

OFFICIAL STATEMENT

Dated: November 9, 2015

Ratings:
S&P: "AA" (stable outlook)
Fitch: "AA+" (stable outlook)
**(see "OTHER INFORMATION -
Ratings" herein)**

NEW ISSUE - Book-Entry-Only

The Obligations are not obligations described in section 103(a) of the Internal Revenue Code of 1986. See "TAX MATTERS" herein.

\$20,605,000
JOHNSON COUNTY, TEXAS
CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2015

Dated Date: November 1, 2015

Interest Accrual Date: Delivery Date

Due: February 15, as shown on page 2

PAYMENT TERMS . . . Interest on the \$20,605,000 Johnson County, Texas, Certificates of Obligation, Taxable Series 2015 (the "Obligations") will accrue from December 8, 2015 (the "Delivery Date"), and will be payable February 15 and August 15 of each year commencing February 15, 2017 until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Obligations will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Obligations may be acquired in denominations of \$5,000 or integral multiples thereof within a stated maturity. **No physical delivery of the Obligations will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Obligations will be payable by the Paying Agent/Registrar to DTC., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations. See "THE OBLIGATIONS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is Amegy Bank National Association, Plano, Texas (see "THE OBLIGATIONS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Obligations are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 271, Subchapter C, Texas Local Government Code, as amended, and are direct obligations of Johnson County, Texas (the "County"), payable from an annual ad valorem tax levied on all taxable property within the County, within the limits prescribed by law, as provided in the order authorizing the Obligations (the "Certificate Order") (see "THE OBLIGATIONS- Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Obligations will be used for paying all or a portion of the County's contractual obligations for the acquisition, construction and equipment of certain public improvements for the County, to wit: for the renovation and expansion of the County jail and for paying legal, fiscal and engineering fees in connection with such project. (see PLAN OF FINANCING - Purpose of the Obligations").

CUSIP PREFIX: 478898

MATURITY SCHEDULE & 9 DIGIT CUSIP

See Schedule on Page 2

LEGALITY . . . The Obligations are offered for delivery when, as and if issued and received by the Underwriter and subject to the approving opinion of the Attorney General of the State and the opinion of McCall, Parkhurst and Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion"). Certain matters will be passed upon for the Underwriter by its counsel, Bracewell & Giuliani LLP, Dallas, Texas.

DELIVERY . . . It is expected that the Obligations will be available for delivery through DTC on December 8, 2015.

RBC Capital Markets

MATURITY SCHEDULE

CUSIP Prefix⁽¹⁾: 478898

Principal Amount	Maturity Dates	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$550,000	2/15/2018	1.704%	1.704%	ES4
560,000	2/15/2019	2.104%	2.104%	ET2
570,000	2/15/2020	2.404%	2.404%	EU9
585,000	2/15/2021	2.657%	2.657%	EV7
1,020,000	2/15/2022	2.907%	2.907%	EW5
1,050,000	2/15/2023	3.052%	3.052%	EX3
1,085,000	2/15/2024	3.232%	3.232%	EY1
1,120,000	2/15/2025	3.402%	3.402%	EZ8
1,160,000	2/15/2026	3.602%	3.602%	FA2
1,205,000	2/15/2027	3.762%	3.762%	FB0
1,250,000	2/15/2028	3.922%	3.922%	FC8
1,300,000	2/15/2029	4.082%	4.082%	FD6
1,355,000	2/15/2030	4.202%	4.202%	FE4

\$7,795,000 4.627% Term Obligation due February 15, 2035 at a Price of 100.000% to Yield 4.627% - CUSIP No. FF1⁽¹⁾

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. The County, the Financial Advisor and the Underwriter take no responsibility for the accuracy of such numbers.

OPTIONAL REDEMPTION OF THE OBLIGATIONS... The County reserves the right, at its option, to redeem Obligations having stated maturities on and after February 15, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS - Optional Redemption of the Obligations").

MANDATORY SINKING FUND REDEMPTION... The Obligations maturing on February 15, 2035 are subject to mandatory redemption in part prior to maturity at a price of par plus accrued interest to the redemption date as described under "THE OBLIGATIONS - Mandatory Sinking Fund Redemption."

(THE REMAINDER OF THIS PAGE LEFT BLANK INTENTIONALLY.)

No dealer, broker, salesman or other person has been authorized by the County or the Underwriter to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the County or the Underwriter. This Official Statement does not constitute an offer to sell Obligations in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the County and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor or the Underwriter. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the County's undertaking to provide certain information on a continuing basis.

The Underwriter has provided the following sentence for inclusion in this official statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

THE OBLIGATIONS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE OBLIGATIONS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE OBLIGATIONS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE COUNTY, ITS FINANCIAL ADVISOR NOR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY- ONLY SYSTEM.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

IN CONNECTION WITH THE OFFERING OF THE OBLIGATIONS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE OBLIGATIONS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The agreements of the County and others related to the Obligations are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Obligations is to be construed as constituting an agreement with the purchasers of the Obligations. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Obligations to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

- THE COUNTY** Johnson County, Texas (the "County") is a body politic and political subdivision of the State of Texas (the "State"), located in North Central Texas on the southwestern edge of the Dallas/Fort Worth area. The County covers approximately 731 square miles.
- THE OBLIGATIONS**..... The Obligations are issued as \$20,605,000 Certificates of Obligation, Taxable Series 2015. The Obligations are issued as serial Obligations maturing on February 15 in each of the years 2018 through 2030 and a Term Obligation maturing February 15, 2035 (see "THE OBLIGATIONS - Description of the Obligations" and "THE OBLIGATIONS - Mandatory Sinking Fund Redemption").
- PAYMENT OF INTEREST ON THE OBLIGATIONS** Interest on the Obligations accrues from the delivery date, estimated to be December 8, 2015, and is payable February 15, 2017, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE OBLIGATIONS - Description of the Obligations").
- AUTHORITY FOR ISSUANCE** The Obligations are issued pursuant to the general laws of the State, including particularly V.T.C.A., Texas Local Government Code, Chapter 271, Subchapter C, as amended, and an order adopted by the Commissioners Court of the County (see "THE OBLIGATIONS - Authority for Issuance").
- SECURITY FOR THE OBLIGATIONS** The Obligations constitute direct obligations of the County, payable from an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the County (see "THE OBLIGATIONS - Security and Source of Payment for the Obligations").
- REDEMPTION OF OBLIGATIONS...** The County reserves the right, at its option, to redeem Obligations having stated maturities on and after February 15, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS - Optional Redemption of the Obligations"). In addition, the Certificates maturing on February 15, 2035 are subject to mandatory redemption in part prior to maturity at a price of par plus accrued interest to the redemption date as described under "THE OBLIGATIONS - Mandatory Sinking Fund Redemption."
- TAX STATUS** The Obligations are not obligations described in section 103(a) of the Internal Revenue Code of 1986. See "TAX MATTERS" herein.
- USE OF PROCEEDS** Proceeds from the sale of the Obligations will be used for paying all or a portion of the County's contractual obligations for the acquisition, construction and equipment of certain public improvements for the County, to wit: for the renovation and expansion of the County jail and for paying legal, fiscal and engineering fees in connection with such project. (see PLAN OF FINANCING - Purpose of the Obligations").
- RATINGS** The Obligations and the presently outstanding tax-supported debt of the County have been rated "AA+" (stable outlook) by Fitch Ratings ("Fitch") and "AA" (stable outlook) by Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business ("S&P") (see "OTHER INFORMATION - Ratings").

BOOK-ENTRY-ONLY SYSTEM..... The definitive Obligations will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Obligations may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations (see "THE OBLIGATIONS - Book-Entry-Only System").

PAYMENT RECORD The County has never defaulted on the payment of its bonded indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2011	152,546	\$ 12,058,619,287	\$ 79,049	\$ 20,199,579	0.17%	\$ 132
2012	154,165	11,660,833,466	75,639	12,519,579	0.11%	81
2013	155,802	11,268,275,331	72,324	11,339,579	0.10%	73
2014	157,456	10,576,475,591	67,171	14,404,579	0.14%	91
2015	159,128	10,889,581,459	68,433	12,815,898	0.12%	81
2016	160,817	11,209,806,297	69,705	31,860,000 ⁽³⁾	0.28% ⁽³⁾	198 ⁽³⁾

(1) Data derived from U.S. Census Bureau results.

(2) As reported by the Central Appraisal District of Johnson County on the County's annual State Property Tax Board Report.

(3) Includes the Obligations.

For additional information regarding the County, please contact:

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or

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 First Southwest Company, LLC
 325 N. St. Paul Street, Suite 800
 Dallas, Texas 75201
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COUNTY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Commissioners Court</u>	<u>Length of Service</u>	<u>Term Expires</u>
Roger Harmon County Judge	20 Years	12/31/2018
Rick Bailey Precinct No. 1	7 Years	12/31/2016
Kenny Howell Precinct No. 2	4 Years	12/31/2018
Jerry Stringer Precinct No. 3	6 Years	12/31/2016
Larry Woolley Precinct No. 4	8 Months	12/31/2018

OTHER ELECTED AND APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Service to County</u>
Becky Ivey	County Clerk	25 Years
Scott Porter	Tax Assessor - Collector	13 Years
Debbie Rice	County Treasurer	6 Years
J.R. Kirkpatrick, Jr.	County Auditor	14 Years

CONSULTANTS AND ADVISORS

Certified Public Accountants.....Kennemcr, Masters & Lunsford
Lake Jackson, Texas

Bond Counsel.....McCall, Parkhurst & Horton L.L.P.
Dallas, Texas

Financial Advisor.....First Southwest Company, LLC
Dallas, Texas

OFFICIAL STATEMENT
RELATING TO
\$20,605,000
JOHNSON COUNTY, TEXAS
CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2015

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$20,605,000 Johnson County, Texas, Certificates of Obligation, Taxable Series 2015 (the "Obligations"). The Obligations will be authorized for issuance pursuant to an order (the "Certificate Order") adopted by the Commissioners Court of Johnson County, Texas (the "County"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Certificate Order to be adopted on the date of sale of the Obligations, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Obligations and certain information regarding the County and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the County's Financial Advisor, First Southwest Company, LLC, Dallas, Texas.

DESCRIPTION OF THE COUNTY . . . The County was organized in 1854 and is a body politic and political subdivision operating under the Constitution and laws of the State of Texas (the "State"). The governing body of the County is the Commissioners Court consisting of the County Judge and four Commissioners, each commissioner elected from one of the county's four geographical precincts. The County Judge is elected for a term of four years and the Commissioners for four- year staggered terms. Other major County elected officers include the County Clerk and County Treasurer. The County Auditor is appointed for a term of two years by and serves at the will of the District Judges whose courts are located in the County.

PLAN OF FINANCING

PURPOSE OF THE OBLIGATIONS. . . Proceeds from the sale of the Obligations will be used for paying all or a portion of the County's contractual obligations for the acquisition, construction and equipment of certain public improvements for the County, to wit: for the renovation and expansion of the County jail and for paying legal, fiscal and engineering fees in connection with such project.

USE OF OBLIGATION PROCEEDS . . . The proceeds from the sale of the Obligations will be applied approximately as follows:

Sources of Funds	
Par Amount of Obligations	<u>\$ 20,605,000.00</u>
Total Sources of Funds	\$ 20,605,000.00
Uses of Funds	
Deposit to Project Fund	\$ 20,360,498.00
Costs of Issuance	119,236.92
Total Underwriter's Discount	<u>125,265.08</u>
Total Uses of Funds	\$ 20,605,000.00

THE OBLIGATIONS

DESCRIPTION OF THE OBLIGATIONS... The Obligations are dated November 1, 2015, and are scheduled to mature as shown on page 2 hereof. Interest will accrue from the Delivery Date, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on each February 15 and August 15 until maturity, or prior redemption, commencing February 15, 2017. The definitive Obligations will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations. See "THE OBLIGATIONS - Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Obligations are being issued pursuant to the Constitution and general laws of the State, particularly Chapter 271, Subchapter C, Texas Local Government Code, as amended, and the Certificate Order.

SECURITY AND SOURCE OF PAYMENT FOR THE OBLIGATIONS... The Obligations constitute direct obligations of the County, payable from an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the County.

TAX RATE LIMITATION. . . The Texas Constitution (Article VIII, Section 9) imposes a tax rate limit of \$0.80 per \$100 assessed valuation of all taxable property within the County (the "\$0.80 Tax Limitation") for all purposes which are for general funds, permanent improvement funds, road and bridge funds and jury funds, including debt service of the Obligations or other debt obligations issued against such funds. Administratively, the Attorney General of Texas will not approve a county's issuance of limited tax obligations in an amount which produces debt service requirements exceeding that which can be paid from \$0.40 per \$100 valuation, at a 90% collection rate, of the \$0.80 Tax Limitation. The debt service of the Obligations is subject to the \$0.80 Tax Limitation.

Unlimited Tax Obligations.... The Texas Constitution (Article III, Section 52) authorizes the levy of a tax unlimited as to rate or amount for the payment of voted debt issued for various stated purposes; however, total unlimited tax debt cannot exceed 25% of the assessed valuation of real property. The Obligations are not unlimited tax debt.

Unlimited Tax Road Obligations... Texas Constitution (Article III, Section 52) also authorizes the levy of a tax unlimited as to rate or amount to pay debt service on voted County road Obligations; however, total unlimited tax road bond debt cannot exceed 25% of the assessed valuation of real property in the county. The Obligations are not unlimited tax County road obligations.

Road Maintenance... Under Section 256.052, Texas Transportation Code, a county may adopt an additional ad valorem tax not to exceed \$0.15 on the \$100 assessed valuation of property provided by Article VIII, Section 9 of the Texas Constitution, for the further maintenance of county roads. This additional tax may be established by the Commissioners Court only upon approval by a majority of participating voters in an election held to approve such additional tax. The additional tax may not be used for debt service. The voters of the County have approved the adoption of this additional county road tax.

Farm-to Market and/or Flood Control... Under Section 256.054, Texas Transportation Code, a county may adopt an additional ad valorem tax not to exceed \$0.30 on the \$100 assessed valuation, after exemption of homesteads up to \$3,000, provided by Article VIII, Section 9 of the Texas Constitution, for the construction and maintenance of farm-to-market and lateral roads or for flood control. This additional tax may be established by the Commissioners Court only upon approval by a majority of participating voters in an election held to approve such additional tax. No allocation is prescribed by statute between debt service and maintenance. Therefore, all or part may be used for either purpose. The voters of the County have approved the adoption of this additional county road tax.

OPTIONAL REDEMPTION OF THE OBLIGATIONS... The County reserves the right, at its option, to redeem Obligations having stated maturities on and after February 15, 2026, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2025, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

MANDATORY SINKING FUND REDEMPTION... The Obligations maturing February 15, 2035 (the "Term Obligations") are subject to mandatory sinking fund redemption in the amounts and at the price of par plus accrued interest to the redemption date on February 15 in the following years:

<u>Term Obligations Due February 15, 2035</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>
February 15, 2031	\$1,420,000
February 15, 2032	\$1,485,000
February 15, 2033	\$1,555,000
February 15, 2034	\$1,630,000
February 15, 2035 (maturity)	\$1,705,000

Approximately forty-five (45) days prior to each mandatory redemption date for the Term Obligations, the Paying Agent/Registrar shall select by lot the numbers of the Term Obligations within the applicable stated maturity to be redeemed on the next following February 15 from moneys set aside for that purpose in the Interest and Sinking Fund (as defined in the Certificate Order). Any Term Obligations not selected for prior redemption shall be paid on the date of its stated maturity.

The principal amount of Term Obligations of a stated maturity required to be redeemed on any mandatory redemption date pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the County, by the principal amount of any Term Obligations of the same maturity which, at least 45 days prior to a mandatory redemption date (1) shall have been acquired by the County and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

NOTICE OF REDEMPTION AND DTC NOTICES . . . Not less than 30 days prior to a redemption date for the Obligations, the County shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of an Obligation to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE REGISTERED OWNER, AND, SUBJECT TO PROVISION FOR PAYMENT OF THE REDEMPTION PRICE HAVING BEEN MADE AND THE SATISFACTION OF ANY OTHER CONDITION SPECIFIED IN THE NOTICE, INTEREST ON THE REDEEMED OBLIGATIONS SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT AN OBLIGATION HAS NOT BEEN PRESENTED FOR PAYMENT.

With respect to any optional redemption of the Obligations, unless certain prerequisites to such redemption required by the Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Obligations to be redeemed has been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the County will not redeem such Obligations, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Obligations have not been redeemed.

The Paying Agent/Registrar and the County, so long as a Book-Entry-Only System is used for the Obligations, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Obligations only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Obligations called for redemption or any other action premised on any such notice. Redemption of portions of the Obligations by the County will reduce the outstanding principal amount of such Obligations held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Obligations held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Obligations from the beneficial owners. Any such selection of Obligations to be redeemed will not be governed by the Order and will not be conducted by the County or the Paying Agent/Registrar. Neither the County nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Obligations or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Obligations for redemption. See "THE OBLIGATIONS -- Book-Entry-Only System" herein.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Obligations is to be transferred and how the principal of, premium, if any and interest on the Obligations are to be paid to and credited by DTC while the Obligations are registered in the nominee name of DTC. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The County believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The County cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Obligations, or notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Obligations), or notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Obligations. The Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each maturity of the Obligations in the aggregate principal amount of each such maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100

countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtc.org.

Purchases of Obligations under the DTC system must be made by or through DTC Participants, which will receive a credit for such purchases on DTC's records. The ownership interest of each actual purchaser of each Obligation ("Beneficial Owner") is in turn to be recorded on the Direct or Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Obligations are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. **Beneficial Owners will not receive security certificates representing their ownership interests in the Obligations, except in the event that use of the book-entry system described herein is discontinued.**

To facilitate subsequent transfers, all Obligations deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Obligations within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Obligations, unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the Record Date (hereinafter defined). The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Obligations are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Payments on the Obligations will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or the Paying Agent/Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Obligations at any time by giving reasonable notice to the County or Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Obligations are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, securities certificates will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement . . . In reading this Official Statement it should be understood that while the Obligations are in the Book-Entry-Only System, references in other sections of this Official Statement to registered

owners should be read to include the person for which the Participant acquires an interest in the Obligations, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Certificate Order will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the County or the Underwriter.

