



Honorable Mayor and  
Members of the City Council  
City of Johnson City, Texas  
303 E. Pecan Drive  
Johnson City, Texas 78636

We have audited the financial statements of the City of Johnson City, Texas (the City) for the year ended September 30, 2021, and have issued our report thereon dated March 16, 2022. Professional standards require that we advise you of the following matters relating to our audit.

### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As communicated in our engagement letter dated June 3, 2021, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. In accordance with *Government Auditing Standards*, we have performed tests of controls over internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements that contribute to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the entity's internal control over financial reporting or on compliance and other matters.

Our audit of the financial statements was performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

### **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

### **Compliance with All Ethics Requirements Regarding Independence**

The engagement team and our firm have complied with all relevant ethical requirements regarding independence.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note A to the financial statements. As described in Note A the City adopted Government Accounting Standards Board (GASB), Statement No. 84, *Fiduciary Activities*, GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, and GASB Statement No. 98, *The Annual Comprehensive Financial Report* during the current year. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are management's estimate of:

- The allowance for uncollectible receivables is based on past experience with collections of taxes and other fees.
- Depreciation which is based on useful lives and depreciation methods approved by the City Council.
- Pension and OPEB obligations which are based on actuarial reports.

Management's estimates of these areas are based on management's knowledge and experience about past and current events, and assumptions about future events made by management and actuaries.

We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

### *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to contingencies, accruals and estimates of future obligations and fair value estimates.

## **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

## **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect

of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management are attached to this letter.

### **Disagreements with Management**

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

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter dated March 16, 2022.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing matters.

### **Other Significant Matters, Findings or Issues**

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

### **Modification of the Auditors' Report**

We have made the following modification to our auditor's report. We have included an *Emphasis of Matter* paragraph to describe a prior period restatement to correct an error.

This report is intended solely for the information and use of the City Council and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the City of Johnson City, Texas.

A handwritten signature in black ink that reads "Atchley & Associates, LLP". The signature is written in a cursive, flowing style.

Austin, Texas  
March 16, 2022

**City of Johnson City, Texas**  
**Year End: September 30, 2021**  
**Journal Entries: Adjusting**

Number	Name	Account No	Debit	Credit
1	Transfers In - Old	06-4006 CPF01	\$ 202,061	
	FNC Accounts	06-1007 CPF01		\$ 201,963
	Interest Revenue	06-4999 CPF01		98

*To back out entry related to FNC accounts.*

2	COVID-19	01-4710 GF01	22,649	
	Accounts Receivable	01-1102 GF01	4,614	
	Accounts Receivable	01-1102 GF01	3,979	
	Cash - General Fund	01-1001 GF01		22,649
	Sales & Use Tax	01-4101 GF01		4,614
	Mixed Beverage S&U Tax	01-4102 GF01		3,979

*To adjust for funds received from the state.*

3	Cash - General Fund	01-1001 GF01	377,334	
	Back Taxes - Due to IRS	01-2017 GF01	286,774	
	Transfers Out	01-9005-000 GF01	90,560	
	Bond Issuance Costs	01-010-7000 GF01	24,666	
	Proceeds from Bond Issuance	01-4015 GF01		402,000
	Payroll Liabilities	01-2010 GF01		377,334
	Federal Tax Payable	03-2014 ENT01	90,560	
	Transfers In	03-4809-000 ENT01		90,560

*Entry to record issuance of debt.*

4	Bond Issuance (Contra Account)	50-BOND ISSUANCE G34G	574,897	
	2012 Bonds - Long Term	50-2405 G34G	85,000	
	2015 Bonds - Long Term	50-2406 G34G	45,000	
	Premium on Refunding	50-2400 G34G	4,040	
	Accrued Interest Payable	50-2420 G34G	2,445	
	2021 Bonds - Long Term	50-2407 G34G		402,000
	Note Payable No 9510	50-2450 G34G		137,215
	Bond Principal Payments	50-BOND PRINC G34G		130,000
	Notes Payable Principal	50-NOTE PRINC G34G		35,682
	Interest Expense	50-INTEREST EXP G34G		2,714
	Interest Expense	50-INTEREST EXP G34G		2,445
	Deferred Outflow - Refunding	50-1700 G34G		1,326

**City of Johnson City, Texas**  
**Year End: September 30, 2021**  
**Journal Entries: Adjusting**

Number	Name	Account No	Debit	Credit
4 - Cont	BOND INTEREST	6500-6008 DSF01	\$ 40,427	
	Note Payable Principal	04-176-6307 DSF01	35,682	
	BOND INTEREST	6500-6008 DSF01	1,580	
	Miscellaneous	04-176-6321 DSF01		\$ 37,262
	Bond, Series 2012	04-176-6306 DSF01		25,450
	Bond, Series 2015	04-176-6324 DSF01		14,977
<i>GASB Debt Entry.</i>				
5	Net Pension Liability	03-2410 ENT01	23,823	
	Deferred Inflows - Pension (GASB 68)	03-2705 ENT01	14,554	
	Pension Expense	03-5000 ENT01		26,695
	Deferred Outflow - Pension (GASB 68)	03-1705 ENT01		11,682
	Net Pension Liability	50-2410 G34G	78,391	
	Deferred Inflows - Pension (GASB 68)	50-2705 G34G	47,891	
	Pension Expense	50-5000 G34G		87,841
	Deferred Outflow - Pension (GASB 68)	50-1705 G34G		38,441
<i>GASB 68 Entry.</i>				
6	Pension Expense	03-5000 ENT01	893	
	Deferred Outflow - OPEB (GASB 75)	03-1710 ENT01	443	
	Net OPEB Liability	03-2415 ENT01		752
	Deferred Inflows - OPEB (GASB 75)	03-2710 ENT01		584
	Pension Expense	50-5000 G34G	3,080	
	Deferred Outflow - OPEB (GASB 75)	50-1710 G34G	1,528	
	Net OPEB Liability	50-2415 G34G		2,594
	Deferred Inflows - OPEB (GASB 75)	50-2710 G34G		2,014
<i>GASB 75 Entry.</i>				
7	Salaries	01-020-6021 GF01	46,474	
	Payroll Liabilities	01-2010 GF01		46,474
	Salaries	03-600-6021 ENT01	22,763	
	Payroll Liabilities	03-2010 ENT01		22,763
<i>Accrued Payroll entry.</i>				
8	Solid Waste Collection	01-4104 GF01	20,964	
	Solid Waste Collection	01-4104 GF01	2,919	
	A/R - Control: Garbage Rec	01-1110 GF01		19,771
	A/R - Control: Garbage Tax Billed	01-1109 GF01		2,244
	A/R - Control: Garbage Sales Tax Rec	01-1111 GF01		1,193
	A/R - Control: Tax Collector Rec	01-1114 GF01		675

**City of Johnson City, Texas**  
**Year End: September 30, 2021**  
**Journal Entries: Adjusting**

Number	Name	Account No	Debit	Credit
8 - Cont	Water	03-4801 ENT01	\$ 35,069	
	Sewer	03-4802 ENT01	20,245	
	Late Fees	03-4805 ENT01	4,250	
	A/R - Control: Allow for Doubtful Accts	03-1106 ENT01	1,340	
	Service Fees	03-4806 ENT01	195	
	A/R - Control: Water Billed	03-1113 ENT01		\$ 30,955
	A/R - Control: Sewer Billed	03-1112 ENT01		20,245
	A/R - Control: Late Charges Billed	03-1107 ENT01		4,250
	A/R - Control: Auditor Adjustments	03-1121 ENT01		4,114
	Sewer	03-4802 ENT01		1,340
	A/R - Control: Service Fees Billed	03-1108 ENT01		195

*To adjust accounts receivables based on billings report.*

9	Tap Fees	03-4804 ENT01	2,929	
	Meter Deposits	03-2030 ENT01		2,929

*To update Deposits*

10	A/R Property Taxes	01-1038 GF01	4,224	
	Property Taxes	01-4001 GF01	1,423	
	Deferred Inflows - Property Taxes	01-2500 GF01		4,047
	Fine Revenue	01-4301 GF01		1,423
	Allowance For Uncollectible Taxes	01-1106 GF01		177
	Miscellaneous	04-176-6321 DSF01	3,840	
	Deferred Inflows - Property Taxes	04-2500 DSF01	2,876	
	Allowance For Doubtful Accounts	04-1106 DSF01	301	
	Property Taxes	04-4001 DSF01		3,840
	Property Tax Receivable	04-1116 DSF01		3,177
	Deferred Inflows - Property Taxes	50-2500 G34G	1,171	
	Property Tax Revenue	50-PROP REV G34G		1,171

*Property Tax Entry*

11	Cash - General Fund	01-1001 GF01	9,268	
	Transfers In	01-4709 GF01		9,268
	Fund Balance	09-3500 SRF04	536	
	Transfers In	09-4709 SRF04		536
	Transfers Out	09-6000-000 SRF01	10,000	
	Transfers Out	09-6000-000 SRF01	536	
	Visitor Center Contract	02-126-7003 SRF01		10,000
	Fund Balance	02-3500 SRF01		536

**City of Johnson City, Texas**  
**Year End: September 30, 2021**  
**Journal Entries: Adjusting**

<b>Number</b>	<b>Name</b>	<b>Account No</b>	<b>Debit</b>	<b>Credit</b>
11 - Cont	Transfers Out - Old	03-600-9475 ENT01	\$ 9,268	
	Cash - Water & Wastewater Utility Fund	03-1001 ENT01		\$ 9,268

*To Adjust Transfers.*

12	Depreciation Expense	03-600-6000 ENT01	294,755	
	Machinery & Equipment	03-1410 ENT01	52,781	
	Construction in Process	03-1420 ENT01	32,246	
	Acc Depr Sys Imp	03-1504 ENT01		138,644
	Acc Depr - Water Tower	03-1515 ENT01		137,059
	Operational Expenses	03-600-6210 ENT01		85,027
	Acc. Dep A & T	03-1502 ENT01		11,032
	Acc Depr M & E	03-1505 ENT01		5,142
	Acc Dep Bldgs	03-1500 ENT01		2,220
	Acc. Dep Off Eq	03-1501 ENT01		658

*Fixed Asset Entry for Water/Wastewater - GASB 34*

13	Depreciation Expense	50-DEPRE G34G	160,699	
	Construction in Process	50-1420 G34G	152,883	
	Improvements	50-1415 G34G	118,689	
	Capital Outlay - Capital Replacement Fund	50-CO-CRP G34G		271,572
	Accum Depre - Building & Improvements	50-1500 G34G		131,391
	Accum Depre - Machinery & Equipment	50-1505 G34G		29,308

*Fixed Asset Entry for Government Wide - GASB 34*





March 16, 2022

Atchley & Associates, LLP  
1005 La Posada Drive  
Austin, TX 78752

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Johnson City, Texas (the City), as of and for the year ended September 30, 2021, the related notes to the financial statements and required supplementary information, for the purposes of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows, where applicable, of the various opinion units of the City in accordance with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter:

### **Financial Statements**

We confirm that we are responsible for the following, as set out in the terms of the contract for independent audit services dated June 3, 2021, including appendices and attachments thereto and subsequent modifications:

1. For the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP.
2. The fair presentation, in the basic financial statements, of the financial position of the governmental activities, each major fund, and the aggregate remaining fund information, in conformity with U.S. GAAP.
3. The measurement and fair presentation of the required supplementary information, including Management's Discussion and Analysis, and additional supplemental schedules



accompanying the basic financial statements that are presented for the purpose of additional analysis of the basic financial statements, in conformity with U.S. GAAP.

4. The design, implementation, and maintenance of programs and internal controls relevant to the preparation and fair presentation of financial statements which are free from material misstatement, whether due to fraud or error.
5. The design, implementation, and maintenance of internal controls to prevent and detect fraud.
6. Compliance with the laws, regulations, and provisions of contracts and grant agreements.
7. Establishing and maintaining effective internal control over financial reporting.
8. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
9. We have a process to track the status of audit findings and recommendations.
10. Identifying and communicating to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
11. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
12. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
13. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
14. We have informed you of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which codifies FASB Accounting Standards Codification (ASC) 450, *Contingencies*.
15. All component units, as well as joint ventures with an equity interest, are included and other joint ventures and related organizations are properly disclosed.
16. All funds and activities are properly classified.
17. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
18. All components of net position, non-spendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.
19. Our policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position/fund balance are available is appropriately disclosed and net position/fund balance is properly recognized under the policy.
20. In all material aspects, all revenues within the statement of activities have been properly classified as program revenues or general revenues.

