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Certified Public Accountants

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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, 2017, 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 September 23, 2020.

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.

2017-001: Construction Bank Accounts- The City did not record the balances and transactions in the construction bank account and the TWDB escrow accounts. Therefore, material balances and transactions had not been recorded in the general ledger and financial statements were materially misstated.

2017-002: Bank reconciliations were not prepared during the fiscal year. The effect of not preparing the bank reconciliations timely resulted in incorrect financial records.

2017-003: 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.

2017-004: 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.

2017-005: 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.

2017-006: The City Administrator was the only authorized individual on the City's TexPool investment accounts. This resulted in an unauthorized payment.

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:

2017-007: 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.

2017-008: 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.

2017-009: 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.

2017-010: 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

September 23, 2020

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September 23, 2020

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, 2016. 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. No new accounting policies were adopted and the application of existing policies was not changed during 2016. 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 September 23, 2020.

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.

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.
Fredericksburg, Texas

REPORT OF EXAMINATION

**CITY OF
JOHNSON CITY**

Johnson City, Texas

**For the Year Ended
September 30, 2017**

CITY OF JOHNSON CITY, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2017

CITY OF JOHNSON CITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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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, 2017, and the related notes to the financial statements. These financial statements collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion on the Financial Statements

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

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on the Financial Statements" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Johnson City, Texas as of September 30, 2017, and the respective changes in financial position and cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–8 and 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


NEFFENDORF & KNOPP, P.C.
Fredericksburg, Texas

September 23, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Johnson City, we offer readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the year ended September 30, 2017. Please read it in conjunction with the independent auditors' report on page 1, and the City's Basic Financial Statements which begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5,240,897 (net position). Of this amount, the unrestricted net position was (\$950,182). 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 \$248,466 as a result of this year's operations.
- At September 30, 2017, the City's governmental funds reported combined ending fund balances of \$1,001,900, a decrease of \$387,637 in comparison with the prior year.
- At September 30, 2017, the City's Water and Sewer Fund reported net position of \$3,325,925, a decrease of \$433,217 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 24) 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 42.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

The City has two kinds of funds:

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the City's governmental activities increased from \$1,907,021 to \$1,914,972. 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 \$(883,331) at September 30, 2017. This increase in governmental net position was the result of three factors. First, the City's expenditures exceeded the revenues by \$387,637. Second, the City paid principal on long-term debt in the amount of \$100,000 and acquired capital assets in the amount of \$447,985. Third, the City recorded depreciation in the amounts of \$137,492.

Net position of the City's business-type activities decreased from \$3,759,142 to \$3,325,925. Unrestricted net position was \$(66,851) at September 30, 2017. This decrease in business-type net position was the result of net loss of \$256,417 and a prior period adjustment of \$176,800.

Table I
City of Johnson City

NET POSITION in thousands

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 1,379	\$ 1,512	\$ 218	\$ 496	\$ 1,597	\$ 2,008
Capital Assets	3,179	2,868	3,393	3,517	6,572	6,385
Total Assets	\$ 4,558	\$ 4,380	\$ 3,611	\$ 4,013	\$ 8,169	\$ 8,393
Deferred Outflow of Resources	\$ 106	\$ 131	\$ 67	\$ 76	\$ 173	\$ 207
Long-Term Liabilities	\$ 2,361	\$ 2,462	\$ 181	\$ 160	\$ 2,542	\$ 2,622
Other Liabilities	365	111	153	148	518	259
Total Liabilities	\$ 2,726	\$ 2,573	\$ 334	\$ 308	\$ 3,060	\$ 2,881
Deferred Inflow of Resources	\$ 23	\$ 31	\$ 18	\$ 22	\$ 41	\$ 53
Net Position:						
Invested in Capital Assets	\$ 2,416	\$ 634	\$ 3,393	\$ 3,516	\$ 5,809	\$ 4,150
Net of Related Debt						
Restricted	382	1,128	-	-	382	1,128
Unrestricted	(883)	145	(67)	243	(950)	388
Total Net Position	\$ 1,915	\$ 1,907	\$ 3,326	\$ 3,759	\$ 5,241	\$ 5,666

