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Certified Public Accountants

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February 2, 2021

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, Texas for the year ended September 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planning scope and timing of our audit. We have communicated such information in our letter to you dated January 21, 2020. Professional standards require that we provide you with the following information related to our audit.

Significant Audit Matters

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, Texas are described in Note 1 to the financial statements. GASB Statement No. 75 *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions* was adopted and the application of existing policies was not changed during 2018. 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.

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 clearly 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, 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 February 2, 2021.

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

We applied certain limited procedures to management's discussion and analysis, budgetary comparison schedule, schedule of changes in net pension liability and related ratios and the schedule of employer contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Prior Year Recommendations

Records Management

In conducting our audit we requested documents that the City had sent to storage and some that they were unable to locate. Not having the records available for audit caused numerous delays and was very inefficient since we would have to stop and wait for documents. We have provided the City with our standard listing of audit materials. All the documents should be obtained in a timely manner and kept until all requested items are ready. The City should maintain all records used for auditing until the annual audit is complete. The City should also adopt a policy on filing and safeguarding all source documents.

Monthly Reports to Council

As part of the monthly financials reviewed and approved by the City Council, we recommend that bank reconciliations for all accounts be included.

Bank reconciliations are an essential internal control tool and are necessary in preventing and detecting fraud. They also help identify accounting and bank errors by providing explanations for the differences between the accounting record's cash balances and the bank balance position per the bank statement.

Payroll Benefits

The deductions for payroll benefits are not posting to the correct general ledger accounts. Payroll deduction transactions need to be set up properly and reviewed on a monthly basis for proper recording. Our test of the employee withholdings revealed inconsistency with the amount withheld from the employees pay and the benefit invoices. We recommend that all payroll benefit deductions be reviewed for changes in rates from the providers.

Credit Card Policy

City credit cards were used by several employees apparently with no instruction on securing the card or procedures for purchasing. During our test of transactions we found numerous charges that did not have a receipt or invoice for the purchase. We recommend that the City adopt a policy for credit card purchases and the required documentation.

Public Funds Investment Act

The City should comply with the Public Fund Investment Act, Chapter 2256, Local Government Code. The City should also adopt an investment policy to comply with the Public Funds Investment Act which includes the following:

1. Appoint an Investment Officer and comply with the required training requirements.
2. Prepare the required report for investments.
3. Adopt and annually approve the investment policy.

Financial Accounting and Controls

The City has not adopted a written policy manual for financial accounting, reporting and controls. We recommend that the City adopt a written manual for policies and procedures to address all financial aspects (reporting, recording, budgeting, utility billing, municipal court, payroll); internal controls and proper review and approvals.

Bank Reconciliations

Bank reconciliations are not compared and reconciled to the general ledger. We again recommend monthly bank reconciliations be compared and reconciled to the general ledger.

Inventory of Fixed Assets and Supplies

1. The City has not performed an actual physical inventory of all fixed assets (compare and update depreciation schedule). We again recommend the City take a physical inventory annually (at year-end).
2. The City has not taken a physical inventory of materials and supplies. Although the amount may be immaterial, we again recommend the City take an annual physical inventory (at year-end) for possible recording in the general ledger.

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 accounting software. We again recommend that a debt service fund be recorded in the general ledger to show the property tax collections for debt service and the related payments on the bonds.

Separate Funds in General Ledger

Currently the City uses two main funds (General and Water & Sewer) for its accounting system. However, the City should also maintain separate funds for debt service, hotel/motel tax and capital projects. We again recommend that the separate funds for debt service, hotel/motel tax and capital projects be maintained.

Update on Audit Findings and Recommendations

The City has responded to the Texas Water Development Board's compliance letters in November, 2020. The City has provided a corrective action plan for those findings.

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

CITY OF JOHNSON CITY, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2018

CITY OF JOHNSON CITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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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, 2018, 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 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. 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, 2018, 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.

Emphasis of Matters



As discussed in Note 1 to the financial statements, in 2018, the City adopted new accounting guidance prescribed by GASB #75 for its Other Post Employment Benefit (OPEB). Because GASB #75 implements new measurement criteria and reporting provisions, information has been added to the Government-Wide Statements, Statement of Net Position and Governmental Funds Balance Sheet disclosing the City's Net OPEB liability and deferred resource outflows related to the City's supplemental death benefits. The Statements of Activities and Governmental Fund 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

February 2, 2021

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, 2018. 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 \$4,868,655 (net position). Of this amount, the unrestricted net position was (\$1,053,222). The large negative balance in the unrestricted net position of the governmental activities is due to recording of the long-term debt as required by GASB #34. The assets are reflected in the business-type activities while the long-term debt is shown in the governmental activities (financed by property taxes).
- The City's net position decreased by \$345,859 as a result of this year's operations.
- At September 30, 2018, the City's governmental funds reported combined ending fund balances of \$830,095, a decrease of \$171,805 in comparison with the prior year.
- At September 30, 2018, the City's Water and Sewer Fund reported net position of \$3,020,692, a decrease of \$372,242 in comparison with the prior year.

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 43.

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 decreased from \$1,914,972 to \$1,847,963. 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 (\$548,846) at September 30, 2018. This increase in governmental net position was the result of five factors. First, the City's expenditures exceeded the revenues by \$245,989. Second, the City paid principal on long-term debt in the amount of \$105,000 and acquired capital assets in the amount of \$168,545. Third, the City recorded depreciation in the amounts of \$148,853. Fourth, due to the implementation of GASB Statement No. 68 a decrease in expenses was necessary in the amount of \$13,571. Fifth, due to the implementation of GASB Statements No. 75 a prior period adjustment was necessary in the amount of (\$16,596) and a net decrease of (\$1,616) due to the recognition of deferred outflows and OPEB liability related to GASB 75 accounting and financial reporting for other post-employment benefits.

Net position of the City's business-type activities decreased from \$3,325,925 to \$3,020,692. Unrestricted net position was (\$504,376) at September 30, 2018. This decrease in business-type net position was the result of net loss of \$295,446 and a prior period adjustment of \$9,787 due to the recognition of deferred outflows and OPEB liability related to GASB 75 accounting and financial reporting for other post-employment benefits.

