

*REPORT OF EXAMINATION*

**CITY OF  
JOHNSON CITY**

*Johnson City, Texas*

**For the Year Ended  
September 30, 2014**



**CITY OF JOHNSON CITY, TEXAS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2014**



CITY OF JOHNSON CITY  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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

## ***Certified Public Accountants***

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### **Report on Basic Financial Statements Accompanied by Required Supplementary Information, Supplementary Information, and Other Information**

#### **INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Members of the City Council  
City of Johnson City, Texas  
Johnson City, TX 78636

We have audited the accompanying financial statements of the governmental activities and the business-type activities of City of Johnson City, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

#### **Auditor's Responsibility**

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

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

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





## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities of the City of Johnson City, Texas, as of September 30, 2014, 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

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–8 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Neffendorf, Knopp, Doss & Company, P.C.*  
NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.  
Fredericksburg, Texas

August 28, 2015



## 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, 2014. 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 \$6,038,526 (net position). Of this amount, \$1,726,438 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position increased by \$179,695 as a result of this year's operations.
- At September 30, 2014, the City's governmental funds reported combined ending fund balances of \$848,118, a decrease of \$58,549 in comparison with the prior year.
- At September 30, 2014, the City's Water and Sewer Fund reported net position of \$4,534,000, a decrease of \$66,716 in comparison with the prior year.

### USING THIS ANNUAL REPORT

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

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

The notes to the financial statements (starting on page 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 34.



## **Reporting the City as a Whole**

### ***The Statement of Net Position and the Statement of Activities***

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

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

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

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

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

## **Reporting the City's Most Significant Funds**

### ***Fund Financial Statements***

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

The City has two kinds of funds:

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



## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the City's governmental activities increased from \$1,258,115 to \$1,504,530. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$662,804 at September 30, 2014. This increase in governmental net position was the result of three factors. First, the City's expenditures exceeded the revenues by \$58,549. Second, the City paid principal on long-term debt in the amount of \$133,120 and acquired capital assets in the amount of \$256,933. Third, the City recorded depreciation in the amounts of \$82,646.

Net position of the City's business-type activities decreased from \$4,600,715 to \$4,534,000. Unrestricted net position were \$1,063,634 at September 30, 2014. This decrease in business-type net position was the result of net loss of \$66,716.

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

### NET POSITION in thousands

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 903	\$ 991	\$ 1,213	\$ 1,092	\$ 2,116	\$ 2,083
Capital Assets	2,164	1,990	3,470	3,626	5,634	5,616
Total Assets	\$ 3,067	\$ 2,981	\$ 4,683	\$ 4,718	\$ 7,750	\$ 7,699
Deferred Outflow of Resources	\$ 21	\$ 22	\$ -	\$ -	\$ 21	\$ 22
Long-Term Liabilities	\$ 1,444	\$ 1,523	\$ -	\$ -	\$ 1,444	\$ 1,523
Other Liabilities	140	221	149	117	289	338
Total Liabilities	\$ 1,584	\$ 1,744	\$ 149	\$ 117	\$ 1,733	\$ 1,861
Deferred Inflow of Resources	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ 1
Net Position:						
Invested in Capital Assets						
Net of Related Debt	\$ 641	\$ 417	\$ 3,470	\$ 3,626	\$ 4,111	\$ 4,043
Restricted	200	256	-	-	200	256
Unrestricted	663	585	1,064	975	1,727	1,560
Total Net Position	\$ 1,504	\$ 1,258	\$ 4,534	\$ 4,601	\$ 6,038	\$ 5,859





**Table II  
City of Johnson City**

**CHANGES IN NET POSITION  
in thousands**

	Governmental Activities		Business Type Activities		TOTALS Primary Government	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
Charges for Services	\$ 336	\$ 323	\$ 775	\$ 813	\$ 1,111	\$ 1,136
Municipal Court Fines	92	90	-	-	92	90
Property Taxes	437	380	-	-	437	380
Sales Tax	340	302	-	-	340	302
Franchise Tax	137	148	-	-	137	148
Other Taxes	8	6	-	-	8	6
Operating and Capital Grants	215	319	-	-	215	319
Investment Earnings	2	4	1	4	3	8
Miscellaneous	51	158	5	5	56	163
<b>Total Revenue</b>	<b>\$ 1,618</b>	<b>\$ 1,730</b>	<b>\$ 781</b>	<b>\$ 822</b>	<b>\$ 2,399</b>	<b>\$ 2,552</b>
<b>Expenses:</b>						
Financial Administration	\$ 377	\$ 358	\$ -	\$ -	\$ 377	\$ 358
Police	252	240	-	-	252	240
Highways and Streets	73	79	-	-	73	79
Sanitation	280	255	-	-	280	255
Parks	111	77	-	-	111	77
Municipal Court	64	48	-	-	64	48
Hotel Motel	65	54	-	-	65	54
Community Service	23	12	-	-	23	12
Water and Sewer	-	-	878	781	878	781
Debt Service	36	91	-	6	36	97
<b>Total Expenses</b>	<b>\$ 1,281</b>	<b>\$ 1,214</b>	<b>\$ 878</b>	<b>\$ 787</b>	<b>\$ 2,159</b>	<b>\$ 2,001</b>
<b>Increase in Net Position Before</b>						
Capital Contributions & Transfers	\$ 337	\$ 516	\$ (97)	\$ 35	\$ 240	\$ 551
Capital Contributions	-	-	35	-	35	-
Special Item	(96)	-	-	-	(96)	-
Transfers	5	(10)	(5)	10	-	-
Net Position - Beginning	1,258	777	4,601	4,556	5,859	5,333
Prior Period Adjustment	-	(25)	-	-	-	(25)
<b>Net Position - Ending</b>	<b>\$ 1,504</b>	<b>\$ 1,258</b>	<b>\$ 4,534</b>	<b>\$ 4,601</b>	<b>\$ 6,038</b>	<b>\$ 5,859</b>