Table II
City of Johnson City

CHANGES IN NET POSITION
in thousands

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues:						
Charges for Services	\$ 319	\$ 361	\$ 765	\$ 782	\$ 1,084	\$ 1,143
Municipal Court Fines	147	7	-	-	147	7
Property Taxes	565	501	-	-	565	501
Sales Tax	381	365	-	-	381	365
Franchise Tax	205	173	-	-	205	173
Other Taxes	5	4	-	-	5	4
Operating and Capital Grants	136	77	-	-	136	77
Investment Earnings	4	2	3	3	7	5
Miscellaneous	49	28	8	7	57	35
Total Revenue	\$ 1,811	\$ 1,518	\$ 776	\$ 792	\$ 2,587	\$ 2,310
Expenses:						
Financial Administration	\$ 542	\$ 519	\$ -	\$ -	\$ 542	\$ 519
Police	355	294	-	-	355	294
Highways and Streets	100	96	-	-	100	96
Sanitation	269	328	-	-	269	328
Parks	49	56	-	-	49	56
Municipal Court	77	41	-	-	77	41
Hotel Motel	56	54	-	-	56	54
Community Service	41	13	-	-	41	13
Water and Sewer	-	-	998	1,112	998	1,112
Debt Service	46	48	-	-	46	48
Capital Outlay	88	173	-	-	88	173
Questioned Costs	303	-	-	-	-	-
Total Expenses	\$ 1,926	\$ 1,622	\$ 998	\$ 1,112	\$ 2,621	\$ 2,734
Increase in Net Position Before	\$ (115)	\$ (104)	\$ (222)	\$ (320)	\$ (337)	\$ (424)
Capital Contributions & Transfers	-	-	88	132	88	132
Capital Contributions	-	-	-	-	-	-
Special Item	-	-	-	-	-	-
Transfers	123	393	(123)	(393)	-	-
Net Position - Beginning	1,907	1,672	3,759	4,161	5,666	5,833
Prior Period Adjustment	-	(54)	(176)	179	(176)	125
Net Position - Ending	\$ 1,915	\$ 1,907	\$ 3,326	\$ 3,759	\$ 5,241	\$ 5,666

The cost of all governmental activities this year was \$1,926,374. 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 \$564,980 because the other costs were paid by sales tax (\$380,922), franchise tax (\$205,007), user charges (\$465,793), grants and contributions (\$136,132), investment interest (\$3,865) and other miscellaneous (\$53,990).

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 \$1,001,900, which is less than last year's total of \$1,389,537. Included in this year's total change in fund balance is a decrease of \$404,390 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, 2017, the City had the following amounts invested in capital assets:

CAPITAL ASSETS in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2017	2016	2017	2016	2017	2016
Land	\$ 485	\$ 485	\$ 41	\$ 41	\$ 526	\$ 526
Construction in Progress	-	17	119	58	119	75
Distribution & Collection Systems	-	-	6,802	6,733	6,802	6,733
Buildings & Improvements	3,424	2,972	100	100	3,524	3,072
Equipment	403	706	369	399	772	1,105
Total Capital Assets	<u>\$ 4,312</u>	<u>\$ 4,180</u>	<u>\$ 7,431</u>	<u>\$ 7,331</u>	<u>\$ 11,743</u>	<u>\$ 11,511</u>

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

DEBT

At September 30, 2017, the City had the following outstanding debt:

OUTSTANDING DEBT in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2017	2016	2017	2016	2017	2016
Certificates of Obligation	\$ 885	\$ 890	\$ -	\$ -	\$ 885	\$ 890
Refunding Bonds	1,237	1,336	-	-	1,237	1,336
Total Outstanding Debt	\$ 2,122	\$ 2,226	\$ -	\$ -	\$ 2,122	\$ 2,226

For governmental activities, the City paid \$95,000 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 2018 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 2018. Amounts available for appropriation in the General Fund budget are \$1,516,511 and expenditures are estimated to be \$1,516,511.

If these estimates are realized, the City's budgetary General fund balance is expected to be about the same by the close of 2018.

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, 2017

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business - Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 196,721	\$ 75,970	\$ 272,691
Investments - Current	203,307	204,741	408,048
Accounts Receivable Net	94,721	58,839	153,560
Due from Other Governments	3,750	-	3,750
Due from Other Funds	122,716	(122,716)	-
Restricted Assets:			
Temporarily Restricted Asset- TWDB Escrow	758,695	-	758,695
Capital Assets:			
Land	484,501	41,402	525,903
Buildings, Net	304,803	17,008	321,811
Improvements other than Buildings, Net	2,299,945	3,119,272	5,419,217
Machinery and Equipment, Net	89,358	95,854	185,212
Construction in Progress	-	119,240	119,240
Other Assets	-	200	200
Total Assets	<u>4,558,517</u>	<u>3,609,810</u>	<u>8,168,327</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred Charge for Refunding	17,030	-	17,030
Deferred Outflow Related to Pension Plan	89,315	67,453	156,768
Total Deferred Outflows of Resources	<u>106,345</u>	<u>67,453</u>	<u>173,798</u>
LIABILITIES			
Accounts Payable	304,001	25,071	329,072
Wages and Salaries Payable	34,366	11,612	45,978
Intergovernmental Payable	19,283	-	19,283
Accrued Interest Payable	7,496	-	7,496
Meter Deposits	-	116,106	116,106
Noncurrent Liabilities:			
Debt Due Within One Year	105,000	-	105,000
Bonds Payable - Noncurrent	2,016,846	-	2,016,846
Net Pension Liability	239,608	180,960	420,568
Total Liabilities	<u>2,726,600</u>	<u>333,749</u>	<u>3,060,349</u>
DEFERRED INFLOW OF RESOURCES			
Deferred Inflow Related to Pension Plan	23,290	17,589	40,879
Total Deferred Inflows of Resources	<u>23,290</u>	<u>17,589</u>	<u>40,879</u>
NET POSITION			
Net Investment in Capital Assets	2,416,161	3,392,776	5,808,937
Restricted for:			
Restricted for Special Revenue	217,614	-	217,614
Restricted for Debt Service	164,528	-	164,528
Unrestricted	(883,331)	(66,851)	(950,182)
Total Net Position	<u>\$ 1,914,972</u>	<u>\$ 3,325,925</u>	<u>\$ 5,240,897</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, 2017

