

REPORT OF EXAMINATION

**CITY OF
JOHNSON CITY**

Johnson City, Texas

**For the Year Ended
September 30, 2011**

**CITY OF JOHNSON CITY, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2011**

CITY OF JOHNSON CITY
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
 <u>Basic Financial Statements</u>	
Government Wide Statements:	
A-1 Statement of Net Assets.....	9
B-1 Statement of Activities	10
Governmental Fund Financial Statements:	
C-1 Balance Sheet.....	12
C-2 Reconciliation for C-1	14
C-3 Statement of Revenues, Expenditures and Changes in Fund Balance	15
C-4 Reconciliation for C-3	17
Proprietary Fund Financial Statements:	
D-1 Statement of Net Assets.....	18
D-2 Statement of Revenues, Expenses and Changes in Fund Net Assets.....	19
D-3 Statement of Cash Flows	20
Notes to the Financial Statements	21
 <u>Required Supplementary Information</u>	
G-1 Budgetary Comparison Schedule - General Fund.....	35
G-2 Schedule of Funding Progress for the Retirement Plan	36

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.

Certified Public Accountants

P.O. BOX 874 · 736 S. WASHINGTON ST.

FREDERICKSBURG, TEXAS 78624-0874

(830) 997-3348

FAX: (830) 997-3333

Email: nkhd@austin.rr.com

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Honorable Mayor and Aldermen
City of Johnson City, Texas
Johnson City, TX 78636

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Johnson City, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Johnson City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 of Johnson City, as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2012, on our consideration of the City of Johnson 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis (pages 3 – 8), budgetary comparison information (page 35), and the Schedule of Funding Progress for the Retirement Plan (page 36), are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Neffendorf, Knopp, Dooss + Company, P.C.

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Fredericksburg, Texas

August 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Johnson City, we offer readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the year ended September 30, 2011. Please read it in conjunction with the independent auditors' report on page 1, and City's Basic Financial Statements which begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5,248,446 (net assets). Of this amount, \$1,012,935 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net assets increased by \$131,201 as a result of this year's operations.
- At September 30, 2011, the City's governmental funds reported combined ending fund balances of \$722,053, a decrease of \$44,983 in comparison with the prior year.
- At September 30, 2011, the City's Water and Sewer Fund reported net assets of \$4,573,512, an increase of \$159,319 in comparison with the prior year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 9 and 10). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (beginning on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 21) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (operating fund) is presented as required supplementary information on page 35.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

The City has two kinds of funds:

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net assets of the City's governmental activities decreased from \$703,052 to \$674,934. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$359,924 at September 30, 2011. This decrease in governmental net assets was the result of three factors. First, the City's expenditures exceeded the revenues by \$44,893. Second, the City paid principal on long-term debt in the amount of \$64,963 and acquired capital assets in the amount of \$21,905. Third, the City recorded depreciation in the amounts of \$70,535.

Net assets of the City's business-type activities increased from \$4,414,193 to \$4,573,512. Unrestricted net assets were \$653,011 at September 30, 2011. This increase in business-type net assets was the result of net income of \$159,319 (including capital contributions of \$69,249).

Table I
City of Johnson City

NET ASSETS in thousands

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2011	2010	2011	2010	2011	2010
Current and Other Assets	\$ 818	\$ 892	\$ 868	\$ 840	\$ 1,686	\$ 1,732
Capital Assets	1,623	1,672	4,013	4,108	5,636	5,780
Total Assets	\$ 2,441	\$ 2,564	\$ 4,881	\$ 4,948	\$ 7,322	\$ 7,512
Long-Term Liabilities	\$ 1,635	\$ 1,708	\$ 103	\$ 201	\$ 1,738	\$ 1,909
Other Liabilities	131	153	204	333	335	486
Total Liabilities	\$ 1,766	\$ 1,861	\$ 307	\$ 534	\$ 2,073	\$ 2,395
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	\$ 37	\$ 69	\$ 3,811	\$ 3,807	\$ 3,848	\$ 3,876
Restricted	278	229	110	110	388	339
Unrestricted	360	405	653	497	1,013	902
Total Net Assets	\$ 675	\$ 703	\$ 4,574	\$ 4,414	\$ 5,249	\$ 5,117