Effect of Termination of Book-Entry-Only System . . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the County, printed Obligations will be issued to the holders, and the Obligations will be subject to transfer, exchange and registration provisions as set forth in the Certificate Order and summarized under "THE OBLIGATIONS - Transfer, Exchange and Registration" below.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only-System should be discontinued, the Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges to be paid with respect to such registration, exchange and transfer. Obligations may be assigned by the execution of an assignment form on the Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Obligations will be delivered by the Paying Agent/Registrar, in lieu of the Obligations being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Obligations issued in an exchange or transfer of Obligations will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Obligations to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Obligations registered and delivered in an exchange or transfer shall be of the same series, in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Obligations surrendered for exchange or transfer. See "The Obligations-Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations. The Paying Agent/Registrar shall not be required to make any such transfer or exchange during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or, with respect to any Obligation or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar for the Obligations is Amegy Bank National Association, Plano, Texas. In the Certificate Order, the County retains the right to replace the Paying Agent/Registrar. The County covenants to maintain and provide a Paying Agent/Registrar at all times until the Obligations are duly paid, and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Obligations. Upon any change in the Paying Agent/Registrar for the Obligations, the County agrees to promptly cause a written notice thereof to be sent to each registered owner of the Obligations affected by the changes by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Interest on the Obligations shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar. Principal of the Obligations will be paid to the registered owner at their stated maturity upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Obligations shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Obligations on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the County. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of an Obligation to be paid on the Special Payment Date that appears on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

AMENDMENTS . . . In the Certificate Order, the County has reserved the right to amend or supplement the Certificate Order from time to time, without the consent of any Registered Owner, in order to: (i) cure any ambiguity, defect or omission in the Certificate Order that does not materially adversely affect the interests of the Registered Owners, (ii) grant additional rights or security for the benefit of the Registered Owners, (iii) add events of default as will not be inconsistent with the provisions of the Certificate Order and that will not materially adversely affect the interests of the Registered Owners, (iv) qualify the Certificate Order under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (v) make such

other provisions in regard to matters or questions arising under the Certificate Order as will not be materially inconsistent with the provisions of the Certificate Order and that will not, in the opinion of nationally-recognized bond counsel, materially adversely affect the interests of the Registered Owners.

The Certificate Order further provides that a majority of the registered owners of the outstanding Obligations shall have the right from time to time to approve any amendment if it is deemed necessary or desirable by the County; provided, however, that without the consent of 100% of the registered owners in aggregate principal amount of the then outstanding Obligations, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Obligations; (ii) reducing the rate of interest borne by any of the outstanding Obligations; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Obligations; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Obligations or any of them or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Obligations necessary for consent to such amendment. Reference is made to the Certificate Order for further provisions relating to the amendment thereof.

BONDHOLDER REMEDIES . . . The Certificate Order establishes specific events of default with respect to the Obligations. If the County defaults in the payment of the principal of or interest on the Obligations when due or the County defaults in the observance or performance of any of the covenants, conditions, or obligations of the County, the failure to perform which materially, adversely affects the rights of the owners of the Obligations including but not limited to, their prospect or ability to be repaid in accordance with the Certificate Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the County, the Certificate Order provides that any registered owner is entitled to seek a writ of mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained the Certificate Order, or to enjoin any act or thing that may be unlawful or in violation of any right of the registered owner. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Obligations or the Certificate Order and the County's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Obligations in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Certificate Order does not provide for the appointment of a trustee to represent the interest of the holders of Obligations upon any failure of the County to perform in accordance with the terms of the Certificate Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tookc v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the State legislature has effectively waived the County's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the County for breach of the Obligations or the covenants set forth in the Certificate Order. Furthermore, the County is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the County avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Certificate Order and the Obligations are qualified with respect to the customary rights of debtors relative to their creditors, by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

DEFEASANCE . . . The Certificate Order provides for the defeasance of the Obligations when payment of the principal of the Obligations, plus interest thereon to the due date (whether such due date be by reason of maturity or otherwise) either shall have been made in accordance with the Certificate Order or shall have been provided for on or before such due date by irrevocably depositing with the Paying Agent/Registrar (1) money sufficient to make such payment or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times as will insure the availability of sufficient money to provide for such payment, and when proper arrangements have been made with the Paying Agent/Registrar for the payment of its services, and thereafter the County will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Obligations, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Certificate Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Obligations. Under current State law, the following types of obligations may be used to defease obligations such as the Obligations: (a) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Commissioners' Court approves the proceedings authorizing the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a district, municipality, or other political subdivision of a state that have been refunded and that, on the date the Commissioners' Court approves the proceedings authorizing the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Obligations. Because the Certificate Order does not contractually limit such investments, registered owners are deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. In addition, there is no assurance that the ratings of Defeasance Securities, once deposited with the Paying Agent/Registrar (as described above), will be maintained at any particular level or category.

Upon defeasance, such Obligations shall no longer be secured by or payable from the ad valorem taxes as provided in the Certificate Order. After firm banking and financial arrangements for the discharge and final payment or redemption of Obligations have been made as described above, all rights of the County to initiate proceedings to call such Obligations for redemption or take any other action amending the terms of such Obligations are extinguished; provided, however, that any determination not to redeem Obligations that is made in conjunction with such defeasance shall not be irrevocable, provided that: (1) in the proceedings providing for the defeasance, the County expressly reserves the right to call the Obligations for redemption; (2) gives notice of the reservation of that right to the owners of the Obligations immediately following the making of the payment arrangements; and (3) directs that notice of the reservation be included in any redemption notices that it authorizes.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the County is the responsibility of the Central Appraisal District of Johnson County (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Article VIII of the State Constitution ("Article VIII") and State law require the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The County may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the County by petition filed with the Appraisal Review Board.

Reference is made to the V.T.C.A., Tax Code, as amended (the "Property Tax Code") for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Article VIII, Section 1-a of the Texas Constitution grants a \$3,000 homestead exemption for all homesteads taxed by counties for farm-to-market roads and flood control purposes.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant either or both of the following: (1) an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; or (2) an exemption of up to 20% of the market value of residence homesteads. The minimum exemption under provision (2) is \$5,000.

After the exemption described in clause (1), above, is authorized, such exemption may be repealed or decreased or increased in amount (a) by the governing body of the political subdivision or (b) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value. The surviving spouse of an individual who qualifies for the exemption listed in clause (1) (as the residence homestead of a person 65 or older, but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

Senate Joint Resolution 1 ("Senate Joint Resolution 1"), passed during the 84th Texas Legislature, proposed a constitutional amendment increasing the mandatory homestead exemption for school districts from \$15,000 to \$25,000 and requiring that the tax limitation for taxpayers who are age 65 and older or disabled be reduced to reflect the additional exemption. While Senate Joint Resolution 1 was not directly applicable to municipalities and counties, Senate Bill 1, which was also passed by the 84th Legislature, provided that if Senate Joint Resolution 1 was approved by the voters, then the governing body of a school district, municipality,

or county would be prohibited from reducing the amount of or repealing an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) for a period running through December 31, 2019. Senate Joint Resolution I was not approved by voters on November 3, 2015.

Under Article VIII and State law, a county, municipality or junior college district, at its option, subject to local referendum, may provide for a prohibition on increasing the total ad valorem tax, except for increases attributable to certain improvements, on the residence homestead of a disabled person or persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for such exemption, and such freeze on ad valorem taxes is transferable to a different residence homestead and to a surviving spouse living on such homestead who is disabled or is at least 55 years of age. Once established, the tax rate limitation may not be repealed or rescinded.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000. In addition, a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployment is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Additionally, effective January 1, 2012, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Article VIII, section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" are defined by the Tax Code as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. For tax year 2012 and subsequent years, goods-in-transit are limited to tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and outboard motor, heavy equipment and manufactured housing inventory. The Tax Code permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

Tax increment financing districts ("TIFD") are specially designated areas within a city with defined boundaries and created by cities by ordinance with an established base value of taxable property in the TIFD at the time of its creation. Overlapping taxing units, including the County, may agree with the city to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIFD to pay or finance the costs of certain public improvements in the TIFD, and such taxes levied and collected for and on behalf of the TIFD are not available for general use by such contributing taxing units.

The County also may enter into tax abatement agreements to encourage economic development. Under an abatement agreement, a property owner agrees to construct certain improvement on its property. The County in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the abatement agreement. The abatement agreement could last for a period of up to 10 years.

The County is authorized, pursuant to Chapter 381, Texas Local Government Code, as amended ("Chapter 381"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the County. In accordance with a program established pursuant to Chapter 381, the County may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by

voters of the County. The County may contract with the federal government, the State of Texas, another political subdivision, a nonprofit organization or any other entity, including private entities, for the administration of such a program.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . Under current law, the annual tax rate for the County is required to be adopted before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the County, and a failure to adopt a tax rate by such required date will result in the tax rate for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the County for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of operations, and (2) a rate for debt service.

Under the Property Tax Code, the County must annually calculate and publicize its "effective tax rate" and "rollback tax rate". A tax rate cannot be adopted by the Commissioner's Court that exceeds the lower of the rollback tax rate or (as defined below) of the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearings (including the requirements that notice be posted on the County website if the County owns, operates or controls an internet website and public notice be given by television if the County has free access to a television channel) and the Commissioner's Court has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the County by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT. . . Property within the County is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

PENALTIES AND INTEREST. . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, an attorney's collection fee up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the County's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

COUNTY APPLICATION OF TAX CODE . . . The County grants an exemption to the market value of the residence homestead of persons who are 65 years of age or older or who are disabled of \$10,000.

The County has granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are levied by the County against the exempt value of residence homesteads for the payment of debt.

The County does tax nonbusiness personal property; and the County collects its own taxes.

The County does not permit split payments, and discounts are not allowed.

The County does tax freeport property.

The County does not collect the additional one-half cent sales tax for reduction of ad valorem taxes.

Pursuant to a local referendum approved by voters on January 1, 2004, the County has adopted the tax freeze for citizens who are disabled or are 65 years of age or older.

TAX ABATEMENT POLICY . . . The County has a tax abatement policy, which was adopted in March 1995. The County on a case-by-case basis gives consideration to providing tax abatement as a stimulation for economic development. To date, (15) fifteen abatements have been granted. See "Table 1 – Valuation, Exemptions and General Obligation Debt" for information concerning the amount of such abatement for the County's 2015/16 fiscal year.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2016		2015		2014	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 4,625,881,518	35.05%	\$ 4,688,703,784	36.70%	\$ 4,662,772,744	37.80%
Real, Residential, Multi-Family	186,972,725	1.42%	178,954,760	1.40%	159,246,233	1.29%
Real, Vacant Lots/Tracts	256,630,384	1.94%	266,700,620	2.09%	270,769,422	2.20%
Real, Acreage (Land Only)	1,524,690,219	11.55%	1,451,325,108	11.36%	1,420,229,192	11.51%
Real, Non-Qualified Ag Land	1,438,434,739	10.90%	1,036,149,412	8.11%	834,974,588	6.77%
Real, Farm and Ranch Improvements	-	0.00%	-	0.00%	-	0.00%
Real, Commercial	874,396,438	6.62%	817,584,342	6.40%	798,025,504	6.47%
Real, Industrial	494,361,377	3.75%	425,673,978	3.33%	448,117,305	3.63%
Real Minerals, Non Producing	1,347,774,210	10.21%	1,475,798,608	11.55%	1,263,101,285	10.24%
Real and Tangible Personal, Utilities	709,965,972	5.38%	709,463,587	5.55%	702,786,220	5.70%
Tangible Personal, Commercial	530,098,050	4.02%	491,694,729	3.85%	490,320,642	3.98%
Tangible Personal, Industrial	1,076,694,725	8.16%	1,083,182,671	8.48%	1,137,092,661	9.22%
Tangible Personal, Mobile Homes	50,779,091	0.38%	75,843,840	0.59%	81,256,107	0.66%
Tangible Personal, Other	-	0.00%	-	0.00%	-	0.00%
Real Property, Inventory	-	0.00%	-	0.00%	-	0.00%
Other	29,241,701	0.22%	29,293,610	0.23%	29,295,952	0.24%
Special Inventory	52,529,749	0.40%	43,971,582	0.34%	36,531,941	0.30%
Total Appraised Value Before Exemptions	\$ 13,198,450,898	100.00%	\$ 12,774,340,631	100.00%	\$ 12,334,519,796	100.00%
Less: Total Exemptions/Reductions	1,988,644,601		1,884,759,172		1,758,044,205	
Adjustments	-		-		-	
Taxable Assessed Value	<u>\$ 11,209,806,297</u>		<u>\$ 10,889,581,459</u>		<u>\$ 10,576,475,591</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2013		2012	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 4,602,485,014	35.33%	\$ 4,628,862,478	34.95%
Real, Residential, Multi-Family	150,400,213	1.15%	151,166,695	1.14%
Real, Vacant Lots/Tracts	264,309,591	2.03%	265,383,854	2.00%
Real, Acreage (Land Only)	1,042,398,070	8.00%	907,317,436	6.85%
Real, Non-Qualified Ag Land	471,520,154	3.62%	435,334,097	3.29%
Real, Farm and Ranch Improvements	700,240,544	5.38%	684,783,651	5.17%
Real, Commercial	785,186,685	6.03%	776,467,056	5.86%
Real, Industrial	398,277,229	3.06%	377,364,722	2.85%
Real Minerals, Non Producing	2,059,644,925	15.81%	2,388,802,171	18.04%
Real and Tangible Personal, Utilities	721,358,892	5.54%	717,174,968	5.41%
Tangible Personal, Commercial	440,764,924	3.38%	430,570,574	3.25%
Tangible Personal, Industrial	1,243,799,530	9.55%	1,333,778,000	10.07%
Tangible Personal, Mobile Homes	80,558,269	0.62%	81,682,507	0.62%
Tangible Personal, Other	71,000	0.00%	83,400	0.00%
Real Property, Inventory	38,777,562	0.30%	49,103,726	0.37%
	-	0.00%	-	0.00%
Special Inventory	26,526,934	0.20%	17,131,169	0.13%
Total Appraised Value Before Exemptions	\$ 13,026,319,536	100.00%	\$ 13,245,006,504	100.00%
Less: Total Exemptions/Reductions	1,758,044,205		1,584,173,038	
Adjustments	-		-	
Taxable Assessed Value	<u>\$ 11,268,275,331</u>		<u>\$ 11,660,833,466</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Central Appraisal District of Johnson County to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

A large portion of the County's assessed valuation consists of oil and natural gas mineral interests. Drilling activity is dependent upon prices of volatile commodities and the existence of recoverable minerals. Accordingly, the County's tax base may grow or constrict in any particular year as a result of fluctuations in mineral values and the quantity of recoverable minerals.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2011	152,546	\$ 12,058,619,287	\$ 79,049	\$ 20,199,579	0.17%	\$ 132
2012	154,165	11,660,833,466	75,639	12,519,579	0.11%	81
2013	155,802	11,268,275,331	72,324	11,339,579	0.10%	73
2014	157,456	10,576,475,591	67,171	14,404,579	0.14%	91
2015	159,128	10,889,581,459	68,433	12,815,898	0.12%	81
2016	160,817	11,209,806,297	69,705	31,860,000 ⁽³⁾	0.28% ⁽³⁾	198 ⁽³⁾

(1) Data derived from U.S. Census Bureau results.

(2) As reported by the Central Appraisal District of Johnson County on the County's annual State Property Tax Board Report.

(3) Includes the Obligations.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Lateral Road Fund	Tax Levy ⁽¹⁾	% Current Collections	% Total Collections
2011	\$ 0.3795	\$ 0.3049	\$ 0.0226	\$ 0.0520	\$ 45,556,481	98.52%	100.54%
2012	0.3795	0.3117	0.0188	0.0490	43,525,826	99.20%	101.19%
2013	0.3823	0.3179	0.0154	0.0490	42,833,301	98.23%	100.45%
2014	0.4202	0.3533	0.0178	0.0490	43,475,291	99.55%	101.99%
2015	0.4450	0.3802	0.0252	0.0396	47,584,337	98.46% ⁽²⁾	99.98% ⁽²⁾
2016	0.4480	0.3841	0.0236	0.0403	50,219,932	NA	NA

(1) Tax levies consider supplemental value changes during fiscal year.

(2) Collections as of September 1, 2015.

TABLE 5 - TEN LARGEST TAXPAYERS⁽¹⁾

Name of Taxpayer	Nature of Property	2015/16 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Devon Energy Operating Co LP	Energy	\$ 499,110,995	4.45%
Cheaspeake Operating Inc	Natural Gas	165,359,681	1.48%
EOG Resources Inc	Oil and Natural Gas	162,606,001	1.45%
ETC Texas Processing Ltd	Natural Gas	138,908,088	1.24%
Halliburton Energy Serv. Inc	Oil Field Supplies (Wholesale)	110,535,995	0.99%
XTO Energy Inc	Oil and Natural Gas	97,912,543	0.87%
Energy Transfer Fuel	Energy	92,021,358	0.82%
Brazos Electric Power Coop.	Power Plant	91,183,371	0.81%
James Hardie Building Products Inc	Building Products	91,129,759	0.81%
Texas Midstream Gas Service	Natural Gas	73,892,952	0.66%
		<u>\$ 1,522,660,743</u>	<u>13.58%</u>

(1) As reported by the Central Appraisal District of Johnson County.

ECONOMIC CONCENTRATION NOTE: As shown above, eight of the top ten largest taxpayers in the County are concentrated in the oil and gas industry and represented approximately 11.96% of the assessed valuation of taxable property in the County for the 2015/16 tax year. Oil and gas prices historically have been subject to fluctuation due to a multitude of factors. As a result, the County's taxable assessed valuation and, therefore, the tax rates required to pay debt service on the County's obligations, may be subject to volatility in future years (see "Table 2 - Taxable Assessed Valuations by Category").

GENERAL OBLIGATION DEBT LIMITATION . . Limited Tax Obligations Payable From the \$0.80 Constitutional Tax Rate . . .
 Vernon's Texas Codes Annotated, Government Code, Section 1301.003, limits the amount of Obligations that may be issued for certain purposes as follows:

Courthouse Obligations	2% of Assessed Valuation
Jail Obligations	1 1/2% of Assessed Valuation
Courthouse and Jail Obligations	3 1/2% of Assessed Valuation
Road and Bridge Obligations	1 1/2% of Assessed Valuation

However, courthouse, jail and certain other types of Obligations may be issued under the authority of Vernon's Texas Codes Annotated, Government Code, Chapter 1473, independent of the above limitations.

Article VIII, Section 9, of the State Constitution, imposes a limit of \$0.80 per \$100 Assessed Valuation for all constitutional purposes, including the General Fund, Permanent Improvement Fund, Road and Bridge Fund and Jury Fund, and debt service of Obligations, certificates, warrants and certificates of obligation issued against such funds. Administratively, as a condition of approval of limited tax obligations, the Attorney General of Texas will permit allocation of \$0.40 of the \$0.80 constitutional tax rate for limited tax bond debt service.

Unlimited Tax Obligations . . . Article III, Section 52, State Constitution, provides that unlimited tax bond debt (including unlimited tax road bond debt) may not exceed 25% of the County's assessed valuation of real property in the County.

Farm-to-Market and Flood Control Purposes ... Pursuant to Article VIII, Section 1-a, Texas Constitution, and Section 256.054, Transportation Code, the County may levy an ad valorem tax of up to \$0.30 per \$100 assessed valuation after exemption of homesteads up to \$3,000; no allocation is prescribed by statute between debt service and maintenance. Voters in the County have approved a special tax for road purposes.

TABLE 6 - TAX ADEQUACY ⁽¹⁾

Principal and Interest Requirements, 2016	\$ 2,435,323
\$0.0222 Tax Rate at 98% Collection Produces	\$ 2,438,805
Average Annual Principal and Interest Requirements, 2016-2035	\$ 2,286,748
\$0.0209 Tax Rate at 98% Collection Produces	\$ 2,295,993
Maximum Principal and Interest Requirements, 2018	\$ 3,771,767
\$0.0344 Tax Rate at 98% Collection Produces	\$ 3,779,050

(1) Includes the Obligations. Calculated at the Tax Year 2015 Certified Taxable Assessed Valuation.