		Program Revenues	
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
Financial Administration	\$ 542,291	\$ 17,575	\$ -
Police	355,494	-	-
Highways and Streets	100,056	-	-
Community Services	20,607	-	-
Hotel Motel	55,746	-	-
Municipal Court	76,974	147,365	-
Sanitation	268,984	293,690	-
Parks	48,801	7,163	136,132
Economic Development and Assistance	20,000	-	-
Interest on Debt	44,814	-	-
Fiscal Agent's Fees	1,190	-	-
Capital Outlay	88,617	-	-
Misappropriated Funds (Note V)	302,800	-	-
Total Governmental Activities	1,926,374	465,793	136,132
BUSINESS-TYPE ACTIVITIES:			
Water & Sewer Fund	997,677	765,388	88,617
Total Business-Type Activities	997,677	765,388	88,617
TOTAL PRIMARY GOVERNMENT	\$ 2,924,051	\$ 1,231,181	\$ 224,749

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

General Sales and Use Taxes

Gross Receipts Business Tax

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
\$ (524,716)	\$ -	\$ (524,716)
(355,494)	-	(355,494)
(100,056)	-	(100,056)
(20,607)	-	(20,607)
(55,746)	-	(55,746)
70,391	-	70,391
24,706	-	24,706
94,494	-	94,494
(20,000)	-	(20,000)
(44,814)	-	(44,814)
(1,190)	-	(1,190)
(88,617)	-	(88,617)
(302,800)	-	(302,800)
(1,324,449)	-	(1,324,449)
-	(143,672)	(143,672)
-	(143,672)	(143,672)
(1,324,449)	(143,672)	(1,468,121)
395,486	-	395,486
169,494	-	169,494
380,922	-	380,922
205,007	-	205,007
4,832	-	4,832
49,158	8,142	57,300
3,865	2,749	6,614
123,636	(123,636)	-
1,332,400	(112,745)	1,219,655
7,951	(256,417)	(248,466)
1,907,021	3,759,142	5,666,163
-	(176,800)	(176,800)
\$ 1,914,972	\$ 3,325,925	\$ 5,240,897

CITY OF JOHNSON CITY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Capital Projects
ASSETS			
Cash and Cash Equivalents	\$ 21,649	\$ -	\$ 175,072
Investments - Current	203,307	-	-
Taxes Receivable	6,430	3,084	-
Allowance for Uncollectible Taxes (credit)	(854)	(154)	-
Accounts Receivable Net	56,054	-	-
Due from Other Governments	-	-	3,750
Due from Other Funds	126,000	164,528	-
Temporarily Restricted Asset- TWDB Escrow	-	-	758,695
Total Assets	<u>\$ 412,586</u>	<u>\$ 167,458</u>	<u>\$ 937,517</u>
LIABILITIES			
Accounts Payable	\$ 119,714	\$ -	\$ 171,787
Wages and Salaries Payable	34,366	-	-
Intergovernmental Payable	19,283	-	-
Due to Other Funds	375,803	-	3,284
Total Liabilities	<u>549,166</u>	<u>-</u>	<u>175,071</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	6,108	2,930	-
Total Deferred Inflows of Resources	<u>6,108</u>	<u>2,930</u>	<u>-</u>
FUND BALANCES			
Restricted for Special Revenue	-	-	-
Capital Acquisition & Contractual Obligation	-	-	762,446
Retirement of Long-Term Debt	-	164,528	-
Unassigned Fund Balance	(142,688)	-	-
Total Fund Balances	<u>(142,688)</u>	<u>164,528</u>	<u>762,446</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 412,586</u>	<u>\$ 167,458</u>	<u>\$ 937,517</u>

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

Other Funds	Total Governmental Funds
\$ -	\$ 196,721
-	203,307
-	9,514
-	(1,008)
18,839	74,893
-	3,750
211,275	501,803
-	758,695
<u>\$ 230,114</u>	<u>\$ 1,747,675</u>
\$ 12,500	\$ 304,001
-	34,366
-	19,283
-	379,087
<u>12,500</u>	<u>736,737</u>
-	9,038
-	9,038
217,614	217,614
-	762,446
-	164,528
-	(142,688)
<u>217,614</u>	<u>1,001,900</u>
<u>\$ 230,114</u>	<u>\$ 1,747,675</u>

CITY OF JOHNSON CITY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

Total Fund Balances - Governmental Funds	\$ 1,001,900
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.	634,382
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 2017 capital outlays and debt principal payments is to increase net position.	547,985
This fiscal year required that the City report their net pension liability in the Government Wide Statement of Net Position. The items reported as a result of this implementation included a net pension liability of \$239,608, a Deferred Resource Inflow of \$23,290 and a Deferred Resource Outflow of \$89,315. The net effect of these was to decrease the ending net position by \$173,583.	(173,583)
The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(137,492)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	41,780
Net Position of Governmental Activities	\$ 1,914,972