21. In all material aspects, all expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
22. In all material aspects, all inter-fund and intra-entity transactions and balances have been properly classified and reported.
23. In all material aspects, special items and extraordinary items have been properly and reported.
24. In all material aspects, deposit and investment risks have been properly and fully disclosed.
25. In all material aspects, capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
26. In all material aspects, all required supplementary information is measured and presented within the prescribed guidelines.
27. In all material aspects, nonexchange and exchange financial guarantees, either written or oral, under which it is more likely than not that a liability exists have been properly recorded, or if we are obligated in any manner, are disclosed.
28. With regard to pensions and Other Post Employment Benefits (OPEB):
  1. We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
  2. We are unable to determine the possibility of a withdrawal liability from the Texas Municipal Retirement System (TMRS) Plan, of which we are a sponsor and are not currently contemplating withdrawing from the TMRS.
  3. Increases in benefits, elimination of benefits and all similar amendments have been disclosed in accordance with U.S. GAAP and are included in the most recent actuarial valuation, or disclosed as a subsequent event.
29. With regard to investments and other instruments reported at fair value:
  1. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
  2. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
  3. The disclosures related to fair values are complete, adequate, and in accordance with U.S. GAAP.
  4. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.

### **Information Provided**

We have provided you with:

30. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, and other matters;

31. Additional information that you have requested from us for the purpose of the audit;
32. Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence;
33. Information on where to view minutes of the meetings of the City Council, or provided summaries of actions of recent meetings for which minutes have not yet been prepared;
34. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
35. We have informed you of any fraud or suspected fraud that affects the City and involves:
  - a. Management (current or past)
  - b. Employees (current or past) who have significant roles in internal controls: or
  - c. Others where the fraud could have a material effect on the financial statements
36. We have informed you of any instances, that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance, whether communicated by employees, former employees, vendors (contractors), regulators, or others;
37. We have no knowledge of any instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that has a material effect on the determination of the financial statement amounts or other financial data significant to the audit objectives;
38. We have informed you of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to financial statements or other financial data significant to the audit objectives;
39. If necessary, we have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that you have reported to us;
40. We have informed you of any pending or threatened litigation and claims whose effect should be considered when preparing the financial statements;
41. We have disclosed to you the identity of the City's related parties and all related party relationships and transactions of which we are aware;
42. We have informed you of any communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices;
43. The City has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities;
44. We have disclosed to you all guarantees, whether written or oral, under which the City is contingently liable;
45. We have disclosed to you all nonexchange financial guarantees, under which we are obligated and have declared liabilities and disclosed properly in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, for those guarantees where it is more likely than not that the entity will make a payment on any guarantee;

46. For nonexchange financial guarantees where we have declared liabilities, the amount of the liability recognized is the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. Where there was no best estimate but a range of estimated future outflows has been established, we have recognized the minimum amount within the range;
47. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year;
48. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds;
49. There are no:
  - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
  - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
  - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
  - d. Continuing disclosure consent decree agreements or filings with the Securities and Exchange Commission and we have filed updates on a timely basis in accordance with the agreements (Rule 240, 15c2-12).
50. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
51. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
52. To the best of our knowledge, tax-exempt bonds have retained their tax-exempt status.

### **Supplementary Information in relation to the Financial Statements as a Whole**

With respect to supplementary information presented in relation to the financial statements as a whole:

53. We acknowledge our responsibility for the presentation of the supplementary information in accordance with U.S. GAAP.



54. We believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP.
55. The methods of measurement or presentation have not changed from those used in the prior period.
56. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information as they become available, but no later than the date of issuance by the City of the supplementary information and the auditors' report thereon.

### **Required Supplementary Information**

With respect to the required supplementary information accompanying the basic financial statements:

57. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with U.S. GAAP and U.S. GASB.
58. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with U.S. GAAP and U.S. GASB.
59. The methods of measurement or presentation have not changed from those used in the prior period.
60. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information as they become available, but no later than the date of issuance by the City of the supplementary information and the auditors' report thereon.

### **Restatement**

We agree with the restatement of the previously issued financial statements discussed in Note P. In that regard:

61. The restatement corrects an error in those financial statements.
62. We were not aware of the error when those financial statements were issued.
63. We are not aware of any other errors in those financial statements.
64. We do not believe it is necessary to recall those financial statements and all users of those financial statement will receive a copy of the current year's financial statements and independent auditors' report.

### **Compliance Considerations**

In connection with your audit, conducted in accordance with Government Auditing Standards, we confirm that management:

65. Is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the City.
66. Has identified and disclosed to the auditor all instances, if any, which have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and

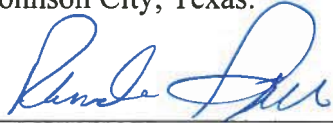
regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.

67. Has identified and disclosed to the auditor all instances, if any, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
68. Has identified and disclosed to the auditor all instances, if any, that have occurred or are likely to have occurred of abuse, financial or otherwise, that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
69. If necessary, has taken timely and appropriate steps to remedy fraud; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or abuse that the auditor reports.
70. Has a process to track the status of audit findings and recommendations.
71. If any, have provided views on the auditor's reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.
72. We are responsible for and have reviewed and approved the proposed adjustments to the trial balances identified during the audit, which are included in the summarized schedule of posted adjustments and will post all adjustments accordingly. We have reviewed, approved, and are responsible for overseeing the preparation and completion of the basic financial statements and related notes.
73. We have complied with all aspects of contractual agreements, grants, and donor restrictions that would have a material effect on the basic financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act and Uniform Guidance, because we have not received, expended, or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.

We are responsible for determining that significant events or transactions that have occurred since the date of the statement of net position and through the date of this letter have been recognized or disclosed in the financial statements. There are no additional events or transactions other than those disclosed in the financial statements that have occurred subsequent to the date of the statement of net position and through the date of this letter that would require recognition or disclosure in the financial statements. We further represent that, as of the date of this letter, the financial statements were complete in a form and format that complied with U.S. GAAP, and all approvals necessary for issuance of the financial statements had been obtained.

During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

City of Johnson City, Texas:



Rhonda Stell  
Mayor

Date



Rick Schroder  
Chief Administrative Officer

Date





**CITY OF JOHNSON CITY, TEXAS  
ANNUAL FINANCIAL REPORT  
AND  
INDEPENDENT AUDITORS' REPORT  
YEAR ENDED SEPTEMBER 30, 2021**



# CITY OF JOHNSON CITY, TEXAS

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## CITY OF JOHNSON CITY, TEXAS

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## **INDEPENDENT AUDITORS' REPORT**

To the Honorable Mayor and  
Members of the City Council  
City of Johnson City, Texas

### **Report on the Financial Statements**

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 the City of Johnson City, Texas (the City), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3-9, budgetary comparison information on page 53, schedule of changes in the City's net pension asset/liability and related ratios - last ten years on pages 56-57, Texas Municipal Retirement System schedule of funding progress on page 58, and schedule of changes in the city's total OPEB asset/liability and related ratios on pages 60-61 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.

## Emphasis of Matters

As discussed in Note P to the financial statements, the 2020 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Austin, Texas

March 16, 2022

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**





**CITY OF JOHNSON CITY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**September 30, 2021**

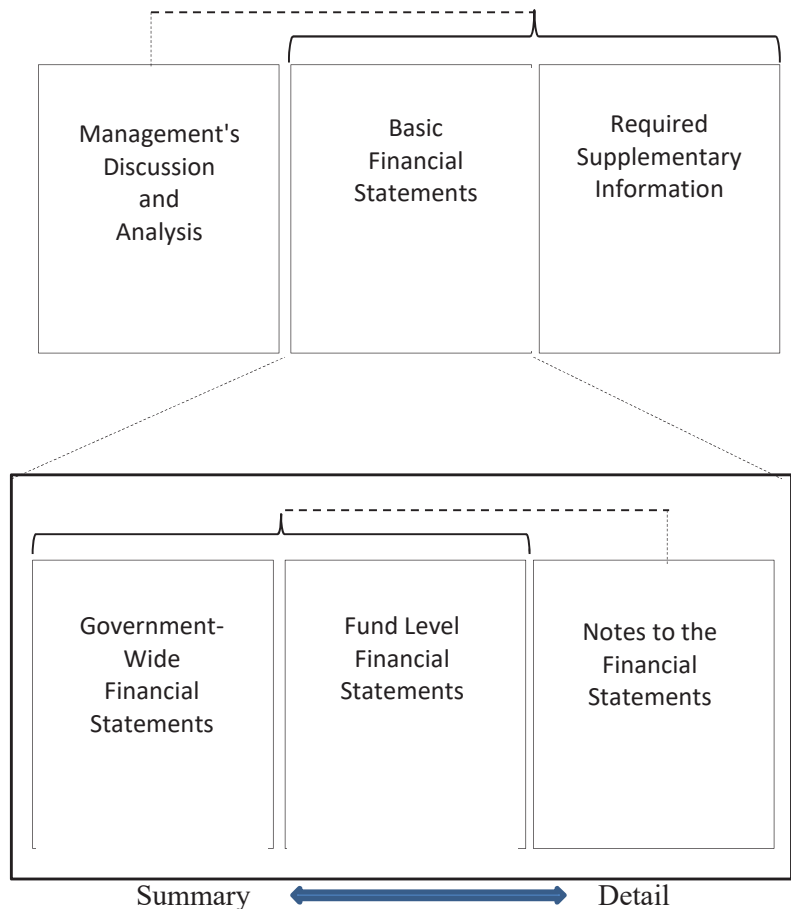
This section of the City of Johnson City's (the City) annual financial report presents management's discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2021. This discussion and analysis should be read in conjunction with the City's financial statements.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and the required supplementary information. The basic financial statements include two types of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- Governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- The financial statements also include notes to the financial statements explaining some of the information in the financial statements and provide more detailed data.
- The report also contains required supplementary information in addition to the basic financial statements themselves. This contains additional information about the City's General Fund budget and information about the City's pension plan.

**FIGURE A-1**  
**REQUIRED COMPONENTS OF THE**  
**CITY'S ANNUAL FINANCIAL REPORT**



**Figure A-1** shows how the parts of this annual report are arranged and related to one another.

The remainder of this overview explains the structure and contents of each of the statements.

**CITY OF JOHNSON CITY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**September 30, 2021**

**Government-Wide Financial Statements**

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector businesses. The statement of net position includes all of the government's assets and liabilities. In the statement of activities, all of the current year's revenues and expenses are accounted for regardless of when cash is received or paid, and all of the City's governmental activities and city services are combined and show how they are financed.

Both government-wide statements report the City's net position and how it has changed. Net position, the difference between the City's assets plus deferred outflows and liabilities plus deferred inflows, is one way to measure the City's financial health or position. Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

**Fund Financial Statements**

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

All cities have at least one major fund:

- Governmental fund – The City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because these funds do not encompass the additional long-term focus of the government-wide statements, additional information is provided following each fund statement that explains the relationship (or difference) between them.

Other common major funds:

- Some common funds are required by State law, such as the debt service fund, special revenues fund, and capital projects fund.
- Management may establish other funds to control and manage money for particular purposes or to show that it is properly using certain revenue resources, such as special revenue, capital project, and grant funds.

**Figure A-2** summarizes the major features of the City's financial statements, including the portion of the city government they cover, and the types of information they contain.

**CITY OF JOHNSON CITY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**September 30, 2021**

**Figure A-2 - Major Features of the City's Government-Wide and Fund Financial Statements**

<i>Type of Statements</i>	<b>Government-Wide</b>	<b>Fund Statements</b>	
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>
<i>Scope</i>	Entire City's government (except fiduciary funds) and the City's component units.	The activities of the City that are not proprietary or fiduciary.	Activities the City operates similar to private business: utilities
<i>Required financial statements</i>	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures & Changes in Fund Balances	Statement of Net Position Statement of Revenues, Expenses & Changes in Net Position Statement of Cash Flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after year end; expenditures when goods or services have been received and payment is made during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

**THE CITY AS A WHOLE (GOVERNMENT-WIDE)**

**FINANCIAL HIGHLIGHTS**

- The City's total combined net position was \$5,125,541 at September 30, 2021 (See Figure A-3).
- Current year activity resulted in an increase in the City's net position by \$408,718 (See Figure A-4).