The cost of all governmental activities this year was \$1,280,491. 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 \$437,423 because the other costs were paid by sales tax (\$340,147), franchise tax (\$72,129), hotel/motel tax (\$65,329), grants (\$215,014), user charges (\$427,550), investment interest (\$1,507) and other miscellaneous (\$59,340).

**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 \$848,117, which is less than last year's total of \$906,667. Included in this year's total change in fund balance is an increase of \$104,975 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 more than the budgeted amounts.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

At September 30, 2014, the City had the following amounts invested in capital assets:

**CAPITAL ASSETS**  
in thousands

	Governmental		Business-Type		TOTALS	
	Activities		Activities		Primary Government	
	2014	2013	2014	2013	2014	2013
Land	\$ 485	\$ 485	\$ 41	\$ 41	\$ 526	\$ 526
Construction in Progress	-	394	51	-	51	394
Distribution & Collection Systems	-	-	6,589	6,576	6,589	6,576
Buildings & Improvements	2,143	1,507	85	85	2,228	1,592
Equipment	628	630	345	345	973	975
<b>Total Capital Assets</b>	<b>\$ 3,256</b>	<b>\$ 3,016</b>	<b>\$ 7,111</b>	<b>\$ 7,047</b>	<b>\$ 10,367</b>	<b>\$ 10,063</b>

This year's major additions included:

	Governmental	Business Type
	Activities	Activities
System Improvements	\$ 26,874	\$ 64,183
SRTS Grant	215,014	-
Machinery & Equipment	15,045	-
<b>TOTALS</b>	<b>\$ 256,933</b>	<b>\$ 64,183</b>

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



## DEBT

At September 30, 2014, the City had the following outstanding debt:

### OUTSTANDING DEBT in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2014	2013	2014	2013	2014	2013
Notes Payable	\$ -	\$ 43	\$ -	\$ -	\$ -	\$ 43
Refunding Bonds	1,539	1,633	-	-	1,539	1,633
Total Outstanding Debt	<u>\$ 1,539</u>	<u>\$ 1,676</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,539</u>	<u>\$ 1,676</u>

For governmental activities, the City paid \$43,120 in principal on the outstanding notes and paid \$90,000 in principal on the outstanding refunding bonds.

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

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

The City's elected and appointed officials considered many factors when setting the fiscal-year 2015 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 2015. Amounts available for appropriation in the General Fund budget are \$1,443,383 and expenditures are estimated to be \$1,515,158.

If these estimates are realized, the City's budgetary General fund balance is expected to decrease by about \$71,775 by the close of 2015.

## 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.



CITY OF JOHNSON CITY  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2014

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 30,393	\$ 296,415	\$ 326,808
Investments - Current	784,944	760,503	1,545,447
Receivables (net of allowance for uncollectibles)	87,243	66,224	153,467
Due From State	-	14,796	14,796
Restricted Assets:			
Restricted Asset-Construction	-	74,484	74,484
Capital Assets:			
Land	484,501	41,402	525,903
Buildings, net	105,363	10,169	115,532
Improvements other than Buildings, net	1,484,851	3,312,258	4,797,109
Machinery and Equipment, net	89,789	55,114	144,903
Construction in Progress	-	51,423	51,423
Other Assets	-	200	200
<b>Total Assets</b>	<u>3,067,084</u>	<u>4,682,988</u>	<u>7,750,072</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Deferred Charge for Refunding	\$ 21,008	\$ -	\$ 21,008
<b>Total Deferred Outflows of Resources</b>	<u>21,008</u>	<u>-</u>	<u>21,008</u>
<b>LIABILITIES</b>			
Accounts Payable	28,290	48,258	76,548
Intergovernmental Payable	10,327	-	10,327
Accrued Interest Payable	5,943	-	5,943
Meter Deposits	-	100,730	100,730
Noncurrent Liabilities			
Due Within One Year	95,000	-	95,000
Due in More Than One Year	1,444,006	-	1,444,006
<b>Total Liabilities</b>	<u>1,583,566</u>	<u>148,988</u>	<u>1,732,554</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	641,579	3,470,366	4,111,945
Restricted for:			
Restricted for Special Revenue	90,102	-	90,102
Restricted for Debt Service	110,041	-	110,041
Unrestricted Net Position	662,804	1,063,634	1,726,438
<b>Total Net Position</b>	<u>\$ 1,504,526</u>	<u>\$ 4,534,000</u>	<u>\$ 6,038,526</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, 2014