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

CITY OF JOHNSON CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Capital Projects
REVENUES:			
Taxes:			
Property Taxes	\$ 394,967	\$ 170,840	\$ -
General Sales and Use Taxes	380,922	-	-
Gross Receipts Business Tax	98,003	-	-
Penalty and Interest on Taxes	4,832	-	-
Licenses and Permits	17,575	-	-
Intergovernmental Revenue and Grants	-	-	136,132
Charges for Services	300,853	-	-
Fines	145,044	-	-
Investment Earnings	2,752	-	1,113
Rents and Royalties	31,725	-	-
Other Revenue	13,933	-	-
Total Revenues	1,390,606	170,840	137,245
EXPENDITURES:			
Current:			
General Government:			
Financial Administration	495,633	-	-
Public Safety:			
Police	325,456	-	-
Public Works:			
Highways and Streets	88,370	-	-
Community Services	18,200	-	-
Hotel Motel	-	-	-
Municipal Court	61,764	-	-
Sanitation	288,293	-	-
Culture and Recreation:			
Parks	44,878	-	-
Conservation and Development:			
Economic Development and Assistance	20,000	-	-
Debt Service:			
Principal on Debt	-	100,000	-
Interest on Debt	-	47,878	-
Fiscal Agent's Fees	-	1,190	-
Capital Outlay:			
Capital Outlay	-	-	470,260
Misappropriated Funds (Note V)	302,800	-	-
Total Expenditures	1,645,394	149,068	470,260
Excess (Deficiency) of Revenues Over (Under) Expenditures	(254,788)	21,772	(333,015)
OTHER FINANCING SOURCES (USES):			
Sale of Real and Personal Property	3,500	-	-
Transfers In	-	-	276,738
Transfers Out (Use)	(153,102)	-	-
Total Other Financing Sources (Uses)	(149,602)	-	276,738

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

		Total	
Other		Governmental	
Funds		Funds	
\$	-	\$	565,807
	-		380,922
	107,004		205,007
	-		4,832
	-		17,575
	-		136,132
	-		300,853
	-		145,044
	-		3,865
	-		31,725
	-		13,933
	107,004		1,805,695
	-		495,633
	-		325,456
	-		88,370
	-		18,200
	55,746		55,746
	-		61,764
	-		288,293
	-		44,878
	-		20,000
	-		100,000
	-		47,878
	-		1,190
	-		470,260
	-		302,800
	55,746		2,320,468
	51,258		(514,773)
	-		3,500
	-		276,738
	-		(153,102)
	-		127,136

CITY OF JOHNSON CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Capital Projects
Net Change in Fund Balances	(404,390)	21,772	(56,277)
Fund Balance - October 1 (Beginning)	<u>261,702</u>	<u>142,756</u>	<u>818,723</u>
Fund Balance - September 30 (Ending)	<u>\$ (142,688)</u>	<u>\$ 164,528</u>	<u>\$ 762,446</u>

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

EXHIBIT C-3 (Cont'd)

Other Funds	Total Governmental Funds
51,258	(387,637)
166,356	1,389,537
<u>\$ 217,614</u>	<u>\$ 1,001,900</u>

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, 2017

Total Net Change in Fund Balances - Governmental Funds	\$ (387,637)
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 2017 capital outlays and debt principal payments is to increase the change in net position.	547,985
The entries required by GASB 68 did require that some expenses on B-1 be adjusted. Total credits to expenses were \$61,682 and total debits to expenses were \$81,145. The net effect on the change in net position on Exhibit B-1 is an decrease of \$19,463.	(19,463)
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.	(137,492)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase the change in net position.	4,558
Change in Net Position of Governmental Activities	\$ 7,951

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, 2017

	Business Type Activities
	Water & Sewer Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 75,970
Investments - Current	204,741
Accounts Receivable Net	58,839
Due from Other Funds	3,284
Total Current Assets	<u>342,834</u>
Noncurrent Assets:	
Capital Assets:	
Land	41,402
Buildings	100,163
Accumulated Depreciation - Buildings	(83,155)
Improvements other than Buildings	6,802,040
Accumulated Depreciation - Other Improvements	(3,682,768)
Machinery and Equipment	368,866
Accumulated Depreciation - Machinery & Equipment	(273,012)
Construction in Progress	119,240
Other Assets	200
Total Noncurrent Assets	<u>3,392,976</u>
Total Assets	<u>3,735,810</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow Related to Pension Plan	67,453
Total Deferred Outflows of Resources	<u>67,453</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	25,071
Wages and Salaries Payable	11,612
Due to Other Funds	126,000
Meter Deposits	116,106
Total Current Liabilities	<u>278,789</u>
Noncurrent Liabilities:	
Payable from Restricted Assets - Noncurrent:	
Net Pension Liability	180,960
Total Noncurrent Liabilities	<u>180,960</u>
Total Liabilities	<u>459,749</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pension Plan	17,589
Total Deferred Inflows of Resources	<u>17,589</u>
NET POSITION	
Net Investment in Capital Assets	3,392,776
Unrestricted	(66,851)
Total Net Position	<u>\$ 3,325,925</u>