**CITY OF JOHNSON CITY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**September 30, 2021**

**Figure A-3**  
**City's Net Position**

	Governmental Activities		Business-Type Activities		Total	
	As Restated				As Restated	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Assets:						
Current and other assets	\$ 1,241,556	\$ 1,083,079	\$ 329,512	\$ 126,401	\$ 1,571,068	\$ 1,209,480
Noncurrent assets	3,113,538	3,002,665	3,900,302	4,110,030	7,013,840	7,112,695
Total assets	<u>4,355,094</u>	<u>4,085,744</u>	<u>4,229,814</u>	<u>4,236,431</u>	<u>8,584,908</u>	<u>8,322,175</u>
Deferred outflows	<u>40,754</u>	<u>78,993</u>	<u>39,326</u>	<u>50,565</u>	<u>80,080</u>	<u>129,558</u>
Liabilities:						
Current liabilities	574,677	684,471	629,324	751,873	1,204,001	1,436,344
Long-term liabilities	1,936,244	1,821,121	255,115	273,511	2,191,359	2,094,632
Total liabilities	<u>2,510,921</u>	<u>2,505,592</u>	<u>884,439</u>	<u>1,025,384</u>	<u>3,395,360</u>	<u>3,530,976</u>
Deferred inflows	<u>104,576</u>	<u>150,453</u>	<u>39,511</u>	<u>53,481</u>	<u>144,087</u>	<u>203,934</u>
Net position:						
Investment in capital assets	953,717	1,248,019	3,900,102	4,109,830	4,853,819	5,357,849
Restricted	51,809	65,653	129,884	125,209	181,693	190,862
Unrestricted	774,825	195,020	(684,796)	(1,026,908)	90,029	(831,888)
Total net position	<u>\$ 1,780,351</u>	<u>\$ 1,508,692</u>	<u>\$3,345,190</u>	<u>\$3,208,131</u>	<u>\$ 5,125,541</u>	<u>\$ 4,716,823</u>

**CITY OF JOHNSON CITY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**September 30, 2021**

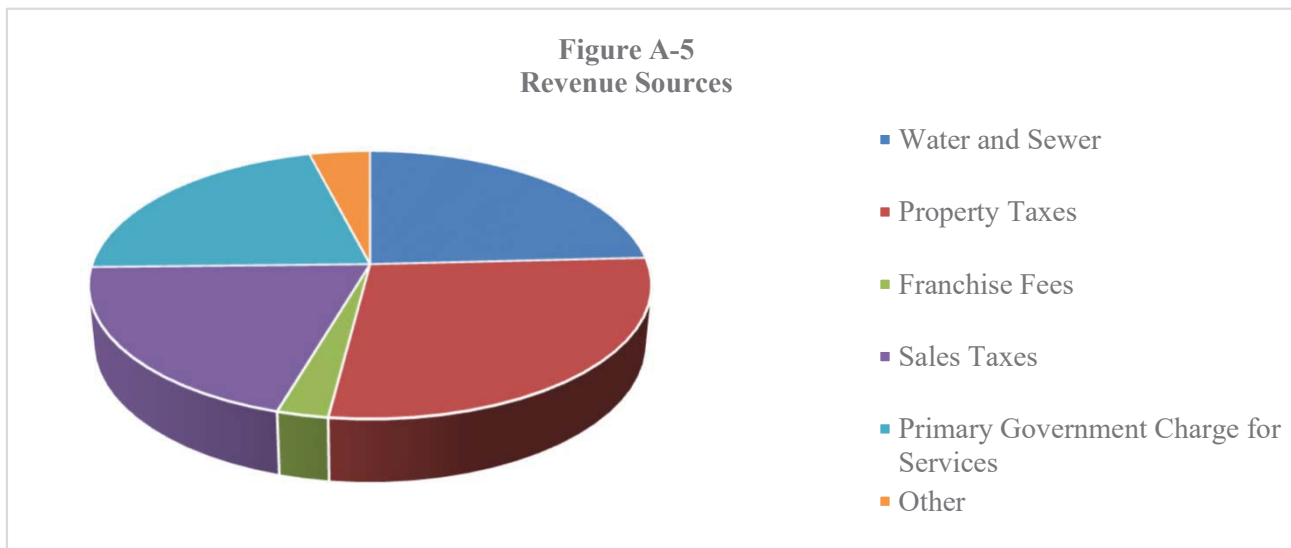
**Figure A-4**  
**Changes in City Net Position**

	Governmental Activities		Business-Type Activities		Total	
	As Restated				As Restated	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues:						
Program revenues:						
Charges for services	\$ 616,404	\$ 404,363	\$ 700,475	\$ 592,524	\$ 1,316,879	\$ 996,887
Grant income	348,169	298,315	-	-	348,169	298,315
General revenues:						
Taxes	1,459,540	1,374,055	-	-	1,459,540	1,374,055
Interest income	98	306	-	5	98	311
Other	116,154	72,811	3,278	2,317	119,432	75,128
Total revenues	<u>2,540,365</u>	<u>2,149,850</u>	<u>703,753</u>	<u>594,846</u>	<u>3,244,118</u>	<u>2,744,696</u>
Expenses:						
General government	595,179	421,616	-	-	595,179	421,616
Public safety	486,159	532,484	-	-	486,159	532,484
Streets	32,799	123,973	-	-	32,799	123,973
Building & technology	208,416	-	-	-	208,416	-
Community services	-	40,870	-	-	-	40,870
Municipal court	103,500	115,961	-	-	103,500	115,961
Parks	185,649	64,344	-	-	185,649	64,344
Sanitation	325,065	443,265	-	-	325,065	443,265
Development services	25,857	-	-	-	25,857	-
Emergency services	76,395	-	-	-	76,395	-
Hotel	61,851	50,909	-	-	61,851	50,909
Interest on debt	36,848	43,236	-	-	36,848	43,236
Other	55,498	523,961	-	-	55,498	523,961
Water and sewer	-	-	642,184	789,959	642,184	789,959
Total expenses	<u>2,193,216</u>	<u>2,360,619</u>	<u>642,184</u>	<u>789,959</u>	<u>2,835,400</u>	<u>3,150,578</u>
Revenues over (under) expenses	347,149	(210,769)	61,569	(195,113)	408,718	(405,882)
Transfers	<u>(75,490)</u>	<u>(889)</u>	<u>75,490</u>	<u>889</u>	<u>-</u>	<u>-</u>
Change in net position	271,659	(211,658)	137,059	(194,224)	408,718	(405,882)
Beginning net position	1,508,692	1,720,350	3,208,131	3,402,355	4,716,823	5,122,705
Ending net position	<u>\$ 1,780,351</u>	<u>\$ 1,508,692</u>	<u>\$3,345,190</u>	<u>\$3,208,131</u>	<u>\$ 5,125,541</u>	<u>\$ 4,716,823</u>

**CITY OF JOHNSON CITY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**September 30, 2021**

**CITY REVENUES**

The majority of the City's revenue is generated from charges for water and sewer services (22%), property taxes (25%), sales taxes (18%) and primary government charges for services (19%). The remaining is obtained from the grants, contributions, franchise fees, court fees, and other sources (See Figure A-5).



**GROWTH TRENDS**

**Governmental Activities**

The City's property tax rate for maintenance and operations (M&O) increased from \$0.3091 to \$0.3109 in the current fiscal year generating \$624,358 in M&O taxes, an increase of \$67,635 over the previous fiscal year. While the City's franchise fees decreased \$6,396, or 8%, sales taxes increased by \$95,148, or 20%. The new M&O tax rate for the year beginning October 1, 2021 is \$0.2803.

**Business-Type Activities**

Water and sewer sales increased by \$112,065, or 19%.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

**General Fund Budgetary Highlights**

General Fund revenues and transfers exceeded expenditures by \$288,488 which was \$296,860 more than budgeted. See details of budget and actual revenues on page 53.

**Capital Assets**

During the year ended September 30, 2021, the City invested \$356,599 in a broad range of capital assets, including infrastructure, equipment and buildings (See Figure A-6). These additions were funded from grants, notes payables, and other City funds.



**CITY OF JOHNSON CITY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**September 30, 2021**

**Figure A-6**  
**City's Capital Assets**

	Governmental Activities		Business-Type Activities		Total	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Land	\$ 484,501	\$ 484,501	\$ 41,402	\$ 41,402	\$ 525,903	\$ 525,903
Construction in progress	152,883	-	32,246	-	185,129	-
Buildings	748,671	748,671	100,163	100,163	848,834	848,834
Machinery & equipment	497,697	497,697	379,233	379,233	876,930	876,930
Improvements	3,004,201	2,885,512	8,458,435	8,405,654	11,462,636	11,291,166
<b>Total at historical cost</b>	<b>4,887,953</b>	<b>4,616,381</b>	<b>9,011,479</b>	<b>8,926,452</b>	<b>13,899,432</b>	<b>13,542,833</b>
Accumulated depreciation	(1,774,415)	(1,613,716)	(5,111,377)	(4,816,622)	(6,885,792)	(6,430,338)
<b>Net capital assets</b>	<b>\$ 3,113,538</b>	<b>\$ 3,002,665</b>	<b>\$ 3,900,102</b>	<b>\$ 4,109,830</b>	<b>\$ 7,013,640</b>	<b>\$ 7,112,495</b>

**Debt Administration**

The City's property tax rate for debt services decreased from \$0.1219 to \$0.0881 in the current fiscal year generating \$179,222 in debt service taxes, a decrease of \$40,603 less than the previous fiscal year. More detailed information about the City's debt is presented in the Notes to the Financial Statements. The new debt service tax rate for the year beginning October 1, 2021 is \$0.1187.

**Figure A-7**  
**City's Long-Term Debt**

	Governmental Activities		Business-Type Activities		Total	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Bonds payable	\$ 2,022,606	\$ 1,754,646	\$ -	\$ -	\$ 2,022,606	\$ 1,754,646
Notes payable	137,215	-	-	-	137,215	-
<b>Total</b>	<b>\$ 2,159,821</b>	<b>\$ 1,754,646</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,159,821</b>	<b>\$ 1,754,646</b>

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

Next year's proposed General Fund budget is projected to remain consistent with this year's actual revenues with revenues and expenses of \$1,986,517.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Any questions about this report or need for additional financial information should be addressed to the City of Johnson City, Attn: Chief Administrative Officer, 303 E. Pecan Drive, Johnson City, TX 78636.

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## **BASIC FINANCIAL STATEMENTS**



**CITY OF JOHNSON CITY, TEXAS**  
**STATEMENT OF NET POSITION**  
**September 30, 2021**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 562,626	\$ 279,742	\$ 842,368
Investments	76	1,583	1,659
Receivables, net	84,954	48,187	133,141
Due from (to) other funds	593,900	(593,900)	-
Non-current assets:			
Other assets	-	200	200
Capital assets:			
Non-depreciable	637,384	73,648	711,032
Depreciable, net	2,476,154	3,826,454	6,302,608
<b>Total assets</b>	<b>4,355,094</b>	<b>3,635,914</b>	<b>7,991,008</b>
<b>DEFERRED OUTFLOWS</b>			
Deferred outflows related to refunding	11,726	-	11,726
Deferred outflows related to OPEB	7,178	2,577	9,755
Deferred outflows related to pensions	21,850	36,749	58,599
<b>Total deferred outflows</b>	<b>40,754</b>	<b>39,326</b>	<b>80,080</b>
<b>LIABILITIES</b>			
Current liabilities:			
Payable from unrestricted assets:			
Accounts payable	168,453	21,803	190,256
Accrued salary and benefits	54,939	13,621	68,560
Payable from restricted assets:			
Interest payable	7,030	-	7,030
Notes payable, due within one year	32,606	-	32,606
Bonds payable, due within one year	207,040	-	207,040
Non-current liabilities:			
Payable from restricted assets:			
Customer deposits	-	129,884	129,884
Notes payable, due more than one year	104,609	-	104,609
Bonds payable, due more than one year	1,815,566	-	1,815,566
Net OPEB liability	29,866	15,052	44,918
Net pension liability	90,812	110,179	200,991
<b>Total liabilities</b>	<b>2,510,921</b>	<b>290,539</b>	<b>2,801,460</b>
<b>DEFERRED INFLOWS</b>			
Deferred inflows related to OPEB	4,739	1,885	6,624
Deferred inflows related to pensions	99,837	37,626	137,463
<b>Total deferred inflows</b>	<b>104,576</b>	<b>39,511</b>	<b>144,087</b>

The accompanying notes are an integral part of this financial statement.

**CITY OF JOHNSON CITY, TEXAS**  
**STATEMENT OF NET POSITION**  
**September 30, 2021**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>NET POSITION</b>			
Net investment in capital assets	\$ 953,717	\$ 3,900,102	\$ 4,853,819
Restricted	51,809	129,884	181,693
Unrestricted	774,825	(684,796)	90,029
<b>Total net position</b>	<b>\$ 1,780,351</b>	<b>\$ 3,345,190</b>	<b>\$ 5,125,541</b>

The accompanying notes are an integral part of this financial statement.