Table II
City of Johnson City

CHANGES IN NET ASSETS
in thousands

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues:						
Charges for Services	\$ 275	\$ 285	\$ 818	\$ 764	\$ 1,093	\$ 1,049
Municipal Court Fines	92	136	-	-	92	136
Property Taxes	331	304	-	-	331	304
Sales Tax	260	260	-	-	260	260
Franchise Tax	77	76	-	-	77	76
Other Taxes	63	49	-	-	63	49
Operating and Capital Grants	1	40	-	-	1	40
Investment Earnings	5	7	5	7	10	14
Miscellaneous	31	35	4	1	35	36
Total Revenue	\$ 1,135	\$ 1,192	\$ 827	\$ 772	\$ 1,962	\$ 1,964
Expenses:						
Financial Administration	\$ 335	\$ 345	\$ -	\$ -	\$ 335	\$ 345
Police	232	211	-	-	232	211
Highways and Streets	68	69	-	-	68	69
Sanitation	247	243	-	-	247	243
Parks	83	77	-	-	83	77
Municipal Court	5	6	-	-	5	6
Hotel Motel	46	49	-	-	46	49
Community Service	9	13	-	-	9	13
Water and Sewer	-	-	716	711	716	711
Debt Service	89	93	20	26	109	119
Total Expenses	\$ 1,114	\$ 1,106	\$ 736	\$ 737	\$ 1,850	\$ 1,843
Increase in Net Assets Before						
Capital Contributions & Transfers	\$ 21	\$ 86	\$ 91	\$ 35	\$ 112	\$ 121
Capital Contributions	(49)	(16)	69	242	20	226
Transfers		11		(11)		-
Net Assets - Beginning	703	622	4,414	4,148	5,117	4,770
Net Assets - Ending	\$ 675	\$ 703	\$ 4,574	\$ 4,414	\$ 5,249	\$ 5,117

The cost of all governmental activities this year was \$1,163,427. However, as shown in the Statement of Activities on page 10, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$331,107 because the other costs were paid by sales tax (\$259,793), franchise tax (\$77,436), hotel/motel tax (\$58,473), grants (\$638), user charges (\$366,738), investment interest (\$4,951) and other miscellaneous (\$35,903).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 9) reported a combined fund balance of \$722,054, which is less than last year's total of \$766,945. Included in this year's total change in fund balance is an increase of \$35,358 in the City's General Fund.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2011, the City had the following amounts invested in capital assets:

CAPITAL ASSETS in thousands

	Governmental		Business-Type		TOTALS	
	Activities		Activities		Primary Government	
	2011	2010	2011	2010	2011	2010
Land	\$ 495	\$ 495	\$ 41	\$ 41	\$ 536	\$ 536
Construction in Progress	13	-	-	245	13	245
Distribution & Collection Systems	-	-	6,525	6,192	6,525	6,192
Buildings & Improvements	1,477	1,472	85	85	1,562	1,557
Equipment	545	547	364	328	909	875
Total Capital Assets	\$ 2,530	\$ 2,514	\$ 7,015	\$ 6,891	\$ 9,545	\$ 9,405

This year's major additions included:

	Governmental	Business Type
	Activities	Activities
System Improvements	\$ -	\$ 87,493
SRTS Grant	13,370	-
Improvements	4,861	-
Machinery & Equipment	3,674	36,114
TOTALS	\$ 21,905	\$ 123,607

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

DEBT

At September 30, 2011, the City had the following outstanding debt:

OUTSTANDING DEBT in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2011	2010	2011	2010	2011	2010
Bonds Payable	\$ -	\$ -	\$ 205	\$ 295	\$ 205	\$ 295
Notes Payable	7	17	-	-	7	17
Certificates of Obligation Payable	1,700	1,755	-	10	1,700	1,765
Total Outstanding Debt	\$ 1,707	\$ 1,772	\$ 205	\$ 305	\$ 1,912	\$ 2,077

For governmental activities, the City paid \$9,963 in principal on the outstanding notes and paid \$55,000 in principal on the outstanding certificates of obligation.

For business-type activities, the City paid \$100,000 in principal on the outstanding long-term debt.

More detailed information about the City's long-term liabilities is presented in Notes G, H, I, J and K to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2012 budget and tax rates. The major factors are the assessed property valuation, economy and population growth. These indicators were taken into account when adopting the General Fund budget for 2012. Amounts available for appropriation in the General Fund budget are \$1,742,866 and expenditures are estimated to be \$1,735,236.

If these estimates are realized, the City's budgetary General fund balance is expected to increase by \$7,630 by the close of 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office, at City of Johnson City, Johnson City, Texas.