Table I
City of Johnson City

NET POSITION in thousands

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 1,126	\$ 1,379	\$ (101)	\$ 218	\$ 1,025	\$ 1,597
Capital Assets	<u>3,198</u>	<u>3,179</u>	<u>3,408</u>	<u>3,393</u>	<u>6,606</u>	<u>6,572</u>
Total Assets	\$ <u>4,324</u>	\$ <u>4,558</u>	\$ <u>3,307</u>	\$ <u>3,611</u>	\$ <u>7,631</u>	\$ <u>8,169</u>
Deferred Outflow of Resources	\$ <u>107</u>	\$ <u>106</u>	\$ <u>54</u>	\$ <u>67</u>	\$ <u>161</u>	\$ <u>173</u>
Long-Term Liabilities	\$ <u>2,247</u>	\$ <u>2,361</u>	\$ <u>138</u>	\$ <u>181</u>	\$ <u>2,385</u>	\$ <u>2,542</u>
Other Liabilities	<u>274</u>	<u>365</u>	<u>165</u>	<u>153</u>	<u>439</u>	<u>518</u>
Total Liabilities	\$ <u>2,521</u>	\$ <u>2,726</u>	\$ <u>303</u>	\$ <u>334</u>	\$ <u>2,824</u>	\$ <u>3,060</u>
Deferred Inflow of Resources	\$ <u>62</u>	\$ <u>23</u>	\$ <u>37</u>	\$ <u>18</u>	\$ <u>99</u>	\$ <u>41</u>
Net Position:						
Invested in Capital Assets Net of Related Debt	\$ 1,894	\$ 2,416	\$ 3,525	\$ 3,393	\$ 5,419	\$ 5,809
Restricted	502	382	-	-	502	382
Unrestricted	<u>(548)</u>	<u>(883)</u>	<u>(504)</u>	<u>(67)</u>	<u>(1,052)</u>	<u>(950)</u>
Total Net Position	\$ <u>1,848</u>	\$ <u>1,915</u>	\$ <u>3,021</u>	\$ <u>3,326</u>	\$ <u>4,869</u>	\$ <u>5,241</u>

Table II
City of Johnson City

CHANGES IN NET POSITION
in thousands

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues:						
Charges for Services	\$ 349	\$ 319	\$ 799	\$ 765	\$ 1,148	\$ 1,084
Municipal Court Fines	117	147	-	-	117	147
Property Taxes	676	565	-	-	676	565
Sales Tax	386	381	-	-	386	381
Franchise Tax	161	205	-	-	161	205
Other Taxes	6	5	-	-	6	5
Operating and Capital Grants	-	136	49	-	49	136
Investment Earnings	9	4	2	3	11	7
Miscellaneous	94	49	10	8	104	57
Total Revenue	\$ 1,798	\$ 1,811	\$ 860	\$ 776	\$ 2,658	\$ 2,587
Expenses:						
Financial Administration	\$ 611	\$ 542	\$ -	\$ -	\$ 611	\$ 542
Police	436	355	-	-	436	355
Highways and Streets	43	100	-	-	43	100
Sanitation	373	269	-	-	373	269
Parks	47	49	-	-	47	49
Municipal Court	168	77	-	-	168	77
Hotel Motel	56	56	-	-	56	56
Community Service	22	41	-	-	22	41
Water and Sewer	-	-	1,066	998	1,066	998
Debt Service	43	46	-	-	43	46
Capital Outlay	49	88	-	-	49	88
Total Expenses	\$ 1,938	\$ 1,926	\$ 1,066	\$ 998	\$ 3,004	\$ 2,924
Increase in Net Position Before						
Capital Contributions & Transfers	\$ (140)	\$ (115)	\$ (206)	\$ (222)	\$ (346)	\$ (337)
Capital Contributions	-	-	-	88	-	88
Special Item	-	-	-	-	-	-
Transfers	89	123	(89)	(123)	-	-
Net Position - Beginning	1,915	1,907	3,326	3,759	5,241	5,666
Prior Period Adjustment	(16)	-	(10)	(176)	(26)	(176)
Net Position - Ending	\$ 1,948	\$ 1,915	\$ 3,021	\$ 3,326	\$ 4,869	\$ 5,241

The cost of all governmental activities this year was \$1,937,951. 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 \$675,705 because the other costs were paid by sales tax (\$386,371), franchise tax (\$160,537), user charges (\$466,489), investment interest (\$8,601) and other miscellaneous (\$94,411).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$830,095, which is less than last year's total of \$1,001,900. Included in this year's total change in fund balance is a decrease of \$245,989 in the City's General Fund.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2018, the City had the following amounts invested in capital assets:

	CAPITAL ASSETS in thousands					
	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2018	2017	2018	2017	2018	2017
Land	\$ 485	\$ 485	\$ 41	\$ 41	\$ 526	\$ 526
Construction in Progress	-	-	291	119	291	119
Distribution & Collection Systems	-	-	6,883	6,802	6,883	6,802
Buildings & Improvements	3,573	3,424	100	100	3,673	3,524
Equipment	422	403	373	369	795	772
Total Capital Assets	\$ 4,480	\$ 4,312	\$ 7,688	\$ 7,431	\$ 12,168	\$ 11,743

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

DEBT

At September 30, 2018, the City had the following outstanding debt:

OUTSTANDING DEBT in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2018	2017	2018	2017	2018	2017
Certificates of Obligation	\$ 880	\$ 885	\$ -	\$ -	\$ 880	885
Refunding Bonds	1,133	1,237	-	-	1,133	1,237
Total Outstanding Debt	<u>\$ 2,013</u>	<u>\$ 2,122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,013</u>	<u>\$ 2,122</u>

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 2019 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 2019. Amounts available for appropriation in the General Fund budget are \$1,576,971 and expenditures are estimated to be \$1,576,971.

If these estimates are realized, the City's budgetary General fund balance is expected to be about the same by the close of 2019.

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, 2018

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business - Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 19,936	\$ 65,019	\$ 84,955
Investments - Current	23,559	24,990	48,549
Accounts Receivable Net	112,126	62,833	174,959
Due from Other Funds	254,040	(254,040)	-
Restricted Assets:			
Temporarily Restricted Asset- TWDB Escrow	716,425	-	716,425
Capital Assets:			
Land Purchase and Improvements	484,501	41,402	525,903
Buildings, Net	376,444	14,051	390,495
Improvements other than Buildings, Net	2,257,894	2,988,210	5,246,104
Furniture and Equipment, Net	79,460	73,078	152,538
Construction in Progress	-	291,419	291,419
Other Assets	-	200	200
Total Assets	<u>4,324,385</u>	<u>3,307,162</u>	<u>7,631,547</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred Charge for Refunding	15,704	-	15,704
Deferred Outflow Related to Pension Plan	89,017	52,498	141,515
Deferred Resource Outflow Related to OPEB	2,181	1,287	3,468
Total Deferred Outflows of Resources	<u>106,902</u>	<u>53,785</u>	<u>160,687</u>
LIABILITIES			
Accounts Payable	205,218	7,250	212,468
Wages and Salaries Payable	59,594	39,403	98,997
Intergovernmental Payable	1,852	-	1,852
Accrued Interest Payable	7,330	-	7,330
Meter Deposits	-	118,702	118,702
Noncurrent Liabilities:			
Debt Due Within One Year	125,000	-	125,000
Bonds Payable - Noncurrent	1,887,766	-	1,887,766
Net Pension Liability	213,381	125,842	339,223
Net OPEB Liability	20,393	12,027	32,420
Total Liabilities	<u>2,520,534</u>	<u>303,224</u>	<u>2,823,758</u>
DEFERRED INFLOW OF RESOURCES			
Deferred Inflow Related to Pension Plan	62,790	37,031	99,821
Total Deferred Inflows of Resources	<u>62,790</u>	<u>37,031</u>	<u>99,821</u>
NET POSITION			
Net Investment in Capital Assets	1,894,462	3,525,068	5,419,530
Restricted for:			
Restricted for Special Revenue	250,271	-	250,271
Restricted for Debt Service	252,076	-	252,076
Unrestricted	(548,846)	(504,376)	(1,053,222)
Total Net Position	<u>\$ 1,847,963</u>	<u>\$ 3,020,692</u>	<u>\$ 4,868,655</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, 2018