	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
<b>Primary Government:</b>			
<b>GOVERNMENTAL ACTIVITIES:</b>			
Financial Administration	\$ 377,283	\$ 25,396	\$ -
Police	252,450	-	-
Highways and Streets	72,803	-	-
Community Services	22,505	-	-
Hotel Motel	65,042	-	-
Municipal Court	64,252	92,376	-
Sanitation	279,654	300,176	-
Parks	110,491	9,602	-
Bond Interest	35,685	-	-
Other Debt Interest	326	-	-
Capital Outlay	-	-	215,014
<b>Total Governmental Activities:</b>	<u>1,280,491</u>	<u>427,550</u>	<u>215,014</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>			
	<u>877,770</u>	<u>774,513</u>	<u>35,390</u>
<b>Total Business-Type Activities:</b>	<u>877,770</u>	<u>774,513</u>	<u>35,390</u>
<b>TOTAL PRIMARY GOVERNMENT:</b>	<u>\$ 2,158,261</u>	<u>\$ 1,202,063</u>	<u>\$ 250,404</u>

**General Revenues:**

**Taxes:**

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Gross Receipts Business Tax

Penalty and Interest

Grants and Contributions Not Restricted

Miscellaneous Revenue

Investment Earnings

Special Item-Lawsuit Settlement (Note Q)

Transfers In (Out)

**Total General Revenues, Special Items, and Transfers**

Change in Net Position

Net Position - Beginning

Net Position--Ending

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



Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (351,887)	\$ -	\$ (351,887)
(252,450)	-	(252,450)
(72,803)	-	(72,803)
(22,505)	-	(22,505)
(65,042)	-	(65,042)
28,124	-	28,124
20,522	-	20,522
(100,889)	-	(100,889)
(35,685)	-	(35,685)
(326)	-	(326)
215,014	-	215,014
<u>(637,927)</u>	<u>-</u>	<u>(637,927)</u>
-	(67,867)	(67,867)
-	(67,867)	(67,867)
<u>(637,927)</u>	<u>(67,867)</u>	<u>(705,794)</u>
377,681	-	377,681
59,742	-	59,742
340,147	-	340,147
137,458	-	137,458
7,874	-	7,874
3,810	-	3,810
47,656	4,566	52,222
1,507	1,491	2,998
(96,443)	-	(96,443)
4,906	(4,906)	-
<u>884,338</u>	<u>1,151</u>	<u>885,489</u>
246,411	(66,716)	179,695
1,258,115	4,600,716	5,858,831
<u>\$ 1,504,526</u>	<u>\$ 4,534,000</u>	<u>\$ 6,038,526</u>

CITY OF JOHNSON CITY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2014

	General Fund	Debt Service Fund	Capital Projects
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 30,393	\$ -	\$ -
Investments - Current	784,944	-	-
Taxes Receivable	7,877	1,970	-
Allowance for Uncollectible Taxes (credit)	(394)	(98)	-
Receivables (Net)	56,081	-	-
Due from Other Funds	-	118,040	-
<b>Total Assets</b>	<b>\$ 878,901</b>	<b>\$ 119,912</b>	<b>\$ -</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 21,683	\$ -	\$ -
Wages and Salaries Payable	6,607	-	-
Intergovernmental Payable	10,327	-	-
Due to Other Funds	192,827	-	-
<b>Total Liabilities</b>	<b>231,444</b>	<b>-</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	7,483	1,871	-
<b>Total Deferred Inflows of Resources</b>	<b>7,483</b>	<b>1,871</b>	<b>-</b>
<b>FUND BALANCES</b>			
Restricted for Special Revenue	-	-	-
Retirement of Long-Term Debt	-	118,041	-
Unassigned Fund Balance	639,975	-	-
<b>Total Fund Balances</b>	<b>639,975</b>	<b>118,041</b>	<b>-</b>
<b>Total Liabilities, Deferred Inflows &amp; Fund Balances</b>	<b>\$ 878,902</b>	<b>\$ 119,912</b>	<b>\$ -</b>