BASIC FINANCIAL STATEMENTS

CITY OF JOHNSON CITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 27,930	\$ 112,205	\$ 140,135
Investments - Current	606,697	633,623	1,240,320
Receivables (net of allowance for uncollectibles)	92,368	75,028	167,396
Internal Balances	63,877	(63,877)	-
Capitalized Debt Issuance Costs	26,707	-	26,707
Restricted Assets:			
Restricted Asset - Debt Service	-	110,150	110,150
Capital Assets:			
Land	495,373	41,402	536,775
Buildings, net	133,718	16,245	149,963
Improvements other than Buildings, net	933,924	3,857,573	4,791,497
Machinery and Equipment, net	46,578	97,983	144,561
Construction in Progress	13,370	-	13,370
Other Assets	-	200	200
Total Assets	<u>2,440,542</u>	<u>4,880,532</u>	<u>7,321,074</u>
LIABILITIES			
Accounts Payable	25,509	15,544	41,053
Intergovernmental Payable	19,231	-	19,231
Accrued Interest Payable	13,636	2,005	15,641
Customer Deposits	-	86,619	86,619
Noncurrent Liabilities			
Due Within One Year	72,232	100,000	172,232
Due in More Than One Year	1,635,000	102,852	1,737,852
Total Liabilities	<u>1,765,608</u>	<u>307,020</u>	<u>2,072,628</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	36,626	3,810,351	3,846,977
Restricted for:			
Restricted for Special Revenue	60,479	110,150	170,629
Restricted for Debt Service	217,905	-	217,905
Unrestricted Net Assets	359,924	653,011	1,012,935
Total Net Assets	<u>\$ 674,934</u>	<u>\$ 4,573,512</u>	<u>\$ 5,248,446</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF JOHNSON CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
Financial Administration	\$ 334,853	\$ 8,458	-	-
Police	231,622	-	-	-
Highways and Streets	68,454	-	-	-
Community Service	8,703	-	-	-
Hotel Motel	46,249	-	-	-
Municipal Court	5,611	92,020	-	-
Sanitation	247,186	257,909	-	-
Parks	82,918	8,351	638	-
Bond Interest	87,263	-	-	-
Other Debt Interest	1,675	-	-	-
Capital Outlay	48,893	-	-	-
Total Governmental Activities:	1,163,427	366,738	638	-
BUSINESS-TYPE ACTIVITIES:				
Water/Sewer Fund	735,784	817,325	-	69,249
Total Business-Type Activities:	735,784	817,325	-	69,249
TOTAL PRIMARY GOVERNMENT:	\$ 1,899,211	\$ 1,184,063	\$ 638	\$ 69,249

General Revenues:

Taxes:

- Property Taxes, Levied for General Purposes
- Property Taxes, Levied for Debt Service
- Sales Taxes
- Gross Receipts Business Tax
- Penalty and Interest
- Miscellaneous Revenue
- Investment Earnings
- Total General Revenues

Change in Net Assets

Net Assets--Beginning

Net Assets--Ending

The notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (326,395)	\$ -	\$ (326,395)
(231,622)	-	(231,622)
(68,454)	-	(68,454)
(8,703)	-	(8,703)
(46,249)	-	(46,249)
86,409	-	86,409
10,723	-	10,723
(73,929)	-	(73,929)
(87,263)	-	(87,263)
(1,675)	-	(1,675)
(48,893)	-	(48,893)
<u>(796,051)</u>	<u>-</u>	<u>(796,051)</u>
-	150,790	150,790
-	150,790	150,790
<u>(796,051)</u>	<u>150,790</u>	<u>(645,261)</u>
162,766	-	162,766
168,341	-	168,341
259,793	-	259,793
136,179	-	136,179
4,789	-	4,789
31,114	3,666	34,780
4,951	4,863	9,814
<u>767,933</u>	<u>8,529</u>	<u>776,462</u>
(28,118)	159,319	131,201
703,052	4,414,193	5,117,245
<u>\$ 674,934</u>	<u>\$ 4,573,512</u>	<u>\$ 5,248,446</u>

CITY OF JOHNSON CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General Fund	Debt Service Fund	Capital Projects
ASSETS			
Cash and Cash Equivalents	\$ 27,229	\$ -	\$ 701
Investments - Current	472,430	-	134,267
Taxes Receivable	11,658	10,657	-
Allowance for Uncollectible Taxes (credit)	(583)	(533)	-
Receivables (Net)	53,937	-	-
Due from Other Funds	63,877	207,781	-
Total Assets	\$ 628,548	\$ 217,905	\$ 134,968
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 23,376	\$ -	\$ -
Wages and Salaries Payable	2,133	-	-
Intergovernmental Payable	19,231	-	-
Due to Other Funds	253,907	-	-
Deferred Revenues	11,075	10,124	-
Total Liabilities	309,722	10,124	-
Fund Balances:			
Restricted Fund Balance:			
Restricted for Special Revenue	-	-	-
Capital Acquisition and Contractual Obligation	-	-	134,968
Retirement of Long-Term Debt	-	207,781	-
Unassigned Fund Balance	318,826	-	-
Total Fund Balances	318,826	207,781	134,968
Total Liabilities and Fund Balances	\$ 628,548	\$ 217,905	\$ 134,968

The notes to the Financial Statements are an integral part of this statement.

Hotel/Motel Fund	Total Governmental Funds
\$ -	\$ 27,930
-	606,697
-	22,315
-	(1,116)
14,353	68,290
46,126	317,784
<u>\$ 60,479</u>	<u>\$ 1,041,900</u>

\$ -	\$ 23,376
-	2,133
-	19,231
-	253,907
-	21,199
<u>-</u>	<u>319,846</u>

60,479	60,479
-	134,968
-	207,781
-	318,826
<u>60,479</u>	<u>722,054</u>

<u>\$ 60,479</u>	<u>\$ 1,041,900</u>
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CITY OF JOHNSON CITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2011

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	722,054
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$2,513,668 and the accumulated depreciation was \$842,074. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to decrease net assets.		(100,602)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2011 capital outlays and debt principal payments is to increase net assets.		86,868
The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(70,535)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.		37,149
Net Assets of Governmental Activities	\$	674,934

The notes to the Financial Statements are an integral part of this statement.