	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
Financial Administration	610,695	17,052	-
Police	435,664	-	-
Highways and Streets	43,109	-	-
Community Services	21,879	-	-
Hotel Motel	55,649	-	-
Municipal Court	167,834	117,022	-
Sanitation	372,549	323,440	-
Parks	47,473	8,975	-
Interest on Debt	43,058	-	-
Fiscal Agent's Fees	800	-	-
Capital Outlay	49,032	-	-
		-	-
Total Governmental Activities	1,937,951	466,489	-
BUSINESS-TYPE ACTIVITIES:			
Water & Sewer Fund	1,066,089	799,140	49,032
Total Business-Type Activities	1,066,089	799,140	49,032
TOTAL PRIMARY GOVERNMENT	\$ 3,004,040	\$ 1,265,629	\$ 49,032

General Revenues:

Taxes:

- Property Taxes, Levied for General Purposes
- Property Taxes, Levied for Debt Service
- General Sales and Use Taxes
- Gross Receipts Business Tax
- Other Taxes
- Penalty and Interest on Taxes
- 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
\$ (593,643)	\$ -	\$ (593,643)
(435,664)	-	(435,664)
(43,109)	-	(43,109)
(21,879)	-	(21,879)
(55,649)	-	(55,649)
(50,812)	-	(50,812)
(49,109)	-	(49,109)
(38,498)	-	(38,498)
(43,058)	-	(43,058)
(800)	-	(800)
(49,032)	-	(49,032)
(1,471,462)	-	(1,471,462)
-	(217,917)	(217,917)
-	(217,917)	(217,917)
(1,471,462)	(217,917)	(1,689,379)
432,451	-	432,451
243,254	-	243,254
386,371	-	386,371
160,537	-	160,537
600	-	600
5,240	-	5,240
94,411	10,238	104,649
8,601	1,817	10,418
89,584	(89,584)	-
1,421,049	(77,529)	1,343,520
(50,413)	(295,446)	(345,859)
1,914,972	3,325,925	5,240,897
(16,596)	(9,787)	(26,383)
<u>\$ 1,847,963</u>	<u>\$ 3,020,692</u>	<u>\$ 4,868,655</u>

CITY OF JOHNSON CITY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	General Fund	Hotel/Motel Fund	Debt Service Fund
ASSETS			
Cash and Cash Equivalents	\$ 8,296	\$ -	\$ -
Investments - Current	23,559	-	-
Taxes Receivable	12,256	-	6,605
Allowance for Uncollectible Taxes (credit)	(613)	-	(330)
Accounts Receivable Net	64,075	18,725	-
Due from Other Funds	269,824	269,046	252,076
Temporarily Restricted Asset- TWDB Escrow	-	-	-
Total Assets	<u>\$ 377,397</u>	<u>\$ 287,771</u>	<u>\$ 258,351</u>
LIABILITIES			
Accounts Payable	\$ 155,145	\$ 25,000	\$ -
Wages and Salaries Payable	59,594	-	-
Intergovernmental Payable	1,852	-	-
Due to Other Funds	537,839	12,500	-
Total Liabilities	<u>754,430</u>	<u>37,500</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	11,644	-	6,275
Total Deferred Inflows of Resources	<u>11,644</u>	<u>-</u>	<u>6,275</u>
FUND BALANCES			
Restricted for Special Revenue	-	250,271	-
Capital Acquisition & Contractual Obligation	-	-	-
Retirement of Long-Term Debt	-	-	252,076
Unassigned Fund Balance	(388,677)	-	-
Total Fund Balances	<u>(388,677)</u>	<u>250,271</u>	<u>252,076</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 377,397</u>	<u>\$ 287,771</u>	<u>\$ 258,351</u>

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

Capital Projects	Total Governmental Funds
\$ 11,640	\$ 19,936
-	23,559
-	18,861
-	(943)
-	82,800
13,433	804,379
716,425	716,425
<u>\$ 741,498</u>	<u>\$ 1,665,017</u>
\$ 25,073	\$ 205,218
-	59,594
-	1,852
-	550,339
<u>25,073</u>	<u>817,003</u>
-	17,919
-	17,919
-	250,271
716,425	716,425
-	252,076
-	(388,677)
<u>716,425</u>	<u>830,095</u>
<u>\$ 741,498</u>	<u>\$ 1,665,017</u>

CITY OF JOHNSON CITY, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2018

Total Fund Balances - Governmental Funds	\$	830,095
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.		1,066,295
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 2018 capital outlays and debt principal payments is to increase net position.		273,545
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 \$213,381, a Deferred Resource Inflow of \$62,790 and a Deferred Resource Outflow of \$89,017. The net effect of these was to decrease the ending net position by \$187,334.		(187,154)
The City implemented GASB 75 reporting requirements for the OPEB benefit plan through TMRS. Since this is the first year of implementation, a prior period adjustment had to be made in the amount of (\$16,596). The implementation resulted in an OPEB liability of \$20,393 and a Deferred Resource Outflow of \$2,181. This resulted in a difference between the ending fund balance the ending net position of \$18,212.		(18,212)
The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(148,853)
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.		32,247
Net Position of Governmental Activities	<u>\$</u>	<u>1,847,963</u>

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

Capital Projects	Total Governmental Funds
\$ -	\$ 666,824
-	386,371
-	160,537
-	600
-	5,240
-	17,052
-	332,415
-	117,022
6,782	8,601
-	6,600
-	87,725
6,782	1,788,987
-	639,870
-	415,960
-	78,399
-	19,996
-	51,308
-	153,370
-	341,075
-	59,379
-	105,000
-	45,978
-	800
49,032	49,032
████████████████████	████████████████████
49,032	2,050,376
(42,250)	(261,389)
-	93,355
(3,771)	(3,771)
(3,771)	89,584
(46,021)	(171,805)
762,446	1,001,900
\$ 716,425	\$ 830,095