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**CITY OF JOHNSON CITY, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**Year Ended September 30, 2021**

Function/program activities	<u>Expenses</u>	<u>Charges for Services</u>
<b>Primary government:</b>		
Government activities:		
General government	\$ 595,179	\$ 68,053
Public safety	486,159	-
Streets	32,799	-
Building & technology	208,416	-
Municipal court	103,500	78,895
Parks	185,649	5,400
Sanitation	325,065	298,824
Development services	25,857	165,232
Emergency services	76,395	-
Hotel	61,851	-
Interest on debt	36,848	-
Other	55,498	-
	<u>2,193,216</u>	<u>616,404</u>
Business-type activities:		
Water & sewer	642,184	700,475
Total business-type activities	<u>642,184</u>	<u>700,475</u>
<b>Total primary government</b>	<u>2,835,400</u>	<u>1,316,879</u>

**General revenues:**

Taxes:

Property

Sales

Franchise

Other

Interest income

Miscellaneous

Transfers

**Total general revenues and transfers**

**Changes in net assets**

**Net position - beginning of year, as restated**

**Net position - end of year after restatement**

The accompanying notes are an integral part of this financial statement.



Program Revenues		Net (Expenses) Revenues and Changes in Net Assets		
Operating Grants & Contributions	Capital Grants & Contributions	Primary Government		
		Governmental Activities	Business-Type Activities	Total
\$ -	\$ 264,016	\$ (263,110)	\$ -	\$ (263,110)
-	-	(486,159)	-	(486,159)
-	-	(32,799)	-	(32,799)
-	-	(208,416)	-	(208,416)
-	-	(24,605)	-	(24,605)
-	-	(180,249)	-	(180,249)
-	-	(26,241)	-	(26,241)
-	-	139,375	-	139,375
84,153	-	7,758	-	7,758
-	-	(61,851)	-	(61,851)
-	-	(36,848)	-	(36,848)
-	-	(55,498)	-	(55,498)
84,153	264,016	(1,228,643)	-	(1,228,643)
-	-	-	58,291	58,291
-	-	-	58,291	58,291
84,153	264,016	(1,228,643)	58,291	(1,170,352)
		804,751	-	804,751
		580,245	-	580,245
		73,940	-	73,940
		604	-	604
		98	-	98
		116,154	3,278	119,432
		(75,490)	75,490	-
		1,500,302	78,768	1,579,070
		271,659	137,059	408,718
		1,508,692	3,402,355	4,911,047
		\$ 1,780,351	\$ 3,539,414	\$ 5,319,765

The accompanying notes are an integral part of this financial statement.

**CITY OF JOHNSON CITY, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**September 30, 2021**

	<u>General Fund</u>	<u>Hotel / Motel Fund</u>
<b>ASSETS</b>		
Unrestricted		
Cash and cash equivalents	\$ 104,683	\$ 35,102
Investments	76	-
Receivables, net	79,085	-
Due from other funds	593,900	-
Restricted assets:		
Cash and cash equivalents	-	-
<b>Total assets</b>	<u>777,744</u>	<u>35,102</u>
 <b>LIABILITIES AND FUND BALANCES</b>		
 <b>LIABILITIES</b>		
Accounts payable	167,276	677
Accrued salary and benefits	54,939	-
Due to other funds	-	-
<b>Total liabilities</b>	<u>222,215</u>	<u>677</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue - property taxes	19,989	-
<b>Total liabilities</b>	<u>19,989</u>	<u>-</u>
 <b>FUND BALANCES</b>		
Restricted	-	34,425
Committed	-	-
Unassigned	535,540	-
<b>Total fund balances</b>	<u>535,540</u>	<u>34,425</u>
<b>Total liabilities, deferred inflows, and fund balances</b>	<u><u>\$ 777,744</u></u>	<u><u>\$ 35,102</u></u>

The accompanying notes are an integral part of this financial statement.

<b>Debt Service Fund</b>	<b>Capital Replacement Fund</b>	<b>Vehicle &amp; Equipment Replacement Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 13,949	\$ 347,525	\$ 58,408	\$ 2,959	\$ 562,626
-	-	-	-	76
5,869	-	-	-	84,954
-	300	-	-	594,200
-	-	-	-	-
19,818	347,825	58,408	2,959	1,241,856
-	-	-	500	168,453
-	-	-	-	54,939
300	-	-	-	300
300	-	-	500	223,692
4,593	-	-	-	24,582
4,593	-	-	-	24,582
14,925	-	-	2,459	51,809
-	347,825	58,408	-	406,233
-	-	-	-	535,540
14,925	347,825	58,408	2,459	993,582
\$ 19,818	\$ 347,825	\$ 58,408	\$ 2,959	\$ 1,241,856

The accompanying notes are an integral part of this financial statement.

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**CITY OF JOHNSON CITY, TEXAS**  
**RECONCILIATION OF THE BALANCE SHEET OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**  
**September 30, 2021**

<b>TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS</b>	\$	993,582
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Amounts reported for governmental activities in the statement of net position are different due to the following:

Capital assets, net of accumulated depreciation are not financial resources and, therefore, are not reported in the funds.		3,113,538
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Certain receivables are not available to pay current-period expenditures and, therefore, are deferred in the funds. This amount includes deferred property taxes.		24,582
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Deferred outflows and inflows represent the consumption of net position that is applicable to a future reporting period and are not reported in the funds.		(63,822)
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Certain liabilities related to long-term debt are not reported in the funds, such as accrued interest payable.		(7,030)
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Certain long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(2,280,499)
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<b>NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>1,780,351</u></b>
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The accompanying notes are an integral part of this financial statement.

**CITY OF JOHNSON CITY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended September 30, 2021**

	<b>General Fund</b>	<b>Hotel / Motel Fund</b>
<b>REVENUES</b>		
Property taxes	\$ 624,358	\$ -
Sales tax	580,245	-
Franchise taxes	73,940	-
Other taxes	604	-
Licenses and permits	65,941	99,291
Charge for services	308,190	-
Grants	84,153	-
Fines	78,895	-
Rents and royalties	55,757	-
Interest income	-	-
Other	59,633	-
<b>Total revenues</b>	<u>1,931,716</u>	<u>99,291</u>
<b>EXPENDITURES</b>		
Current:		
General government	647,967	-
Public safety	440,222	-
Streets	27,347	-
Building & technology	205,545	-
Municipal court	89,651	-
Parks	174,314	-
Sanitation	282,768	-
Development services	25,857	-
Emergency services	76,395	-
Hotel	-	54,866
Capital outlay	-	-
Debt service:		
Principal	-	-
Interest	-	-
<b>Total expenditures</b>	<u>1,970,066</u>	<u>54,866</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(38,350)</u>	<u>44,425</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Other	-	-
Proceeds from bond and note payable issuances	402,000	-
Bond issuance costs	(24,666)	-
Transfers in	48,348	-
Transfers out	(98,844)	(10,536)
<b>Total other financing sources (uses)</b>	<u>326,838</u>	<u>(10,536)</u>
<b>Net change in fund balances</b>	288,488	33,889
<b>Fund balances - beginning of year, as restated</b>	<u>247,052</u>	<u>536</u>
<b>Fund balances - end of year</b>	<u><u>\$ 535,540</u></u>	<u><u>\$ 34,425</u></u>

The accompanying notes are an integral part of this financial statement.

<b>Debt Services Fund</b>	<b>Capital Replacement Fund</b>	<b>Vehicle &amp; Equipment Replacement Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 179,222	\$ -	\$ -	\$ -	\$ 803,580
-	-	-	-	580,245
-	-	-	-	73,940
-	-	-	-	604
-	-	-	-	165,232
-	-	58,687	-	366,877
-	264,016	-	-	348,169
-	-	-	-	78,895
-	-	-	-	55,757
-	98	-	-	98
-	2,880	-	3,284	65,797
<u>179,222</u>	<u>266,994</u>	<u>58,687</u>	<u>3,284</u>	<u>2,539,194</u>
-	-	-	-	647,967
-	-	-	-	440,222
-	-	-	-	27,347
-	-	-	-	205,545
-	-	-	-	89,651
-	-	-	-	174,314
-	-	-	-	282,768
-	-	-	-	25,857
-	-	-	-	76,395
-	-	-	-	54,866
-	293,754	-	-	293,754
165,682	-	-	-	165,682
42,007	-	-	-	42,007
<u>207,689</u>	<u>293,754</u>	<u>-</u>	<u>-</u>	<u>2,526,375</u>
<u>(28,467)</u>	<u>(26,760)</u>	<u>58,687</u>	<u>3,284</u>	<u>12,819</u>
(6,740)	(270)	(279)	(1,361)	(8,650)
-	172,897	-	-	574,897
-	-	-	-	(24,666)
48,856	-	-	536	97,740
(14,994)	(48,856)	-	-	(173,230)
<u>27,122</u>	<u>123,771</u>	<u>(279)</u>	<u>(825)</u>	<u>466,091</u>
(1,345)	97,011	58,408	2,459	478,910
<u>16,270</u>	<u>250,814</u>	<u>-</u>	<u>-</u>	<u>514,672</u>
<u>\$ 14,925</u>	<u>\$ 347,825</u>	<u>\$ 58,408</u>	<u>\$ 2,459</u>	<u>\$ 993,582</u>

The accompanying notes are an integral part of this financial statement.

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**CITY OF JOHNSON CITY, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**Year Ended September 30, 2021**

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$</b>	<b>478,910</b>
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Amounts reported for governmental activities in the statement of activities are different due to the following:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay expenses in the current period.		110,873
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The proceeds of debt issuances provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the long-term liabilities in the statement of net assets. This is the amount by which debt payments exceeded proceeds and changes in accrued interest and amortization of deferred outflows from refunding.		(404,056)
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Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds. These expenditures include changes in accrued compensation and changes in pension and OPEB benefits and related inflows and outflows.		85,932
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<b>CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b>271,659</b>
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The accompanying notes are an integral part of this financial statement.

**CITY OF JOHNSON CITY, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
**September 30, 2021**

	<u><b>Enterprise Fund</b></u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 279,742
Investments	1,583
Accounts receivable, net	48,187
<b>Total current assets</b>	<u>329,512</u>
Non-current assets:	
Non-depreciable assets, net	73,648
Depreciable assets, net	3,826,454
Other assets	200
<b>Total non-current assets</b>	<u>3,900,302</u>
<b>Total assets</b>	<u>4,229,814</u>
<b>DEFERRED OUTFLOWS</b>	
Deferred outflow related to pension	36,749
Deferred outflow related to OPEB	2,577
<b>Total deferred outflows</b>	<u>39,326</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	21,803
Accrued salary and benefits	13,621
Due to other funds	593,900
<b>Total current liabilities</b>	<u>629,324</u>
Non-current liabilities:	
Meter deposits	129,884
Net OPEB liability	15,052
Net pension liability	110,179
<b>Total non-current liabilities</b>	<u>255,115</u>
<b>Total liabilities</b>	884,439
<b>DEFERRED INFLOWS</b>	
Deferred inflow related to pensions	37,626
Deferred inflow related to OPEB	1,885
<b>Total deferred inflows</b>	<u>39,511</u>
<b>NET POSITION</b>	
Investment in capital assets	3,900,102
Restricted	129,884
Unrestricted	(684,796)
<b>Total net position</b>	<u><u>\$ 3,345,190</u></u>

The accompanying notes are an integral part of this financial statement.

**CITY OF JOHNSON CITY, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET POSITION**  
**PROPRIETARY FUND**  
**Year Ended September 30, 2021**

	<u><b>Enterprise Fund</b></u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 700,475
Other revenue	3,278
Total operating revenues	<u>703,753</u>
<b>OPERATING EXPENSES</b>	
Personnel services - salaries and wages	174,695
Personnel services - employee benefits and taxes	51,204
Purchased property services	14,651
Other operating costs	106,879
Depreciation	294,755
Total operating expenses	<u>642,184</u>
<b>OPERATING INCOME</b>	<u>61,569</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Total non-operating revenues (expenses)	<u>-</u>
<b>INCOME (LOSS) BEFORE</b>	
<b>CONTRIBUTIONS &amp; TRANSFERS</b>	61,569
<b>CONTRIBUTIONS AND TRANSFERS</b>	
Transfers from (to) primary government	<u>75,490</u>
<b>CHANGE IN NET POSITION</b>	137,059
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>3,208,131</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 3,345,190</u></u>

The accompanying notes are an integral part of this financial statement.