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TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the County are paid out of ad valorem taxes levied by such entities on properties within the County. Such entities are independent of the County and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax obligations ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the County, the County has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the County.

Taxing Jurisdiction	2015/2016	2015/2016	Total	Estimated	County's
	Taxable				2015/2016
	Assessed	Tax	G.O. Tax	%	Tax Debt
	Value	Rate	Debt	Applicable	As of 11/1/2015
Johnson County	\$ 11,209,806,297	\$ 0.44800	\$ 33,420,898 ⁽²⁾	100.00%	\$ 33,420,898
Alvarado ISD	1,455,172,535	1.46100	80,273,631	100.00%	80,273,631
City of Alvarado	301,236,685	0.73300	14,285,000	100.00%	14,285,000
Burleson ISD	3,554,757,004	1.54000	297,495,852	64.64%	192,301,319
City of Burleson	2,771,856,692	0.74000	131,285,000	78.25%	102,730,513
Cleburne ISD	2,576,533,997	1.36660	36,997,081	100.00%	36,997,081
City of Cleburne	1,929,777,818	0.80400	66,428,413	100.00%	66,428,413
Crowley ISD	5,016,555,945	1.65000	328,626,535	1.13%	3,713,480
City of Crowley	772,145,447	0.69700	23,775,000	0.33%	78,458
Godley ISD	945,628,683	1.24800	30,453,193	83.69%	25,486,277
City of Godley	59,061,727	0.54000	1,950,000	100.00%	1,950,000
Granbury ISD	4,879,335,106	1.26500	116,660,063	1.57%	1,831,563
Grandview ISD	288,193,738	1.40000	15,280,000	97.90%	14,959,120
City of Grandview	65,427,611	0.74631	2,730,000	100.00%	2,730,000
Joshua ISD	1,368,469,894	1.60000	111,761,524	100.00%	111,761,524
City of Joshua	311,224,495	0.77527	11,405,000	100.00%	11,405,000
Keene ISD	154,180,237	1.43000	14,435,000	100.00%	14,435,000
City of Keene	214,261,903	0.91225	3,790,000	100.00%	3,790,000
Mansfield ISD	10,156,394,893	1.52700	833,595,000	4.86%	40,512,717
City of Mansfield	4,957,521,003	0.71000	108,830,000	3.89%	4,233,487
Rio Vista ISD	274,532,760	1.57000	13,760,034	99.10%	13,636,194
City of Rio Vista	34,894,545	0.59645	260,000	100.00%	260,000
Venus ISD	260,932,399	1.38000	9,144,087	100.00%	9,144,087
City of Venus	101,838,025	0.87992	1,368,000	80.13%	1,096,178
Total Direct and Overlapping Tax Debt -					\$ 787,459,939
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation -					7.02%
Per Capita Direct and Overlapping Tax Debt -					\$ 4,948.59

(1) Includes the Obligations.

TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 30-Sep	Outstanding			The Obligations			Total General Obligation Debt Service	% of Principal Retired
	General Obligation Debt Service							
	Principal	Interest	Total	Principal	Interest	Total		
2016	\$ 1,560,898	\$ 874,425	\$ 2,435,323	\$ -	\$ -	\$ -	\$ 2,435,323	
2017	2,080,000	355,121	2,435,121	-	1,335,545	1,335,545	3,770,666	
2018	2,165,000	269,367	2,434,367	550,000	787,400	1,337,400	3,771,767	
2019	2,250,000	184,873	2,434,873	560,000	776,823	1,336,823	3,771,695	
2020	2,345,000	92,262	2,437,262	570,000	764,080	1,334,080	3,771,342	36.15%
2021	2,415,000	21,977	2,436,977	585,000	749,457	1,334,457	3,771,433	
2022	-	-	-	1,020,000	726,859	1,746,859	1,746,859	
2023	-	-	-	1,050,000	696,011	1,746,011	1,746,011	
2024	-	-	-	1,085,000	662,454	1,747,454	1,747,454	
2025	-	-	-	1,120,000	625,869	1,745,869	1,745,869	57.92%
2026	-	-	-	1,160,000	585,926	1,745,926	1,745,926	
2027	-	-	-	1,205,000	542,369	1,747,369	1,747,369	
2028	-	-	-	1,250,000	495,190	1,745,190	1,745,190	
2029	-	-	-	1,300,000	444,145	1,744,145	1,744,145	
2030	-	-	-	1,355,000	389,143	1,744,143	1,744,143	76.68%
2031	-	-	-	1,420,000	327,823	1,747,823	1,747,823	
2032	-	-	-	1,485,000	260,616	1,745,616	1,745,616	
2033	-	-	-	1,555,000	190,285	1,745,285	1,745,285	
2034	-	-	-	1,630,000	116,600	1,746,600	1,746,600	
2035	-	-	-	1,705,000	39,445	1,744,445	1,744,445	100.00%
	<u>\$ 12,815,898</u>	<u>\$ 1,798,024</u>	<u>\$ 14,613,922</u>	<u>\$ 20,605,000</u>	<u>\$ 10,516,040</u>	<u>\$ 31,121,040</u>	<u>\$ 45,734,962</u>	

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Interest and Sinking Fund Balance, Fiscal Year Ending 9/30/2015	\$ 1,522,000 ⁽¹⁾
Interest Income	2,080
Budgeted Interest and Sinking Fund Tax Levy	2,434,443
Delinquent Taxes and Fees	30,140
Total Interest and Sinking Fund Resources, Fiscal Year 2016	<u>\$ 3,988,663</u>
Less: Tax Supported Debt Service Requirements, Fiscal Year 2016	\$ 2,435,323
Projected Interest and Sinking Fund Balance as of Fiscal Year Ending 9/30/2016	<u>\$ 1,553,341</u>

(1) Unaudited.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION OBLIGATIONS . . . The County has no voter authorized but unissued debt. However, in addition to voter authorized ad valorem tax supported obligations, the County is authorized under Texas law to incur other debt obligations (without voter authorization) payable from its collection of ad valorem taxes, including certificates of obligation, tax notes, public property finance contractual obligations, and certain types of capital leases.

ANTICIPATED ISSUANCE OF DEBT. . . The County does not anticipate the issuance of additional tax supported debt within the next twelve months.

OTHER OBLIGATIONS . . . In 1992, the County entered into an agreement with the City of Cleburne to lease 11.5 acres of land for the Johnson County Fire Protection District. The lease is for a period of 25 years at the cost of \$25 per year.

PENSION FUND. . . The County provides pension, disability and death benefits for all of its full-time employees through a nontraditional, joint contributory, defined contribution plan in the state-wide Texas County and District Retirement System (TCDRS). Under State law governing TCERS, the contribution rate of the County is a fixed percent equal to the contribution rate payable by the employee member, which is 7% as adopted by the governing body of the County. This rate is not actuarially determined and is one of the rates that can be adopted in accordance with the TCERS Act. However, the plan of benefits adopted by the employer at the time of plan inception and when benefit increases are adopted is limited by statute to what the actuary determines can be adequately financed by the commitment of the employer to contribute the same amount as the employee. The statute specifies that the actuary's

determination is based on a maximum period for amortizing the unfunded pension benefit obligation of 30 years. (For more detailed information concerning the retirement plan, see Appendix B, "Excerpts from the County's Annual Financial Report" - Note # G.)

OTHER POST-EMPLOYMENT BENEFITS . . . In addition to the pension benefits described above, the County provides certain other post-retirement benefits to retired employees and their dependents that fall within the scope of Governmental Accounting Standards Board's Statement of General Accounting Standards No. 45 ("GASB 45"), Accounting by Employers for Other Postemployment Benefits ("OPEB").

GASB 45, which sets forth standards for the measurement, recognition, and display of post-employment benefits other than pensions (such as health and life insurance for current and future retirees), applies to the County. GASB 45 requires the County to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting over the working lifetime of the employees; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, the future costs of those benefits have been funded; and (iii) provide information useful in assessing potential demands on the employer's future cash flows. The employer's contributions to OPEB costs that are less than an actuarially determined annual required contribution will result in a net OPEB cost, which under GASB 45 must be recorded as a liability in the employer's financial statements.

The County provides post employment health insurance benefits for (i) retired full time regular employees who, at the time they leave County employment are eligible for retirement benefits under the TCDRS guidelines and have a total of 20 years of service with the County of which 10 years are continuous service and are covered under the County health insurance program at the time of their retirement and are not eligible for Medicare or (ii) elected officials who at the time they leave County employment are eligible for retirement benefits under the TCDRS guidelines and have a total of 16 years of service with the County of which at least 10 years are continuous service and are covered under the County group health insurance program at the time of their retirement and are not eligible for Medicare. The County does not contribute toward the coverage for retirees who do not meet the eligibility requirements stated previously. The plan began in the year ended September 30, 2009 and is funded on a pay-as-you-go basis. In October, 2011, the plan was amended to limit the County provided benefit to three years following retirement date. A separate, audited GAAP-basis post-employment benefit plan report is not available for this plan.

The County may contribute all, part, or none of the premium payment and the County's contribution, if any, is determined annually by Commissioners Court during the County budget process and is effective on a fiscal year basis. For the year ended September 30, 2014 the County contributed \$59,175 to the post employment health insurance benefits.

The County's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters established by GASB 45. The annual OPEB cost represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or excess) over a period not to exceed thirty years.

The County has made contributions each year which are below the required annual contribution (ARC) therefore, a liability has been reported within the Governmental Activities financial statements. As of September 30, 2014, the County has contributed a total of \$377,850 to the annual contribution (ARC) which resulted in a liability of \$1,093,470. For additional information concerning such other postretirement benefits, see the Notes to the "Excerpts from the County's Annual Financial Report" in Appendix B.

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FINANCIAL INFORMATION

TABLE 10 - GENERAL FUND REVENUES AND EXPENDITURES HISTORY

	Fiscal Years Ended September 30,				
	2014	2013	2012	2011	2010
Revenues:					
Taxes	\$ 37,211,095	\$ 35,403,458	\$ 35,711,762	\$36,401,545	\$36,071,670
Intergovernmental	1,107,144	903,157	829,904	1,057,457	1,210,402
Prisoner Housing Services	6,675,022	-	-	-	-
Fees of Office	4,428,017	6,577,588	6,609,928	4,015,490	4,241,634
Fines and Forfeitures	1,418,989	4,476,119	4,066,540	1,650,640	1,814,407
Interest Income	57,247	1,618,044	1,507,227	84,411	88,657
Licenses and Permits	-	9,974	82,568	-	-
Miscellaneous	1,077,755	953,973	1,406,952	801,520	1,095,932
Total Revenues	\$ 51,975,269	\$ 49,942,313	\$ 50,214,881	\$44,011,063	\$44,522,702
Expenditures:					
General Government	\$ 11,295,481	\$ 7,738,222	\$ 7,367,290	\$ 7,502,345	\$ 7,128,188
Law Enforcement	28,861,765	25,358,597	24,541,692	17,191,318	16,046,806
Administration of Justice	6,811,140	8,861,594	8,855,038	8,034,530	7,832,666
Financial	920,170	4,101,335	3,952,542	3,960,564	3,800,390
Elections	387,951	400,341	365,261	324,661	418,442
Public Health and Welfare	686,419	463,441	439,382	424,477	422,313
Culture and Recreation	191,692	194,593	164,385	160,340	203,150
Conservation	179,566	172,979	158,300	164,334	148,347
Capital Outlay	425,181	-	-	72,890	777,412
Debt Service	287,270	298,924	146,735	-	-
Total Expenditures	\$ 50,046,635	\$ 47,590,026	\$ 45,990,625	\$37,835,459	\$36,777,714
Excess (Deficiency) of Revenues Over Expenditures	\$ 1,928,634	\$ 2,352,287	\$ 4,224,256	\$ 6,175,604	\$ 7,744,988
Budgeted Transfers In	\$ 292,347	\$ 90,499	\$ 127,965	\$ 86,264	\$ 3,029,993
Proceeds from Sale of Assets	52,091	10,255	16,898	28,308	2,437
Budgeted Transfers Out	(4,858,146)	(2,081,100)	(10,147,764)	(4,430,234)	(3,085,279)
Total Transfers	\$ (4,513,708)	\$ (1,980,346)	\$ (10,002,901)	\$ (4,315,662)	\$ (52,849)
Net Increase (Decrease)	\$ (2,585,074)	\$ 371,941	\$ (5,778,645)	\$ 1,859,942	\$ 7,692,139
Beginning Fund Balance	21,567,380	21,195,439	26,974,084	25,114,142	17,422,003 ⁽¹⁾
Ending Fund Balance⁽²⁾	\$ 18,982,306	\$ 21,567,380	\$ 21,195,439	\$26,974,084	\$25,114,142

(1) Restated.

(2) As of September 30, 2015, the unaudited ending Fund Balance is approximately \$22,082,300.00.

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FINANCIAL POLICIES

Basis of Accounting . . The accounting policies for the County conform to generally accepted accounting principles.

The modified accrual basis of accounting is used by all governmental fund types and agency funds. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liabilities are incurred.

General Fund Balance . . The County's budgetary goal is to maintain balances in the combined General Fund and Road Bridge Fund equal to approximately two month's expenditures for operations.

Budgetary Procedures . . The County's Fiscal Year begins October 1 and ends September 30. The annual budget is prepared by the Commissioners Court and the County Judge with assistance from the County Auditor's Office. Department heads and departments commence preparation of departmental budgets in June. The Commissioners Court reviews each departmental budget and completes budget preparations during July and August. The current property tax rate is \$0.4480. The Commissioners Court approves the final budget and sets the County's tax rate in September.

Fund Investments . . The County's investment policy parallels State laws which govern the investment of public funds, particularly the Public Funds Investment Act of 1987. Funds are invested to maximize yield, with safety of principal and liquidity as primary objectives. The County generally restricts investments to direct obligations of the United States Government, governmental agencies, investment pools, and to insured or collateralized bank obligations of deposit, primarily with the County's depository bank.

INVESTMENTS

The County invests its investable funds in investments authorized by State law in accordance with investment policies approved by the Commissioners Court of the County. Both State law and the County's investment policies are subject to change.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE COUNTY . . . Under State law, the County is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (6) obligations issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit and share certificates (A) issued by a depository institution that has its main office or branch office in the State that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or (ii) are secured as to principal by obligations described in clauses (1) through (6), or (iii) (a) the funds are invested by the County through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the County as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the County; (b) the broker or the depository institution selected by the County arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the County; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the County appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the County, held in the County's name, and deposited at the time the investment is made with the County or with a third party selected and approved by the County and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the County, held in the County's name and deposited at the time the investment is made with the County or a third party designated by the County; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent

by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invested exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The County may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The County may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the County retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the County must do so by order, ordinance, or resolution.

The County is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under State law, the County is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for County funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All County funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, County investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the County shall submit an investment report detailing: (1) the investment position of the County, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest County funds without express written authority from the County Commissioners Court.

ADDITIONAL PROVISIONS . . . Under State law, the County is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said order or resolution on an annual basis, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Commissioners Court; (4) require the qualified representative of firms offering to engage in an investment transaction with the County to: (a) receive and review the County's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the County and the business organization that are not authorized by the County's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the County's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the County and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the County's investment policy; (6) provide specific investment training for the County Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in mutual funds in the aggregate to more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net

asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the County.

TABLE 11 – CURRENT INVESTMENTS

As of September 1, 2015, The County's investable funds were invested in the following categories:

Type of Investment	Market Value	Book Value	% of Portfolio
Bond Investments	\$ 10,267,087	\$ 10,731,183	69.83%
Investment Pool	4,436,445	4,436,445	30.17%
	<u>\$ 14,703,532</u>	<u>\$ 15,167,628</u>	<u>100.00%</u>

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a summary of certain expected material federal income tax consequences of the purchase, ownership and disposition of the Obligations and is based on the Internal Revenue Code of 1986, as amended (the "Code"), the regulations promulgated thereunder, published rulings and pronouncements of the Internal Revenue Service ("IRS") and court decisions currently in effect. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS, has been, or is expected to be, sought on the issues discussed herein. Any subsequent changes or interpretations may apply retroactively and could affect the opinion and summary of federal income tax consequences discussed herein.

The following discussion is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of the Obligations and does not address U.S. federal gift or estate tax or the alternative minimum tax, state, local or other tax consequences. This summary does not address special classes of taxpayers (such as partnerships, or other pass-thru entities treated as a partnerships for U.S. federal income tax purposes, S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the U.S., broker-dealers, traders in securities and tax-exempt organizations, taxpayers who may be subject to or personal holding company provisions of the Code) that are subject to special treatment under U.S. federal income tax laws, or persons that hold Obligations as a hedge against, or that are hedged against, currency risk or that are part of hedge, straddle, conversion or other integrated transaction, or persons whose functional currency is not the "U.S. dollar". This summary is further limited to investors who will hold the Obligations as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the Code.

As used herein, the term "U.S. Holder" means a beneficial owner of an Obligation who or which is: (i) an individual citizen or resident of the United States, (ii) a corporation or partnership created or organized under the laws of the United States or any political subdivision thereof or therein, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source; or (iv) a trust, if (a) a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes. As used herein, the term "Non-U.S. Holder" means a beneficial owner of an Obligation that is not a U.S. Holder.

THIS SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF THE U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF OBLIGATIONS IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE HOLDERS OF THE OBLIGATIONS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE OBLIGATIONS.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE OBLIGATIONS UNDER APPLICABLE STATE OR LOCAL LAWS, OR ANY OTHER TAX CONSEQUENCE. FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO NON-U.S. HOLDERS.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES TO U.S. HOLDERS

Periodic Interest Payments and Original Issue Discount. The Obligations are not obligations described in Section 103(a) of the Code. Accordingly, the stated interest paid on the Obligations or original issue discount, if any, accruing on the Obligations will be includable in "gross income" within the meaning of Section 61 of the Code of each owner thereof and be subject to federal income taxation when received or accrued, depending upon the tax accounting method applicable to such owner.

Disposition of Obligations. An owner will recognize gain or loss on the redemption, sale, exchange or other disposition of an Obligation equal to the difference between the redemption or sale price (exclusive of any amount paid for accrued interest) and the owner's tax basis in the Obligations. Generally, a U.S. Holder's tax basis in the Obligations will be the owner's initial cost, increased

by income reported by such U.S. Holder, including original issue discount and market discount income, and reduced, but not below zero, by any amortized premium. Any gain or loss generally will be a capital gain or loss and either will be long-term or short-term depending on whether the Obligations has been held for more than one year.

Defeasance of the Obligations. Defeasance of any Obligation may result in a reissuance thereof, for U.S. federal income tax purposes, in which event a U.S. Holder will recognize taxable gain or loss as described above.