CITY OF JOHNSON CITY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Debt Service Fund	Capital Projects
REVENUES:			
Taxes:			
Property Taxes	\$ 161,622	\$ 167,158	\$ -
General Sales and Use Taxes	259,793	-	-
Gross Receipts Business Tax	77,436	-	-
Penalty and Interest on Taxes	4,789	-	-
Licenses and Permits	9,037	-	-
Intergovernmental Revenue and Grants	638	-	-
Charges for Services	266,260	-	-
Fines	92,020	-	-
Investment Earnings	4,753	-	198
Rents and Royalties	23,400	-	-
Other Revenue	8,052	-	-
Total Revenues	<u>907,800</u>	<u>167,158</u>	<u>198</u>
EXPENDITURES:			
Current:			
General Government:			
Financial Administration	328,424	-	-
Public Safety:			
Police	217,177	-	-
Highways and Streets	62,026	-	-
Community Service	7,900	-	-
Hotel Motel	-	-	-
Municipal Court	4,808	-	-
Sanitation	238,195	-	-
Culture and Recreation:			
Parks	51,084	-	-
Debt Service:			
Bond Principal	-	55,000	-
Other Debt Principal	9,963	-	-
Bond Interest	-	86,295	-
Other Debt Interest	1,675	-	-
Capital Outlay:			
Capital Outlay	21,905	-	48,893
Total Expenditures	<u>943,157</u>	<u>141,295</u>	<u>48,893</u>
Net Change in Fund Balances	(35,357)	25,863	(48,695)
Fund Balance - October 1 (Beginning)	354,183	181,918	183,663
Fund Balance - September 30 (Ending)	<u>\$ 318,826</u>	<u>\$ 207,781</u>	<u>\$ 134,968</u>

The notes to the Financial Statements are an integral part of this statement.

Hotel/Motel Fund	Total Governmental Funds
\$ -	\$ 328,780
-	259,793
58,743	136,179
-	4,789
-	9,037
-	638
-	266,260
-	92,020
-	4,951
-	23,400
-	8,052
58,743	1,133,899
-	328,424
-	217,177
-	62,026
-	7,900
45,446	45,446
-	4,808
-	238,195
-	51,084
-	55,000
-	9,963
-	86,295
-	1,675
-	70,798
45,446	1,178,791
13,297	(44,892)
47,182	766,946
\$ 60,479	\$ 722,054

CITY OF JOHNSON CITY
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

Total Net Change in Fund Balances - Governmental Funds	\$	(44,893)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2011 capital outlays and debt principal payments is to increase net assets.		86,868
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(70,535)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.		442
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>(28,118)</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF JOHNSON CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

EXHIBIT D-1

	Business Type Activities
	Water & Sewer Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 112,205
Investments - Current	633,623
Restricted Assets - Current:	
Restricted Asset - Debt Service	110,150
Accounts Receivable-Net of Uncollectible Allowance	75,028
Total Current Assets	931,006
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	41,402
Buildings	84,963
Accumulated Depreciation - Buildings	(68,718)
Improvements other than Buildings	6,524,502
Accumulated Depreciation - Other Improvements	(2,666,929)
Machinery and Equipment	363,633
Accumulated Depreciation - Machinery & Equipment	(265,650)
Other Asset	200
Total Noncurrent Assets	4,013,403
Total Assets	4,944,409
LIABILITIES	
Current Liabilities:	
Accounts Payable	14,319
Wages and Salaries Payable	1,225
Due to Other Funds	63,877
Accrued Interest Payable	2,005
Bonds Payable - Current:	
Revenue Bonds Payable	100,000
Customer Deposits	86,619
Total Current Liabilities	268,045
NonCurrent Liabilities:	
Bonds Payable - Noncurrent	105,000
Unamortized Charge - Refunding Bonds	(2,148)
Total Noncurrent Liabilities	102,852
Total Liabilities	370,897
NET ASSETS	
Investments in Capital Assets, Net of Debt	3,810,351
Restricted for Debt Service	110,150
Unrestricted Net Assets	653,011
Total Net Assets	\$ 4,573,512

The notes to the Financial Statements are an integral part of this statement.

CITY OF JOHNSON CITY
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

EXHIBIT D-2

	Business Type Activities
	Water & Sewer Fund
OPERATING REVENUES:	
Charges for Services	\$ 817,325
Other Revenue	3,666
Total Operating Revenues	820,991
OPERATING EXPENSES:	
Water & Sewer Fund	
Personnel Services - Salaries and Wages	228,411
Personnel Services - Employee Benefits	60,642
Purchased Professional & Technical Services	19,126
Purchased Property Services	87,472
Other Operating Expenses	93,885
Supplies	8,209
Total Water & Sewer Fund	497,745
Depreciation	217,841
Total Operating Expenses	715,586
Operating Income	105,405
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	4,863
Interest Expense - Non-Operating	(20,198)
Total Non-operating Revenue (Expenses)	(15,335)
Income Before Contributions	90,070
Capital Contributions	69,249
Change in Net Assets	159,319
Total Net Assets - October 1 (Beginning)	4,414,193
Total Net Assets - September 30 (Ending)	\$ 4,573,512

The notes to the Financial Statements are an integral part of this statement.