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

Hotel/Motel Fund	Total Governmental Funds
\$ -	\$ 30,393
-	784,944
-	9,847
-	(492)
15,315	71,396
74,787	192,827
<u>\$ 90,102</u>	<u>\$ 1,088,915</u>
\$ -	\$ 21,683
-	6,607
-	10,327
-	192,827
-	<u>231,444</u>
-	9,354
-	<u>9,354</u>
90,102	90,102
-	118,041
-	639,975
<u>90,102</u>	<u>848,118</u>
<u>\$ 90,102</u>	<u>\$ 1,088,916</u>



CITY OF JOHNSON CITY  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2014

<b>Total Fund Balances - Governmental Funds</b>	\$	848,118
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 \$3,016,318 and the accumulated depreciation was \$1,026,101. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		382,097
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 2014 capital outlays and debt principal payments is to increase net position.		390,053
The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(82,646)
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 decrease net position.		(33,096)
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>1,504,526</b>

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, 2014

	General Fund	Debt Service Fund	Capital Projects
<b>REVENUES:</b>			
Taxes:			
Property Taxes	\$ 382,783	\$ 60,550	\$ -
General Sales and Use Taxes	340,147	-	-
Gross Receipts Business Tax	72,129	-	-
Penalty and Interest on Taxes	7,875	-	-
Licenses and Permits	25,942	-	-
Intergovernmental Revenue and Grants	-	-	215,014
Charges for Services	309,777	-	-
Fines	92,376	-	-
Investment Earnings	1,482	-	25
Rents and Royalties	15,970	-	-
Contributions & Donations from Private Sources	3,810	-	-
Other Revenue	6,466	-	-
Total Revenues	<u>1,258,757</u>	<u>60,550</u>	<u>215,039</u>
<b>EXPENDITURES:</b>			
Current:			
General Government:			
Financial Administration	372,310	-	-
Public Safety:			
Police	241,199	-	-
Public Works:			
Highways and Streets	69,315	-	-
Community Services	22,340	-	-
Hotel Motel	-	-	-
Municipal Court	63,583	-	-
Sanitation	264,768	-	-
Culture and Recreation:			
Parks	73,784	-	37
Debt Service:			
Bond Principal	-	90,000	-
Other Debt Principal	43,120	-	-
Bond Interest	-	38,665	-
Other Debt Interest	326	-	-
Capital Outlay:			
Capital Outlay	32,170	-	215,014
Total Expenditures	<u>1,182,915</u>	<u>128,665</u>	<u>215,051</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	75,842	(68,115)	(12)
<b>OTHER FINANCING SOURCES (USES):</b>			
Sale of Real and Personal Property	2,600	-	-
Transfers In	101,384	19,340	-
Insurance Recovery	21,591	-	-
Transfers Out (Use)	-	-	(115,818)
Total Other Financing Sources (Uses)	<u>125,575</u>	<u>19,340</u>	<u>(115,818)</u>
<b>SPECIAL ITEMS:</b>			
Special Item - (Use)	(96,443)	-	-
Net Change in Fund Balances	104,974	(48,775)	(115,830)
Fund Balance - October 1 (Beginning)	535,001	166,816	115,830
Fund Balance - September 30 (Ending)	<u>\$ 639,975</u>	<u>\$ 118,041</u>	<u>\$ -</u>

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

Hotel/Motel Fund	Total Governmental Funds
\$ -	\$ 443,333
-	340,147
65,329	137,458
-	7,875
-	25,942
-	215,014
-	309,777
-	92,376
-	1,507
-	15,970
-	3,810
-	6,466
65,329	1,599,675
-	372,310
-	241,199
-	69,315
-	22,340
64,247	64,247
-	63,583
-	264,768
-	73,821
-	90,000
-	43,120
-	38,665
-	326
-	247,184
64,247	1,590,878
1,082	8,797
-	2,600
-	120,724
-	21,591
-	(115,818)
-	29,097
-	(96,443)
1,082	(58,549)
89,020	906,667
\$ 90,102	\$ 848,118





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, 2014

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>(58,549)</b>
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2014 capital outlays and debt principal payments is to increase the change in net position.		390,053
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(82,646)
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 decrease the change in net position.		(2,447)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>246,411</b>

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



CITY OF JOHNSON CITY  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2014

	Business Type Activities
	Water & Sewer Fund
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 296,415
Investments - Current	760,503
<b>Restricted Assets - Current:</b>	
Restricted Asset-Construction	74,484
Accounts Receivable-Net of Uncollectible Allowance	66,224
Due from Other Governments	14,796
Total Current Assets	<u>1,212,422</u>
<b>Noncurrent Assets:</b>	
<b>Capital Assets:</b>	
Land Purchase and Improvements	41,402
Buildings	84,963
Accumulated Depreciation - Buildings	(74,794)
Improvements other than Buildings	6,588,676
Accumulated Depreciation - Other Improvements	(3,276,418)
Machinery and Equipment	345,413
Accumulated Depreciation - Machinery & Equipment	(290,299)
Construction in Progress	51,423
Other Assets	200
Total Noncurrent Assets	<u>3,470,566</u>
Total Assets	<u>4,682,988</u>
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable	41,208
Wages and Salaries Payable	7,050
Meter Deposits	100,730
Total Liabilities	<u>148,988</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	3,470,366
Restricted for Construction	74,484
Unrestricted Net Position	989,150
Total Net Position	<u>\$ 4,534,000</u>