Other Tax Consequences. Effective for tax years beginning after December 31, 2012, pursuant to the Health Care and Education Reconciliation Act of 2010, which was intended to help finance the cost of healthcare reform, certain individuals, estates or trusts may be subject to a 3.8% surtax on all or a portion of the taxable interest that is paid on the Obligations. PROSPECTIVE PURCHASERS OF THE OBLIGATIONS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE FOREGOING MATTERS.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS

A Non-U.S. Holder that is not subject to U.S. federal income tax as a result of any direct or indirect connection to the U.S. in addition to its ownership of an Obligation, will not be subject to U.S. federal income or withholding tax in respect of an Obligation, provided that such Non-U.S. Holder complies, to the extent necessary, with identification requirements including delivery of a signed statement under penalties of perjury, certifying that such Non-U.S. Holder is not a U.S. person and providing the name and address of such Non-U.S. Holder. Absent such exemption, payments of interest, including any amounts paid or accrued in respect of accrued original issue discount, may be subject to withholding taxes, subject to reduction under any applicable tax treaty. Non-U.S. Holders are urged to consult their own tax advisors regarding the ownership, sale or other disposition of an Obligation.

The foregoing rules will not apply to exempt a U.S. shareholder of a controlled foreign corporation from taxation on the U.S. shareholder's allocable portion of the interest income received by the controlled foreign corporation.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Obligations will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

STATE, LOCAL AND OTHER TAX CONSEQUENCES

Investors should consult their own tax advisors concerning the tax implications of holding and disposing of the Obligations under applicable state or local laws, or any other tax consequence, including the application of gift and estate taxes.

CONTINUING DISCLOSURE OF INFORMATION

In the Certificate Order, the County has made the following agreement for the benefit of the registered and beneficial owners of the Obligations. The County is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. Under the agreement, the County will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB").

ANNUAL REPORTS. . . The County will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the County of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 11 and in Appendix B, which is the County's annual audited financial report. The County will update and provide the information in the numbered tables within six months after the end of each fiscal year ending in and after 2015 and, if not submitted as part of such annual financial information, the County will provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the County will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the County may be required to employ from time to time pursuant to State law or regulation.

The County's current fiscal year end is September 30. Accordingly, the County must provide updated information included in the above-referenced tables by the last day of March in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by September 30 in each year, unless the County changes its fiscal year. If the County changes its fiscal year, it will file notice of the change (and of the date

of the new fiscal year end) with the MSRB prior to the next date by which the County otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

NOTICE OF CERTAIN EVENTS... The County will also provide timely notices of certain events to the MSRB. The County will provide notice of any of the following events with respect to the Obligations to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Obligation calls if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the County, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the County will provide timely notice of any failure by the County to provide annual financial information in accordance with their agreement described above under "Annual Reports".

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the County in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the County, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the County.

AVAILABILITY OF INFORMATION. . . The County has agreed to provide the foregoing financial and operating information only as described above. Investors may access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS. . . The County has agreed to update information and to provide notices of specified events only as described above. The County has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The County makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Obligations at any future date. The County disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although the registered and beneficial owners of Obligations may seek a writ of mandamus to compel the County to comply with its agreement.

The County may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the County, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Obligations in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the registered and beneficial owners of a majority in aggregate principal amount of the outstanding Obligations consent to the amendment or (b) any person unaffiliated with the County (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered and beneficial owners of the Obligations. The County may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Obligations in the primary offering of the Obligations. If the County so amends the continuing disclosure agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS. . . During the last five years, the County has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATINGS

The Obligations and the presently outstanding tax-supported debt of the County have been rated "AA+" (stable outlook) by Fitch Ratings ("Fitch") and "AA" (stable outlook) by Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business ("S&P"), without regard to credit enhancement. The ratings reflect only the respective views of such organizations and the County makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Obligations.

LITIGATION

It is the opinion of the County Attorney that there is no pending litigation against the County that would have a material adverse financial impact upon the County or its operations.

REGISTRATION AND QUALIFICATION OF OBLIGATIONS

The sales of the Obligations have not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided there under by Section 3(a)(2); and the Obligations have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Obligations been qualified under the securities acts of any other jurisdiction. The County assumes no responsibility for qualification of the Obligations under the securities laws of any jurisdiction in which the Obligations may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Obligations shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Obligations are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, as amended, and are legal and authorized investments for insurance companies, fiduciaries, or trustees, or for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Obligations by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, requires that the Obligations be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Obligations are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the County has been made of the laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

LEGAL MATTERS

The County will furnish to the Underwriter a complete transcript of proceedings had incident to the authorization and issuance of the Obligations, including the unqualified approving legal opinion of the Attorney General of the State approving the Initial Obligation and to the effect that the Obligations are valid and legally binding obligations of the County, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect. The form of Bond Counsel's opinion is attached hereto as Appendix C. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under captions "THE OBLIGATIONS" (exclusive of subcaptions "Book-Entry-Only System" and "Bond holder Remedies" and excluding all but the first sentence under "Tax Rate Limitation"), "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the subcaption "Compliance with Prior Undertakings") and the subcaptions "Registration and Qualification of Obligations," "Legal Matters" (excluding the last sentence of the first paragraph thereof) and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "OTHER INFORMATION" in this Official Statement and such firm is of the opinion that the information relating to the Obligations and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Obligations, such information conforms to the Certificate Order. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent on the sale and delivery of the Obligations. The legal opinion of Bond Counsel will accompany the Obligations deposited with DTC or will be printed on the Obligations in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, Braccwell & Giuliani, LLP, Dallas, Texas, whose legal fee is contingent on the sale and delivery of the Obligations.

The legal opinions to be delivered concurrently with the delivery of the Obligations express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future

performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from County records, audited financial statements and other sources, which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISOR

First Southwest Company, LLC is employed as Financial Advisor to the County in connection with the issuance of the Obligations. The Financial Advisor's fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. First Southwest Company, LLC, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Obligations, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the County has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the County and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

UNDERWRITING FOR THE OBLIGATIONS

The Underwriter has agreed, subject to certain conditions, to purchase the Obligations from the County, at a price equal to the initial offering prices shown on page 2 of this official statement less an underwriting discount of \$125,265.08. The Underwriter will be obligated to purchase all of the Obligations if any Obligations are purchased. The Obligations to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Obligations into investment trusts) at prices lower than the public offering prices of such Obligations and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The Underwriter and its respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriter and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriter and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the Issuer. The Underwriter and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriter and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the Issuer.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the County, that are not purely historical, are forward-looking statements, including statements regarding the County's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the County on the date hereof, and the County assumes no obligation to update any such forward-looking statements. The County's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control

of the County. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

MISCELLANEOUS

The Certificate Order authorizing the issuance of the Obligations has approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Obligations by the Underwriter.

/s/ Roger Harmon
County Judge
Johnson County, Texas

ATTEST:

/s/ Becky Ivey
County Clerk
Johnson County, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE COUNTY

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GENERAL INFORMATION. . . Johnson County, Texas (the "County") came into existence in 1854, covering 731 square miles on North Central Texas. The County is bounded on the north by Tarrant County, the east by Ellis County, the west by Hood and Somervell Counties and on the south by Bosque and Hill Counties. The County is a component of the Fort Worth-Arlington Primary Metropolitan Statistical Area.

ECONOMY. . . The economy is based on agribusiness and manufacturing. The Texas Almanac designates livestock, hay, wheat, grain, corn, peaches, and oats as principal sources of agricultural income. Retail sales for 2007 totaled \$1,269,633 million. The total 2009 Effective Buying Income was \$2,319,328 with a median income of \$56,088 per household compared with the state median of \$48,286.

Johnson County is a north central Texas county and is considered part of the Fort Worth metropolitan area. There were 469.0 million cubic feet of natural gas recovered in 2008 and 170.6 billion cubic feet of natural gas recovered in 2007.

Industry in the County varies from manufacturing of insulated apparel to limestone mining. Some of the 2010 principal employers in the County are as follows:

<u>Name of Firm</u>	<u>Type of Business</u>	Approximate <u>Number of Employees</u>
Burleson ISD	Education	1513
Cleburne ISD	Education	1024
Wal-Mart Distribution Center	Retail	818
Joshua ISD	Education	660
Johnson County	Government	588
Wal-Mart Supercenter (Burleson)	Retail	587
Wal-Mart Supercenter (Cleburne)	Retail	467
Johns Manville International	Insulation	460
Harris Methodist Walls Hospital	Healthcare	371
City of Cleburne	Government	361

(1) Source: Johnson County

TRANSPORTATION . . . Roadways . . . Roadways and highways located within the County include one interstate highway, two U.S. highways and two state highways, as well as numerous county and farm-to-market roads.

Interstate Highway 35W runs north-south through the County, passing through the cities of Burleson, Texas and Alvarado, Texas. This highway provides direct access to the City of Fort Worth, Texas to the north and to the cities of Austin, Texas and San Antonio, Texas to the south.

U.S. Highway 67 transverses the County from east to west passing through the cities of Keene, Texas and Cleburne, Texas, which provides direct access to the City of Dallas, Texas.

Railways . . . Railway Systems, providing movement of material in and out of the major commercial and industrial areas of the County, include the MKT Railroad, Atchison, Topeka & Santa Fe Railroad, Burlington Northern and Union Pacific. The County is served by Amtrak passenger service in the City of Cleburne, Texas.

Other Transportation . . . Other transportation activities serving the County include numerous freight companies and Central Texas Trailways buses. There are two small airports in the County located in the cities of Cleburne, Texas and Keene, Texas. Cleburne airport is a general aviation facility with a 5,700 X 100 foot runway, providing facilities for commercial and personal aircraft. The Keene airport offers facilities for personal aircraft only. Commercial passenger facilities are located at the Dallas-Fort Worth International Airport located some 50 miles from the center of the County.

EDUCATION . . . The County contains eleven independent school districts with enrollment ranging from 642 at Keene ISD to 6,203 at Burleson ISD. Higher education is available in the County at Southwestern Adventist University located in the City of Keene, Texas, and Hill College located in the City of Cleburne, Texas. Additionally, there are seven universities and/or colleges located within a radius of sixty miles from the center of the County which include Baylor University in the City of Waco, Texas, Southern Methodist University in the City of Dallas, Texas; Texas Christian University in the City of Fort Worth, Texas and the University of Texas at Arlington in the City of Arlington, Texas.

FINANCIAL INSTITUTIONS . . . Currently there are twenty-five main or branch banks, eight branch bank facilities, two credit unions, and eight mortgage financial institutions operating within the County.

MEDICAL FACILITIES . . . The County is served by Walls Regional Hospital, an 112-bed hospital facility located in the City of Cleburne, Texas. The Hospital is a privately owned facility. Located within the County are eleven nursing homes. Two nursing homes are located in the City of Burleson, Texas and five nursing homes are located in the City of Cleburne, Texas. Additionally, the County is serviced by several doctor's clinics and minor emergency clinics.

RECREATION . . . In addition to the various municipal parks and recreational facilities located in the cities within the County, the County offers recreational facilities at Cleburne State Park, Lake Whitney and Lake Pat Cleburne.

EMPLOYMENT RATES

	Johnson County (Average Annual)				
	2015 ⁽¹⁾	2014	2013	2012	2011
Civilian Labor Force	74,585	74,914	73,951	73,198	72,685
Total Employed	71,398	71,185	69,475	68,356	67,058
Total Unemployed	3,187	3,729	4,476	4,842	5,627
Unemployment Rate	4.3%	5.0%	6.1%	6.6%	7.7%

	City of Cleburne (Average Annual)				
	2015 ⁽¹⁾	2014	2013	2012	2011
Civilian Labor Force	13,420	13,419	13,233	13,243	13,205
Total Employed	12,769	12,731	12,426	12,369	12,176
Total Unemployed	651	688	807	874	1,029
Unemployment Rate	4.9%	5.1%	6.1%	6.6%	7.8%

(1) As of September 2015.

APPENDIX B

EXCERPTS FROM THE
JOHNSON COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2014

The information contained in this Appendix consists of excerpts from the Johnson County, Texas Annual Financial Report for the Year Ended September 30, 2014, and is not intended to be a complete statement of the County's financial condition. Reference is made to the complete Report for further information.

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Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

Lake Jackson Office:
8 West Way Court
Lake Jackson, Texas 77566

El Campo Office:
201 W. Webb
El Campo, Texas 77437

Houston Office:
10830 Richmond, Suite 135
Houston, Texas 77042

Independent Auditor's Report

The Honorable County Judge,
and Members of Commissioners'
Court of Johnson County, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Johnson County, Texas (the "County") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the County'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, each major fund, and the aggregate remaining fund information of Johnson County, Texas, as of September 30, 2014, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

www.kmandl.com – Email: kmkw@kmandl.com

Members: American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants,
Partnering for CPA Practice Success

The Honorable County Judge,
and Members of Commissioners'
Court of Johnson County, Texas

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 5 to 17 and pages 66 to 69 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of expenditures of state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Texas *Single Audit Circular* and are also not a required part of the basic financial statements.

The combining and individual fund statements and schedules, and the schedule of expenditures of state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules, and the schedules of expenditures of state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

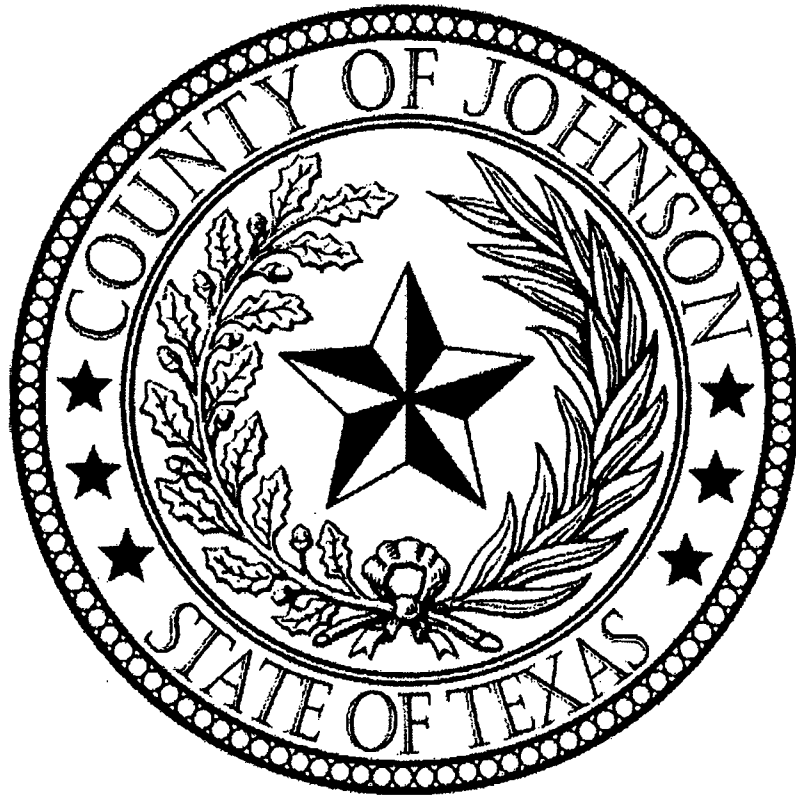
The Honorable County Judge,
and Members of Commissioners'
Court of Johnson County, Texas

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Kerremey, Masters & Hurdford, LLC

Lake Jackson, Texas
March 27, 2015



JOHNSON COUNTY, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2014

As management of Johnson County, Texas ("County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended September 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i - vi of this report.

Financial Highlights

- The assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year for governmental activities by \$ 93,122,365 (net position). Of this amount, \$ 24,860,566 (unrestricted net position), may be used to meet the government's ongoing obligations to citizens and creditors with the County's fund designation.
- The County's total net position increased for governmental activities by \$ 1,576,514.
- As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$ 37,134,716. 49.32% of this amount, \$ 18,313,030 (unassigned fund balance), were available for use within the County's fund designations. Of the governmental funds amount, \$ 17,857,943 has been restricted for specific uses.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 18,321,967 or 36.61% of the total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the County's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

JOHNSON COUNTY, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2014*

The government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The *governmental activities* of the County include general government, administration of justice, financial administration, elections, law enforcement, highways and streets, health and welfare, culture and recreation, and conservation. The County has no *business-type activities*.

The government-wide financial statements can be found on pages 20 and 21 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances, provides reconciliations to facilitate this comparison between governmental funds and governmental activities.

The County maintains forty-nine (49) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Road and Bridge (special revenue fund), and the General Debt Service (debt service fund); all of which are considered to be major funds. Data from the other forty-six (46) funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental funds financial statements can be found on pages 22 through 27 of this report.

- **Proprietary Funds.** The County maintains no proprietary funds.

JOHNSON COUNTY, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2014*

- **Fiduciary Funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's operations. The County is the trustee, or *fiduciary*, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County's fiduciary activities are reported in a separate statement of fiduciary net position on page 28 and a statement of changes in assets and liabilities – agency funds that can be found on pages 137 through 139.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29 through 63 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 66 through 69 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information on pensions. Combining and individual statements and schedules can be found on pages 78 through 136 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 93,122,365 as of September 30, 2014. This is an increase in net position of \$ 1,576,514 which is primarily due to a net increase in revenues.

The largest portion of the County's net position of \$ 53,258,318 (57.19%) reflects its investments in capital assets (e.g., land; buildings and improvements; furniture, equipment and vehicles; infrastructure; and construction in progress), less any debt used to acquire those assets that is still outstanding. The County uses capital assets to provide service to citizens and consequently these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net investment in capital assets increased by \$ 1,634,754 due to an increase in construction in progress related to new buildings and software projects.