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, 2018

Total Net Change in Fund Balances - Governmental Funds	\$ (171,805)
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 2018 capital outlays and debt principal payments is to increase the change in net position.	273,545
The entries required by GASB 68 did require that some expenses on B-1 be adjusted. Total credits to expenses were \$99,426 and total debits to expenses were \$112,997. The net effect on the change in net position on Exhibit B-1 is a decrease of \$13,571.	(13,571)
The implementation of GASB 75 to report the TMRS OPEB plan resulted in a prior period adjustment in the amount of (\$16,596). The changes in the ending net position as a result of reporting the OPEB items was a decrease in net position in the amount of \$1,616.	(1,616)
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.	(148,853)
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.	11,887
Change in Net Position of Governmental Activities	<u><u>\$ (50,413)</u></u>

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, 2018

EXHIBIT D-1

	Business Type Activities
	Water & Sewer Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 65,019
Investments - Current	24,990
Accounts Receivable Net	62,833
Total Current Assets	152,842
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	41,402
Buildings	100,163
Accumulated Depreciation - Buildings	(86,112)
Improvements other than Buildings	6,882,552
Accumulated Depreciation - Other Improvements	(3,894,342)
Furniture and Equipment	372,733
Accumulated Depreciation - Furniture & Equipment	(299,655)
Construction in Progress	291,419
Other Assets	200
Total Noncurrent Assets	3,408,360
Total Assets	3,561,202
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pension Plan	52,498
Deferred Resource Outflow Related to OPEB	1,287
Total Deferred Outflows of Resources	53,785
LIABILITIES	
Current Liabilities:	
Accounts Payable	7,250
Wages and Salaries Payable	39,403
Due to Other Funds	254,040
Meter Deposits	118,702
Total Current Liabilities	419,395
Noncurrent Liabilities:	
Net Pension Liability	125,842
Net OPEB Liability	12,027
Total Noncurrent Liabilities	137,869
Total Liabilities	557,264
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pension Plan	37,031
Total Deferred Inflows of Resources	37,031
NET POSITION	
Net Investment in Capital Assets	3,525,068
Unrestricted	(504,376)
Total Net Position	\$ 3,020,692

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, 2018

EXHIBIT D-2

	Business-Type Activities
	Water & Sewer Fund
OPERATING REVENUES:	
Charges for Services	\$ 799,140
Other Revenue	10,238
Total Operating Revenues	809,378
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	276,023
Personnel Services - Employee Benefits	149,293
Purchased Professional & Technical Services	17,781
Purchased Property Services	126,411
Other Operating Costs	237,935
Supplies	17,471
Depreciation	241,175
Total Operating Expenses	1,066,089
Operating Income (Loss)	(256,711)
NONOPERATING REVENUES (EXPENSES):	
Investment Earnings	1,817
Total NonOperating Revenue (Expenses)	1,817
Income (Loss) Before Contributions & Transfers	(254,894)
Capital Contributions	49,032
Transfers Out (Use)	(89,584)
Change in Net Position	(295,446)
Total Net Position - October 1 (Beginning)	3,325,925
Prior Period Adjustment	(9,787)
Total Net Position - September 30 (Ending)	\$ 3,020,692

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, 2018

	Business-Type Activities
	Water & Sewer Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 797,742
Cash Received from Others	10,238
Cash Payments to Employees for Services	(425,316)
Cash Payments for Suppliers	(35,292)
Cash Payments for Other Operating Expenses	(242,781)
Net Cash Provided by Operating Activities	<u>104,591</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	(89,584)
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	(256,558)
Capital Contributed by Other Funds	49,032
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(207,526)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	<u>1,817</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(190,702)
Cash and Cash Equivalents at the Beginning of the Year	<u>280,711</u>
Cash and Cash Equivalents at the End of the Year	<u>\$ 90,009</u>

CITY OF JOHNSON CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities
	Water & Sewer Fund
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:</u>	
Operating Income (Loss)	\$ (256,711)
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities:	
Depreciation	241,175
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	(3,994)
Increase (Decrease) in Accounts Payable	(17,821)
Increase (Decrease) in Wages Payable	27,791
Increase (Decrease) in Net Pension Liability	(30,509)
Increase (Decrease) in Meter Deposits	2,596
Increase (Decrease) in OPEB Liability	10,740
Increase (Decrease) in Due From(To) Other Funds	131,324
Net Cash Provided by Operating Activities	<u>\$ 104,591</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, 2018

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. 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, 2018 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.
14. Other Post-Employment Benefits. GASB 75 requires the recognition of the Total OPEB Liability (TOL), deferred (inflows)/outflows of resources, and total OPEB expense on the face of the employer's financial statements. The TOL is calculated by the System's actuary in accordance with the provisions of GASB 75. The OPEB expense and deferred (inflows)/outflows of resources related to OPEB, which are required to be reported by an employer, primarily result from changes in the components of the TOL. Most changes in the TOL will be included in OPEB expense in the period of the change. The City participates in the Texas Municipal Retirement System Supplemental Death Benefit Fund.

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, 2018, the carrying amount of the City's deposits was \$84,507 and the bank balance was \$84,507. The City's cash deposits at September 30, 2018 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. 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 not in compliance with the requirements of the Act and with local policies.

The City's temporary investments at September 30, 2018 are shown below:

<u>Bank</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>FDIC Coverage</u>	<u>Pledged Securities</u>
<u>Investments-</u>				
Financial Northeastern	\$ 46,970	\$ 46,970	\$ 46,971	\$ -
<u>Liquid Asset Portfolio</u>				
TexPool	1,579	1,579	*	*
	<u>\$ 48,549</u>	<u>\$ 48,549</u>	<u>\$ 46,971</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, 2018, TexPool had a weighted average maturity of 37 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	\$ 716,425	\$ -	\$ 716,425

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 2017 tax roll, the City of Johnson City had property with an assessed valuation of \$155,119,669. The tax rate was \$0.465 (General Fund \$0.2974 and Debt Service \$0.1676) 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 \$45,632. Based on historical collection rates for the various courts, the City has booked an allowance for uncollectible court fines and fees of \$34,224, resulting in a net receivable of \$11,408.