CITY OF JOHNSON CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business Type Activities
	Water & Sewer Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 817,388
Cash Received Other Services	3,476
Cash Payments to Employees for Services	(288,988)
Cash Payments for Suppliers	(96,418)
Cash Payments for Other Operating Expenses	(113,011)
Net Cash Provided by Operating Activities	<u>322,447</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(123,607)
Capital Contributed by Other Funds	69,249
Interest Paid	(19,125)
Principal Payments - Certificates of Obligation	(100,000)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(173,483)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>4,863</u>
Net Increase in Cash and Cash Equivalents	153,827
Cash and Cash Equivalents at Beginning of the Year:	<u>592,001</u>
Cash and Cash Equivalents at the End of the Year:	<u><u>\$ 745,828</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income:	\$ 105,405
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	217,841
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease in Receivables	127,044
Decrease in Accounts Payable	(133,489)
Increase in Accrued Wages	65
Increase in Customer Deposits	5,771
Decrease in Due to Other Funds	(190)
Net Cash Provided by Operating Activities	<u><u>\$ 322,447</u></u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF JOHNSON CITY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2011

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

D. Fund Accounting

The City reports the following major governmental funds:

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

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

Governmental Funds:

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

Proprietary Fund:

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

E. Other Accounting Policies

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

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

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

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

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

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

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

3. Beginning with fiscal year end September 30, 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:
 - Non-spendable fund balance – amounts that are not in non-spendable form (such as inventory) or are required to be maintained intact.
 - Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
 - Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
 - Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
 - Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

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

4. Vacation and sick leave expenses are charged to operations when taken by the employees of the City. Accordingly, no accruals are reflected in the accounts for unpaid amounts of vacation and sick leave earned by employees. Employees are allowed to carry over up to 40 hours of vacation leave and up to 720 hours of sick leave. Upon termination, employees are entitled for payment of the vacation they have earned but not for any sick leave. The liabilities for accumulated vacation and sick leave at September 30, 2011 are estimated to be insignificant and are not reflected in the accompanying financial statements.
5. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
6. The original budget is adopted by the City Council prior to the beginning of the fiscal year through passage of an ordinance. The budget includes proposed expenditures and the means of financing them.

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

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

NOTE II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

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

At September 30, 2011, the carrying amount of the City's deposits was \$139,985 and the bank balance was \$151,529. The City's cash deposits at September 30, 2011 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. The City's deposits were secured by pledged securities and FDIC coverage.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

The City's temporary investments at September 30, 2011 are shown below:

	<u>Carrying Amount</u>	<u>Market Value</u>	<u>FDIC Coverage</u>	<u>Pledged Securities</u>
Investment Pool -				
TexPool	\$ 134,267	\$ 134,627	\$ -	\$ -
Certificates of Deposit -				
Johnson City Bank	1,106,053	1,106,053	250,000	1,500,000

Government pool investments are not categorized in accordance with GASB Statement No. 3, because they are not evidenced by securities that exist in physical or book entry form. Also, investments in government investment pools are not required to disclose custodial credit risk, concentration of credit risk and interest rate risk in accordance with GASB Statement No. 40.

Credit Risk - Government pool investments have low market (credit) risk due to restrictions on weighted average maturity and maximum maturity of any one investment. The investment manager is required to maintain a stable \$1.00 net asset value and must take immediate action if the net asset value of the portfolio falls below \$.995 or rises above \$1.005.

Policies Governing Deposits and Investments

In compliance with the **Public Funds Investment Act**, the City has adopted a deposit and investment policy. That policy does address the following risks:

Custodial Credit Risk - Deposits: This is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City was not exposed to custodial credit risk since its deposits at year-end were covered by depository insurance or by pledged collateral held by the City's agent bank in the City's name.

Custodial Credit Risk - Investments: This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments (certificates of deposit) were secured by FDIC insurance and pledged securities.

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2011, the City was not exposed to concentration of credit risk, interest rate risk or foreign currency risk.

B. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the City fiscal year.

The Johnson City County Appraisal District appraises and collects taxes for the City. For 2011, the City of Johnson City had property with an assessed valuation of \$114,225,732. The tax rate was \$.2959 (General Fund .1406 and Debt Service .1523) per \$100 valuation.

C. Court Fines and Fees Receivable

With the implementation of GASB Statement Number 34, the City has determined the amount of court fines and fees receivable to be \$3,838. Based on historical collection rates for the various courts, the City has booked an allowance for uncollectible court fines and fees of \$959, resulting in a net receivable of \$2,879.