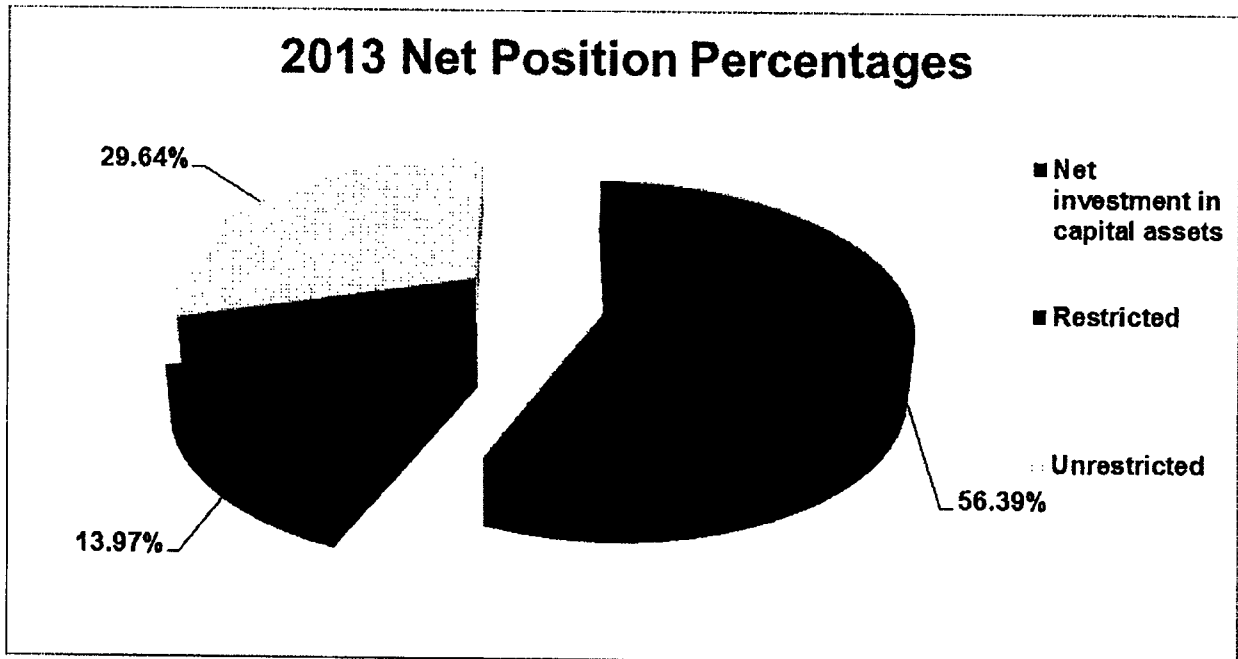
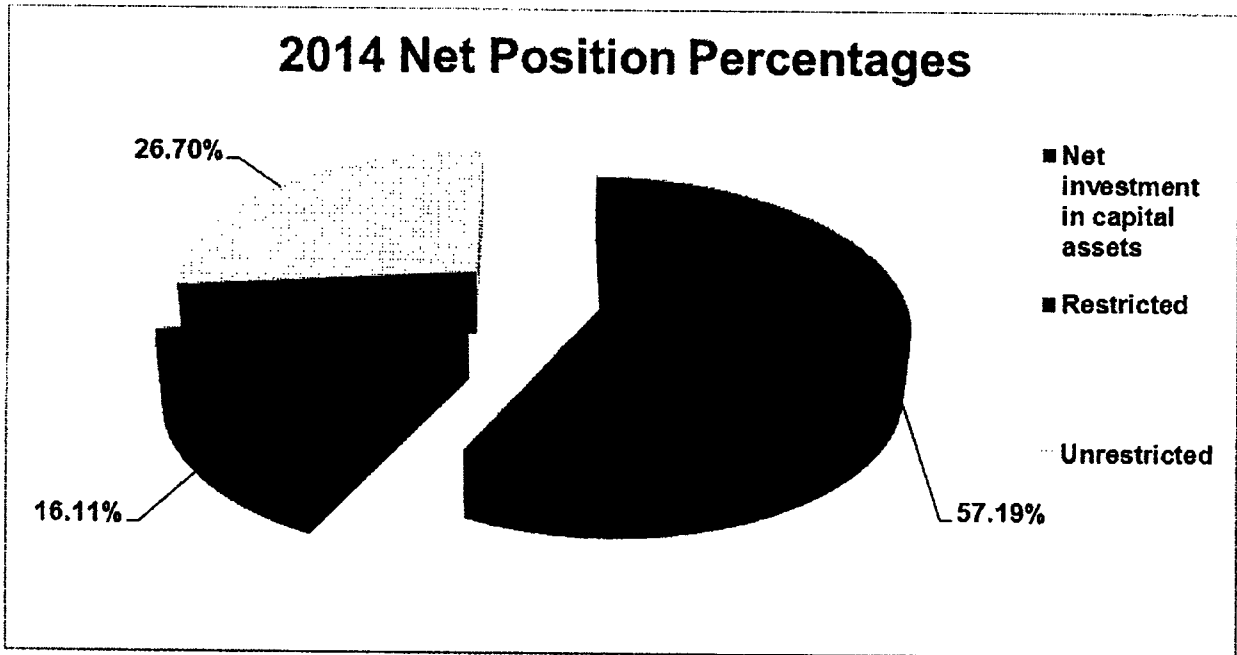
An additional portion of the County's net position of \$ 15,003,481 (16.11%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$ 24,860,566 (26.70%) may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2014, the County is able to report positive balances in all three categories of net position.

JOHNSON COUNTY, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2014

JOHNSON COUNTY'S NET POSITION

	<u>Governmental Activities</u>		
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>Net</u> <u>Change</u>
ASSETS			
Current and other assets	\$ 51,181,482	\$ 46,794,270	\$ 4,387,212
Capital assets	<u>66,076,988</u>	<u>64,222,440</u>	<u>1,854,548</u>
Total assets	<u>117,258,470</u>	<u>111,016,710</u>	<u>6,241,760</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources	<u> </u>	<u> </u>	<u>-0-</u>
Total deferred outflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
LIABILITIES			
Current and other liabilities	6,032,244	4,538,001	1,494,243
Long-term liabilities	<u>18,103,861</u>	<u>14,932,858</u>	<u>3,171,003</u>
Total liabilities	<u>24,136,105</u>	<u>19,470,859</u>	<u>4,665,246</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources	<u> </u>	<u> </u>	<u>-0-</u>
Total deferred inflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
NET POSITION			
Invested in capital assets, net of related debt	53,258,318	51,623,564	1,634,754
Restricted	15,003,481	12,787,174	2,216,307
Unrestricted	<u>24,860,566</u>	<u>27,135,113</u>	<u>(2,274,547)</u>
Total net position	<u>\$ 93,122,365</u>	<u>\$ 91,545,851</u>	<u>\$ 1,576,514</u>

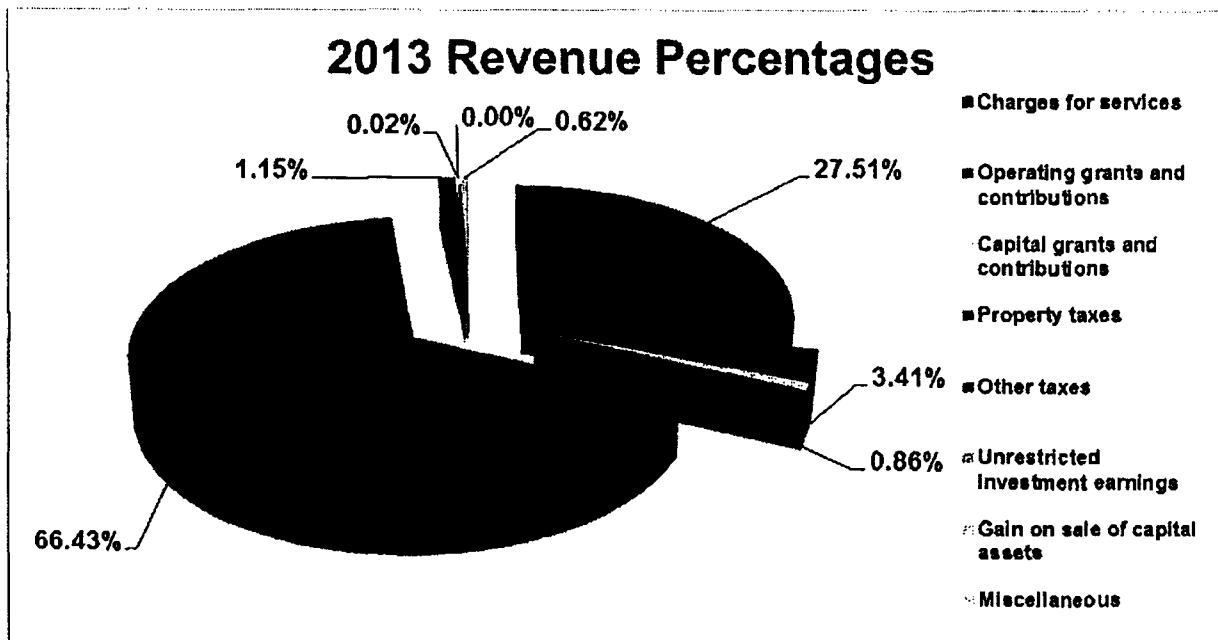
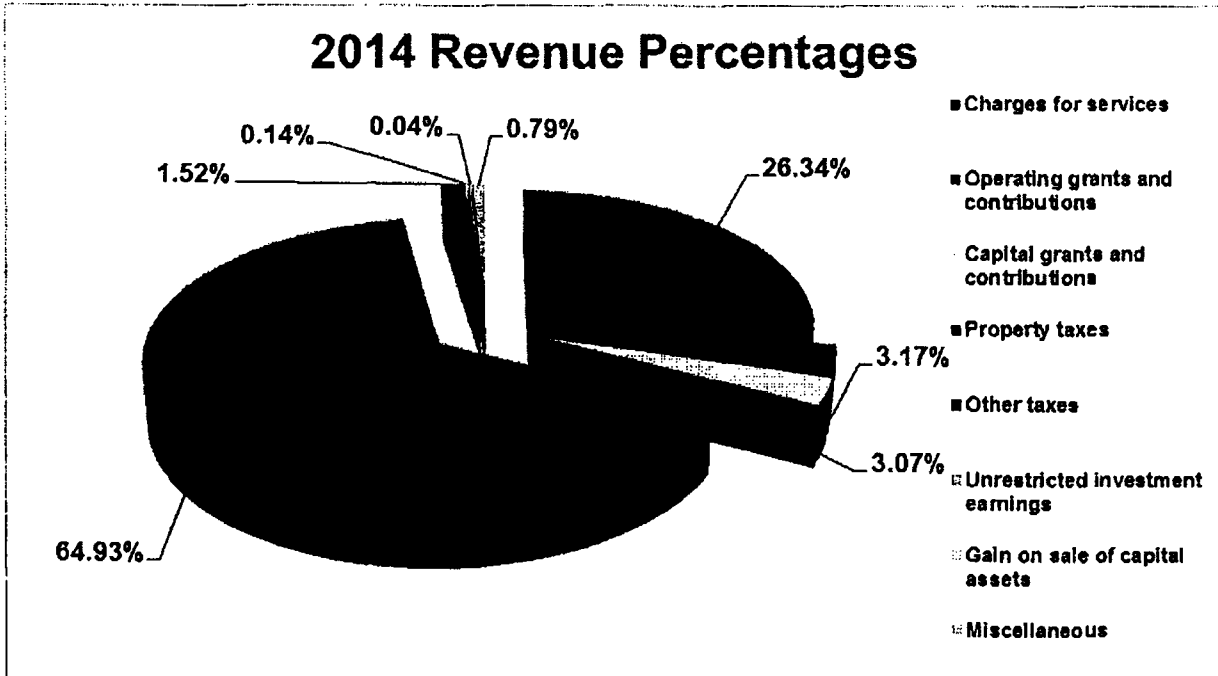


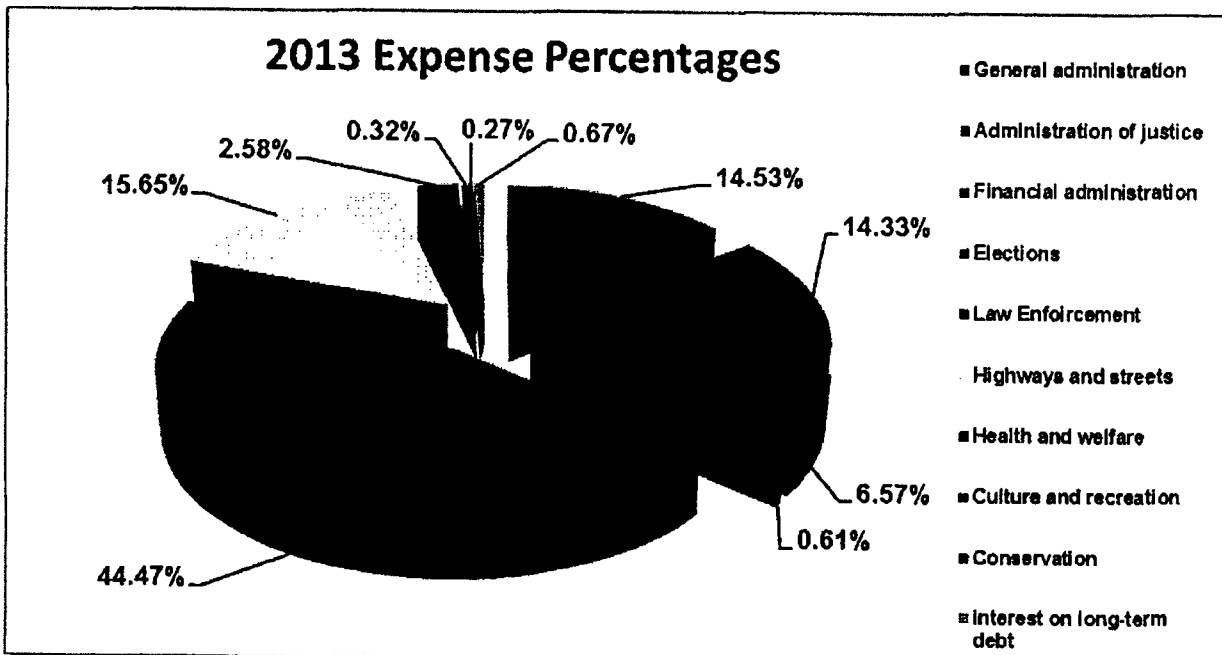
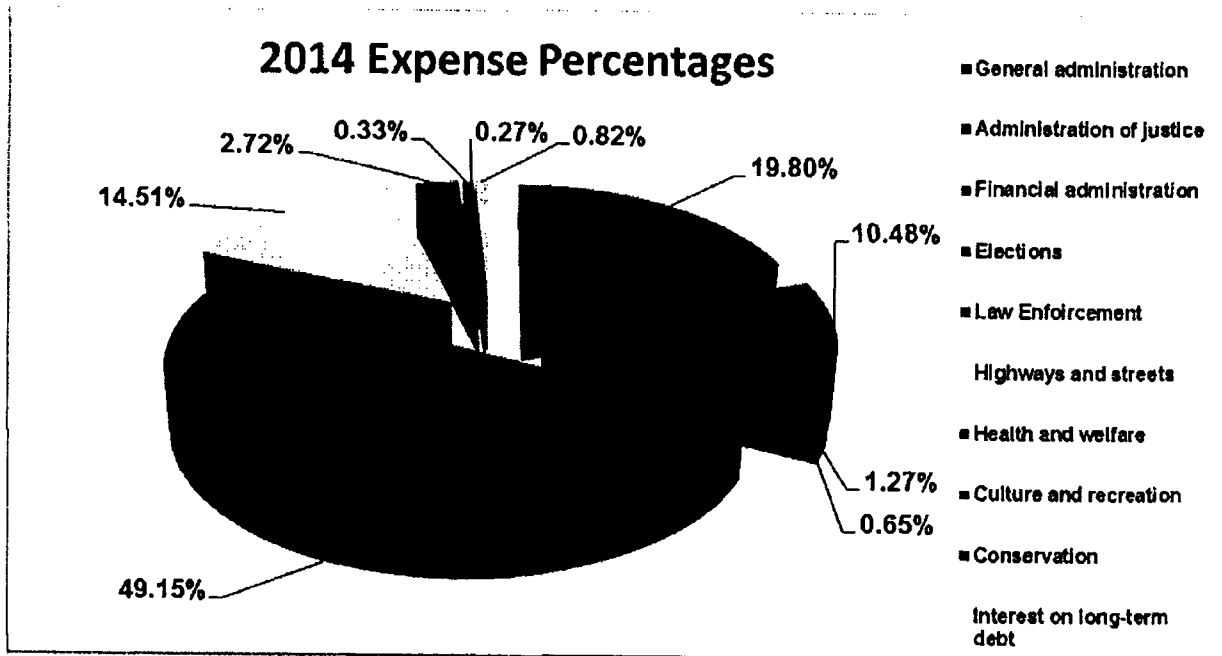
JOHNSON COUNTY, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2014

Analysis of the County's Operations. Governmental activities reported an increase in net position in the amount of \$ 1,576,514. The following table provides a summary of the County's operations for the year ended September 30, 2014.

JOHNSON COUNTY'S CHANGES IN NET POSITION

	<u>Governmental Activities</u>		
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>Net</u> <u>Change</u>
Revenues:			
Program Revenues:			
Charges for services	\$ 18,041,407	\$ 17,849,320	\$ 192,087
Operating grants and contributions	2,171,770	2,210,164	(38,394)
Capital grants and contributions	2,104,767	557,627	1,547,140
General Revenues:			
Property taxes	44,476,483	43,106,286	1,370,197
Other taxes	1,038,595	746,362	292,233
Unrestricted Investment earnings	96,651	14,784	81,867
Gain on sale of capital assets	24,622		24,622
Miscellaneous	542,112	404,603	137,509
Total revenues	<u>68,496,407</u>	<u>64,889,146</u>	<u>3,607,261</u>
Expenses:			
General administration	13,252,093	9,483,532	3,768,561
Administration of justice	7,011,681	9,356,931	(2,345,250)
Financial Administration	847,977	4,287,972	(3,439,995)
Elections	430,717	400,442	30,275
Law enforcement	32,888,061	29,021,831	3,866,230
Highways and streets	9,712,634	10,213,556	(500,922)
Health and welfare	1,822,344	1,682,465	139,879
Culture and recreation	223,476	204,804	18,672
Conservation	180,919	174,632	6,287
Interest on long-term debt	549,991	438,967	111,024
Total expenses	<u>66,919,893</u>	<u>65,265,132</u>	<u>1,654,761</u>
Increase (decrease) in net position	1,576,514	(375,986)	1,952,500
Net position – October 1,	<u>91,545,851</u>	<u>91,921,837</u>	(375,986)
Net position - September 30,	<u>\$ 93,122,365</u>	<u>\$ 91,545,851</u>	<u>\$ 1,576,514</u>





JOHNSON COUNTY, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2014

Financial Analysis of the County's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$ 37,134,716. The unassigned fund balance of \$ 18,313,030 constitutes 49.32% of ending fund balance. The fund balance is categorized as 1) nonspendable (\$ 963,743), 2) restricted (\$ 17,857,943), and 3) unassigned (\$ 18,313,030).

Fund balance of the General Fund decreased by \$ 2,585,074; the Road and Bridge (special revenue fund) increased by \$ 1,381,583; the General Debt Service (debt service fund) increased by \$ 131,820, and, other (non-major) governmental funds increased by \$ 3,519,844.

The decrease in fund balance in the general fund, as compared to the prior year, resulted from the transfer of funds to the capital projects funds for projects that are ongoing for the County. General fund revenues were up slightly and expenditures were up from the prior year due to the overall increases in the cost of operations, during the current year. Regarding the Road & Bridge (special revenue fund), the increase in fund balance was the result of decreased highway and street maintenance and construction. The increase in fund balance for the General Debt Service (debt service fund) was, as compared to the prior year, the result of expected maturities of debt with expected property tax revenue. The change in fund balance for other governmental funds generally is a result of changes in special revenue projects, grants and awards and other capital project expenditures. The related decrease in fund balance in the current year is significantly lower than the prior year decrease in fund balance.

General Fund Budgetary Highlights. The County budget is prepared by the County Judge's Office and presented to Commissioners Court for approval. The County operates within this budget for the fiscal year with expenditure amendments made as needed.

The difference between the General Fund original expenditure budget and the revised budget was a \$ 4,107,188 increase including \$ 1,145,582 in transfers out. There were no relatively large amendments approved this year, except for the increase in transfers out for programs and construction projects and anticipated increases in law enforcement costs.

During the year, revenues exceeded budget while expenditures were less than the budget. Revenues were higher across the board. Lower than budgeted expenditures resulted in many areas, primarily in the general government expenditures.

JOHNSON COUNTY, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2014

Total General Fund revenue exceeded the budget by approximately 4.58% and total General Fund expenditures were under budget by approximately 6.18%.