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 POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXHIBIT D-2

	Business Type Activities
	Water & Sewer Fund
<b>OPERATING REVENUES:</b>	
Charges for Services	\$ 774,513
Other Revenue	4,566
Total Operating Revenues	779,079
<b>OPERATING EXPENSES:</b>	
Personnel Services - Salaries and Wages	275,954
Personnel Services - Employee Benefits	90,423
Purchased Professional & Technical Services	53,618
Purchased Property Services	95,899
Other Operating Expenses	138,087
Supplies	4,094
Depreciation	219,695
Total Operating Expenses	877,770
Operating Income (Loss)	(98,691)
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
Investment Earnings	1,491
Total Non-operating Revenue (Expenses)	1,491
Income (Loss) Before Contributions & Transfers	(97,200)
Capital Contributions	35,390
Transfers Out	(4,906)
Change in Net Position	(66,716)
Total Net Position - October 1 (Beginning)	4,600,716
 Total Net Position - September 30 (Ending)	 \$ 4,534,000

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, 2014

	Business Type Activities
	Water & Sewer Fund
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Received from User Charges	\$ 764,653
Cash Received - Other Services	4,566
Cash Payments to Employees for Services	(361,275)
Cash Payments for Suppliers	(99,993)
Cash Payments for Other Operating Expenses	(170,006)
Cash Payments from Other Funds	163,435
Net Cash Provided by Operating Activities	<u>301,380</u>
<b><u>Cash Flows from Non-Capital Financing Activities:</u></b>	
Operating Transfers Out	<u>(4,906)</u>
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>	
Acquisition of Capital Assets	(64,182)
Capital Contributed by Other Funds	35,390
Increase in Restricted Funds	(74,484)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(103,276)</u>
<b><u>Cash Flows from Investing Activities:</u></b>	
Interest on Investments	<u>1,491</u>
Net Increase in Cash and Cash Equivalents	194,689
Cash and Cash Equivalents at Beginning of the Year:	<u>862,229</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 1,056,918</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:</u></b>	
Operating Income (Loss):	\$ (98,691)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	219,695
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease in Due from Other Funds	163,435
Increase in Receivables	(14,793)
Increase in Accounts Payable	21,699
Increase in Accrued Wages	5,102
Increase in Customer Deposits	4,933
Net Cash Provided by Operating Activities	<u>\$ 301,380</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, 2014

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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



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

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

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

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

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

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

D. Fund Accounting

The City reports the following major governmental funds:

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

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

Governmental Funds:

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



3. **Capital Projects Fund** - The Capital Projects Fund is used to account for the financial resources used for acquisition of major capital improvements.

Proprietary Fund:

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

E. Other Accounting Policies

1. In the government-wide financial statements 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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed.

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

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

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

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

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

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

3. Beginning with fiscal year end September 30, 2014, 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. Implementation of new GASB Accounting Standard:

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

5. 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, 2014 are estimated to be insignificant and are not reflected in the accompanying financial statements.
6. 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.
7. 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.

8. 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, 2014, the carrying amount of the City's deposits was \$326,458 and the bank balance was \$354,283. The City's cash deposits at September 30, 2014 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, 2014 are shown below:

	<u>Carrying Amount</u>	<u>Market Value</u>	<u>FDIC Coverage</u>	<u>Pledged Securities</u>
Investment Pool -				
TexPool (1)	\$ 1,074,676	\$ 1,074,676	\$ -	\$ -
Savings -				
Lone Star Capital	545,255	545,255	250,000	1,032,125



- (1) Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

#### Policies Governing Deposits and Investments

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

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

**Custodial Credit Risk - Investments:** This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

**Other Credit Risk:** There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, TexPool Investment Pool invests only in investments authorized under the Public Funds Investment Act. TexPool's portfolio has low market (credit) risk due to restrictions on weighted average maturity and maximum maturity of any one investment. The investment manager is required to maintain a stable \$1.00 net asset value and must take immediate action if the net asset value of the portfolio falls below \$.995 or rises above \$1.005.

#### Restricted Assets

Restricted assets represent cash that has been set aside in the Water and Sewer Fund for future payment of capital improvements.

#### 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 2014, the City of Johnson City had property with an assessed valuation of \$117,521,204. The tax rate was \$0.3999 (General Fund \$0.35 and Debt Service \$0.0499) 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 \$18,704. Based on historical collection rates for the various courts, the City has booked an allowance for uncollectible court fines and fees of \$12,207, resulting in a net receivable of \$6,497.