D. Restricted Assets

Restricted assets in the Water and Sewer Fund represent cash that has been set aside for future payment of revenue bonds and capital improvements. A summary of restricted assets at September 30, 2011 appears below:

Certificate of Deposit -	Amount
Debt Service Fund	\$ 110,150

E. Property, Plant and Equipment

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

	Balance 10/01/10	Additions	Deletions	Balance 9/30/11
Land	\$ 41,402	\$ -	\$ -	\$ 41,402
Buildings	84,963	-	-	84,963
Improvements	6,192,184	332,318	-	6,524,502
Machinery and Equipment	327,519	36,114	-	363,633
Construction in Progress	244,825	-	(244,825)	-
Total Fixed Assets	\$ 6,890,893	\$ 368,432	\$ (244,825)	\$ 7,014,500
Less: Reserve for Depreciation	(2,783,456)	(217,841)	-	(3,001,297)
Net Fixed Assets	\$ 4,107,437	\$ 150,591	\$ (244,825)	\$ 4,013,203

F. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2011, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 495,373	\$ -	\$ -	\$ 495,373
Building	426,966	961	-	427,927
Machinery & Equipment	546,766	3,674	5,167	545,273
Improvements	1,044,563	3,900	-	1,048,463
Construction in Progress	-	13,370	-	13,370
Totals at Historic Cost	\$ 2,513,668	\$ 21,905	\$ 5,167	\$ 2,530,406
Less Accumulated Depreciation For:				
Building & Improvements	\$ (364,368)	\$ (44,379)	\$ -	\$ (408,747)
Machinery & Equipment	(477,706)	(26,156)	5,167	(498,695)
Total Accumulated Depreciation	\$ (842,074)	\$ (70,535)	\$ 5,167	\$ (907,442)
Governmental Activities Capital Assets, Net	\$ 1,671,594	\$ (48,630)	\$ -	\$ 1,622,964

G. Revenue Bonds Payable and Certificates of Obligation

A summary of revenue bonds payable and certificates of obligation appears below:

	Balance 10/01/10	Issued	Retired	Balance 9/30/11	Due Within One Year
Combination Tax & Revenue Certificates of Obligation, Series 1996 (5.5%)	\$ 10,000	\$ -	\$ 10,000	\$ -	\$ -
Waterworks and Sewer System Subordinate Lien Revenue & Refunding Bonds, Series 1999 (6.0%)	295,000	-	90,000	205,000	100,000
Total	\$ 305,000	\$ -	\$ 100,000	\$ 205,000	\$ 100,000

Debt service requirements for the revenue bonds and certificates of obligation outstanding as of September 30, 2011 are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Requirements</u>
2012	\$ 100,000	\$ 12,300	\$ 112,300
2013	105,000	6,300	111,300
Totals	\$ 205,000	\$ 18,600	\$ 223,600

During the year ended September 30, 1996, the City issued Tax and Revenue Certificates of Obligation, Series 1996 for \$125,000. The Tax and Revenue Certificates of Obligation Series 1996 were issued for the purpose of paying for (1) the construction of a water storage facility and related improvements and (2) paying professional services including fiscal, engineering, and legal fees and other such costs incurred in connection with the project, including the costs of issuing the certificates. Since the Water and Sewer System Fund will provide the annual debt service on these certificates of obligation, the certificates are considered to be liabilities of the Water and Sewer Fund. The certificates of obligation are payable and secured by a pledge of surplus revenues of the Water and Sewer Fund and further payable and secured by a pledge of tax collections.

During 1999, the City issued the Waterworks and Sewer System Subordinate Lien Revenue and Refunding Bonds - Series 1999 for \$995,000. The bonds were issued (1) to effect the current refunding of a portion of the City's outstanding obligations, (2) construct, improve and extend the City's utility system, (3) pay the costs of issuance, and (4) fund a portion of the reserve fund. The Bonds constitute special obligations of the City and are payable and secured by lien on and pledge of the net revenues of the City's waterworks and sewer system.

H. Refunding Bonds - Long Term Debt

During 1999, the City currently refunded the City's outstanding Combination Tax and Revenue Certificates of Obligation, Series 1989 and the Combination Tax and Revenue Refunding Bonds, Series 1989 (\$835,000). The following obligations are considered to be defeased and the liability removed from the accompanying financial statements:

<u>Description</u>	<u>Refunded Amount</u>	<u>Balance 9/30/11</u>
Combination Tax and Revenue Certificates of Obligation Series 1989	\$ 745,000	\$ 5,000
Combination Tax and Revenue Refunding Bonds - Series 1989	90,000	90,000
Total Amount Refunded	\$ 835,000	\$ 95,000

I. General Long Term Debt

A summary of changes in General Long Term Debt follows:

	Balance 10/01/10	Issued	Retired	Balance 9/30/11	Due Within One Year
Certificates of Obligation -					
Series 2000 (5.00%)	\$ 30,000	\$ -	\$ 30,000	\$ -	\$ -
Series 2003 (4.55%)	145,000	-	15,000	130,000	15,000
Series 2005 (4.95%)	1,580,000	-	10,000	1,570,000	50,000
Total Certificates of Obligation	\$ 1,755,000	\$ -	\$ 55,000	\$ 1,700,000	\$ 65,000
Notes Payable -					
Johnson City Bank	\$ 210	\$ -	\$ 210	\$ -	\$ -
Daimler Chrysler	16,985	-	9,753	7,232	7,232
Total Notes Payable	\$ 17,195	\$ -	\$ 9,963	\$ 7,232	\$ 7,232
Total Long Term Debt	\$ 1,772,195	\$ -	\$ 64,963	\$ 1,707,232	\$ 72,232

J. Certificates of Obligation

During 2000, the City issued the Combination tax and revenue Certificates of Obligation, Series 2000, for street improvements. The certificates of obligation are payable from the collections of an ad valorem tax levied on taxable property, and further payable and secured by a pledge of the surplus revenues of the water and sewer system.

The Combination Tax and Revenue Certificates of Obligation, Series 2003, were issued to finance (1) construction of City parks and park improvement projects, including a public hike and bike trail, (2) construction of water storage facility and improvements and (3) issuance costs. The certificates of obligation are payable from the collections of an ad valorem tax levied on taxable property, and further payable by a limited pledge of the surplus revenues of the water and sewer system in an amount not to exceed \$1,000.

In October, 2005, the City issued Combination Tax and Revenue Certificates of Obligation - Series 2005 for \$1,600,000. The Certificates were issued for (1) constructing, improving and extending the City's waterworks and sewer system, including improvements to the City's wastewater treatment plant and a new water well, (2) constructing, improving and equipping of City parks and park improvements projects, including a public hike and bike trail, (3) constructing and improving street, drainage and sidewalk improvements within the City and purchasing any necessary right-of-way and other related costs, (4) the acquisition of land for municipal buildings, (5) purchasing municipal utility vehicles, and (6) paying bond issuance costs.

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

Debt service requirements for the certificates of obligation as of September 30, 2011 are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Requirements</u>
2012	\$ 65,000	\$ 83,630	\$ 148,630
2013	70,000	80,473	150,473
2014	75,000	77,068	152,068
2015	80,000	73,435	153,435
2016	85,000	69,555	154,555
2017 – 2021	405,000	286,365	691,365
2022 – 2026	465,000	183,398	648,398
2027 – 2031	455,000	57,915	512,915
Totals	\$ 1,700,000	\$ 911,839	\$ 2,611,839

K. Notes Payable

In October, 2007 the City entered into a capital lease with Daimler Chrysler Financial Services Americas, LLC for 2 police cars. The lease is due in 57 payments of \$950 per month beginning November, 2007.

The City issued a note payable to Johnson City Bank on October 11, 2007 for \$8,100 to finance the purchase of police equipment. The note is due in 36 monthly payments of \$243 beginning October, 2007 and maturing October, 2010 (interest at 5.0%).

Debt service requirements for the notes payable as of September 30, 2011 are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Requirements</u>
2012	\$ 7,232	\$ 1,314	\$ 8,546
Totals	\$ 7,232	\$ 1,314	\$ 8,546

L. Risk Management

The City of Johnson City is exposed to various risks of loss relating to general liability, accidental loss of real and personal property, damage to assets, errors and omissions, acts of God and personnel risks which relate to workers compensation.

The City contracts with the Texas Municipal League (TML) to provide insurance coverage for identified risks. TML is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are sent annually to TML. Liability by the City is generally limited to the contributed amounts. Contributions for the year ended September 30, 2011 were \$24,836.

M. Defined Benefit Pension Plan

Plan Description

The City provides pension benefits for all of its full-time 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; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. 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' website at 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 were as follows:

	<u>Plan Year 2010</u>	<u>Plan Year 2011</u>
Deposit Rate:	5%	5%
Matching Ratio (City to Employee):	1.5 to 1	1.5 to 1
A member is vested after	5 yrs	5 yrs
Service retirement eligibility (expressed as age/years of serve)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

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.

**Trend Information
for the Retirement Plan for the Annual Pension Cost**

<u>Accounting Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9-30-08	\$ 29,830	100%	- 0 -
9-30-09	35,936	100%	- 0 -
9-30-10	38,766	100%	- 0 -
9-30-11	41,552	100%	- 0 -

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Valuation Date	12/31/2008	12/31/2009	12/31/2010 – Prior to Restructuring	12/31/2010 – Restructured
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	29.0 years; closed period	27.2 years; closed period	26.5 years; closed period	26.0 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years	23 years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return *	7.5%	7.5%	7.5%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%	2.1%

Funded Status and Funding Progress – In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) – (1)		(4) / (5)
12/31/2010 ¹	\$ 642,768	\$ 775,038	82.9%	\$ 132,270	\$ 577,627	22.9%
12/31/2010 ²	782,340	871,960	89.7%	89,620	577,627	15.5%

¹ Actuarial valuation performed under the original fund structure.