D. Property, Plant and Equipment

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

	<u>Balance</u> <u>10/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9/30/2018</u>
Land	\$ 41,402	\$	\$	\$ 41,402
Buildings	100,163			100,163
Improvements	6,802,040	80,512		6,882,552
Machinery & Equipment	368,866	3,867		372,733
Construction in Progress	119,240	172,179		291,419
Total Fixed Assets	\$ 7,431,711	\$ 256,558	\$ -	\$ 7,688,269
Less Reserve for Depreciation	(4,038,934)	(241,175)		(4,280,109)
Net Fixed Assets	\$ <u>3,392,777</u>	\$ <u>15,383</u>	\$ <u>-</u>	\$ <u>3,408,160</u>

E. Capital Asset Activity

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

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Land	\$ 484,501	\$ -	\$ -	\$ 484,501
Building	659,558	89,113	-	748,671
Machinery & Equipment	402,863	19,493	-	422,356
Improvements	2,764,723	59,939	-	2,824,662
Construction in Progress	-	-	-	-
Totals at Historic Cost	\$ 4,311,645	\$ 168,545	\$ -	\$ 4,480,190
Less Accumulated Depreciation				
Buildings & Improvements	\$ (819,533)	\$ (119,464)	\$ -	\$ (938,997)
Machinery & Equipment	(313,505)	(29,389)	-	(342,894)
Total Accumulated Depreciation	\$ (1,133,038)	\$ (148,853)	\$ -	\$ (1,281,891)
Governmental Activities				
Capital Assets, Net	\$ 3,178,607	\$ 19,692	\$ -	\$ 3,198,299

Depreciation expense was charged to the following governmental functions:

Financial Administration	\$ 54,138
Police	35,194
Streets	6,633
Community Service	1,688
Hotel Motel	4,341
Municipal Court	12,976
Parks	5,025
Sanitation	28,858
	\$ 148,853

F. General Long-Term Debt

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

	Balance 10/1/2017	Issued	Retired	Balance 9/30/2018	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Refunding-					
Series 2012 (2.00-3.00%)	\$ 1,185,000	\$ -	\$ 100,000	\$ 1,085,000	\$ 80,000
Series 2015 Certificates of Obligation	\$ 885,000	\$ -	\$ 5,000	\$ 880,000	\$ 45,000
Premium on Refunding Bonds	51,846	-	4,080	47,766	-
Total Governmental Activities	\$ 2,121,846	\$ -	\$ 109,080	\$ 2,012,766	\$ 125,000

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, 2017 are as follows:

<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Requirements</u>
2019	\$ 80,000	\$ 28,650	\$ 108,650
2020	80,000	27,050	107,050
2021	85,000	25,450	110,450
2022	95,000	23,750	118,750
2023	95,000	14,039	109,039
2024-2028	460,000	69,100	529,100
2029-2030	190,000	8,550	198,550
	<u>\$ 1,085,000</u>	<u>\$ 196,589</u>	<u>\$ 1,281,589</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 9/30/18</u>
Certificates of Obligation -		
Series 2003	\$ 115,000	\$ -
Series 2005	<u>1,520,000</u>	<u>1,150,000</u>
TOTAL	<u>\$ 1,635,000</u>	<u>\$ 1,150,000</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>
2019	\$ 45,000	\$ 15,328	\$ 60,328
2020	45,000	15,216	60,216
2021	45,000	14,977	59,977
2022	50,000	14,604	64,604
2023	50,000	14,604	64,604
2024-2028	250,000	58,738	308,738
2029-2033	275,000	32,985	307,985
2034-2035	120,000	4,314	124,314
	<u>\$ 880,000</u>	<u>\$ 170,766</u>	<u>\$ 1,050,766</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, 2018 were \$47,126.

K. RETIREMENT PLAN

Plan Description

The City of Johnson City, Texas participates as one of 883 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.

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 2016	Plan Year 2017
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, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	13
Active employees	16
	35

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 9.84% and 10.07% in calendar years 2017 and 2018, respectively. The city's contributions to TMRS for the year ended September 30, 2018, were \$79,902, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2016 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 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 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.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal (EAN) actuarial cost method and a one-time change to the amortization policy. 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). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 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%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
TOTAL	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all 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, 2016	\$ 1,890,834	\$ 1,470,266	\$ 420,568
Changes for the year:			
Service Cost	96,237	-	96,237
Interest	128,604	-	128,604
Change of benefit terms	-	-	-
Difference between expected and actuarial experience	21,460	-	21,460
Change of assumptions	-	-	-
Contributions- employer	-	79,033	(79,033)
Contributions- employee	-	45,900	(45,900)
Net investment income	-	203,822	(203,822)
Benefit payments, including refunds of employee contributions	(67,412)	(67,412)	-
Administrative expense	-	(1,056)	1,056
Other changes	-	(53)	53
Net Changes	<u>178,889</u>	<u>260,234</u>	<u>(81,345)</u>
Balance at December 31, 2017	<u>\$ 2,069,723</u>	<u>\$ 1,730,500</u>	<u>\$ 339,223</u>

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 629,893	\$ 339,223	\$ 98,948

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, 2018, the City recognized pension expense of \$77,497.

At September 30, 2018, 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	\$ 37,013	\$ 16,090
Changes in actuarial assumptions	6,244	
Difference between projected and actual investment earnings	38,269	83,731
Contributions subsequent to the measurement date	59,989	
Total	\$ 141,515	\$ 99,821

\$59,989 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2018	\$	9,956
2019		10,283
2020		(17,619)
2021		(20,915)
2022		-
Thereafter		-
Total	\$	<u>(18,295)</u>

L. Defined Other Post-Employment Benefit Plan

Benefit Plan Description. Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term insurance plan known as the Supplemental Death Benefits Fund (“SDBF”). The plan is a single employer defined benefit group life insurance plan. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. 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). The death benefit for retirees is considered an other postemployment benefit (“OPEB”) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated). 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 member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees’ entire careers.

All eligible employees of the city are required to participate in the SDBF.

The City’s contributions to the TMRS SDBF for the year ended 2018, 2017 and 2016 were \$2,931, \$2,680 and \$2,509 respectively, which equaled the required contributions each year.

Employees covered by benefit terms.

At the December 31, 2017 valuation and measurement date, the following employees were covered by benefit terms:

Inactive employees currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	3
Active Employees	16
Total	<u>22</u>

Total OPEB Liability

The City's Total OPEB Liability (TOL) was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The TOL in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Salary Increases	3.50% to 10.5 % including inflation
Discount Rate*	3.31%
Retirees' share of benefit-related cost	\$0
Administrative Expenses	All administrative expenses are paid through the Pension trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates- service retirees	RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and females rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates- disabled retirees	RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013.

Discount Rate

Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of the measurement date.