D. Property, Plant and Equipment

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

	Balance 10/01/13	Additions	Deletions	Balance 9/30/14
Land	\$ 41,402	\$ -	\$ -	\$ 41,402
Buildings	84,963	-	-	84,963
Improvements	6,575,916	12,760	-	6,588,676
Machinery and Equipment	345,413	-	-	345,413
Construction In Progress	-	51,423	-	51,423
<b>Total Fixed Assets</b>	<b>\$ 7,047,694</b>	<b>\$ 64,183</b>	<b>\$ -</b>	<b>\$ 7,111,877</b>
Less: Reserve for Depreciation	(3,421,816)	(219,695)	-	(3,641,511)
<b>Net Fixed Assets</b>	<b>\$ 3,625,878</b>	<b>\$ (155,512)</b>	<b>\$ -</b>	<b>\$ 3,470,366</b>

E. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2014, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
<b>Governmental Activities:</b>				
Land	\$ 484,501	\$ -	\$ -	\$ 484,501
Building	427,927	-	-	427,927
Machinery & Equipment	630,164	15,045	17,024	628,185
Improvements	1,079,345	636,269	-	1,715,614
Construction in Progress	394,381	215,014	609,395	-
<b>Totals at Historic Cost</b>	<b>\$ 3,016,318</b>	<b>\$ 866,328</b>	<b>\$ 626,419</b>	<b>\$ 3,256,227</b>
<b>Less Accumulated Depreciation For:</b>				
Building & Improvements	\$ (498,772)	\$ (54,556)	\$ -	\$ 553,328
Machinery & Equipment	(527,329)	(28,090)	17,024	538,395
<b>Total Accumulated Depreciation</b>	<b>\$ (1,026,101)</b>	<b>\$ (82,646)</b>	<b>\$ 17,024</b>	<b>\$ 1,091,723</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 1,990,217</b>	<b>\$ 783,682</b>	<b>\$ 609,395</b>	<b>\$ 2,164,504</b>

Depreciation expense was charged to the following governmental functions:

Financial Administration	\$ 4,973
Police	21,000
Streets	3,488
Community Service	165
Hotel/Motel	795
Municipal Court	669
Parks	36,670
Sanitation	14,886
<b>TOTAL</b>	<b>\$ 82,646</b>



F. General Long Term Debt

A summary of changes in General Long Term Debt follows:

	Balance 10/01/13	Issued	Retired	Balance 9/30/14	Due Within One Year
General Obligation Refunding - Series 2012 (2.00-3.00%)	\$ 1,565,000	\$ -	\$ 90,000	\$ 1,475,000	\$ 95,000
Premium on Refunding Bonds	68,006	-	4,000	64,006	-
Total Certificates of Obligation	\$ 1,633,006	\$ -	\$ 94,000	\$ 1,539,006	\$ 95,000
Notes Payable - Johnson City Bank	\$ 43,120	\$ -	\$ 43,120	\$ -	\$ -
Total Notes Payable	\$ 43,120	\$ -	\$ 43,120	\$ -	\$ -
Total Long Term Debt	\$ 1,676,126	\$ -	\$ 137,120	\$ 1,539,006	\$ 95,000

G. General Obligation Refunding Bonds

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

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

Debt service requirements for the refunding bonds as of September 30, 2014 are as follows:

September 30,	Principal	Interest	Annual Requirements
2015	\$ 95,000	\$ 36,450	\$ 131,450
2016	100,000	34,550	134,550
2017	95,000	32,550	127,550
2018	100,000	30,650	130,650
2019	80,000	28,650	108,650
2020 – 2024	455,000	116,625	571,625
2025 – 2029	455,000	55,800	510,800
2030 – 2034	95,000	2,850	97,850
Totals	\$ 1,475,000	\$ 338,125	\$ 1,813,125

H. Long-Term Debt Advance Refunding

During 2013, the City advance refunded the Series 2003 and Series 2005 Certificates of Obligation by issuing \$1,675,000 general obligation refunding bonds – Series 2012. The certificates of obligation were called and were redeemed by depositing \$1,672,380 into an escrow account on December 26, 2012. The certificates of obligation have been defeased and removed as a liability of the County. The refunding bonds resulted in a gross debt service savings of \$378,787 and the net present value savings of \$328,891. The following obligations are considered to be defeased and the liability removed from the accompanying financial statements:





<u>Description</u>	<u>Refunded Amount</u>	<u>Balance 9/30/14</u>
Certificates of Obligation - Series 2003	\$ 115,000	\$ 100,000
Series 2005	<u>1,520,000</u>	<u>1,465,000</u>
<b>TOTAL</b>	<b><u>\$ 1,635,000</u></b>	<b><u>\$ 1,565,000</u></b>

I. Notes Payable

The City issued a note payable to Johnson City Bank in October 05, 2012 for \$57,484 to finance the purchase of police equipment. The note was paid off in January, 2014.