Capital Assets

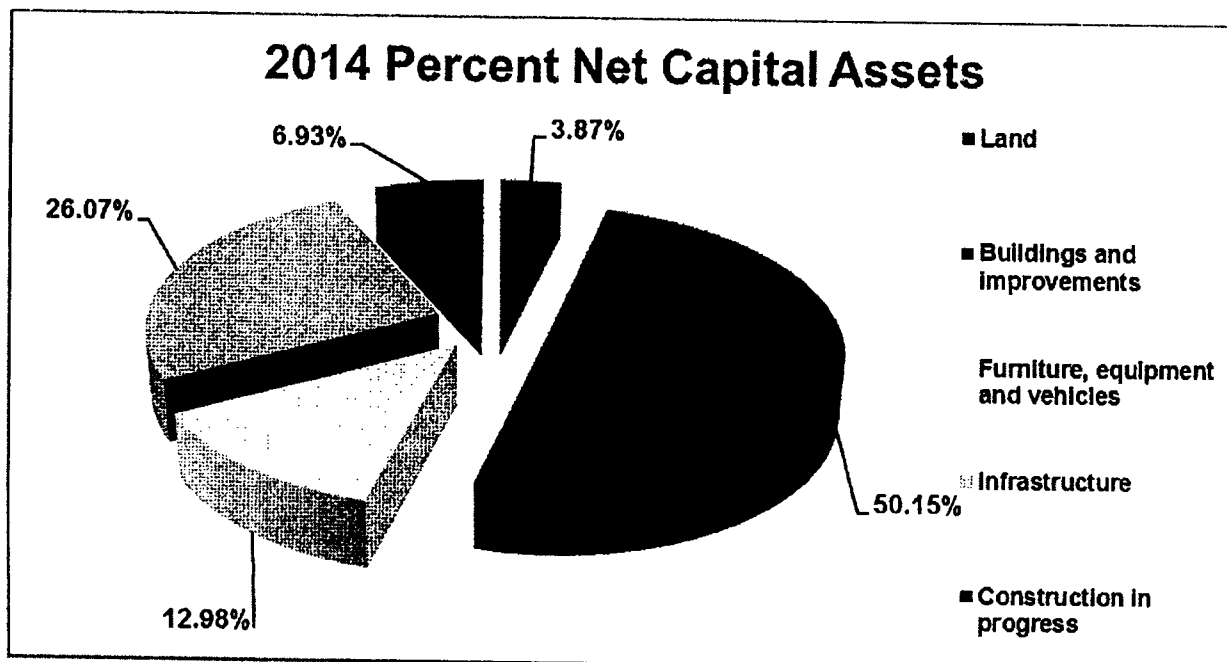
This investment in capital assets includes land; buildings and improvements; furniture, equipment and vehicles; infrastructure; and construction in progress.

Major capital asset events during the current fiscal year included the following:

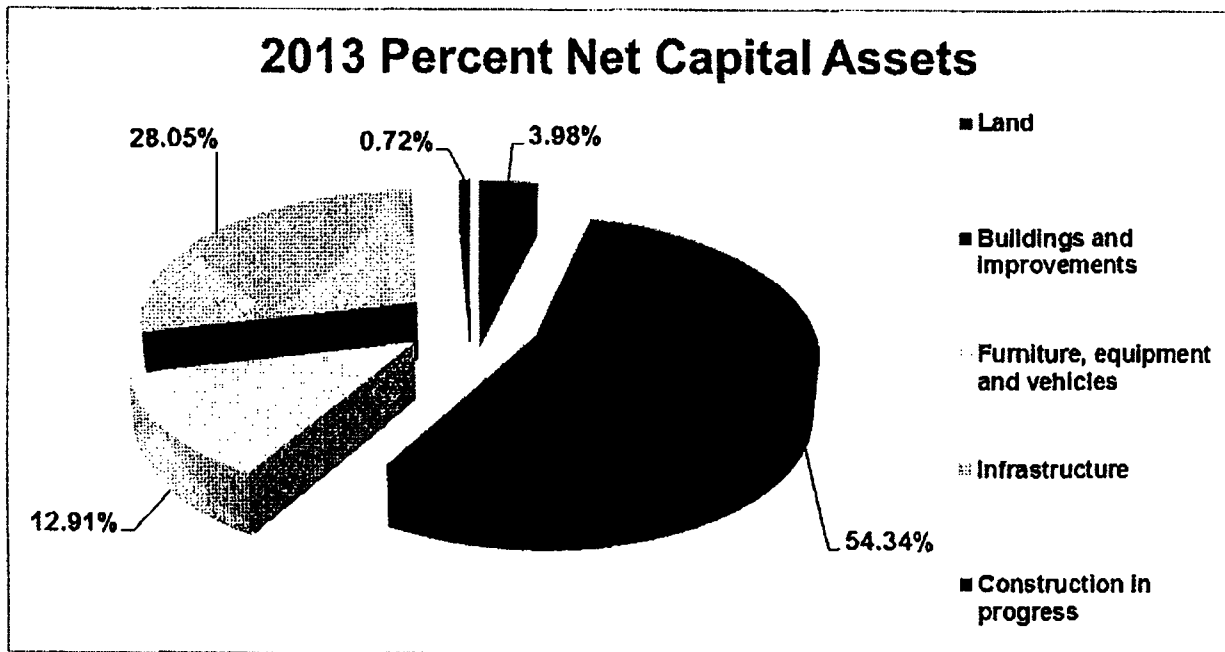
- Acquisition of new vehicles, tractors, various road and bridge equipment.
- Construction of new buildings that are still in progress at the end of the fiscal year.
- Construction of software projects that began in the current fiscal year.

JOHNSON COUNTY'S CAPITAL ASSETS
Net of Accumulated Depreciation

	<u>Governmental Activities</u>		
	<u>September 30,</u> <u>2014</u>	<u>September 30,</u> <u>2013</u>	<u>Net</u> <u>Change</u>
Land	\$ 2,558,693	\$ 2,558,693	\$ -0-
Buildings and improvements	33,135,259	34,896,564	(1,761,305)
Furniture, equipment and vehicles	8,576,100	8,288,360	287,740
Infrastructure	17,224,995	18,013,298	(788,303)
Construction in progress	<u>4,581,941</u>	<u>465,525</u>	<u>4,116,416</u>
Total	<u>\$ 66,076,988</u>	<u>\$ 64,222,440</u>	<u>\$ 1,854,548</u>



JOHNSON COUNTY, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2014



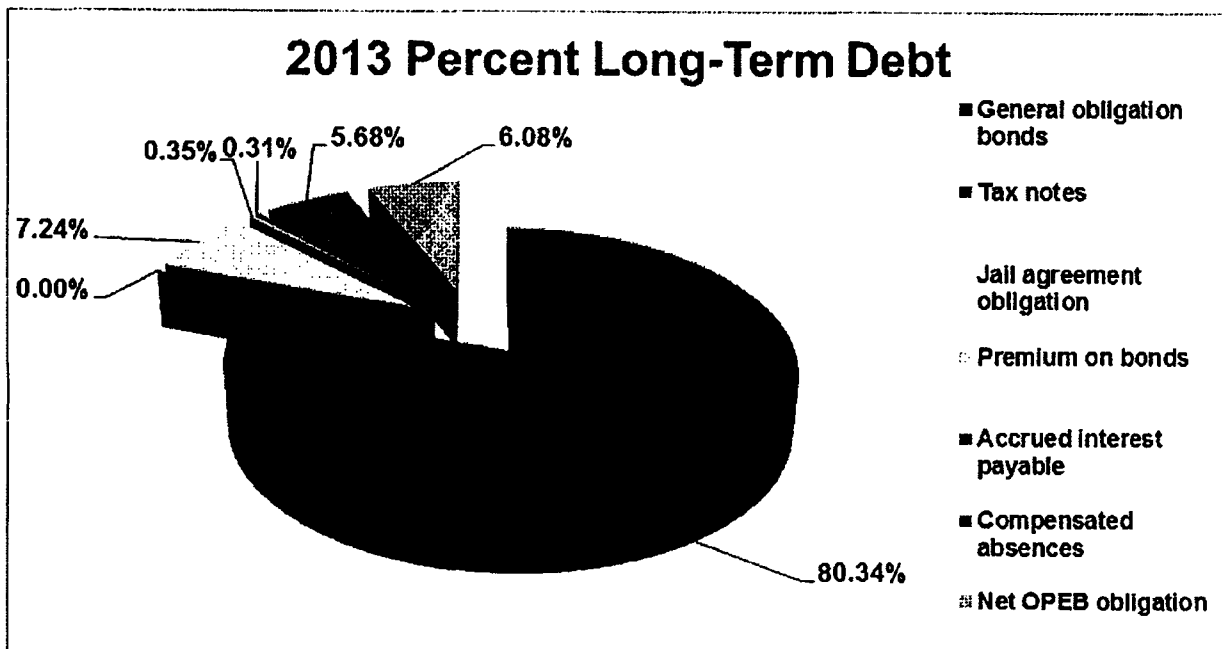
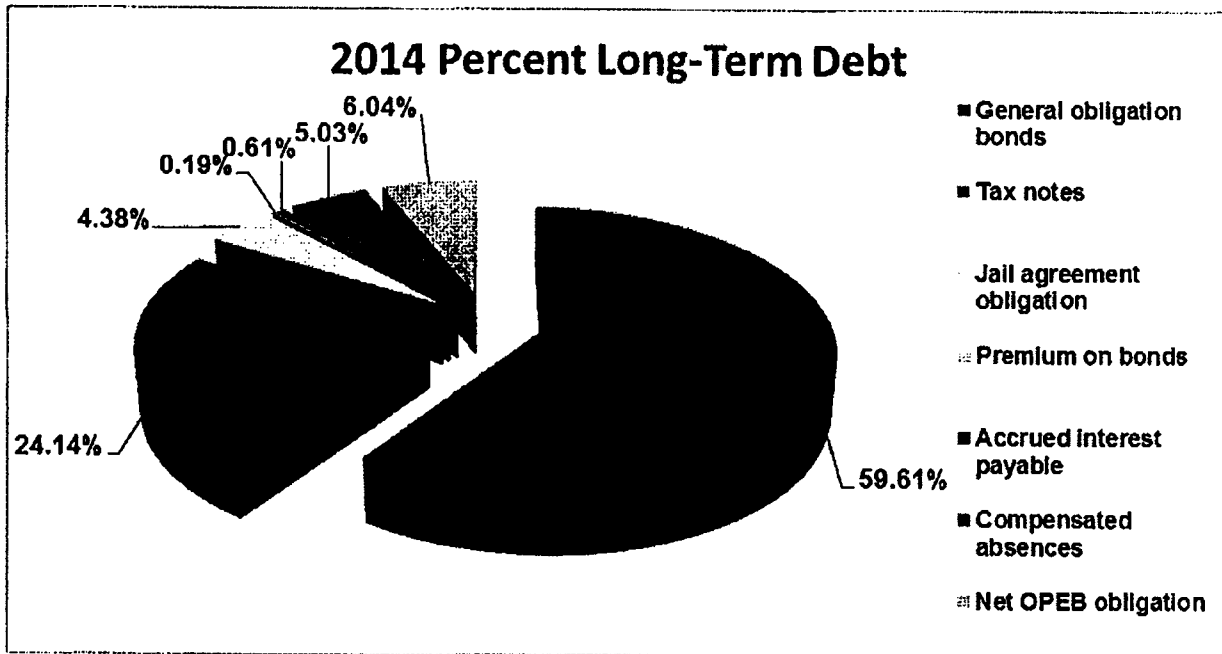
Additional information on the County's capital assets can be found in Note 5 on pages 50 through 51 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the County had a total bonded and note debt of \$ 15,955,602, which, comprises bonded and debt backed by the full faith and credit of the County and the jail facilities loan agreement. The bonds and tax notes will be retired with revenues from property taxes and fees for services, while the jail agreement loan will be retired with revenues related to the jail operations.

JOHNSON COUNTY'S LONG-TERM DEBT
Bonds, Tax Notes, Notes Payable and Components of Debt

	Governmental Activities		
	September 30, 2014	September 30, 2013	Net Change
General obligation bonds	\$ 10,792,359	\$ 11,996,322	\$(1,203,963)
Tax notes	4,370,000		4,370,000
Jail agreement obligation	793,243	1,080,513	(287,270)
Components of Debt:			
Premium on bonds	33,757	52,107	(18,350)
Accrued interest payable	110,053	46,228	63,825
Compensated absences	910,979	848,824	62,155
Unfunded OPEB obligation	1,093,470	908,864	184,606
Total	<u>\$ 18,103,861</u>	<u>\$ 14,932,858</u>	<u>\$ 3,171,003</u>



JOHNSON COUNTY, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2014

During the fiscal year, the County's total debt increased \$ 3,171,003 or 21.24%. The net increase was due primarily to the issuance of tax notes.

All of the outstanding Bonds of the County payable from its limited taxes are insured and are, therefore, rated "A1" by Moody's Investors Service Inc. ("Moody's"), and "AA" by Standard & Poor's ("S&P"). State statutes limit the amount of general obligation debt a government may issue to 25% of its total assessed valuation. The current limitation for Johnson County significantly exceeds the outstanding general obligation debt.

Additional information on the County's long-term debt can be found in Note 7 on pages 52 through 56 of this report.

Economic Factors and Next Year's Budgets and Rates

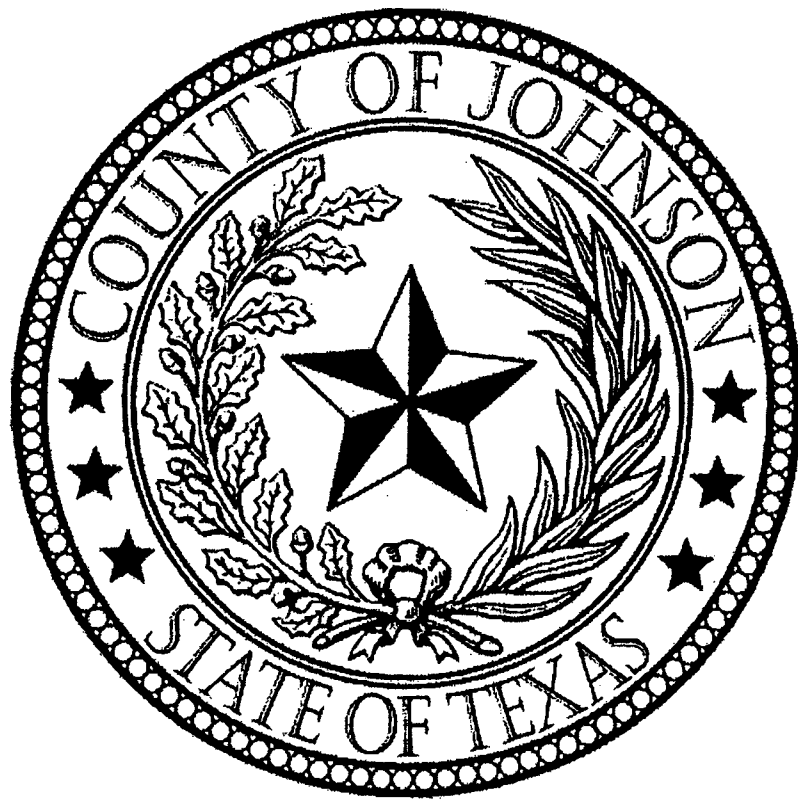
The annual budget is the means by which Commissioners Court sets the direction of the County, and allocates its resources.

In considering the budget for FY 2015, Commissioners Court considered the following factors:

- Property tax rate was set at an amount significantly under the rollback rate but slightly higher than the rate set for previous year. It appears the County will continue to increase unencumbered fund balances.
- Employees were given additional compensation of \$ 2,000 each and 1% for each department to distribute as determined by the department head.

Request for Information

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Johnson County Auditor, #2 N. Main Street, Cleburne, Texas, 76033, or call (817) 556-6305.



BASIC FINANCIAL STATEMENTS

JOHNSON COUNTY, TEXAS
STATEMENT OF NET POSITION
September 30, 2014

Exhibit 1

	<u>Governmental Activities</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Cash and temporary investments	\$ 29,562,309
Receivables (Net of Allowance for Uncollectibles):	
Taxes	763,529
Accounts	8,498,565
Due from other governments	576,468
Inventories	301,036
Prepaid items	362,707
Investments	10,816,868
Noncurrent Receivables:	
Notes receivable	300,000
Capital Assets:	
Land	2,558,693
Buildings and improvements (net)	33,135,259
Furniture, equipment and vehicles (net)	8,576,100
Infrastructure (net)	17,224,995
Construction in progress	<u>4,581,941</u>
Total assets	<u>117,258,470</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources	
Total deferred outflows of resources	<u>-0-</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
Accounts and accrued liabilities payable	5,854,841
Unearned revenue	177,403
Noncurrent Liabilities:	
Due within one year	3,961,589
Due in more than one year	<u>14,142,272</u>
Total liabilities	<u>24,136,105</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources	
Total deferred inflows of resources	<u>-0-</u>
NET POSITION	
Invested in capital assets, net of related debt	53,258,318
Restricted:	
Debt service	1,048,793
Health services	1,593,356
Public transportation projects	8,258,202
Records management	2,294,505
Other	1,808,625
Unrestricted	<u>24,860,566</u>
Total net position	<u>\$ 93,122,365</u>

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

JOHNSON COUNTY, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2014

Exhibit 2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Change In Net Position Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
Governmental Activities:					
General administration	\$ 13,252,093	\$ 2,942,937	\$ 56,092	\$	\$(10,253,064)
Administration of justice	7,011,681	2,394,904	1,543,081		(3,073,696)
Financial administration	847,977	1,226,240			378,263
Elections	430,717	62,676	19,609		(348,432)
Law enforcement	32,888,061	8,951,720	398,939	5,044	(23,532,358)
Highways and streets	9,712,634	2,176,076	63,889	2,099,723	(5,372,946)
Health and welfare	1,822,344	232,324	90,160		(1,499,860)
Culture and recreation	223,476	54,530			(168,946)
Conservation	180,919				(180,919)
Interest on long-term debt	549,991				(549,991)
Total governmental activities	66,919,893	18,041,407	2,171,770	2,104,767	(44,601,949)
General Revenue:					
Property taxes					44,476,483
Other taxes					1,038,595
Unrestricted investment earnings					96,651
Gain on sale of capital assets					24,622
Miscellaneous					542,112
Total general revenues					46,178,463
Change in net position					1,576,514
Net position – beginning					91,545,851
Net position – ending					\$ 93,122,365

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

JOHNSON COUNTY, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
 September 30, 2014

Exhibit 3
 Page 1

	Major Funds			Non-Major Funds	Total Governmental Funds
	General Fund	Road & Bridge Fund	General Debt Service Fund	Other Governmental Funds	
Assets and Deferred Outflows of Resources					
Assets:					
Cash and temporary investments \$	13,232,635	\$ 4,938,141	\$ 1,125,952	\$ 10,265,581	\$ 29,562,309
Receivables (Net of Allowance for Uncollectibles):					
Taxes	625,031	86,257	32,894	19,347	763,529
Accounts	937,563	168,817		22,104	1,128,484
Due from other governments	56,872	473,091		46,505	576,468
Due from other funds	200,017			34,013	234,030
Inventories		301,036			301,036
Prepaid expenditures	360,339			2,368	362,707
Investments	7,860,975	1,280,890		1,675,003	10,816,868
Long-term receivables:					
Accounts	300,000				300,000
Total assets	23,573,432	7,248,232	1,158,846	12,064,921	44,045,431
Deferred Outflows of Resources:					
Deferred outflows of resources					-0-
Total deferred outflows of resources	-0-	-0-	-0-	-0-	-0-
Total assets and deferred outflows of resources	\$ 23,573,432	\$ 7,248,232	\$ 1,158,846	\$ 12,064,921	\$ 44,045,431