**CITY OF JOHNSON CITY, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**Year Ended September 30, 2021**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 758,894
Receipts from others	3,278
Payments to employees and contractors	(307,940)
Payments to suppliers	(183,165)
Net cash flows from operating activities	<u>271,067</u>

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES**

Operating transfers	<u>75,490</u>
Net cash flows from non-capital financing activities	<u>75,490</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Additions to capital assets	(85,027)
Net cash flows from capital and related financing activities	<u>(85,027)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Net cash flows from investing activities	<u>-</u>
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**NET CHANGE IN CASH AND CASH EQUIVALENTS**

261,530

**CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR**

18,212

**CASH AND CASH EQUIVALENTS - END OF YEAR**

\$ 279,742

**RECONCILIATION OF OPERATING INCOME TO NET**

**CASH FROM OPERATING ACTIVITIES**

Operating income	\$ 61,569
Adjustments not affecting cash:	
Depreciation	294,755
(Increase) decrease in assets and increase (decrease) in liabilities:	
Accounts receivable	58,419
Accounts payable	(43,239)
Accrued salary and benefits	(79,310)
Meter deposits	4,675
Deferred outflows	11,239
Deferred inflows	(13,970)
Net OPEB liability	752
Net pension liability	(23,823)
Net cash flows from operating activities	<u><u>\$ 271,067</u></u>

The accompanying notes are an integral part of this financial statement.

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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.

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted primary standard-setting body for establishing governmental accounting and financial reporting principles. GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant accounting and reporting policies and practices used by the City are described below.

**Reporting Entity**

The City's basic financial statements include all activities, organizations, and functions for which the City is considered to be financially accountable. The criteria considered in determining activities to be reported within the City's basic financial statements include whether:

- the organization is legally separate (can sue and be sued in its own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is a fiscal dependency by the organization of the City

The above criteria were applied to potential organizations to determine if the entity should be reported as part of the City. It was determined that the City has no component units or related organizations that should be reported within the City's basic financial statements.

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Implementation of New Standards**

GASB Statement No. 84, *Fiduciary Activities* (GASB 84). This statement establishes criteria for identifying fiduciary activities of all state and local governments. Also presented are criteria for types of fiduciary funds and guidelines for recognizing liabilities in fiduciary funds. GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61* (GASB 90). This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. GASB Statement No. 98, *The Annual Comprehensive Financial Report*. This statement establishes the term annual comprehensive financial report and its acronym ACFR. This new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. None of these GASB Statements had an impact on the financial statements of the City.

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Government-wide financial statements do not provide information by individual fund or fund types, but distinguish between the City's governmental activities and business-type activities on the Statement of Net Position and Statement of Activities. The statements report information on all of the non-fiduciary activities of the primary government and its component units. The City's Statement of Net Position includes both non-current assets and non-current liabilities of the City. Accrual accounting reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. Additionally, the government-wide Statement of Activities reflects depreciation expense on the City's capital assets, including infrastructure.

**Statement of Net Position**

The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities). The City reports all capital assets, including infrastructure, in the government-wide Statement of Net Position and reports depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of the City is broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. Long-term liabilities are reported in two categories: 1) the amount due within one year; and 2) the amount due in more than one year.

**Statement of Activities**

The government-wide Statement of Activities reports net revenue (expense) in a format that focuses on the cost of each of the City's governmental activities and for each of the City's business-type activities. The expense of individual functions is compared to revenues generated directly by the function (for instance, through user charges or intergovernmental grants). General revenues (including all taxes), investment earnings, special and extraordinary items, and transfers between governmental and business-type activities are reported separately after the total net expenses of the government's functions, ultimately arriving at the change in net position of the period. Program revenues are segregated into three categories: 1) charges for services; 2) program-specific operating grants and contributions; and 3) program-specific capital grants and contributions. Indirect costs are allocated amount functions based on use.

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Fund Level Financial Statements**

In addition to the government-wide financial statements, the City prepares fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. The focus on the fund financial statements is on the major individual funds of the governmental and business-type activities, as well as any fiduciary funds (by category) and any component units. Fund financial accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The City reports the following major governmental funds:

**General Fund**

Reports as the primary fund of the City. This fund is used to account for all financial resources not reported in any other funds.

**Hotel / Motel Fund**

Established to account for revenues assessed and collected for specific purposes.

**Debt Service Fund**

Established to account for the accumulation of financial resources for the payment of principal and interest of the City's general obligation debt. The City annually levies *ad valorem* taxes restricted for the retirement of general obligation bonds and interest. This fund reports *ad valorem* taxes collected for debt purposes only.

**Capital Replacement Fund and Vehicle & Equipment Replacement Fund**

Bond Management - Established to account for the capital expenditures of general obligation bond proceeds.

Grants Management - Established to account for the City's capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses.

The City reports the following major enterprise funds:

**Water and Sewer Fund**

Accounts for the operating activities of the City's water and sewer services.

**Measurement Focus/Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within fund). Proprietary fund level financial statements also report using the same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year in which they are levied while grants are recognized when grantor eligibility requirements are met.



**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Governmental fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within sixty days of the fiscal year end. Expenditures are recorded when the related fund liability is incurred, except for debt principal and interest which are reported expenditures in the year due.

Major revenue sources susceptible to accrual include sales and property taxes. In general, other revenues are recognized when cash is received.

Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and included administrative expenses and depreciation of capital assets.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. See Note E for information describing the City's restricted assets.

**Assets, Liabilities, and Net Position or Equity**

***Cash and Cash Equivalents***

For purposes of the Statement of Cash Flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

***Inventories and Prepaid Items***

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

***Capital Assets***

The City's capital assets and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary capital assets are also reported in their respective funds. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$5,000 or more as purchases and outlays occur. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. For information describing capital assets, see Note F.

Estimated useful lives, in years, for depreciable assets are as follows:

Machinery and equipment	5-7
Buildings and improvements	10-20
Infrastructure	20-50

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Deferred Inflows/Outflows of Resources***

Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred outflows, found on the government-wide Statement of Net Position, consist of deferred losses on refundings and deferred outflows related to pensions. A deferred loss on refunding occurs when there is a difference in the carrying value of the refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt. Deferred outflows related to pensions consist of amounts paid into the retirement system after the prescribed measurement date plus the net difference between projected and actual earnings.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows, found on the government-wide Statement of Net Position, consist of deferred inflows related to pensions and deferred professional prosecutor revenue. On the governmental funds balance sheet, deferred inflows consist of deferred property tax revenue, deferred special assessment revenue, and deferred professional prosecutor revenue. All amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

***Long-Term Debt***

In the government-wide and proprietary fund level financial statements, outstanding debt is reported as liabilities. Outstanding debt is reported within governmental activities and business-type activities based on use of proceeds. Bond issue costs are expensed when incurred.

***Fund Balance/Net Position***

Fund balances/net position are divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

**Non-spendable**

The non-spendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

**Restricted**

Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Committed*

The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned*

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, the assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council or a city official delegated that authority by City Charter or ordinance.

*Unassigned*

Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**Revenues and Expenditures/Expenses**

***Inter-Fund Activity***

Inter-fund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as inter-fund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other inter-fund transactions are treated as transfers. Transfers-in and transfers-out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, inter-fund receivables and payables, if applicable, are netted and presented as a single "Internal Balances" line of the government-wide Statement of Net Assets.

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Compensated Absences***

Compensated absences are reported as accrued in the government-wide financial statements. In the fund level financial statements, only matured compensated absences payable to currently terminating employees are reported.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. Final amounts could differ from those estimates.

***Subsequent Events***

Management of the City has evaluated subsequent events for disclosure through the date of the Independent Auditors' Report, the date the consolidated financial statements were available to be issued. See Note Q.

**B. DEPOSITS AND INVESTMENTS**

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities 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.

***Cash Deposits***

At September 30, 2021, carrying amounts of the City's cash deposits were \$842,368 and bank balances were \$943,029. The City's cash deposits at September 30, 2021, were in excess of FDIC insurance by \$693,029.

***Investments***

The City is required by Government Code Chapter 2256, The Public Funds Investment Act (Act), to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested and the maximum allowable stated maturity of any individual investment owned by the entity.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (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, and (10) common trust funds.

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**B. DEPOSITS AND INVESTMENTS - CONTINUED**

***Fair Value Hierarchy***

The three levels of the fair value hierarchy under GASB 72 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.
- Level 2 Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability; and
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs to the valuation methodology are unobservable and significant and use the best information available under the circumstances.

The City's fair value determination of money market and fixed income are based on unadjusted quoted prices for identical assets in active markets. TexPool investments are not classified in a level hierarchy as they are recorded at net asset value.

The City's investments at September 30, 2021, are shown below.

<u>Investment or Investment Type</u>	<u>Level</u>	<u>Maturity</u>	<u>Fair Value</u>
TexPool Investment	N/A	N/A	<u>\$ 1,659</u>

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB 79). This statement establishes how certain state and local government external investment pools may measure and report their investments. An external investment pool may elect to measure, for reporting purposes, all of its investments at amortized cost if it meets certain criteria. In addition, this statement also establishes additional note disclosures for external investment pools and their participants.

TexPool operates in a manner consistent with the criteria set forth in GASB 79 and therefore uses amortized cost to report net assets to compute share prices. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. TexPool does not have any restrictions or limitations on withdrawals.

TexPool is rated AAAM by Standard & Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's for review. TexPool is also required to send portfolio information to the office of the State Comptroller of Public Accounts.

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**B. DEPOSITS AND INVESTMENTS - CONTINUED**

**Analysis of Specific Deposit and Investment Risks**

Professional standards require a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not exposed to a significant amount of credit risk.

***Custodial Credit Risk***

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At September 30, 2021, the City's investment deposits were entirely covered by depository insurance or collateralized with securities held by the pledging financial institution in the City's name.

***Concentration of Credit Risk***

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

***Interest Rate Risk***

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

***Foreign Currency Risk***

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**C. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**Explanation of differences between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position:**

The governmental fund balance sheet includes a reconciliation between the governmental fund balance on the fund financial statements and total net position of governmental activities on the government-wide financial statements.

<b>Governmental fund balance</b>		\$ 993,582
 <b><u>Difference due to capital assets</u></b>		
Capital assets	4,887,953	
Accumulated depreciation	<u>(1,774,415)</u>	3,113,538
 <b><u>Difference due to deferred outflows</u></b>		
Deferred outflows related to pensions	21,850	
Deferred outflows related to OPEB	7,178	
Deferred loss on refunding	<u>11,726</u>	40,754
 <b><u>Difference due to current liabilities</u></b>		
Interest payable		(7,030)
 <b><u>Difference due to non-current liabilities</u></b>		
Net pension liability	(90,812)	
Net OPEB liability	(29,866)	
Bonds and notes payable	<u>(2,159,821)</u>	<u>(2,280,499)</u>
 <b><u>Difference due to deferred inflows</u></b>		
Deferred inflows related to property taxes	24,582	
Deferred inflows related to pensions	(99,837)	
Deferred inflows related to OPEB	<u>(4,739)</u>	<u>(79,994)</u>
 <b>Government-wide net position</b>		<u><u>\$ 1,780,351</u></u>

**Explanation of differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities:**

The governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between the change in governmental fund balance on the fund financial statements and change in total net position of governmental activities on the government-wide financial statements.



**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**C. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - CONTINUED**

<b>Change in governmental fund balance</b>		\$ 478,910
<b><u>Amount by which depreciation exceeds capital outlay expense and other capital related transactions</u></b>		
Capital assets	\$ 271,572	
Depreciation expense	<u>(160,699)</u>	110,873
<b><u>Long-term debt and related items</u></b>		
Debt payments	165,682	
Proceeds from debt issuances	(574,897)	
Accrued interest adjustment	2,445	
Amortization of premium on refunding	4,040	
Amortization of loss on refunding	<u>(1,326)</u>	(404,056)
<b><u>Expenses that do not require the use of current financial resources or have not matured</u></b>		
Property taxes recorded as deferred inflows	1,171	
Changes in pension expense and deferred outflows and inflows	87,841	
Changes in OPEB expense and deferred outflows and inflows	<u>(3,080)</u>	<u>85,932</u>
<b>Change in government-wide net position</b>		<u><u>\$ 271,659</u></u>

**D. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE**

***Sales Tax Receivable***

Sales taxes are collected and remitted to the City by the State Comptroller's Office. All sales taxes are collected within sixty days of year end. At fiscal year end, the receivables represent taxes collected but not yet received by the City and are recorded as revenue.

***Property Taxes Receivable and Deferred Revenue***

Property taxes are assessed and remitted to the City by the Blanco County Appraisal District. Taxes, levied annually on October 1, are due by January 31. The majority of tax payments are received December through March. Lien dates for real property are July.