J. Risk Management

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

The City contracts with the Texas Municipal League (TML) to provide insurance coverage for identified risks. TML is a multi-government group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are sent annually to TML. Liability by the City is generally limited to the contributed amounts. Contributions for the year ended September 30, 2014 were \$40,811.

K. 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](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 were as follows:

	<u>Plan Year 2013</u>	<u>Plan Year 2014</u>
Deposit Rate:	6%	6%
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**

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
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 -
9-30-12	49,953	100%	- 0 -
9-30-13	57,520	100%	- 0 -
9-30-14	61,230	100%	- 0 -

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	12/31/2011	12/31/2012	12/31/2013
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	27.0 years; closed period	25.7 years; closed period	25 years; closed period
Amortization Period for new Gains/Losses	24 years	23 years	22 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%



## Funded Status and Funding Progress

The funded status as of December 31, 2013, the most recent actuarial valuation date, 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)
12/31/2013	\$ 1,124,834	\$ 1,500,141	75%	\$ 375,307	\$ 633,468	59.2%

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.

### L. 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 2014, 2013 and 2012 were \$950, \$890 and \$865, 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>
2011	0.01%	0.015%	100.00%
2012	0.01%	0.015%	100.00%
2013	0.01%	0.015%	100.00%
2014	0.02%	0.015%	100.00%

**M. Employee Insurance Benefits**

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

**N. Cash Flows Statement - Supplemental Disclosure**

Since the City is tax exempt, no income tax was paid in 2014 and 2013. The City paid interest in the amount of \$-0- in 2014 and \$6,300 in 2013 on their outstanding debt.

**O. Claims and Contingent Liabilities**

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

**P. Interfund Receivables, Payables and Transfers**

The composition of interfund balances as of September 30, 2014, is as follows:

**Due to/from other funds:**

	<u>Due To</u>	<u>Due From</u>
General Fund	\$ 192,827	\$ -
Special Revenue Fund	-	74,787
Debt Service Fund	-	118,040
<b>Total</b>	<b>\$ 192,827</b>	<b>\$ 192,827</b>





During the year ended September 30, 2014, the City's transfers between funds consisted of:

	<u>Transfers In</u>	<u>Transfers Out</u>
Capital Projects	\$ -	\$ 115,819
Water/Sewer Fund	-	4,906
General Fund	101,385	-
Debt Service Fund	19,340	-
Total	<u>\$ 120,725</u>	<u>\$ 120,725</u>

Q. Special Item – Lawsuit Settlement

The City was involved in a lawsuit which was brought by the City against an individual. The City entered in to a mediated settlement agreement to pay the individual \$92,000 in addition to attorney fees and other expenses of \$4,443.

R. Subsequent Events

The City has evaluated subsequent events through August 28, 2015, the date which the financial statements were available to be issued. In July, 2015, the City authorized the issuance of \$895,000 Tax and Surplus Revenue Certificates of Obligation, Series 2015 for various improvements. Beginning with the 2015 fiscal year, the City will have to include a net pension liability in its financial statements in accordance with GASB Statement No. 68. The Texas Municipal Retirement System (TMRS) has calculated the City's net pension liability to be \$375,307 as of December 31, 2013. The City is not aware of any other subsequent events that would 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, 2014

EXHIBIT G-I

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 264,765	\$ 264,765	\$ 382,783	\$ 118,018
General Sales and Use Taxes	294,000	294,000	340,147	46,147
Gross Receipts Business Tax	78,000	78,000	72,129	(5,871)
Penalty and Interest on Taxes	5,500	5,500	7,875	2,375
Licenses and Permits	16,310	16,310	25,942	9,632
Charges for Services	297,800	297,800	309,777	11,977
Fines	110,372	110,372	92,376	(17,996)
Investment Earnings	1,500	1,500	1,482	(18)
Rents and Royalties	15,000	15,000	15,970	970
Contributions & Donations from Private Sources	1,500	1,500	3,810	2,310
Other Revenue	9,910	9,910	6,466	(3,444)
Total Revenues	<u>1,094,657</u>	<u>1,094,657</u>	<u>1,258,757</u>	<u>164,100</u>
<b>EXPENDITURES:</b>				
Current:				
General Government:				
Financial Administration	333,908	333,908	372,310	(38,402)
Public Safety:				
Police	248,332	248,332	241,199	7,133
Public Works:				
Highways and Streets	75,354	75,354	69,315	6,039
Community Services	22,340	22,340	22,340	-
Municipal Court	77,570	77,570	63,583	13,987
Sanitation	237,613	237,613	264,768	(27,155)
Culture and Recreation:				
Parks	72,460	72,460	73,784	(1,324)
Debt Service:				
Other Debt Principal	15,580	15,580	43,120	(27,540)
Other Debt Interest	-	-	326	(326)
Capital Outlay:				
Capital Outlay	161,613	161,613	32,170	129,443
Total Expenditures	<u>1,244,770</u>	<u>1,244,770</u>	<u>1,182,915</u>	<u>61,855</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(150,113)</u>	<u>(150,113)</u>	<u>75,842</u>	<u>225,955</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of Real and Personal Property	3,500	3,500	2,600	(900)
Transfers In	146,613	146,613	101,384	(45,229)
Insurance Recovery	-	-	21,591	21,591
Total Other Financing Sources (Uses)	<u>150,113</u>	<u>150,113</u>	<u>125,575</u>	<u>(24,538)</u>
<b>SPECIAL ITEMS:</b>				
Special Item - (Use)	-	-	(96,443)	(96,443)
Net Change in Fund Balances	-	-	104,974	104,974
Fund Balance - October 1 (Beginning)	535,001	535,001	535,001	-
Fund Balance - September 30 (Ending)	<u>\$ 535,001</u>	<u>\$ 535,001</u>	<u>\$ 639,975</u>	<u>\$ 104,974</u>