Covered Payroll	\$	765,003
Total OPEB Liability- Beginning of Year	\$	26,383
Changes for the year		
Service Cost		2,142
Interest on Total OPEB Liability		1,036
Changes of benefit terms		-
Differences between expected and actual experience		-
Changes in assumptions or other inputs		2,936
Benefit Payments **		(77)
Net Changes		6,037
Total OPEB Liability- End of Year	\$	32,420
Total OPEB Liability as a Percentage of Covered Payroll		4.24%

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

Sensitivity of the Total OPEB Liability to changes in the discount rate

The following presents the Total OPEB Liability of the City, calculated using the discount rate of 3.31%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

1% Decrease (2.31%)	Current Discount Rate (3.31%)	1% Increase (4.31%)
\$ 40,059	\$ 32,420	\$ 26,601

OPEB Expense and Deferred Outflows of Resources

For the year ended September 30, 2018, the City recognized OPEB expense of \$3,659.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred (Inflows) of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumption and other inputs	-	2,455
Contributions made subsequent to the measurement date	-	1,013
Total	\$ -	\$ 3,468

\$1,013 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Total OPEB liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended December 31:	
2018	\$ 481
2019	481
2020	481
2021	481
2022	481
Thereafter	50
Total	\$ 2,455

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 TML Multistate Intergovernmental Employee Benefits Pool. 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 2018 and 2017. The City paid interest in the amount of \$-0- in 2018 and \$-0- in 2017 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, 2018, is as follows:
Due to/from other funds:

	<u>Due To</u>	<u>Due From</u>
General Fund	\$ 537,839	\$ 269,824
Special Revenue Fund	12,500	269,046
Debt Service Fund	-	252,076
Capital Projects Fund	-	13,433
Water & Sewer Fund	254,040	-
Total	<u>\$ 804,379</u>	<u>\$ 804,379</u>

During the year ended September 30, 2018, the City's transfers between funds consisted of:

	<u>Transfers In</u>	<u>Transfers Out</u>
Capital Projects	\$ -	\$ 3,771
Water/Sewer Fund	-	89,584
General Fund	93,355	-
Debt Service Fund	-	-
Total	<u>\$ 93,355</u>	<u>\$ 93,355</u>

Q. Related Parties

The City contracted with Diamond X Contracting, Inc. for sewer construction and various paving repairs. Councilman Shelton Coleman's brother owns the corporation. During the year ended September 30, 2018 the City paid Diamond X Contracting, Inc. \$19,004.

The City also contracted with Ricky Guthrie for the City Hall remodel project. Ricky Guthrie is the husband of Councilwoman Gayla Guthrie. During the year ended September 30, 2018 the City paid Ricky Guthrie \$86,176.

R. Negative Unrestricted Net Position

The unrestricted net position for the governmental activities reflects a large negative balance. Since the City finances utility fund improvements with taxes, the assets are reflected in the utility fund while the debt is shown in the governmental activities. This causes a large negative balance for unrestricted net position in the governmental activities as shown below:

Long-term debt used to finance	
Utility (enterprise) fund improvements -	\$(2,104,816)
Unrestricted Net Position	<u>\$ 1,555,970</u>
As Reported on Exhibit A-1	\$ (548,846)

S. Fund Balance Deficit

The General Fund has a fund balance deficit of \$388,677. This deficit will be funded in fiscal year 2019 with transfers from other funds.

T. Excess of Expenditures Over Appropriations

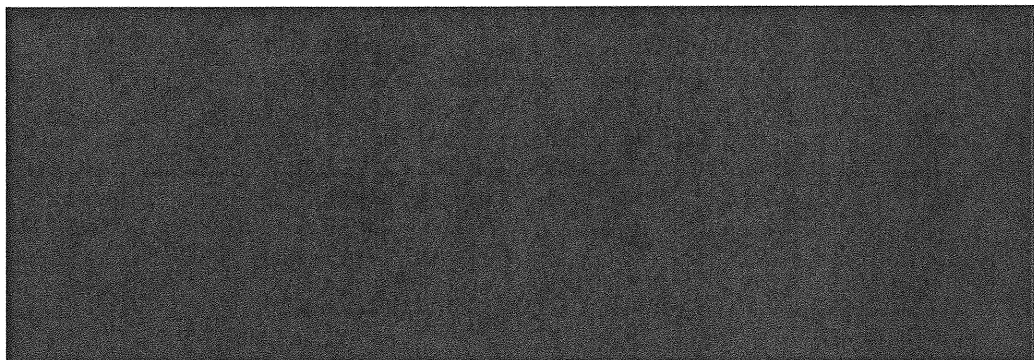
Expenditures in the General Fund exceeded budgeted appropriations in several functions and in total.

