Development Board notified the City that it was delinquent on the timely filing of annual financial reports for FY 2016, 2017 and 2018. Further, the City had not filed with MSRB the required notices advising of the delinquencies nor advised the MSRB of the "audit report". In addition, the City had not established an interest and sinking fund in accordance with bond covenants of the 2015 Bond. In March 2020, the City setup a timeline during which the City will take measures to correct these deficiencies for compliance.

The City is not aware of any other 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, 2016

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 517,828	\$ 517,828	\$ 328,166	\$ (189,662)
General Sales and Use Taxes	331,300	331,300	365,101	33,801
Gross Receipts Business Tax	87,600	87,600	81,808	(5,792)
Penalty and Interest on Taxes	4,500	4,500	3,878	(622)
Licenses and Permits	25,725	25,725	2,107	(23,618)
Intergovernmental Revenue and Grants	-	-	43,413	43,413
Charges for Services	224,600	224,600	310,997	86,397
Fines	76,660	76,660	54,458	(22,202)
Investment Earnings	-	-	2,341	2,341
Rents and Royalties	8,050	8,050	17,276	9,226
Other Revenue	33,222	33,222	7,996	(25,226)
Total Revenues	1,309,485	1,309,485	1,217,541	(91,944)
EXPENDITURES:				
Current:				
General Government:				
Financial Administration	441,635	441,635	504,374	(62,739)
Public Safety:				
Police	326,867	326,867	269,817	57,050
Public Works:				
Highways and Streets	36,000	36,000	89,611	(53,611)
Community Services	37,200	37,200	11,962	25,238
Municipal Court	100,159	100,159	37,274	62,885
Sanitation	274,581	274,581	300,650	(26,069)
Culture and Recreation:				
Parks	78,910	78,910	50,803	28,107
Total Expenditures	1,295,352	1,295,352	1,264,491	30,861
Excess (Deficiency) of Revenues Over (Under) Expenditures	14,133	14,133	(46,950)	(61,083)
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	-	-	(230,102)	(230,102)
Total Other Financing Sources (Uses)	-	-	(230,102)	(230,102)
Net Change	14,133	14,133	(277,052)	(291,185)
Fund Balance - October 1 (Beginning)	538,754	538,754	538,754	-
Fund Balance - September 30 (Ending)	\$ 552,887	\$ 552,887	\$ 261,702	\$ (291,185)

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

CITY OF JOHNSON CITY, TEXAS  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SEPTEMBER 30, 2016

EXHIBIT G-2

	2016	2015
<b>A. Total Pension Liability</b>		
Service Cost	\$ 83,797	\$ 68,572
Interest (on the Total Pension Liability)	107,368	105,293
Changes of Benefit Terms	-0-	-0-
Difference between Expected and Actual Experience	58,568	(96,759)
Changes of Assumptions	17,464	-0-
Benefit Payments, including refunds of employee contributions	(49,667)	(60,478)
Net change in Total Pension Liability	\$ 217,530	\$ -0-
Total Pension Liability - Beginning	1,516,769	1,500,141
Total Pension Liability - Ending	\$ 1,734,299	\$ 1,500,141
<b>B. Total Fiduciary Net Position</b>		
Contributions - Employer	\$ 62,066	\$ 54,156
Contributions - Employee	40,255	34,921
Net Investment Income	1,897	68,051
Benefit Payments, including refunds of employee contributions	(49,667)	(60,478)
Administrative Expense	(1,155)	(710)
Other	(57)	(58)
Net Change in Plan Fiduciary Net Position	\$ 53,338	\$ 95,882
Plan Fiduciary Net Position - Beginning	1,285,198	1,189,316
Plan Fiduciary Net Position - Ending	\$ 1,338,536	\$ 1,285,198
<b>C. Net Pension Liability</b>	\$ 395,763	\$ 231,571
<b>D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	77.18%	84.73%
<b>E. Covered Employee Payroll</b>	\$ 670,916	\$ 582,010
<b>F. Net Pension Liability as a Percentage of Covered Employee Payroll</b>	58.99%	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 two years of data are 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, 2016

EXHIBIT G-3

	2016	2015
Actuarially Determined Contribution	\$ 67,718	\$ 59,800
Contributions in Relation to the Actuarially Determined Contributions	(67,718)	(59,800)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
Covered Employee Payroll	\$ 718,957	\$ 627,045
Contributions as a Percentage of Covered Employee Payroll	9.42%	9.54%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31, 2014 for Fiscal Year 2015 and December 31, 2015 for Fiscal Year 2016.

Note: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "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, 2016

**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	30 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based tables of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	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.