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

CITY OF JOHNSON CITY, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT D-2

	Business-Type Activities <u>Water & Sewer Fund</u>
OPERATING REVENUES:	
Charges for Services	\$ 765,388
Other Revenue	8,142
Total Operating Revenues	<u>773,530</u>
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	299,820
Personnel Services - Employee Benefits	107,577
Purchased Professional & Technical Services	21,053
Purchased Property Services	77,539
Other Operating Costs	235,666
Supplies	13,961
Depreciation	242,061
Total Operating Expenses	<u>997,677</u>
Operating Income (Loss)	<u>(224,147)</u>
NONOPERATING REVENUES (EXPENSES):	
Investment Earnings	2,749
Total NonOperating Revenue (Expenses)	<u>2,749</u>
Income (Loss) Before Contributions & Transfers	(221,398)
Capital Contributions	88,617
Transfers Out (Use)	(123,636)
Change in Net Position	<u>(256,417)</u>
Total Net Position - October 1 (Beginning)	3,759,142
Prior Period Adjustment	(176,800)
Total Net Position - September 30 (Ending)	<u>\$ 3,325,925</u>

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

CITY OF JOHNSON CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities
	Water & Sewer Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 769,454
Cash Received from Others	8,142
Cash Payments to Employees for Services	(419,024)
Cash Payments for Suppliers	(91,009)
Cash Payments for Other Operating Expenses	(230,354)
Net Cash Provided by Operating Activities	<u>37,209</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	<u>(123,636)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	(118,343)
Capital Contributed by Other Funds	88,617
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(29,726)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	<u>2,749</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(113,404)
Cash and Cash Equivalents at the Beginning of the Year	<u>394,115</u>
Cash and Cash Equivalents at the End of the Year	<u><u>\$ 280,711</u></u>

CITY OF JOHNSON CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities
	Water & Sewer Fund
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided By Operating Activities:</u>	
Operating Income (Loss)	\$ (224,147)
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities:	
Depreciation	242,061
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	4,066
Increase (Decrease) in Accounts Payable	491
Increase (Decrease) in Wages Payable	(11,627)
Increase (Decrease) in Net Pension Liability	25,365
Increase (Decrease) in Customer Deposits	1,000
Net Cash Provided by Operating Activities	<u>\$ 37,209</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, 2017

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

operations in a separate column.

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

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

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

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

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

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

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

D. Fund Accounting

The City reports the following major governmental funds:

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

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

Governmental Funds:

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

Proprietary Fund:

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

E. Other Accounting Policies

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

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

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

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

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

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

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

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

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

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

5. Short-term Interfund Receivables/Payables – During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."
6. Unearned Revenue – Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grant and reimbursement revenues received in advance of expenses/expenditures are reflected as unearned revenue.
7. Pensions. For purposes of measuring the net pension liability/asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
8. The City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Non-spendable fund balance – amounts that are not in non-spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
 - Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
 - Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
 - Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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

9. Implementation of new GASB Accounting Standard:

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

10. Vacation and sick leave expenses are charged to operations when taken by the employees of the City. Accordingly, no accruals are reflected in the accounts for unpaid amounts of vacation and sick leave earned by employees. Employees are allowed to carry over up to 40 hours of vacation leave and up to 720 hours of sick leave. Upon termination, employees are entitled for payment of the vacation they have earned but not for any sick leave. The liabilities for accumulated vacation and sick leave at September 30, 2017 are estimated to be insignificant and are not reflected in the accompanying financial statements.
11. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
12. The original budget is adopted by the City Council prior to the beginning of the fiscal year through passage of an ordinance. The budget includes proposed expenditures and the means of financing them.

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

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

NOTE II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

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

At September 30, 2017, the carrying amount of the City's deposits was \$272,291 and the bank balance was \$272,291. The City's cash deposits at September 30, 2017 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, 2017 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	\$ 406,471	\$ 406,248	\$ 406,471	\$ -
<u>Liquid Asset Portfolio</u>				
TexPool	<u>1,577</u>	<u>1,577</u>	<u>*</u>	<u>*</u>
	\$ <u>408,048</u>	\$ <u>407,825</u>	\$ <u>406,471</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, 2017, TexPool had a weighted average maturity of 51 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	\$ 758,695	\$ -	\$ 758,695

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 2016 tax roll, the City of Johnson City had property with an assessed valuation of \$139,687,134. The tax rate was \$0.426 (General Fund \$0.2974 and Debt Service \$0.1286) 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 \$45,289. Based on historical collection rates for the various courts, the City has booked an allowance for uncollectible court fines and fees of \$33,967, resulting in a net receivable of \$11,322.