² Actuarial valuation performed under the new fund structure.

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 results 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 in actuarial 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.

N. OPEB – Supplemental Death Benefits

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

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

Contributions

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

The City's contributions to the TMRS SDBF for the years ended 2011, 2010 and 2009 were \$1,083, \$1,052 and \$1,080, respectively, which equaled the required contributions each year.

**Schedule of Contribution Rates:
(RETIREE – only portion of the rate)**

<u>Plan/ Calendar Year</u>	<u>Annual Required Contribution (Rate)</u>	<u>Annual Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>
2008	0.03%	0.03%	100.00%
2009	0.02%	0.02%	100.00%
2010	0.02%	0.02%	100.00%
2011	0.01%	0.19%	100.00%

O. Employee Insurance Benefits

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

P. Cash Flows Statement - Supplemental Disclosure

Since the City is tax exempt, no income tax was paid in 2011 and 2010. The City paid interest in the amount of \$19,125 in 2011 and \$24,775 in 2010 on their outstanding debt.

Q. Claims and Contingent Liabilities

The City is involved in a lawsuit which was brought by the City against an individual. Subsequent to the audit period, the City as a final judgment was awarded \$42,000 for civil penalties and \$95,077 in attorneys' fees. Pending the outcome of an appeal by the plaintiff, in the opinion of the City's management, the resolution of this matter will not have a material adverse effect on the accompanying financial statements.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Pending the results of discrepancies found in the municipal courts records, the City may owe additional amounts to the State for court costs collected but not reported to the State.

R. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2011, is as follows:

Due to/from other funds:

	<u>Due To</u>	<u>Due From</u>
General Fund	\$ 253,907	\$ 63,877
Special Revenue Fund	-	46,126
Debt Service Fund	-	207,781
Water/Sewer Fund	63,877	-
Total	<u>\$ 317,784</u>	<u>\$ 317,784</u>

S. Subsequent Event

The City has evaluated subsequent events through August 30, 2012, the date which the financial statements were available to be issued. As disclosed in Note Q above (final judgment awards of \$42,000 for civil penalties and \$95,077 for attorney fees), the City is not aware of any other subsequent events that materially impact the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF JOHNSON CITY
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 171,000	\$ 171,000	\$ 161,622	\$ (9,378)
General Sales and Use Taxes	236,500	236,500	259,793	23,293
Gross Receipts Business Tax	78,000	78,000	77,436	(564)
Penalty and Interest on Taxes	3,100	3,100	4,789	1,689
Licenses and Permits	26,000	26,000	9,037	(16,963)
Intergovernmental Revenue and Grants	88,030	88,030	638	(87,392)
Charges for Services	258,400	258,400	266,260	7,860
Fines	121,330	121,330	92,020	(29,310)
Investment Earnings	6,000	6,000	4,753	(1,247)
Rents and Royalties	17,400	17,400	23,400	6,000
Other Revenue	1,500	1,500	8,052	6,552
Total Revenues	1,007,260	1,007,260	907,800	(99,460)
EXPENDITURES:				
Current:				
General Government:				
Financial Administration	407,504	407,504	328,424	79,080
Public Safety:				
Police	217,281	217,281	217,177	104
Highways and Streets	66,763	66,763	62,026	4,737
Community Service	9,600	9,600	7,900	1,700
Municipal Court	21,530	21,530	4,808	16,722
Sanitation	211,307	211,307	238,195	(26,888)
Culture and Recreation:				
Parks	64,250	64,250	51,084	13,166
Debt Service:				
Other Debt Principal	9,753	9,753	9,963	(210)
Other Debt Interest	1,642	1,642	1,675	(33)
Capital Outlay:				
Capital Outlay	88,030	88,030	21,905	66,125
Total Expenditures	1,097,660	1,097,660	943,157	154,503
Net Change	(90,400)	(90,400)	(35,357)	55,043
Fund Balance - October 1 (Beginning)	354,183	354,183	354,183	-
Fund Balance - September 30 (Ending)	\$ 263,783	\$ 263,783	\$ 318,826	\$ 55,043

CITY OF JOHNSON CITY
 REQUIRED SUPPLEMENTARY INFORMATION
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS
 SEPTEMBER 30, 2011
 (Unaudited)

**SCHEDULE OF FUNDING PROGRESS FOR THE RETIREMENT PLAN
 FOR THE EMPLOYEES OF THE CITY OF JOHNSON CITY**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/08	\$ 564,992	\$ 747,534	75.6%	\$ 182,542	\$ 473,477	38.6%
12/31/09	542,118	663,402	81.7%	121,284	544,515	22.3%
12/31/10 ¹	642,768	775,038	82.9%	132,270	577,627	22.9%
12/31/10 ²	782,340	871,960	89.7%	89,620	577,627	15.5%

¹ Actuarial valuation performed under the original fund structure

² Actuarial valuation performed under the new fund structure