JOHNSON COUNTY, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS - Continued
September 30, 2014

Exhibit 3
Page 2

	Major Funds			Non-Major Funds	Total Governmental Funds
	General Fund	Road & Bridge Fund	General Debt Service Fund	Other Governmental Funds	
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts and accrued liabilities payable	\$ 4,035,548	\$ 433,585	\$	\$ 1,385,708	\$ 5,854,841
Due to other funds	34,013	7,057		192,960	234,030
Unearned revenue				177,403	177,403
Total liabilities	4,069,561	440,642	-0-	1,756,071	6,266,274
Deferred Inflows of Resources:					
Deferred inflows of resources - Property taxes	521,565	71,067	35,731	16,078	644,441
Total deferred inflows of resources	521,565	71,067	35,731	16,078	644,441
Fund Balances:					
Nonspendable	660,339	301,036		2,368	963,743
Restricted		6,435,487	1,123,115	10,299,341	17,857,943
Unassigned	18,321,967			(8,937)	18,313,030
Total fund balances	18,982,306	6,736,523	1,123,115	10,292,772	37,134,716
Total liabilities, deferred inflows of resources and fund balances	\$ 23,573,432	\$ 7,248,232	\$ 1,158,846	\$ 12,064,921	\$ 44,045,431

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

JOHNSON COUNTY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
September 30, 2014

Exhibit 3R
Page 1

Total fund balances - governmental funds balance sheet (Exhibit 3)	\$ 37,134,716
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 124,426,402 in assets less \$ 58,349,414 in accumulated depreciation.	66,076,988
Judicial accounts receivables net of related allowance for uncollectible accounts are unavailable to pay for current period expenditures and availability of funds that are uncertain as to availability are not recorded in the funds. Judicial receivables of \$ 13,514,714 net of allowance for uncollectible accounts of \$ 6,144,633 in the General fund amounted to \$ 7,370,081.	7,370,081
Property taxes receivable unavailable to pay for current period expenditures are reported as deferred inflows of resources in the funds. Deferred inflows of resources (property tax revenues) for the General fund, Road and Bridge special revenue fund, Indigent Health Care special revenue fund, and the Law Enforcement Center debt service fund amounted to \$ 521,565, \$ 71,067, \$ 16,078 and \$ 35,731, respectively.	644,441
Payables for bond principal are not reported in the funds.	(10,792,359)
Payables for note principal are not reported in the funds.	(5,163,243)
Premium on the issuance of bonds provides current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds were \$ 33,757 (premium on the sale of bonds of \$ 188,901 less amortization of \$ 155,144).	(33,757)
Payables for bonded debt interest are not reported in the funds except for amounts received from the sale of bonds or issuance of notes after the issuance date. Total accrued interest payable of \$ 110,653.	(110,053)
The liability for the underfunded annual required contribution as calculated for the retiree health insurance benefits is not reported in the funds.	(1,093,470)
Payables for compensated absences are not reported in the funds.	(910,979)
Net position of governmental activities - statement of net position (Exhibit 1)	<u>\$ 93,122,365</u>

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

JOHNSON COUNTY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Exhibit 4

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2014

	Major Funds			Non-Major Funds	Total Governmental Funds
	General Fund	Road & Bridge Fund	General Debt Service Fund	Other Governmental Funds	
REVENUES					
Taxes	\$ 37,211,095	\$ 5,228,763	\$ 1,794,478	\$ 1,209,445	\$ 45,443,781
Intergovernmental	1,107,144	766,162		1,399,534	3,272,840
Prisoner housing services	6,675,022				6,675,022
Fees	4,428,017	2,118,673		1,036,056	7,582,746
Fines	1,418,989			55,603	1,474,592
Investment income	57,247	13,991	1,442	23,971	96,651
Miscellaneous	1,077,755	291,658		714,494	2,083,907
Total revenues	51,975,269	8,419,247	1,795,920	4,439,103	66,629,539
EXPENDITURES					
Current:					
General administration	11,295,481			383,292	11,678,773
Administration of justice	6,811,140			195,098	7,006,238
Financial administration	920,170				920,170
Elections	387,951			39,819	427,770
Law enforcement	28,861,765			2,055,932	30,917,697
Highways and streets		6,881,825		52,580	6,934,405
Health and welfare	686,419			1,104,593	1,791,012
Culture and recreation	191,692			13,197	204,889
Conservation	179,566				179,566
Capital outlay	425,181	746,721		5,402,457	6,574,359
Debt Service:					
Principal	287,270		1,305,000		1,592,270
Interest and fiscal charges			359,100	44,379	403,479
Total expenditures	50,046,635	7,628,546	1,664,100	9,291,347	68,630,628
Excess (deficiency) of revenues over expenditures	1,928,634	790,701	131,820	(4,852,244)	(2,001,089)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	52,091	27,171			79,262
Proceeds from tax notes				4,370,000	4,370,000
Transfers in	292,347	563,711		4,358,146	5,214,204
Transfers out	(4,858,146)			(356,058)	(5,214,204)
Total other financing sources and (uses)	(4,513,708)	590,882	-0-	8,372,088	4,449,262
Net change in fund balances	(2,585,074)	1,381,583	131,820	3,519,844	2,448,173
Fund balances - beginning	21,567,380	5,354,940	991,295	6,772,928	34,686,543
Fund balances - ending	\$ 18,982,306	\$ 6,736,523	\$ 1,123,115	\$ 10,292,772	\$ 37,134,716

JOHNSON COUNTY, TEXAS**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO GOVERNMENTAL
ACTIVITIES STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2014

Exhibit 4R
Page 1

Net change in fund balances - total governmental funds (Exhibit 4)	\$ 2,448,173
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay of \$ 6,574,359 exceeded depreciation of \$ 6,062,621 in the current period.	511,738
Contributions of capital assets are not reported in the funds, however, contributions of capital assets are reported as capital contributions in the governmental activities statement of activities. During the current year, \$ 1,397,450 of capital assets were contributed to and accepted by the County.	1,397,450
Property tax revenues in the governmental activities statement of activities do not provide current available resources and are not reported as revenues in the funds. Deferred inflows of resources (property tax revenues) for the general fund, Road and Bridge special revenue fund, Indigent Health Care special revenue fund and General debt service fund amounted to \$ 40,928, \$ 21,844, \$ 882, and \$ 7,643, respectively.	71,297
Governmental funds report proceeds from the sale of assets as revenue. However, in the governmental activities statement of activities, the cost of the assets disposed is offset against the proceeds to report gain or loss on the disposition of assets. The costs of assets disposed were \$ 54,640. (Cost of \$ 2,489,870 less accumulated depreciation of \$ 2,435,230).	(54,640)
Judicial revenues (resulting from accounts receivable net of related allowance for uncollectible accounts) in the governmental activities statement of activities do not provide current available resources and are not reported as revenues in the funds. The change in these net receivables resulted in an increase in revenues reported in the governmental activities statement of activities.	373,499
Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the governmental activities statement of net position. Long-term debt issued was \$ 4,370,000 for tax notes payable.	(4,370,000)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net position. The funds statements reported \$ 1,305,000 in long-term bond principal payments and \$ 287,270 in long-term note payments.	1,592,270
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net position. Bond premium amortization was \$ 18,350.	18,350
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This is the amount of accretion and accrued interest on long-term debt. Current bond accretion of \$ 101,037 plus the change in accrued interest on note and bonds of \$ 63,825.	(164,862)

(continued)

JOHNSON COUNTY, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO GOVERNMENTAL
ACTIVITIES STATEMENT OF ACTIVITIES - Continued**

For the Year Ended September 30, 2014

Exhibit 4R
Page 2

Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount of change in the liability for underfunded annual required contribution for the post employment health insurance benefits.	\$(184,606)
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This is the amount of change in compensated absences.	<u>(62,155)</u>
Change in net position of governmental activities (see Exhibit 2)	<u>\$ 1,576,514</u>

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

JOHNSON COUNTY, TEXAS
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 September 30, 2014

Exhibit 5

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and temporary investments	\$ 8,411,077
Receivables:	
Accounts receivable	139,312
Due from others	923,690
Prepaid items	<u>3,534</u>
Total assets	<u>\$ 9,477,613</u>
<u>Liabilities</u>	
Accounts and accrued liabilities payable	\$ 378,713
Amount held for others	<u>9,098,900</u>
Total liabilities	<u>\$ 9,477,613</u>

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

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
For The Year Ended September 30, 2014

INDEX

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JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Johnson County, Texas (the "County") related to the funds in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the County are described below.

Reporting Entity

In evaluating how to define the government, for financial reporting 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 GAAP. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the County's reporting entity. Financial statements for component units can be obtained from the office of the County Auditor.

Included in the reporting entity:

Johnson County, Texas (Primary Government) -

The County is a political subdivision of the State of Texas. The County is governed by the Commissioners Court, composed of four elected County Commissioners and an elected County Judge. Each of these officials serves a term of four years. The primary activities of the County include: the construction and maintenance of county roads, provision of public safety through a sheriff's department, support of area fire protection and ambulance service, administration of justice, correctional facilities, health and welfare services, culture and recreation, and other social and administrative services.

For the year ended September 30, 2014, no other organizations have been combined for either blended or discrete presentation in the County's financial statements. The following organizations are not considered "related organizations."

Excluded from the reporting entity:

Adult Probation -

This entity is considered a separate agency of the State of Texas. While the County provides office space, utilities, telephone and certain supplies, the operations of this unit are primarily provided for by the State. A separate board develops the operating budget, which is also approved and controlled by the State of Texas. Required County expenditures are disclosed as a department within the General Fund function of Corrections. Due to custodial responsibility, the accounts of this entity are reported as an Agency Fund of the County.

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reporting Entity - continued

Johnson County Appraisal District -

This is a separate entity providing property appraisal services to all taxing units within the County. This entity has its own governing board, elected by the various taxing units, which it serves; however, the taxing units do not designate management or significantly influence operations. The entity's cost of operations is divided on a prorated basis among the various taxing units within the County. Johnson County's share of this cost is disclosed within the General Fund under the Financial Administration function.

Other entities within the County, which provide similar services but are not included in the reporting entity because they do not meet the criteria, are: municipalities, school districts, drainage districts, hospital districts, water districts and various non-profit organizations.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report financial information on all of the nonfiduciary activities of the primary government. For the most part, interfund activity has been removed from these statements; however, interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The County has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The County has no enterprise fund.

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary and fiduciary fund (excluding agency funds, which have no measurement focus but are on the accrual basis of accounting) financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of 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.

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation - continued

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues from property and other taxes, grants and contracts, fees (charges for services), fines (including forfeitures), and interest associated with the current fiscal period are all considered to be susceptible to accrual. 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.

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) operating and capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources as they are needed.

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation - continued

The County has presented the following major governmental funds:

The *General fund* is the County's primary operating fund. It accounts for all financial resources of the County, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the general fund.

The *Road and Bridge special revenue fund* accounts for the property taxes and fees from auto registration, certificates of title, gross weight and axle fees, and approved expenditures for public transportation projects.

The *General Debt Service fund* is utilized to account for the accumulation of resources from property tax collections for the repayment of general obligation bonded debt, interest and related costs of the County.

Additionally, the County reports the following fiduciary funds:

The *agency funds* account for assets that the government holds on behalf of others as their agent. The County's agency funds include Unclaimed Money, Tax Assessor/Collector, District and County Clerk trusts, Sheriff Department Funds, Seizure and Restitution Funds, and Community Corrections and Supervision (Adult Probation) funds.

New Pronouncements

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34", was issued November 2010. The statement was implemented and did not have an impact on the County's financial statements. This statement is effective for periods beginning after June 15, 2012.

GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", was issued June 2011. The statement was implemented and did not have an impact on the County's financial statements, although it has reclassified certain items previously recorded as assets and liabilities within the County's financial statements as outflows and inflows of resources. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statements No. 53", was issued June 2011. The statement was implemented and did not have an impact on the County's financial statements.

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements – continued

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", was issued March 2012. The statement was implemented and did have an impact on the County's financial statements. This statement is effective for periods beginning after December 15, 2012 and was adopted in the prior fiscal year.

GASB Statement No. 66, "Technical Corrections – 2012 - an amendment of GASB Statements No. 10 and No. 62", was issued March 2012. This statement is effective for periods beginning after December 15, 2012. The statement was implemented and did not have an impact on the County's financial statements.

GASB Statement No. 67, "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25", was issued June 2012. This statement is effective for periods beginning after June 15, 2013. The statement was implemented and did not have an impact on the County's financial statements.

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", was issued June 2012. The management of the County does believe that the implementation of this statement will have a material effect on the financial statements of the County. This statement is effective for periods beginning after June 15, 2014.

GASB Statement No. 69, "Government Combinations and Disposals of Government Operations", was issued January 2013. The management of the County does not believe that the implementation of this statement will have a material effect on the financial statements of the County. This statement is effective for periods beginning after December 15, 2013.

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees", was issued April 2013. This statement is effective for periods beginning after June 15, 2013. The statement was implemented and did not have an impact on the County's financial statements.

GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68", was issued November 2013. The management of the County believes that the implementation of this statement will have a material effect on the financial statements of the County. This statement is effective for periods beginning after June 15, 2014.

GASB Statement No. 72, "Fair Value Measurement and Application", was issued February 2015. This statement enhances the transparency and comparability of fair value measurements and disclosures in the state and local government financial statements. The management of the County does not believe that the implementation of this statement will have a material effect on the financial statements of the County. This statement is effective for periods beginning after June 15, 2015.

Budgetary Data

The budget law of the State of Texas provides that amounts budgeted for current expenditures from the various funds of the County shall not exceed the balances in the funds, plus the anticipated revenues for the current year as estimated by the County Auditor. The legal level of budgetary control is at the category or line item level (salaries and wages and employee benefits, and operating expenditures) within departments of each fund. Any expenditure, which alters the total budgeted amounts of a fund must be approved by Commissioners Court, and the budget amended. Budgets are adopted on a basis consistent with generally accepted accounting principles.

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgetary Data - continued

Annual appropriated budgets are adopted for the General fund, certain special revenue funds (Road and Bridge Fund, Lateral Road Fund, Right of Way Fund, Records Management and Preservation Fund, Records Archive – County Clerk Fund, Records Archive – District Clerk Fund, Court Records Preservation Fund, Justice of the Peace Technology Fund, Courthouse Security Fund, County/District Court Technology Fund, District Court Records Technology Fund, Justice Court Building Security Fund, Juvenile Justice Alternative Education Fund, Juvenile Probation Fees Fund, Juvenile Case Manager Fund, District Attorney Forfeiture Fund, Sheriff Forfeiture Fund, Law Library Fund, Special Crimes Operations Fund, Pre-Trial Bond Supervision Fund, Guardianship Fee Fund, Indigent Health Care Fund, Indigent Defense Formula/Improvement Fund, Election Services Contract Fund, Historical Commission Account Fund), and the General Debt Service fund.

Prior to May 1 of each year, or as soon thereafter as practical, the County Judge, assisted by the County Auditor, prepares a proposed operating budget for the subsequent fiscal year beginning the following October 1st. The proposed operating budget establishes estimated revenues and other resources available for appropriation. Proposed expenditures may not exceed estimated revenues, other resources, and available fund balances.

Subsequent to May 15 and after proper publication of notice, a public hearing is conducted by the Commissioners Court to obtain taxpayer comments. If an increase to the effective tax rate of more than 3% is proposed as a result of the proposed budget, additional notices and public hearings are required.

After the public hearing(s) the Commissioners Court makes appropriate budget changes and adopts the budget through the passage of an order at a regularly scheduled meeting. A separate order is adopted to levy the taxes necessary to finance the budgeted expenditures.

Although the level of budgetary control is total revenues plus available fund balance, the County adopts its budget at a line-item level for managerial control purposes. Line item level is defined for revenue purposes as the type of revenue to be derived and for expenditure purposes by department and type of expenditures (salaries and wages, and employee benefits; operating expenses/expenditures; and capital outlay).

At the discretion of Commissioners Court, transfers of line item budgets within a fund may be made. Amendments to provide for items not included in the original budget may be made by the Commissioners Court upon finding and declaration of the existence of an emergency sufficient to require action. County management has no prerogative to amend the budget without the approval of Commissioners Court. Appropriations not exercised in the current year lapse at the end of the year. Numerous supplemental budget amendments in the general and special revenue funds were deemed necessary due to the timing of planned expenditures and construction projects.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized. Encumbrances outstanding at year-end do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. As of September 30, 2014, the County had no encumbrances outstanding.

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Investments

Cash and temporary investments include amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the County. For purposes of the cash flow statement, cash and temporary investments are considered cash equivalents. In accordance with GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are stated at fair value.

The County maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as cash and temporary investments under each fund's caption. Funds are allowed to exceed the amount of their equity in the pooled cash account. Funds with overdrawn accounts are disclosed as an interfund payable in the liability section of the balance sheet.

Property Taxes

Property taxes are levied as of October 1st of each year with statements prepared and mailed at that date or soon thereafter. The tax levy is based upon appraised property values as of each previous January 1st for all taxable property within the County. Payments are due and payable when taxes are levied and may be timely paid through January 31st. On February 1st, taxes become delinquent and subject to penalty and interest charges. After June 30th, any uncollected taxes are subject to tax suit and additional charges to offset related legal costs. The lien date for property taxes is July 1st.

The appraisal of property within the county is the responsibility of the Johnson County Appraisal District. The Texas Legislature established the Appraisal District and the related Appraisal Review Board in 1979 through the adoption of a comprehensive Property Tax Code. The Appraisal District is required under the Code to assess property at 100% of its appraised value. Real property is reappraised at least every four years. Under certain circumstances, taxpayers and taxing units including the County, may challenge orders of the Appraisal Review Board through various appeals and, if necessary, legal action.

Under the Code, the Commissioners Court will continue to set annual tax rates on the property. The Code also provides that, if approved by the qualified voters in the Appraisal District, collection functions may be placed with the Appraisal District. The County bills and collects its property taxes and those of certain other taxing entities. Collections of those taxes pending distribution are accounted for in an agency fund.

The County is permitted by Article VIII, Section 9 of the State of Texas Constitution to levy taxes up to \$.80 per \$ 100 assessed valuation for general governmental services including payment of principal and interest on general long-term debt and maintenance of roads and bridges. Article 6790 of Vernon's Civil Statutes permits the County to collect an additional \$.15 per \$ 100 valuation for road and bridge purposes. Article 7048a of Vernon's Civil Statutes permits the County to collect \$.30 per \$ 100 valuation for road, bridge and flood control purposes.