D. Property, Plant and Equipment

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

	Balance 10/1/2016	Additions	Deletions	Balance 9/30/2017
Land	\$ 41,402	\$	\$	\$ 41,402
Buildings	100,163			100,163
Improvements	6,744,829	57,211		6,802,040
Machinery & Equipment	368,866			368,866
Construction in Progress	58,108	61,132		119,240
Total Fixed Assets	\$ 7,313,368	\$ 118,343	\$ -	\$ 7,431,711
Less Reserve for Depreciation	(3,796,874)	(242,061)		(4,038,935)
Net Fixed Assets	\$ 3,516,494	\$ (123,718)	\$ -	\$ 3,392,776

E. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2017, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Land	\$ 484,501	\$	\$	\$ 484,501
Building	432,427	227,131		659,558
Machinery & Equipment	705,750	13,000	(315,887)	402,863
Improvements	2,539,594	225,129		2,764,723
Construction in Progress	17,275		(17,275)	-
Totals at Historic Cost	\$ 4,179,547	\$ 465,260	\$ (333,162)	\$ 4,311,645
Less Accumulated Depreciation				
Buildings & Improvements	\$ (714,134)	\$ (105,399)	\$	\$ (819,533)
Machinery & Equipment	(597,299)	(32,093)	315,887	(313,505)
Total Accumulated Depreciation	\$ (1,311,433)	\$ (137,492)	\$ 315,887	\$ (1,133,038)
Governmental Activities				
Capital Assets, Net	\$ 2,868,114	\$ 327,768	\$ (17,275)	\$ 3,178,607

Depreciation expense was charged to the following governmental functions:

Financial Administration	\$ 44,474
Police	36,296
Streets	9,855
Community Service	2,030
Municipal Court	12,827
Parks	3,309
Sanitation	28,701
	<u>\$ 137,492</u>

F. General Long-Term Debt

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

	Balance 10/1/2016	Issued	Retired	Balance 9/30/2017	Due Within One Year
<u>Governmental Activities-</u>					
General Obligation Refunding-					
Series 2012 (2.00-3.00%)	\$ 1,280,000	\$ -	\$ 95,000	\$ 1,185,000	\$ 100,000
Series 2015 Certificates					
of Obligation	\$ 890,000	\$ -	\$ 5,000	\$ 885,000	\$ 5,000
Premium on Refunding Bonds	55,926	-	4,080	51,846	-
Total Governmental Activities	<u>\$ 2,225,926</u>	<u>\$ -</u>	<u>\$ 104,080</u>	<u>\$ 2,121,846</u>	<u>\$ 105,000</u>

G. General Obligation Refunding Bonds

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

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

Debt service requirements for the refunding bonds as of September 30, 2017 are as follows:

September 30	Principal	Interest	Annual Requirements
2018	\$ 100,000	\$ 30,650	\$ 130,650
2019	80,000	28,650	108,650
2020	80,000	27,050	107,050
2021	85,000	25,450	110,450
2022	95,000	23,750	118,750
2023-2027	465,000	82,075	547,075
2028-2032	280,000	16,950	296,950
	<u>\$ 1,185,000</u>	<u>\$ 234,575</u>	<u>\$ 1,419,575</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 9/30/17</u>
Certificates of Obligation -		
Series 2003	\$ 115,000	\$ 20,000
Series 2005	<u>1,520,000</u>	<u>1,220,000</u>
 TOTAL	 <u>\$ 1,635,000</u>	 <u>\$ 1,240,000</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>
2018	\$ 5,000	\$ 15,328	\$ 20,328
2019	45,000	15,328	60,328
2020	45,000	15,216	60,216
2021	45,000	14,977	59,977
2022	50,000	14,604	64,604
2023-2027	250,000	62,793	312,793
2028-2032	270,000	38,819	308,819
2033-2037	<u>175,000</u>	<u>8,464</u>	<u>183,464</u>
	<u>\$ 885,000</u>	<u>\$ 185,529</u>	<u>\$ 1,070,529</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, 2017 were \$43,688.

K. RETIREMENT PLAN

Plan Description

The City of Johnson City, Texas participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined

benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

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

	Plan Year 2015	Plan Year 2016
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	70% of CPI
	Repeating	Repeating

Employees covered by benefit terms.

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	12
Active employees	15
	<u>32</u>

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 9.40% and 9.84% in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017, were \$72,810, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2016, 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 98%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. 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%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
TOTAL	100.0%	

Discount Rate

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Position Liability (a) - (b)
Balance at December 31, 2015	\$ 1,734,299	\$ 1,338,536	\$ 395,763
Changes for the year:			
Service Cost	88,894	-	88,894
Interest	119,718	-	119,718
Change of benefit terms	29,035	-	29,035
Difference between expected and actuarial experience	(12,737)	-	(12,737)
Change of assumptions	-	-	-
Contributions- employer	-	67,389	(67,389)
Contributions- employee	-	43,328	(43,328)
Net investment income	-	90,465	(90,465)
Benefit payments, including refunds of employee contributions	(68,375)	(68,375)	-
Administrative expense	-	(1,022)	1,022
Other changes	-	(55)	55
Net Changes	156,535	131,730	24,805
Balance at December 31, 2016	\$ 1,890,834	\$ 1,470,266	\$ 420,568

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	\$ 690,315	\$ 420,568	\$ 197,625

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, 2017, the City recognized pension expense of \$117,258.