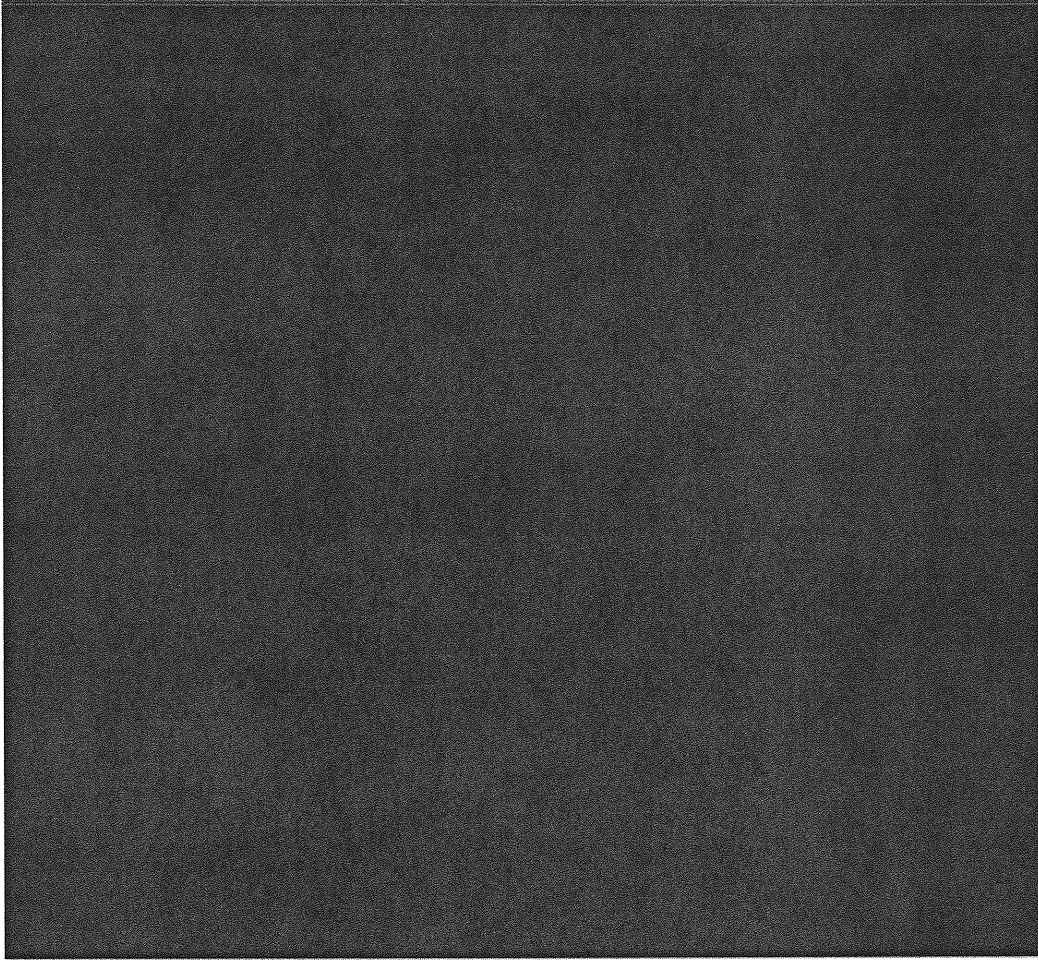
U. Prior Period Adjustment

A prior period adjustment in the amount of (\$16,596) was recorded in the governmental activities net position. This adjustment was due to the required adoption of GASB Statement No. 75 for *Other Post-Employment Benefits*. Under GASB Statements No. 75, the City must report their OPEB liability of the TMRS (Texas Municipal Retirement System) Supplemental Death Benefit Fund. The restated beginning net position for the governmental activities is \$1,898,376.

A prior period adjustment in the amount of (\$9,787) was recorded in the Utility Fund. This adjustment was due to the required adoption of GASB Statements No. 75 for *Other Post-Employment Benefits*. Under GASB Statements No. 75 the City must report their OPEB liability for the TMRS (Texas Municipal Retirement System) Supplemental Death Benefit Fund. The restated beginning net position for the Utility Fund is \$3,316,138.

V.





W. Non-Compliance

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 [REDACTED]. In March 2020, the City setup a timeline during which the City will take measures to correct these deficiencies for compliance. The FY 2016 audit was completed in March, 2020, and the FY 2017 audit was completed in September 2020.

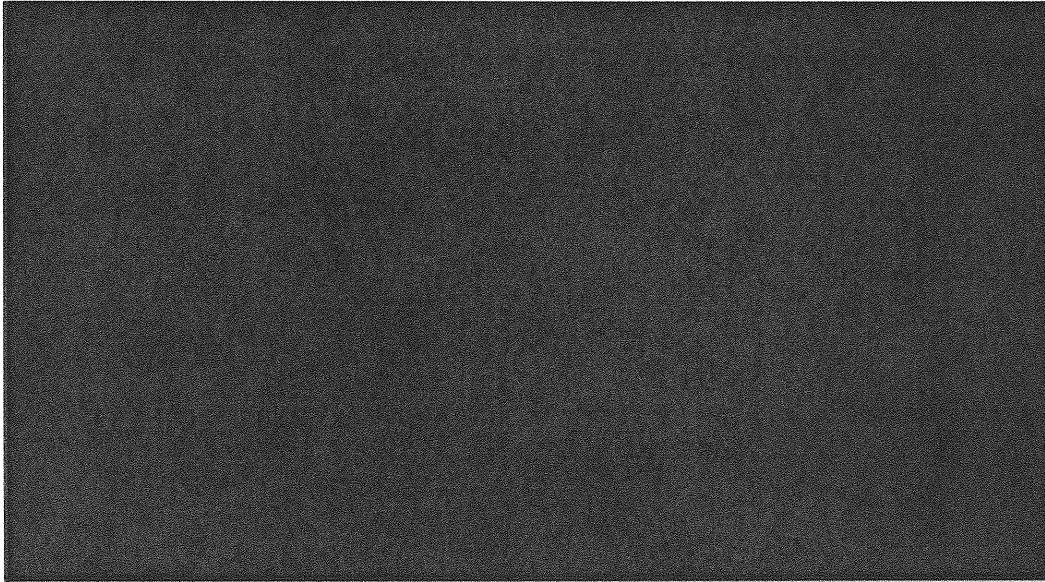
The TWDB bond covenants require the City to maintain separate and apart from all other funds and accounts a Sinking Fund to pay debt service as it comes due. The City has not established an interest and sinking fund compliant with bond covenants.

The City is not in compliance with the Public Funds Investment Act, Chapter 2256, Local Government Code. The City did not appoint an investment officer or complete the required training requirements. The City did not prepare the required investment reports or approve and adopt an annual investment policy.

The City did not obtain conflict of interest disclosure statements from council members that have family relationships with vendors as required by Local Government Code Chapter 176.

X. Subsequent Events

The City has evaluated subsequent events through February 2, 2021, the date which the financial statements were available to be issued.



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, 2018

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 627,763	\$ 627,763	\$ 427,498	\$ (200,265)
General Sales and Use Taxes	375,941	375,941	386,371	10,430
Gross Receipts Business Tax	81,342	81,342	77,880	(3,462)
Other Taxes	-	-	600	600
Penalty and Interest on Taxes	5,200	5,200	5,240	40
Licenses and Permits	20,350	20,350	17,052	(3,298)
Charges for Services	257,000	257,000	332,415	75,415
Fines	121,390	121,390	117,022	(4,368)
Investment Earnings	-	-	1,819	1,819
Rents and Royalties	6,600	6,600	6,600	-
Other Revenue	20,925	20,925	87,725	66,800
Total Revenues	1,516,511	1,516,511	1,460,222	(56,289)
EXPENDITURES:				
Current:				
General Government:				
Financial Administration	272,756	272,756	639,870	(367,114)
Public Safety:				
Police	467,576	467,576	415,960	51,616
Public Works:				
Highways and Streets	112,730	112,730	78,399	34,331
Community Services	-	-	19,996	(19,996)
Hotel Motel	-	-	1,308	(1,308)
Municipal Court	280,694	280,694	153,370	127,324
Sanitation	297,548	297,548	341,075	(43,527)
Culture and Recreation:				
Parks	85,207	85,207	59,379	25,828
Capital Outlay:				
Total Expenditures	1,516,511	1,516,511	1,799,566	(283,055)
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(339,344)	(339,344)
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	93,355	93,355
Total Other Financing Sources (Uses)	-	-	93,355	93,355
Net Change	-	-	(245,989)	(245,989)
Fund Balance - October 1 (Beginning)	(142,688)	(142,688)	(142,688)	-
Fund Balance - September 30 (Ending)	\$ (142,688)	\$ (142,688)	\$ (388,677)	\$ (245,989)

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
FOR THE YEAR ENDED SEPTEMBER 30, 2018