CITY OF JOHNSON CITY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 TEXAS MUNICIPAL RETIREMENT SYSTEM  
 SCHEDULE OF FUNDING PROGRESS  
 SEPTEMBER 30, 2014  
 (Unaudited)

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

*Texas Municipal Retirement System*

*Schedule of Funding Progress:*

(unaudited)

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)
12/31/2011	\$ 897,730	\$ 1,136,825	79.0%	\$ 239,095	\$ 580,941	41.2%
12/31/2012	1,000,085	1,225,142	81.6%	225,057	582,353	38.6%
12/31/2013	1,124,834	1,500,141	75.0%	375,307	633,468	59.2%





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

## Certified Public Accountants

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MEMBER  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER  
TEXAS SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

#### Independent Auditor's Report

Honorable Mayor and Members of the City Council  
City of Johnson City, Texas  
Johnson City, TX 78636

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Johnson City, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Johnson City, Texas' basic financial statements, and have issued our report thereon dated August 28, 2015.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Johnson City, Texas' internal control over financial reporting (Internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Johnson City, Texas' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Johnson City, Texas' internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did identify deficiencies in internal control that we consider to be material weaknesses.

Significant journal entries were necessary to correct beginning balances, record accrual adjustments, record fixed assets and accumulated depreciation balances and record the lawsuit settlement. Management has reviewed and agreed to record all audit adjustments.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Johnson City, Texas' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

For the fiscal year 2013-2014 budget and tax rate, the City did not comply with the appropriate sections of The Local Government Code (Section 102) for timely filing and public hearing on the budget and the Property Tax Code (Chapter 26) for timely filings and public hearings on the adoption of a tax rate.

### **Purpose of this Report**

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

*Neffendorf, Knopp, Doss + Company, P.C.*  
NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.  
Fredericksburg, Texas

August 28, 2015



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

## Certified Public Accountants

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MEMBER  
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MEMBER  
TEXAS SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

August 28, 2015

Honorable Mayor and Members of the City Council  
City of Johnson City, Texas  
Johnson City, TX 78636

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Johnson City for the year ended September 30, 2014, and have issued our report thereon dated August 28, 2015. Professional standards require that we provide you with the following information related to our audit.

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

Our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, 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 responsibilities.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Johnson City are described in Note 1 to the financial statements. The City implemented new GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* as well as the early implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The application of existing policies was not changed during the year ended September 30, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.



### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Significant journal entries (some of which were material) were made to correct and record balances to the financial statements. Management has agreed and corrected all such misstatements.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated August 28, 2015.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Other Matters*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### *Recommendations*

#### Prior Year Recommendations

#### Separate Funds in General Ledger

Currently the City uses two main funds (General and Water & Sewer) due to the software (Quickbooks). However, the City should also maintain separate funds for debt service, hotel/motel tax and capital projects. When the City sets up the general ledger with its new software, we recommend that the separate funds for debt service, hotel/motel tax and capital projects be maintained.





### Financial Accounting and Controls

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

### Investments

We again recommend the City prepare an Investment report to include the following:

1. A listing of accounts by fund showing the type of investment (money market account, certificate of deposit, etc.), balance, interest rate and maturity date as applicable.
2. A summary which shows the FDIC coverage and the amount of pledged securities by the bank.

### Journal Entries

Numerous journal entries were again made to adjust various account balances in the general ledger. We again recommend that the general ledger account balances be reviewed monthly and the appropriate journal entries be made.

This information is intended solely for the use of the City Council and management of City of Johnson City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Neffendorf, Knopp, Doss + Company, P.C.*  
NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.  
Fredericksburg, Texas