At September 30, 2017, 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	\$ 33,486	\$ 40,788
Changes in actuarial assumptions	9,984	
Difference between projected and actual investment earnings	58,922	91
Contributions subsequent to the measurement date	54,376	
Total	\$ 156,768	\$ 40,879

\$54,376 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31:</u>		
2017	\$	12,213
2018		25,480
2019		25,807
2020		(1,987)
2021		-
Thereafter		-
Total	\$	<u>61,513</u>

L. Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

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

Contributions

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

The City's contributions for the TMRS SDBF for the years ended 2017, 2016 and 2015 were \$1,102, \$1,007 and \$1,254, respectively, which equaled the required contributions each year.

M. Employee Insurance Benefits

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

N. Cash Flows Statement - Supplemental Disclosure

Since the City is tax exempt, no income tax was paid in 2017 and 2016. The City paid interest in the amount of \$-0- in 2017 and \$-0- in 2016 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, 2017, is as follows:
Due to/from other funds:

	Due To	Due From
General Fund	\$ 375,803	\$ 126,000
Special Revenue Fund	-	211,275
Debt Service Fund	-	164,528
Capital Projects Fund	3,284	-
Water & Sewer Fund	126,000	3,284
Total	<u>\$ 505,087</u>	<u>\$ 505,087</u>

During the year ended September 30, 2017, the City's transfers between funds consisted of:

	Transfers In	Transfers Out
Capital Projects	\$ 276,738	\$ -
Water/Sewer Fund	-	123,636
General Fund	-	153,102
Debt Service Fund	-	-
Total	<u>\$ 276,738</u>	<u>\$ 276,738</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, 2017 the City paid Diamond X Contracting, Inc. \$74,362.

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, 2017 the City paid Ricky Guthrie \$57,711.

R. Chapter 380 Economic Development Board Program Agreement

The City entered into a Chapter 380 Economic Development Program agreement with Old Annex Office Solutions, LLC. The City made a one-time payment of \$20,000 under this agreement which constitutes a request for a public subsidy subject to Texas Government Code Chapter 2264, Subchapter B.

S. 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>\$ 1,221,485</u>
As Reported on Exhibit A-1	\$ (883,331)

T. Fund Balance Deficit

The General Fund has a fund balance deficit of \$142,688. This deficit will be funded in fiscal year 2018 with transfers from other funds.

U. Excess of Expenditures Over Appropriations

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

V. Misappropriated Funds

On October 12, 2016, \$302,800 was withdrawn from the City's TexPool account. Upon inquiry of this wire transfer, the City Administrator provided an invoice from Lone Star Paving claiming the money was wired directly to Lone Star Paving. Lone Star Paving confirmed that the invoice did not come from Lone Star Paving and no payment of \$302,800 was received by the company. Upon questioning the City on this invoice, the City Administrator provided another invoice from Lone Star Paving for the amount of \$302,800.75, with the City stating that they had short changed the paving company \$0.75 and providing no comment or explanation on where the first \$302,800 Lone Star Paving invoice came from. Lone Star Paving confirmed again that they did not send that invoice or the first one provided. After confronting the City about the two false Lone Star Paving invoices provided, the City Administrator provided another invoice for

\$302,800 from Olvera Paving and Construction, Inc. along with a personal bank statement of Felipe and Laura Olvera showing an incoming wire transfer of \$302,800 on October 12, 2016. The City provided no comment or explanation on where the first or second false Lone Star Paving invoices came from. Felipe Olvera of Olvera Paving and Construction, Inc verified the invoice, the amount and that he had received the \$302,800 wire transfer to his personal Chase Bank Account on October 12, 2016. Information obtained from TexPool verifies the account number on the bank statement provided but shows the name on the receiving Chase Bank Account as Anthony Holland. Felipe Olvera verified the streets listed on the invoice were completed by Olvera Paving and Construction. Lone Star Paving verified that they completed the streets that were listed on the Olvera Paving and Construction, Inc. invoice. Per the June 7, 2016 council minutes, Lone Star Paving was awarded the paving project. The City paid Lone Star Paving \$171,788.15 by check and the City provided an invoice that Lone Star Paving confirmed. There was no Council approval in the board minutes awarding a paving contract to Olvera Paving and Construction, Inc.. Upon further inquiry, the City Administrator forwarded an email from the former Public Works Director confirming that Olvera Paving and Construction, Inc performed paving work for the City. The former Public Works Director stated the email address does not belong to him and has no record of Olvera Paving and Construction, Inc. performing major paving repairs for the City. There was not enough audit evidence to support the \$302,800 wire transfer from the City's TexPool account.

W. Prior Period Adjustment

The prior period adjustment in the Business-Type Activities on Exhibit B-1 and the statement of revenues, expenditures and changes in fund net position for the Water and Sewer Fund on Exhibit D-2 was made to correct the prior period adjustment made to correct errors for the liability accounts (General Fund Deposit and Credit Card Liability). The prior period adjustment of \$176,800 restated the beginning net position on both Exhibits B-1 and D-2 of the Water and Sewer Fund from \$3,759,142 to \$3,582,342.