Allowances for uncollectible tax receivables reported in the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off when deemed uncollectible; however, state statutes prohibit writing off real property taxes without specific authority from the Texas Legislation.

In the governmental fund level financial statements, property taxes receivable are recorded in the General Fund when assessed (October 1). At fiscal year end, property taxes receivables represent delinquent taxes. If delinquent taxes are not paid within sixty days of fiscal year end, they are recorded as deferred revenue.



**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**D. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED REVENUE - CONTINUED**

In the government-wide financial statements, property tax receivables and related revenues include all amounts due to the City regardless of when cash is received.

At September 30, 2021, receivables for governmental activities are summarized in the government-wide financial statements as follows:

	Receivables	Allowance for Uncollectible Accounts	Net Receivables
Sales tax receivable	\$ 45,589	\$ -	\$ 45,589
Property tax receivable	27,033	(1,175)	25,858
Garbage receivable	13,507	-	13,507
Total receivables	<u>\$ 86,129</u>	<u>\$ (1,175)</u>	<u>\$ 84,954</u>

***Business-Type Activities Receivables***

Business-type activities receivables represent amounts due from customers for water, wastewater, and sanitation services. These receivables are due within one month. Receivables are reported net of an allowance for uncollectible accounts and revenues net of what is estimated to be uncollectible. The allowance is estimated using accounts receivable past due more than ninety days.

At September 30, 2021, Business-type activities receivables are summarized in the financial statements as follows:

	Receivables	Allowance for Uncollectible Accounts	Net Receivables
Customer receivables	<u>\$ 49,293</u>	<u>\$ (1,106)</u>	<u>\$ 48,187</u>

**E. RESTRICTED CASH AND INVESTMENTS**

At September 30, 2021, restricted assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
<b>Cash and cash equivalents:</b>			
Customer deposits	<u>\$ -</u>	<u>\$ 129,884</u>	<u>\$ 129,884</u>
<b>Investments:</b>			
General	<u>\$ 76</u>	<u>\$ -</u>	<u>\$ 76</u>
Utility fund	<u>-</u>	<u>1,583</u>	<u>1,583</u>
Total investments	<u>\$ 76</u>	<u>\$ 1,583</u>	<u>\$ 1,659</u>

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**F. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2021, was as follows:

	Beginning Balance	Additions	Deletions/ Reclass	Ending Balance
<b>Governmental Activities:</b>				
Non-depreciable assets:				
Land	\$ 484,501	\$ -	\$ -	\$ 484,501
Construction in progress	-	152,883	-	152,883
Total non-depreciable assets	<u>\$ 484,501</u>	<u>\$ 152,883</u>	<u>\$ -</u>	<u>\$ 637,384</u>
Depreciable assets:				
Buildings	\$ 748,671	\$ -	\$ -	\$ 748,671
Machinery & equipment	497,697	-	-	497,697
Improvements	2,885,512	118,689	-	3,004,201
Total depreciable assets	<u>4,131,880</u>	<u>118,689</u>	<u>-</u>	<u>4,250,569</u>
Accumulated depreciation	<u>(1,613,716)</u>	<u>(160,699)</u>	<u>-</u>	<u>(1,774,415)</u>
Depreciable assets, net	<u>\$ 2,518,164</u>	<u>\$ (42,010)</u>	<u>\$ -</u>	<u>\$ 2,476,154</u>
<b>Business-Type Activities:</b>				
Non-depreciable assets:				
Land	\$ 41,402	\$ -	\$ -	\$ 41,402
Construction in progress	-	32,246	-	32,246
Total non-depreciable assets	<u>\$ 41,402</u>	<u>\$ 32,246</u>	<u>\$ -</u>	<u>\$ 73,648</u>
Depreciable assets:				
Buildings	\$ 100,163	\$ -	\$ -	\$ 100,163
Machinery and equipment	379,233	-	-	379,233
Improvements	8,405,654	52,781	-	8,458,435
Total depreciable assets	<u>8,885,050</u>	<u>52,781</u>	<u>-</u>	<u>8,937,831</u>
Accumulated depreciation	<u>(4,816,622)</u>	<u>(294,755)</u>	<u>-</u>	<u>(5,111,377)</u>
Depreciable assets, net	<u>\$ 4,068,428</u>	<u>\$ (241,974)</u>	<u>\$ -</u>	<u>\$ 3,826,454</u>

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**F. CAPITAL ASSETS - CONTINUED**

Depreciation expense was charged to the functions as follows:

Function:	Governmental Activities	Business-Type Activities	Total
General government	\$ 31,973	\$ -	\$ 31,973
Public safety	45,937	-	45,937
Streets	5,452	-	5,452
Building and technology	2,871	-	2,871
Municipal court	13,849	-	13,849
Parks	11,335	-	11,335
Sanitation	42,297	-	42,297
Hotel	6,985	-	6,985
Buildings	-	2,220	2,220
Machinery and equipment	-	16,833	16,833
Improvements	-	275,702	275,702
Total depreciation expense	<u>\$ 160,699</u>	<u>\$ 294,755</u>	<u>\$ 455,454</u>

**G. INTER-FUND BALANCES AND ACTIVITY**

**Transfers (To) From Other Funds**

Purpose	General Fund	Debt Service Fund	Proprietary Fund	Capital Projects Funds	Special Revenue Funds
Transfers to pay down debt	\$ (90,560)	\$ 48,856	\$ 90,560	\$ (48,856)	\$ -
Other transfers	40,064	(14,994)	(15,070)	-	(10,000)

**H. LONG-TERM DEBT**

**Long-Term Debt Activity**

Changes in long-term debt obligations for the year ended September 30, 2021, are as follows:

Governmental Activities:	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Bonds payable	\$ 1,715,000	\$ 402,000	\$ (130,000)	\$ 1,987,000	\$ 203,000
Premium on refunding	39,646	-	(4,040)	35,606	4,040
Notes payable	-	172,897	(35,682)	137,215	32,606
Total governmental activities	<u>\$ 1,754,646</u>	<u>\$ 574,897</u>	<u>\$ (169,722)</u>	<u>\$ 2,159,821</u>	<u>\$ 239,646</u>

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**H. LONG-TERM DEBT - CONTINUED**

**Debt Service Requirements**

General Obligation Refunding Bonds, Series 2012

On December 1, 2012, the City issued \$1,675,000 in general obligation bonds, proceeds to be used to refund Series 2003 and 2005 certificates of obligations. Bond interest rate from 2.00% - 3.00% with semi-annual payments due on February 1 and August 1 of each year until maturity in 2030 or prior redemption.

Certificate of Obligation, Series 2015

On July 16, 2015, the City issued \$895,000 in certificate of obligation bonds. The bond interest rates between 0.00% to 2.41% with semi-annual payments due on February 1 and August 1 of each year until maturity in 2035 or prior redemption.

General Obligation Refunding Bonds, Series 2021

On September 13, 2021, the City issued \$402,000 in general of obligation bonds. The bond interest rates of 2.200% with semi-annual payments due on February 1 and August 1 of each year until maturity in 2031 or prior redemption.

Debt service requirements on long-term bond debt at September 30, 2021, were as follows:

		Series 2012 - \$1,675,000		
For the years ending September 30,		Principal	Interest	Total
	2022	\$ 95,000	\$ 23,750	\$ 118,750
	2023	95,000	21,375	116,375
	2024	100,000	19,000	119,000
	2025	85,000	16,500	101,500
	2026	90,000	13,950	103,950
	2027 - 2030	375,000	28,200	403,200
	Total	<u>\$ 840,000</u>	<u>\$ 122,775</u>	<u>\$ 962,775</u>

		Series 2015 - \$895,000		
For the years ending September 30,		Principal	Interest	Total
	2022	\$ 50,000	\$ 14,604	\$ 64,604
	2023	50,000	14,039	64,039
	2024	50,000	13,374	63,374
	2025	50,000	12,628	62,628
	2026	50,000	11,819	61,819
	2027 - 2031	265,000	49,538	314,538
	2032 - 2035	230,000	13,867	243,867
	Total	<u>\$ 745,000</u>	<u>\$ 129,869</u>	<u>\$ 874,869</u>

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**H. LONG-TERM DEBT - CONTINUED**

For the years ending September 30,	Series 2021 - \$402,000		
	Principal	Interest	Total
2022	\$ 58,000	\$ 7,812	\$ 65,812
2023	35,000	7,568	42,568
2024	36,000	6,798	42,798
2025	36,000	6,006	42,006
2026	37,000	5,214	42,214
2027 - 2031	200,000	13,420	213,420
Total	<u>\$ 402,000</u>	<u>\$ 46,818</u>	<u>\$ 448,818</u>

**Deferred Outflow on Refunding**

The City has deferred outflow of \$23,308 related to the Series 2012 refunding. This outflow represents the amount of the new bond principal, less issuance costs, that was greater than the current principal balance of the bonds refunded and will be amortized, straight-line, over the life of the Series 2015 Bond. The deferred outflow remaining balance at September 30, 2021, was \$11,726.

**Note Payable**

On April 30, 2021, the City entered into financing agreements for vehicles totaling \$172,897 at 3.39% fixed interest rate with yearly payments of \$37,263 due in September. The City's balance remaining on the note payable at September 30, 2021, is \$137,215.

Debt service requirements on long-term notes payable at September 30, 2021, were as follows:

For the years ending September 30,	Governmental Activities		
	Principal	Interest	Total
2022	\$ 32,606	\$ 4,656	\$ 37,262
2023	33,713	3,550	37,263
2024	34,857	2,406	37,263
2025	36,039	1,223	37,262
	<u>\$ 137,215</u>	<u>\$ 11,835</u>	<u>\$ 149,050</u>

**Continuing Disclosure**

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Disclosure Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operation of the City.

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**I. RESTRICTED NET ASSETS**

At September 30, 2021, net assets restricted by enabling legislation consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Debt service	\$ 14,925	\$ -	\$ 14,925
Special revenue funds	36,884	-	36,884
Customer deposits	-	129,884	129,884
Total restricted net assets	<u>\$ 51,809</u>	<u>\$ 129,884</u>	<u>\$ 181,693</u>

**J. RISK MANAGEMENT**

The 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.

**K. PENSION PLAN**

**Plan Description**

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

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

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

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**K. PENSION PLAN - CONTINUED**

	<u>Plan Year 2019</u>	<u>Plan Year 2020</u>
Employee deposit rate	6.0%	6.0%
Matching ratio (city to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100%, Repeating, Transfers	100%, Repeating, Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

At December 31, 2020, the following employees were covered by the benefit term

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	14
Active employees	14
	<u>35</u>

**Contributions**

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The actuarially determined required employer contribution rate for calendar years 2020, 2019, and 2018 were 9.68%, 10.09%, and 10.07%, respectively. The required contribution rate payable by the employee members for calendar years 2020, 2019, and 2018 the rate was 6%.

**Net Pension Asset**

The City's net pension asset was measured as of December 31, 2020, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**K. PENSION PLAN - CONTINUED**

**Actuarial Assumptions**

The total pension liability in the December 31, 2020, actuarial valuation was determined using the following actuarial assumptions:

Actuarial valuation date	December 31, 2020
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining amortization period	20 years
Asset valuation method	10 Year smoothed market; 12.00% soft corridor
Inflation	2.50%
Salary increases	3.50% to 11.50% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other Information:	
Notes	1) There were no benefit changes during the year.

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation.

**Discount Rate**

The discount rate used to measure the total pension asset was 6.75%. System-wide Investment Return Assumption: 6.75% per year, compounded annually, composed of an assumed 2.50% inflation rate and a 4.25% net real rate of return. This rate represents the assumed return, net of all investment expenses.



**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**K. PENSION PLAN - CONTINUED**

	<u>Change in Net Pension Liability</u>		
	Increase (Decrease)		
	Total Pension Liability / (Asset) (a)	Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a-b)
Balances as of December 31, 2019	\$ 2,342,434	\$ 2,039,229	\$ 303,205
Changes for the year:			
Service cost	92,838	-	92,838
Interest on total pension liability	158,753	-	158,753
Change in benefit terms including substantively automatic status	-	-	-
Difference between expected and actual experience	(81,923)	-	(81,923)
Effect of assumptions changes or inputs	-	-	-
Benefit payments	(73,923)	-	(73,923)
Administrative expenses	-	(1,002)	1,002
Contributions - employer	-	73,218	(73,218)
Contributions - employee	-	45,030	(45,030)
Net investment income	-	154,675	(154,675)
Benefit payments	-	(73,923)	73,923
Other	-	(39)	39
Net changes	95,745	197,959	(102,214)
Balances as of December 31, 2020	\$ 2,438,179	\$ 2,237,188	\$ 200,991

**Sensitivity of the Net Pension Liability (Asset) 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 asset would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate.