EXHIBIT G-2

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
A. Total Pension Liability				
Service Cost	\$ 96,237	\$ 88,894	\$ 83,797	\$ 68,572
Interest (on the Total Pension Liability)	128,604	119,718	107,368	105,293
Changes of Benefit Terms	-0-	29,035	-0-	-0-
Difference between Expected and Actual Experience	21,460	(12,737)	58,568	(96,759)
Changes of Assumptions	-0-	-0-	17,464	-0-
Benefit Payments, including refunds of employee contributions	(67,412)	(68,375)	(49,667)	(60,478)
A. Total Pension Liability				
Net change in Total Pension Liability	\$ 178,889	\$ 156,535	\$ 217,530	\$ -0-
Total Pension Liability - Beginning	1,890,834	1,734,299	1,516,769	1,500,141
Total Pension Liability - Ending	\$ 2,069,723	\$ 1,890,834	\$ 1,734,299	\$ 1,500,141
B. Total Fiduciary Net Position				
Contributions - Employer	\$ 79,033	\$ 67,389	\$ 62,066	\$ 54,156
Contributions - Employee	45,900	43,328	40,255	34,921
Net Investment Income	203,822	90,465	1,897	68,051
Benefit Payments, including refunds of employee contributions	(67,412)	(68,375)	(49,667)	(60,478)
Administrative Expense	(1,056)	(1,022)	(1,155)	(710)
Other	(54)	(55)	(57)	(58)
B. Total Fiduciary Net Position				
Net Change in Plan Fiduciary Net Position	\$ 260,234	\$ 131,730	\$ 53,338	\$ 95,882
Plan Fiduciary Net Position - Beginning	1,470,266	1,338,536	1,285,198	1,189,316
Plan Fiduciary Net Position - Ending	\$ 1,730,500	\$ 1,470,266	\$ 1,338,536	\$ 1,285,198
C. Net Pension Liability				
	\$ 339,223	\$ 420,568	\$ 395,763	\$ 231,571
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability				
	83.61%	77.76%	77.18%	84.73%
E. Covered Payroll				
	\$ 765,003	\$ 722,131	\$ 670,916	\$ 582,010
F. Net Pension Liability as a Percentage of Covered Payroll				
	44.34%	58.24%	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 four 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
FOR THE FISCAL YEAR 2018

EXHIBIT G-3

	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 79,902	\$ 72,712	\$ 67,718	\$ 59,800
Contributions in Relation to the Actuarially Determined Contributions	(79,902)	(72,712)	(67,718)	(59,800)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Covered Payroll	\$ 807,565	\$ 747,670	\$ 718,957	\$ 627,045
Contributions as a Percentage of Covered Payroll	9.89%	9.73%	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 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "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, 2018

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	25 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.

CITY OF JOHNSON CITY, TEXAS
 SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

	FY 2018 Plan Year 2017
Total OPEB Liability	
Service Cost	\$ 2,142
Interest on the Total OPEB Liability	1,036
Changes of Benefit Terms	-0-
Difference between Expected and Actual Experience	-0-
Changes of Assumptions	2,936
Benefit Payments*	(77)
Net change in Total OPEB Liability	6,037
Total OPEB Liability - Beginning	26,383
Total OPEB Liability - Ending	\$ 32,420
Covered Payroll	\$ 765,003
Total OPEB Liability as a Percentage of Covered Payroll	4.24%

*The Supplemental Death Benefit Fund is considered to be an unfunded OPEB plan under GASB 75. Because of this benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Note: GASB Codification, Vol. 2, P52.139 states that the information on this schedule should be determined as of the measurement date of the plan.

As required by GASB 75, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

CITY OF JOHNSON CITY, TEXAS
 NOTES TO THE SCHEDULE OF CONTRIBUTIONS
 SEPTEMBER 30, 2018

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:

Inflation	2.5%
Salary Increases	Salary increases are assumed to occur every year, on January 1. Therefore, the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. Salaries are assumed to increase by 3.50% to 10.5% including inflation.
Actuarial Cost Method	Entry-Age Normal
Valuation of Assets	For purposes of calculating the Total OPEB Liability, the plan is considered to be unfunded and therefore no assets are accumulated for OPEB.
Retirees' share of benefit related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates- service retirees	RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality rates- disabled retirees	RP-2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.
Discount Rate	Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of the measurement date. Discount rate is 3.31%.
Supplemental Death Benefit	The contribution rate for the Supplemental Death Benefit (SDB) is equal to the expected benefit payments during the upcoming year divided by the annualized pay of current active members and is calculated separately for actives and retirees. Due to the significant reserve in the Supplemental Death Fund, the SDB rate for retiree coverage is currently only one-third of the total term cost.

Other Information:

Notes There were no benefit changes during the year.

NEFFENDORF & KNOPP, P.C.
Certified Public Accountants

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FREDERICKSBURG, TEXAS 78624-0874

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MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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, 2018, 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 February 2, 2021.

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.

2018-001: Construction Bank Account- The City did not record the balances and transactions in the TWDB escrow account. Therefore, material balances and transactions had not been recorded in the general ledger and financial statements were materially misstated.

2018-002: Bank reconciliations were not prepared during the fiscal year. The effect of not preparing the bank reconciliations timely resulted in incorrect financial records.

2018-003: The appropriate review and approval documentation was missing on most invoices selected for testing. Without the appropriate review and approval documentation, the effect could be improper payments to vendors, improper recording of transactions in the general ledger, and loss of budgetary control for the payments made.

2018-004: The city was unable to locate several invoices selected for testing. Without the actual invoice, the effect could be improper payments to vendors, improper recording of transactions and no documentation to support recorded payments in the general ledger.

2018-005: Only one signature was found on most checks selected for testing. In some cases, very large payments (over \$5,000) were being made to vendors with only one signature. This resulted in a lack of separation of duties and lack of documentation of the review and approval process.

2018-006: The City Administrator was the only authorized individual on the City's TexPool investment accounts.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below:

2018-007: The City is delinquent on the timely filing of annual financial reports for FY 2017, FY 2018 and FY 2019 with the Texas Water Development Board in accordance with bond covenants. The City did not file with MSRB the required notices advising of the delinquencies.

2018-008: The TWDB bond covenants require the City to maintain separate and apart from all other funds and accounts a Sinking Fund to pay debt service. The City has not established an interest and sinking fund compliant with bond covenants of the 2015 bond.

2018-009: The City did not obtain conflict of interest disclosure statements from Council Members that have family relationships with vendors as required by the Local Government Code Chapter 176.

2018-010: The City is not in compliance with the Public Funds Investment Act, Chapter 2256, Local Government Code. The City did not appoint an investment officer or complete the required training requirements. The City did not prepare the required investment reports or approve and adopt an annual investment policy.

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.
Fredericksburg, Texas

February 2, 2021