X. 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 nor advised the MSRB of the "audit report". 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.

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.

Y. Subsequent Events

The City has evaluated subsequent events through September 23, 2020, the date which the financial statements were available to be issued.

In February 2020, the City learned that a document purporting to be a city audit report for the year ended September 30, 2016 was submitted for filing with the Municipal Securities Rulemaking Board (MSRB) on the Electronic Municipal Market Access (EMMA) website. EMMA posted the document on its website in 2019. To the City's knowledge, no such document was ever posted on its website. On September 2, 2020 the City filed a voluntary notice to bondholders of the unauthorized audit filing. As of September 2020, the City is still investigating the background of the filing.

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, 2017

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 572,227	\$ 572,227	\$ 394,967	\$ (177,260)
General Sales and Use Taxes	353,000	353,000	380,922	27,922
Gross Receipts Business Tax	87,600	87,600	98,003	10,403
Penalty and Interest on Taxes	2,500	2,500	4,832	2,332
Licenses and Permits	21,275	21,275	17,575	(3,700)
Charges for Services	225,850	225,850	300,853	75,003
Fines	76,200	76,200	145,044	68,844
Investment Earnings	-	-	2,752	2,752
Rents and Royalties	14,100	14,100	31,725	17,625
Other Revenue	24,086	24,086	13,933	(10,153)
Total Revenues	1,376,838	1,376,838	1,390,606	13,768
EXPENDITURES:				
Current:				
General Government:				
Financial Administration	460,459	460,459	495,633	(35,174)
Public Safety:				
Police	422,553	422,553	325,456	97,097
Public Works:				
Highways and Streets	37,700	37,700	88,370	(50,670)
Community Services	-	-	18,200	(18,200)
Municipal Court	94,639	94,639	61,764	32,875
Sanitation	271,119	271,119	288,293	(17,174)
Culture and Recreation:				
Parks	74,368	74,368	44,878	29,490
Conservation and Development:				
Economic Development and Assistance	16,000	16,000	20,000	(4,000)
Capital Outlay:				
Misappropriated Funds (Note V)	-	-	302,800	(302,800)
Total Expenditures	1,376,838	1,376,838	1,645,394	(268,556)
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(254,788)	(254,788)
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	-	-	3,500	3,500
Transfers Out (Use)	-	-	(153,102)	(153,102)
Total Other Financing Sources (Uses)	-	-	(149,602)	(149,602)
Net Change	-	-	(404,390)	(404,390)
Fund Balance - October 1 (Beginning)	261,702	261,702	261,702	-
Fund Balance - September 30 (Ending)	\$ 261,702	\$ 261,702	\$ (142,688)	\$ (404,390)

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

CITY OF JOHNSON CITY, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2017

EXHIBIT G-2

	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
A. Total Pension Liability			
Service Cost	\$ 88,894	\$ 83,797	\$ 68,572
Interest (on the Total Pension Liability)	119,718	107,368	105,293
Changes of Benefit Terms	29,035	-0-	-0-
Difference between Expected and Actual Experience	(12,737)	58,568	(96,759)
Changes of Assumptions	-0-	17,464	-0-
Benefit Payments, including refunds of employee contributions	(68,375)	(49,667)	(60,478)
Net change in Total Pension Liability	\$ 156,535	\$ 217,530	\$ -0-
Total Pension Liability - Beginning	1,734,299	1,516,769	1,500,141
Total Pension Liability - Ending	\$ 1,890,834	\$ 1,734,299	\$ 1,500,141
B. Total Fiduciary Net Position			
Contributions - Employer	\$ 67,389	\$ 62,066	\$ 54,156
Contributions - Employee	43,328	40,255	34,921
Net Investment Income	90,465	1,897	68,051
Benefit Payments, including refunds of employee contributions	(68,375)	(49,667)	(60,478)
Administrative Expense	(1,022)	(1,155)	(710)
Other	(55)	(57)	(58)
Net Change in Plan Fiduciary Net Position	\$ 131,730	\$ 53,338	\$ 95,882
Plan Fiduciary Net Position - Beginning	1,338,536	1,285,198	1,189,316
Plan Fiduciary Net Position - Ending	\$ 1,470,266	\$ 1,338,536	\$ 1,285,198
C. Net Pension Liability	\$ 420,568	\$ 395,763	\$ 231,571
D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.76%	77.18%	84.73%
E. Covered Employee Payroll	\$ 722,131	\$ 670,916	\$ 582,010
F. Net Pension Liability as a Percentage of Covered Employee Payroll	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 three years of data are presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF JOHNSON CITY, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2017

EXHIBIT G-3

	2017	2016	2015
Actuarially Determined Contribution	\$ 72,712	\$ 67,718	\$ 59,800
Contributions in Relation to the Actuarially Determined Contributions	(72,712)	(67,718)	(59,800)
Contribution Deficiency (Excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered Employee Payroll	\$ 747,670	\$ 718,957	\$ 627,045
Contributions as a Percentage of Covered Employee Payroll	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, 2017

Valuation Date:

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

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	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 Adopted 20 year, any age retirement eligibility.