	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
Net pension liability / (asset)	\$ 541,808	\$ 200,991	\$ (80,436)

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued TMRS's comprehensive annual financial report.

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**K. PENSION PLAN - CONTINUED**

**Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

For the year ended September 30, 2021, the City recognized pension income of \$37,654. At September 30, 2021, deferred outflows and inflows of resources related to pensions were reported from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual earnings	\$ 80,305	\$ -
Changes in assumptions	-	1,396
Differences between projected and actual earnings	57,158	-
Contributions made subsequent to measurement date	-	57,203
	<u>\$ 137,463</u>	<u>\$ 58,599</u>

The \$57,203 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized as pension expense as follows:

Years Ending September 30,	
2022	\$ 1,381
2023	(24,822)
2024	(52,016)
2025	(3,407)
2026	-
Thereafter	-
	<u>\$ (78,864)</u>

**Funded Status and Funding Process**

The fund status as of December 31, 2020, is presented as follows:

	(a)	(b)	(c)	(d)	(e)	(f)
Actuari al Valuati on Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio (a)/(b)	Unfunded AAL (UAAL) (b) - (a)	Covered Payroll	UAAL as of % of Covered Payroll (d)/(e)
12/31/2018	\$ 1,720,881	\$ 2,188,404	78.64%	\$ 467,523	\$ 814,214	57.42%
12/31/2019	2,039,229	2,342,434	87.06%	303,205	795,762	38.10%
12/31/2020	2,237,188	2,438,179	91.76%	200,991	750,508	26.78%

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**K. PENSION PLAN - CONTINUED**

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

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

**L. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - SUPPLEMENTAL DEATH BENEFITS FUND (SDBF)**

**Plan Description**

The City also participates in the cost sharing multiple-employer defined benefit group-term insurance plan operated by the Texas Municipal Retirement System (TMRS) known as 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.

At December 31, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	2
Active employees	14
	<hr/> 20

**Contributions**

Due to the SDBF being considered an unfunded OPEB plan, benefit payments are treated as being equal to the employer's yearly contributions for retirees. During the year ended September 30, 2021, the City has not made any contributions to the SDBF.

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**L. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - SUPPLEMENTAL DEATH BENEFITS FUND (SDBF) - CONTINUED**

**Actuarial Assumptions**

The total OPEB liability in the December 31, 2020, actuarial valuation was determined using the following actuarial assumptions:

Actuarial valuation date	December 31, 2020
Inflation	2.50%
Salary increases	3.50% to 11.50% including inflation
Discount rate*	2.00%
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.
Other Information:	
Notes	No benefit changes during the year.

\*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

Note: The actuarial assumptions used in the December 31, 2020, valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**L. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - SUPPLEMENTAL DEATH BENEFITS FUND (SDBF) - CONTINUED**

	<b><u>Change in Net OPEB Liability</u></b>		
	Increase (Decrease)		
	Total OPEB Liability / (Asset) (a)	Fiduciary Net OPEB (b)	Net OPEB Liability / (Asset) (a-b)
Balances as of December 31, 2019	\$ 41,572	\$ -	\$ 41,572
Changes for the year:			
Service cost	2,101	-	2,101
Interest on total pension liability	1,170	-	1,170
Difference between expected and actual experience	(5,771)	-	(5,771)
Effect of assumptions changes or inputs	5,996	-	5,996
Benefit payments	(150)	-	(150)
Net changes	3,346	-	3,346
Balances as of December 31, 2020	\$ 44,918	\$ -	\$ 44,918

**Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate**

The following presents the net pension liability of the City, calculated using the discount rate of 2.75%, as well as what the City's net pension asset would be if it were calculated using a discount rate that is one percentage point lower (1.75%) or one percentage point higher (3.75%) than the current rate.

	1% Decrease 1.75%	Current Discount Rate 2.75%	1% Increase 3.75%
Net OPEB liability / (asset)	\$ 54,826	\$ 44,918	\$ 37,111

**OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TMRS's comprehensive annual financial report.

**OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB**

For the year ended September 30, 2021, the City recognized OPEB expense of \$3,973. At September 30, 2021, deferred outflows and inflows of resources related to OPEB were reported from the following sources:

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**L. OTHER POSTEMPLOYMENT BENEFITS (OPEB) - SUPPLEMENTAL DEATH BENEFITS FUND (SDBF) - CONTINUED**

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 6,624	\$ -
Changes in assumptions and other inputs	-	9,755
Contributions made subsequent to measurement date	-	-
	<u>\$ 6,624</u>	<u>\$ 9,755</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized as pension expense as follows:

Years Ending September 30,	
2022	\$ 852
2023	852
2024	421
2025	815
2026	176
Thereafter	15
	<u>\$ 3,131</u>

**M. HEALTH CARE COVERAGE**

During the year ended September 30, 2021, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$95,420 to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

**N. COMMITMENTS AND CONTINGENCIES**

**Litigation**

A former City employee pled guilty to embezzlement of at least \$1,175,866.91 during their time with the City. Sentencing for this individual has not yet occurred and at this time it is unknown if the City will recuperate any or all of these embezzled funds.

**O. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

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

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended September 30, 2021**

**P. RESTATEMENT**

An investment account was not included in the prior period balances for the General Fund, we have restated fund balance of that fund to reflect the investment account.

<b>General fund</b>	As Previously		
	Stated	Restatement	As Restated
Fund balance, beginning of the year	<u>\$ 123,366</u>	<u>\$ 123,686</u>	<u>\$ 247,052</u>

**Q. SUBSEQUENT EVENTS**

The City issued a note payable on November 19, 2021, in the amount of \$185,500 for SCADA System improvements. The City also entered into a contract with a company to perform these improvements.

On February 1, 2022, the City entered into a contract with a company to provide improvements to the water/wastewater system. This contract has an estimated cost of \$513,300.

## **REQUIRED SUPPLEMENTARY INFORMATION**





**CITY OF JOHNSON CITY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND**  
**Year Ended September 30, 2021**

	<b>Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>REVENUES</b>				
Property taxes	\$ 705,805	\$ 607,098	\$ 624,358	\$ 17,260
Sales tax	456,000	555,998	580,245	24,247
Franchise taxes	80,000	80,000	73,940	(6,060)
Penalties and interest	5,200	-	-	-
Other taxes	150	-	604	604
Licenses and permits	35,500	63,012	65,941	2,929
Charge for services	264,100	284,487	308,190	23,703
Grants	-	80,000	84,153	4,153
Fines	75,000	75,000	78,895	3,895
Rents and royalties	48,553	48,553	55,757	7,204
Other	1,115	71,332	59,633	(11,699)
Total revenues	<u>1,671,423</u>	<u>1,865,480</u>	<u>1,931,716</u>	<u>66,236</u>
<b>EXPENDITURES</b>				
General government	385,939	575,974	647,967	(71,993)
Public safety	470,551	441,144	440,222	922
Streets	105,000	21,989	27,347	(5,358)
Building & technology	-	195,295	205,545	(10,250)
Community services	26,200	-	-	-
Municipal court	63,390	88,934	89,651	(717)
Parks	35,843	173,077	174,314	(1,237)
Sanitation	346,648	258,805	282,768	(23,963)
Development services	25,000	22,920	25,857	(2,937)
Emergency Services	-	76,395	76,395	-
Total expenditures	<u>1,458,571</u>	<u>1,854,533</u>	<u>1,970,066</u>	<u>(115,533)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	<u>212,852</u>	<u>10,947</u>	<u>(38,350)</u>	<u>(49,297)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from bond and note payable issuances	-	-	402,000	402,000
Bond issuance costs	-	-	(24,666)	(24,666)
Transfers (to) from other funds:	108,317	(19,319)	(50,496)	(31,177)
Total other financing sources (uses)	<u>108,317</u>	<u>(19,319)</u>	<u>326,838</u>	<u>346,157</u>
<b>NET CHANGE IN FUND BALANCE</b>	321,169	(8,372)	288,488	296,860
<b>FUND BALANCE - BEGINNING OF YEAR</b>	247,052	247,052	247,052	-
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 568,221</u>	<u>\$ 238,680</u>	<u>\$ 535,540</u>	<u>\$ 296,860</u>

**CITY OF JOHNSON CITY, TEXAS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**Year Ended September 30, 2021**

**A. GENERAL FUND BUDGETARY ANALYSIS**

**Budgetary Information**

The City Council adopts an annual budget prepared on a non-GAAP cash basis. City management may transfer part or all of any unencumbered appropriation balance within specific categories (i.e., personnel, operations, supplies, or capital outlay) within programs; however, any revisions that alter the total expenditures of the categories must be approved by the City Council. The City, for management purposes, adopts budgets for all funds. Legal budgets are also adopted for all funds, and the legal level of control is the fund level.

Capital projects are funded through capital grants or general obligation debt authorized for specific purposes.

All unused appropriations, except appropriations for capital expenditures, lapse at the close of the fiscal year to the extent they have not been expended or encumbered. An appropriation for capital expenditures shall continue in force until the purpose for which it was made is accomplished or abandoned. No supplemental budgetary appropriations occurred in the debt service fund or in the general fund. Revised budgets, if any, are used for budget versus actual comparisons.

**B. BUDGET VERSUS ACTUAL RESULTS**

Operating revenues in the general fund were more than budgeted by \$66,236, and operating expenditures were more than budgeted by \$115,533, resulting in an overall operating variance unfavorable of \$49,297. Due to issuing bonds, there was an overall increase in fund balance of \$288,488 for the City's general fund.

General Government expenditures of \$647,967 exceeded the 2021 budget by \$71,993 primarily due to the need to procure additional financial and legal services following the discovery of mismanagement, fraud, and abuse by the former Chief Administrative Officer. Three (3) fiscal year end audits were completed, and the City was required to respond through suitable legal representation and consultants to Texas Water Development Board, Internal Revenue Service, U.S. Department of Justice, and U.S. Securities and Exchange Commission inquiries. Moreover, City Staff required assistance from other financial services firms and representatives, such as a local bookkeeping company and certified public accountants, to process and finalize the sheer volume of work associated with the aforementioned audits, inquiries, and investigations.

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**CITY OF JOHNSON CITY, TEXAS**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF CHANGES IN THE CITY'S NET PENSION ASSET/LIABILITY**  
**AND RELATED RATIOS**  
**LAST TEN YEARS\***  
**(Unaudited)**

	<u>2021</u>	<u>2020</u>
<b>Total Pension Liability (Asset)</b>		
Service cost	\$ 92,838	\$ 100,186
Interest on total pension liability	158,753	148,640
Change in benefit terms including substantively automatic status	-	-
Difference between expected and actual experience	(81,923)	(25,016)
Effect of assumptions changes or inputs	-	3,066
Benefit payments, including refunds of employee contributions	<u>(73,923)</u>	<u>(72,846)</u>
Net change in total pension liability (asset)	95,745	154,030
 Total pension liability (asset), beginning	 <u>2,342,434</u>	 <u>2,188,404</u>
Total pension liability (asset), ending (a)	<u><u>\$ 2,438,179</u></u>	<u><u>\$ 2,342,434</u></u>
 <b>Fiduciary Net Position</b>		
Employer contributions	\$ 73,218	\$ 78,683
Employee contributions	45,030	47,746
Net investment income (loss)	154,675	266,314
Benefit payments, including refunds of employee contributions	(73,923)	(72,846)
Administrative expenses	(1,002)	(1,503)
Other	<u>(39)</u>	<u>(46)</u>
Net change in fiduciary net position	197,959	318,348
 Fiduciary net position, beginning	 <u>2,039,229</u>	 <u>1,720,881</u>
Fiduciary net position, ending (b)	<u><u>\$ 2,237,188</u></u>	<u><u>\$ 2,039,229</u></u>
  Net pension liability (asset), ending = (a) - (b)	  <u><u>\$ 200,991</u></u>	  <u><u>\$ 303,205</u></u>
 Fiduciary net position as a % of total pension liability (asset)	 91.76%	 87.06%
 Covered employee payroll	 \$ 750,508	 \$ 795,762
 Net pension liability (asset) as a % of covered employee payroll	 26.78%	 38.10%

\* Fiscal year 2015 was the first year of implementation, therefore only seven years are shown.

2019	2018	2017	2016	2015
\$ 101,940	\$ 96,237	\$ 88,894	\$ 83,797	\$ 68,572
140,230	128,604	119,718	107,368	105,293
-	-	29,035	-	-
(37,077)	21,460	(12,737)	58,568	(96,759)
-	-	-	17,464	-
(86,412)	(67,412)	(68,375)	(49,667)	(60,478)
<u>118,681</u>	<u>178,889</u>	<u>156,535</u>	<u>217,530</u>	<u>16,628</u>
<u>2,069,723</u>	<u>1,890,834</u>	<u>1,734,299</u>	<u>1,516,769</u>	<u>1,500,141</u>
<u>\$ 2,188,404</u>	<u>\$ 2,069,723</u>	<u>\$ 1,890,834</u>	<u>\$ 1,734,299</u>	<u>\$ 1,516,769</u>
\$ 80,865	\$ 79,033	\$ 67,389	\$ 62,066	\$ 54,156
48,856	45,900	43,328	40,255	34,921
(51,870)	203,822	90,465	1,897	68,051
(86,412)	(67,412)	(68,375)	(49,667)	(60,478)
(1,002)	(1,056)	(1,022)	(1,155)	(710)
(56)	(54)	(55)	(57)	(58)
<u>(9,619)</u>	<u>260,233</u>	<u>131,730</u>	<u>53,339</u>	<u>95,882</u>
<u>1,730,500</u>	<u>1,470,267</u>	<u>1,338,537</u>	<u>1,285,198</u>	<u>1,189,316</u>
<u>\$ 1,720,881</u>	<u>\$ 1,730,500</u>	<u>\$ 1,470,267</u>	<u>\$ 1,338,537</u>	<u>\$ 1,285,198</u>
<u>\$ 467,523</u>	<u>\$ 339,223</u>	<u>\$ 420,567</u>	<u>\$ 395,762</u>	<u>\$ 231,571</u>
78.64%	83.61%	77.76%	77.18%	84.73%
\$ 814,214	\$ 765,003	\$ 722,131	\$ 670,916	\$ 582,010
57.42%	44.34%	58.24%	58.99%	39.79%

**CITY OF JOHNSON CITY, TEXAS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**  
**(Unaudited)**

	(a)	(b)	(c)	(d)	(e)	(f)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio (a)/(b)	Unfunded AAL (UAAL) (b) - (a)	Covered Payroll	UAAL as a Percentage of Covered Payroll (d)/(e )
12/31/2018	\$ 1,720,881	\$ 2,188,404	78.6%	\$ 467,523	\$ 814,214	57.4%
12/31/2019	2,039,229	2,342,434	87.1%	303,205	795,762	38.1%
12/31/2020	2,237,188	2,438,179	91.8%	200,991	750,508	26.8%

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**CITY OF JOHNSON CITY, TEXAS**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF CHANGES IN THE CITY'S TOTAL OPEB ASSET/LIABILITY**  
**AND RELATED RATIOS**  
**LAST TEN YEARS\***  
**(Unaudited)**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b>Total OPEB Liability (Asset)</b>			
Service cost	\$ 2,101	\$ 2,228	\$ 2,605
Interest on total OPEB liability	1,170	1,264	1,115
Effect of plan changes	-	-	-
Difference between expected and actual experience	(5,771)	(2,351)	(306)
Effect of assumptions changes or inputs	5,996	7,508	(2,750)
Benefit payments	<u>(150)</u>	<u>(80)</u>	<u>(81)</u>
Net change in total OPEB liability (asset)	3,346	8,569	583
 Total OPEB liability (asset), beginning	 <u>41,572</u>	 <u>33,003</u>	 <u>32,420</u>
Total OPEB liability (asset), ending (a)	<u><u>\$ 44,918</u></u>	<u><u>\$ 41,572</u></u>	<u><u>\$ 33,003</u></u>
 Covered payroll	 \$ 750,508	 \$ 795,762	 \$ 814,214
 Net OPEB liability (asset) as a % of covered payroll	 5.99%	 5.22%	 4.05%

\* Fiscal year 2018 was the first year of implementation, therefore only four years are shown.

**CITY OF JOHNSON CITY, TEXAS**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF CHANGES IN THE CITY'S TOTAL OPEB ASSET/LIABILITY**  
**AND RELATED RATIOS**  
**LAST TEN YEARS\***  
**(Unaudited)**

<u>2018</u>
\$ 2,142
1,036
-
-
2,936
(77)
6,037
26,383
\$ 32,420

\$ 765,003

4.24%

**CITY OF JOHNSON CITY, TEXAS**  
**COMBINING BALANCE SHEET - NON-MAJOR**  
**GOVERNMENTAL FUNDS**  
**September 30, 2021**

	Special Revenue Funds	
	<b>Court Technology Fund</b>	<b>Court Security Fund</b>
<b>ASSETS</b>		
Unrestricted		
Cash and cash equivalents	\$ 747	\$ 793
Investments	-	-
Receivables, net	-	-
Due from other funds	-	-
Restricted assets:		
Cash and cash equivalents	-	-
<b>Total assets</b>	<u>747</u>	<u>793</u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts payable	-	-
Accrued salary and benefits	-	-
Due to other funds	-	-
<b>Total liabilities</b>	<u>-</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable revenue - property taxes	-	-
<b>Total liabilities</b>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>		
Restricted	747	793
Committed	-	-
Unassigned	-	-
<b>Total fund balances</b>	<u>747</u>	<u>793</u>
<b>Total liabilities, deferred inflows, and fund balances</b>	<u>\$ 747</u>	<u>\$ 793</u>

The accompanying notes are an integral part of this financial statement.

Special Revenue Funds			Total Non-Major Governmental Funds
Parks & Recreation Fund	Local Truancy & Prevention Fund	Court Jury Fund	
\$ 1,101	\$ 311	\$ 7	\$ 2,959
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
1,101	311	7	2,959
500	-	-	500
-	-	-	-
-	-	-	-
500	-	-	500
-	-	-	-
-	-	-	-
601	311	7	2,459
-	-	-	-
-	-	-	-
601	311	7	2,459
\$ 1,101	\$ 311	\$ 7	\$ 2,959

The accompanying notes are an integral part of this financial statement.

**CITY OF JOHNSON CITY, TEXAS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES - NON-MAJOR**  
**GOVERNMENTAL FUNDS**  
**Year Ended September 30, 2021**

	Special Revenue Funds	
	Court Technology Fund	Court Security Fund
<b>REVENUES</b>		
Property taxes	\$ -	\$ -
Sales tax	-	-
Franchise taxes	-	-
Other taxes	-	-
Licenses and permits	-	-
Charge for services	-	-
Grants	-	-
Fines	-	-
Rents and royalties	-	-
Interest income	-	-
Other	1,008	1,024
<b>Total revenues</b>	<u>1,008</u>	<u>1,024</u>
<b>EXPENDITURES</b>		
Current:		
General government	-	-
Public safety	-	-
Streets	-	-
Building and technology	-	-
Municipal court	-	-
Parks	-	-
Sanitation	-	-
Development services	-	-
Emergency services	-	-
Hotel	-	-
Capital outlay	-	-
Debt service:		
Principal	-	-
Interest	-	-
<b>Total expenditures</b>	<u>-</u>	<u>-</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>1,008</u>	<u>1,024</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Other	(261)	(231)
Proceeds from bond and note payable issuances	-	-
Bond issuance costs	-	-
Transfers in	-	-
Transfers out	-	-
<b>Total other financing sources (uses)</b>	<u>(261)</u>	<u>(231)</u>
<b>Net change in fund balances</b>	747	793
<b>Fund balances - beginning of year</b>	<u>-</u>	<u>-</u>
<b>Fund balances - end of year</b>	<u>\$ 747</u>	<u>\$ 793</u>

The accompanying notes are an integral part of this financial statement.

Special Revenue Funds				Total Non-Major Governmental Funds
Parks & Recreation Fund	Local Truancy & Prevention Fund	Court Jury Fund		
\$ -	\$ -	\$ -	\$ -	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
296	630	326	3,284	
296	630	326	3,284	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
296	630	326	3,284	
(231)	(319)	(319)	(1,361)	
-	-	-	-	
-	-	-	-	
536	-	-	536	
-	-	-	-	
305	(319)	(319)	(825)	
601	311	7	2,459	
-	-	-	-	
\$ 601	\$ 311	\$ 7	\$ 2,459	

The accompanying notes are an integral part of this financial statement.

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**INDEPENDENT AUDITORS' 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***

To the Honorable Mayor and  
Members of the City Council  
City of Johnson City, Texas

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 (the City), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 16, 2022.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's 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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's 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 not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

A handwritten signature in black ink that reads "Achley & Associates, LLP". The signature is written in a cursive, flowing style.

Austin, Texas  
March 16, 2022

**CITY OF JOHNSON CITY, TEXAS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**Year Ended September 30, 2021**

Financial Statement Findings

None

**CITY OF JOHNSON CITY, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended September 30, 2021**

Financial Statement Findings

<b>Audit Finding:</b>	2020-001
<b>Type:</b>	Material Weakness, repeat finding
<b>Criteria:</b>	Complete bank account reconciliations in a timely manner to include review and approval by a person other than the preparer, and provide bank reconciliations to the City Council for review and approval. In addition, not all of the bank accounts were incorporated into the financial reporting module. During fiscal year 2021, the City did outsource the bank reconciliation process to a third-party CPA, no action was taken based on the reconciliations the third-party CPA performed.
<b>Condition:</b>	Currently, cash balances are not correctly presented and it is unknown to the completeness and appropriateness of transactions recorded.
<b>Context:</b>	Cash balances were materially misstated and numerous transactions were not recording appropriately.
<b>Effect or Potential Effect:</b>	Without bank reconciliations being performed, management does not have the ability to know if transactions were recorded and/or recorded properly.
<b>Cause:</b>	Bank reconciliations were not performed.
<b>Corrective Action Taken:</b>	Beginning October 1, 2020, City Staff commenced monthly bank reconciliations for all financial accounts. Bank reconciliations are completed by one staff member and approved by another staff member. City Staff contracted with a third-party CPA in FYE 2021 to complete FYE 2020 bank reconciliations for audit purposes, as those bank reconciliations were not completed. The current City Auditor was provided the third-party CPA's work product.
<b>Audit Finding:</b>	2020-002
<b>Type:</b>	Material Weakness, repeat finding
<b>Criteria:</b>	During the year, a different financial reporting module was used and was not reconciled to prior audits. Also in this module, not all the transactions of the City were entered, resulting in incomplete records.
<b>Condition:</b>	During the audit, it was determined that net positions and fund balances were materially different than the prior year audit. Also certain transactions were not recorded in the system which created a scope limitation in performing the audit.
<b>Context:</b>	Through inquiries of management it was determined that prior management of the City moved transactions to a different financial reporting module and when the City moved back to the current financial reporting module the beginning balances were not reconciled. During audit procedures, it was also determined that certain transactions were not entered into the system and thus created a scope limitation.
<b>Effect or Potential Effect:</b>	The City's books and records are not complete and the City could be relying on incomplete information when making decisions.

**CITY OF JOHNSON CITY, TEXAS**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended September 30, 2021**

Financial Statement Findings

Finding 2020-002 Continued

**Cause:** The financial reporting function did not have appropriate oversight.

**Corrective Action Taken:** Beginning October 1, 2020, City Staff utilized Fund Balance, a financial management and reporting module, exclusively. All financial transactions and bank reconciliations are entered into and reconciled against financial data within Fund Balance. Audit adjustments will be made on all existing assets, liabilities, and reserves/balances for all Funds within Fund Balance at the conclusion of the FYE 2020 audit.

Compliance Finding

**Audit Finding:** 2020-003

**Type:** Non-Compliance

**Criteria:** During the year, it was determined that some payroll transactions were not paid to the appropriate entity, recorded in the payroll function, or not recorded as an employee or employer transaction appropriately.

**Condition:** During the audit, it was determined that multiple years of payroll taxes were not submitted to the IRS, certain payments to employees were recorded outside of payroll which would have been payroll related, and employee deductions were not deducted from the employee account and paid by the City.

**Context:** Through inquiries of management it was determined that back payroll taxes were not remitted and through performing audit procedures around payroll it was determined that certain payroll transactions were not recorded through payroll and other transactions were not deducted from an employee's paycheck and were remitted by the City.

**Effect or Potential Effect:** The City is subject to back payroll taxes and could have exposure for additional payroll taxes based on the classification of payroll transactions.

**Cause:** The payroll function did not have the appropriately oversight.

**Corrective Action Taken:** Beginning October 1, 2020, all payroll, including all taxable benefits paid to or on behalf of employees, was processed through Fund Balance exclusively. In FYE 2021, the City entered into an agreement with the Internal Revenue Services (IRS) to pay all outstanding payroll liabilities through the issuance of General Obligation Refunding Bonds. Said Bonds were received on September 13, 2021, and remitted to the IRS the same day.