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
 For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property Taxes - continued

The County's 2013 tax levy, supporting the 2014 fiscal period budget, totaled \$ 0.420154 per \$ 100 valuation and was comprised as follows:

Constitutional Levy:	
General Fund	\$ 0.342788
Indigent Health Care	0.010544
Road and Bridge	0.049000
Special Road and Bridge:	
Article 6790	-0-
Article 7048a	-0-
Debt Service:	
Interest and Sinking:	
General Obligation Refunding Bonds, Series 2007, and	
General Obligation Refunding Bonds, Series 2010	0.017822
	<u>0.017822</u>
Combined tax rate	<u>\$ 0.420154</u>

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All outstanding balances between funds are reported as "due to/from other funds". The County had no advances between funds. All activity between funds was for short-term cash flow requirements. See Note 4 for additional discussion of interfund receivables and payables.

Inventories and Prepaid Items

The County utilizes the consumption method to account for inventory and prepaid expenditures. Under this method, inventory and prepaid expenditures are considered an expenditure when used rather than when purchased. Significant inventories are reported on the balance sheet at cost, using the first-in, first-out method, with an offsetting reservation of fund balance in the governmental fund financial statements since they do not constitute "available spendable resources" even though they are a component of current assets. Inventories in the governmental funds are comprised of road materials, bulk fuel, parts, and chemicals.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in government-wide and prepaid expenditures in the fund financial statements.

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

Capital assets, which include land, buildings and improvements, furniture, equipment and vehicles, infrastructure, and construction in progress are reported in the governmental activities column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest cost to be capitalized on assets with tax-exempt borrowing is equal to the cost of the borrowing less interest earned on the related tax-exempt borrowing. During the year ended September 30, 2014, no capitalized interest was included in the cost of capital assets under construction.

Assets capitalized have an original cost of \$ 5,000 or more and over two years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Leased assets are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets. Estimated useful lives are as follows:

Buildings and improvements	5-50 Years
Furniture, equipment and vehicles	5-20 Years
Infrastructure	20-35 Years

Compensated Absences

Employees are allowed paid absences due to sickness and vacation time. Sick leave benefits are earned by all full time employees at a rate of 96 hours annually. The leave policy allows employees to accumulate up to ninety days of sick leave benefit. Sick leave benefits are recognized in the period in which time off is actually taken. Vacation benefits accrue monthly at rates depending upon an employee's length of service. Employees may accumulate a maximum of 18 months of vacation credits based on the earning rate and length of service. Employees who reach the maximum accumulated rate will not accrue additional time until they use sufficient vacation to bring their accumulated rate below the maximum level.

The liability for compensated absences disclosed in the financial statements represents accumulated vacation and compensatory time at September 30, 2014, computed at pay rates in effect at that time was \$ 910,979.

Compensated absence liabilities for governmental activities have been paid from the general fund and the road and bridge fund.

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, "Items Previously Reported as Assets and Liabilities", had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

Long-Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities 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 reported as interest and fiscal charge expenses.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt is reported as other financing resources. 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.

Fund Equity

The County's Commissioners Court meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The County's Unassigned General Fund Balance is maintained to provide the County with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the County's Commissioners Court. Fund Balance of the County may be committed for a specific source by formal action of the County's Commissioners Court. Amendments or modifications of the committed fund balance must also be approved by formal action by the County's Commissioners Court. When it is appropriate for fund balance to be assigned, the County's Commissioners Court has delegated authority to the County Judge or the County Auditor. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended are as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity - continued

Fund Balance Classifications:

The *non-spendable* fund balance includes a portion of net resources that cannot be spent because of their form or because they must be maintained intact. Resources not in spendable form include inventories, prepaid expenditures and long-term receivables.

The *restricted* fund balance includes net resources that can be spent only for the specific purposes stipulated by constitution, external resource providers (creditors, grantors, and contributors), laws and regulations of other governments, or through enabling legislation.

The enabling legislation authorizes the County to access, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation. The County's fee revenue generated through enabling legislations include auto registration fees, birth/death certificate fees, adult bond supervision fees, child abuse protection fees, court technology fees, election service fees, family protection fees, financial security fees, juvenile case management fees, law library fees, records archive fees, and records management and preservation fees reported under Non-Major Special Revenue Funds, and auto registration fees, certificates of title, and gross weight and axle fees reported under the Road and Bridge Major Fund.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints imposed by formal Commissioners Court actions, no later than the close of the fiscal year. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources. At September 30, 2014, there are no commitments of fund balance.

The *assigned* fund balance includes amounts that are constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. Such intent should be expressed by Commissioners Court or its designated officials to assign amounts to be used. Constraints imposed on the use of assigned amounts can be removed with no formal Commissioners Court actions. At September 30, 2014, there are no assignments of fund balance.

The *unassigned* fund balance represents spendable net resources that have not been restricted, committed, or assigned to specific purposes.

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
 For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental Fund Financial Statements:

The following schedule presents details of fund balance components at September 30, 2014:

	Major Funds			Non-Major Funds	Total Governmental Funds
	General Fund	Road & Bridge Fund	General Debt Service Fund	Other Governmental Funds	
Fund Balances:					
Non-spendable:					
Inventories	\$	\$ 301,036	\$	\$	\$ 301,036
Prepaid expenditures	360,339			2,368	362,707
Long-term receivables	300,000				300,000
Restricted:					
Capital projects				3,170,689	3,170,689
Contributor purposes				30,176	30,176
Court improvements and operations				584,706	584,706
Debt service			1,123,115		1,123,115
Election services				218,129	218,129
Health services				1,577,278	1,577,278
Inmate services				121,593	121,593
Juvenile services				239,360	239,360
Library services				208,228	208,228
Public safety personnel training				10,658	10,658
Public transportation projects		6,435,487		1,450,612	7,886,099
Records management				2,294,505	2,294,505
Special crimes operations				155,454	155,454
County/District attorney services				147,289	147,289
Sheriff services				17,824	17,824
Other				72,840	72,840
Unassigned	<u>18,321,967</u>			<u>(8,937)</u>	<u>18,313,030</u>
Total fund balances	<u>\$ 18,982,306</u>	<u>\$ 6,736,523</u>	<u>\$ 1,123,115</u>	<u>\$ 10,292,772</u>	<u>\$ 37,134,716</u>

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

JOHNSON COUNTY, TEXAS*Notes to the Financial Statements*

For The Year Ended September 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

	<u>Governmental Activities</u>
Net Position:	
Invested in capital assets, net of related debt	\$ 53,258,318
Restricted:	
Debt service	1,048,793
Health services	1,593,356
Public transportation projects	8,258,202
Records management	2,294,505
Other:	
Contributor purposes	30,176
Court improvements and operations	584,706
Election services	218,129
Inmate services	121,593
Juvenile services	239,360
Library services	208,228
Public safety personnel training	10,658
Special crime operations	157,822
County/District attorney services	147,289
Sheriff services	17,824
Other	72,840
Unrestricted	<u>24,860,566</u>
Total	<u>\$ 93,122,365</u>

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES

The County classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose, a temporary investment is one that when purchased had a maturity date of three months or less. Investments are classified as either short-term investments or investments. Short-term investments have a maturity of one year or less and investments are those that have a maturity of one year or more. See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures. Cash and temporary investments as reported on the financial statements at September 30, 2014 are as follows:

	<u>Governmental</u>	<u>Fiduciary</u>	<u>Total</u>
Cash and Temporary Investments:			
Cash (petty cash accounts)	\$ 10,056	\$	\$ 10,056
Financial Institution Deposits:			
Demand deposits	24,699,319	8,411,077	33,110,396
Broker-Dealer:			
Demand deposits	121,617		121,617
Local Government Investment Pool:			
Texas CLASS	<u>4,731,317</u>		<u>4,731,317</u>
Sub-total	<u>29,562,309</u>	<u>8,411,077</u>	<u>37,973,386</u>

(continued)

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
 For The Year Ended September 30, 2014

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

	<u>Governmental</u>	<u>Fiduciary</u>	<u>Total</u>
Investments:			
Broker-Dealer:			
U.S. Treasury Notes	\$ 518,595	\$	\$ 518,595
U.S. Agency Securities	<u>10,298,273</u>	<u> </u>	<u>10,298,273</u>
Sub-total	<u>10,816,868</u>	<u>-0-</u>	<u>10,816,868</u>
Total Cash and Temporary Investments and Investments	\$ <u>40,379,177</u>	\$ <u>8,411,077</u>	\$ <u>48,790,254</u>

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to them. The County requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

At year-end, in addition to petty cash of \$ 10,056, the carrying amount of the County's financial institution deposits, were \$ 33,110,396, while the financial institution balances totaled \$ 31,566,701. Of these balances, \$ 4,195,064 represents amounts controlled by County courts and held by various financial institutions jointly under the name of the County and the court's beneficiaries and carrying the identification number of the beneficiaries. These accounts are entirely covered by federal deposit insurance. Of the remaining balances, \$ 250,000 was covered by federal depository insurance coverage, \$ 121,617 was covered by the Securities Investor Protection Corporation, and \$ 27,000,020 was covered by collateral held by the County's agent in the County's name.

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the County to invest its funds under written investment policy (the "investment policy"). The investment policy primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The County's deposits and investments are invested pursuant to the investment policy, which is approved by Commissioners Court. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes an "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the County will deposit funds is addressed. The County's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The County's management believes it complied with the requirements of the PFIA and the County's investment policy.

The County's Investment Officer submits an investment report each quarter to the Commissioners Court. The report details the investment positions of the County and the compliance of the investment portfolio as it relates to both the adopted investment strategy statements and Texas state law.

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - continued

The County is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of the United States or its agencies and instrumentalities;
2. Direct obligations of the State of Texas or its agencies and instrumentalities;
3. No-load money market mutual funds: regulated by SEC, with a dollar-weighted average stated maturity of 90 days or less, includes in its investment objectives the maintenance of a stable \$ 1.00 net asset value per each share, and limited in quantity to the requirements, set forth in Chapter 2256, Government Code Section 2256.014;
4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities;
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;
6. Certificates of deposit if issued by a state or national bank domiciled in the State of Texas and is: guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, secured in any manner and amount provided by law for deposits of the County;
7. Fully collateralized repurchase agreements, if it: has a defined termination date, is secured by obligations described by Section 2256.009(a)(1) of the Public Funds Investment Act, requires the securities being purchased by the County to be pledged to the County, held in the County's name, and deposited at the time the investment is made with the County or with a third party selected and approved by the County, is placed through a primary government securities dealer, approved by the County, or a financial institution doing business in the State of Texas;
8. Commercial paper is an authorized investment, if the commercial paper: has a stated maturity of 270 days or fewer from the date of its issuance, and is rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit agencies or one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state;
9. Eligible investment pools if the Commissioners Court by resolution authorizes investment in the particular pool. An investment pool shall invest funds it receives from entities in authorized investments permitted by the Public Funds Investment Act. The County by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds; and,

The County is invested in certificates of deposit at various financial institutions to provide its liquidity needs. The overall weighted average maturity of less than 365 days. This investment is insured, registered, or the County's agent holds the securities in the County's name; therefore, the County is not exposed to custodial credit risk with these deposits.

The County participates in the Texas CLASS Local Government Investment Pool. Texas CLASS is administered by Public Trust Advisors LLC and Wells Fargo Bank of Texas, N.A. as custodian. Together, these organizations provide the powerful partnership of two leaders in financial services with a proven and noted track record in local government pool management.

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
 For The Year Ended September 30, 2014

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - continued

The County invests in Texas CLASS to provide its liquidity needs. Texas CLASS is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code.

At September 30, 2014 Texas CLASS had a weighted average maturity of 43 days. Although Texas CLASS had a weighted average maturity of 43 days, the County considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

As of September 30, 2014, the County had the following investments:

<u>Investment Type</u>	<u>Interest Rate</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Local Government Investment Pools:			
Texas CLASS	Varies	\$ <u>4,731,317</u>	43.0
Government Securities:			
U.S. Treasury Note	2.38%	<u>518,595</u>	1,035.0
U.S. Agency Securities:			
FFCB	1.63%	501,040	50.0
FFCB	4.88%	546,060	840.0
FHLB	0.38%	500,990	332.0
FHLB	4.88%	550,390	960.0
FHLMC	0.88%	502,105	747.0
FHLMC	1.00%	501,415	890.0
FHLMC	2.00%	513,260	695.0
FHLMC	2.50%	516,675	605.0
FHLMC	2.88%	504,880	132.0
FHLMC	4.75%	476,163	476.0
FHLMC	4.75%	525,140	412.0
FHLMC	5.50%	562,365	1,058.0
FNMA	0.75%	500,680	80.0
FNMA	1.38%	507,465	777.0
FNMA	1.63%	507,525	391.0
FNMA	2.38%	514,700	559.0
FNMA	2.38%	508,875	301.0
FNMA	4.63%	500,880	15.0
FNMA	5.00%	513,150	197.0
FNMA	5.25%	<u>544,515</u>	716.0
Total held by U.S. Agency		<u>10,298,273</u>	519.1
Total investments		\$ <u>15,548,185</u>	391.4

JOHNSON COUNTY, TEXAS*Notes to the Financial Statements*

For The Year Ended September 30, 2014

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - ContinuedInvestments - continued

Credit Risk – As of September 30, 2014, the LGIP's (which represent approximately 30.43% of the investment portfolio) are rated AAAM by Standard and Poor's or AAA by Finch, and the United States securities and agencies (which represent 69.57% of the investment portfolio) were covered by \$ 378,383 of Securities Investor Protection Corporation insurance and \$ 10,438,485 of private insurance, respectively, therefore, the County does not have a significant exposure to credit risk. To receive funds from Johnson County an investment pool must be rated no lower than AAA or AAAM or equivalent.

Interest Rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities may be purchased, which compliment each other in a structured manner that minimizes risk and meets the County's cash flow requirements.

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The County made no direct investments in derivatives during the year ended September 30, 2014, and holds no direct investments in derivatives at September 30, 2014.

NOTE 3 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED INFLOWS OF RESOURCES AND UNEARNED REVENUESReceivables and Allowances

Receivables as of September 30, 2014, for the government's individual governmental major and nonmajor funds, proprietary major fund, internal service funds, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Major Funds</u>			<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Road & Bridge Fund</u>	<u>General Debt Service Fund</u>	<u>Other Governmental Funds</u>	
Receivables:					
Property Taxes	\$ 2,330,385	\$ 411,642	\$ 186,341	\$ 99,788	\$ 3,028,156
Accounts	937,563	168,817		22,104	1,128,484
Due from other governments	<u>56,872</u>	<u>473,091</u>		<u>46,505</u>	<u>576,468</u>
Gross receivables	3,324,820	1,053,550	186,341	168,397	4,733,108
Less Allowance for Uncollectible:					
Property taxes	<u>1,705,354</u>	<u>325,385</u>	<u>153,447</u>	<u>80,441</u>	<u>2,264,627</u>
Net receivables	<u>\$ 1,619,466</u>	<u>\$ 728,165</u>	<u>\$ 32,894</u>	<u>\$ 87,956</u>	<u>\$ 2,468,481</u>

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
 For The Year Ended September 30, 2014

NOTE 3 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS OF RESOURCES AND UNEARNED REVENUES - Continued

Receivables and Allowances - continued

	<u>Fiduciary Fund</u>
Receivables:	
Accounts:	
Adult probationers	\$ <u>139,312</u>
Net total receivables	\$ <u>139,312</u>

Receivables From Other Governments

The County participates in a variety of federal and state programs from which it receives grants to, partially or fully, finance certain activities. In addition, the County receives entitlements from the State through the legislative actions and taxes collected by the State on behalf of the County (other taxes). All federal grants shown below are either direct or passed through state or local agencies and are reported on the financial statements as due from other governments.

Amounts due from federal, state, and local governments as of September 30, 2014 are summarized below:

	<u>Federal Grants</u>	<u>State Grants</u>	<u>Total</u>
Major Governmental Funds:			
General fund	\$ 33,945	\$ 22,927	\$ 56,872
Road and Bridge fund		473,091	473,091
Non-major governmental funds	<u>8,961</u>	<u>37,544</u>	<u>46,505</u>
Total	<u>\$ 42,906</u>	<u>\$ 533,562</u>	<u>\$ 576,468</u>

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 3 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS OF RESOURCES AND UNEARNED REVENUES - Continued

Judicial Receivables

Judicial receivables are reported in the governmental activities statement of net position. Since these receivables do not represent current available resources, they are not reported in the governmental funds balance sheet. The allowance for uncollectible receivables related to the County's various court assessments is determined based on historical experience and evaluation of collectability in relation to the aging of customer accounts. The following is a summary of the receivable and allowance for uncollectible as of September 30, 2014:

	<u>Judicial Receivable</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net Receivable</u>
Judicial Receivables:			
Justice of the Peace	\$ 400,751	\$ 120,225	\$ 280,526
County courts	2,130,296	532,574	1,597,722
District courts	<u>10,983,667</u>	<u>5,491,834</u>	<u>5,491,833</u>
 Total	 <u>\$ 13,514,714</u>	 <u>\$ 6,144,633</u>	 <u>\$ 7,370,081</u>

Deferred Inflows of Resources and Unearned Revenue

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of September 30, 2014, the various components of deferred outflows of resources and unearned revenue reported in the governmental and proprietary funds were as follows:

	<u>Governmental Funds</u>				<u>Total</u>
	<u>General Fund</u>	<u>Road & Bridge Fund</u>	<u>General Debt Service Fund</u>	<u>Other Governmental Funds</u>	
Deferred Inflows of Resources:					
Delinquent property taxes receivable	\$ 521,565	\$ 71,067	\$ 35,731	\$ 16,078	\$ 644,441
Unearned Revenue:					
State grants	<u> </u>	<u> </u>	<u> </u>	<u>177,403</u>	<u>177,403</u>
 Total	 <u>\$ 521,565</u>	 <u>\$ 71,067</u>	 <u>\$ 35,731</u>	 <u>\$ 193,481</u>	 <u>\$ 821,844</u>

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
 For The Year Ended September 30, 2014

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables at September 30, 2014 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>09-30-14</u>
General Fund	Other Governmental Funds	\$ 192,960
General Fund	Road & Bridge Fund	7,057
Other Governmental Funds	General Fund	<u>34,013</u>
Total		\$ <u>234,030</u>

Interfund receivables and payables represent short-term borrowings primarily for cash flow purposes. These include short-term borrowings for reimbursement grants and some revenue or expenditures/expense adjustments between funds at or near year-end.

Interfund transfers for the year ended September 30, 2014 consisted of the following individual fund transfers in and transfers out:

<u>Transferring Fund</u>	<u>Receiving Fund</u>	<u>09-30-14</u>
General Fund	Other Governmental Funds	\$ 4,358,146
General Fund	Road & Bridge Fund	500,000
Other Governmental Funds	General Fund	105,269
Other Governmental Funds	Road & Bridge Fund	63,711
Other Governmental Funds	Other Governmental Funds	<u>187,078</u>
Total		\$ <u>5,214,204</u>

The Commissioners Court approved these transfers, as transfers of operational funds to cover planned expenditures/expenses.

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
For The Year Ended September 30, 2014

NOTE 5 - CAPITAL ASSETS

Capital Transactions

	<u>Balance</u> 10-01-13	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments &</u> <u>Transfers</u>	<u>Balance</u> 09-30-14
Governmental Activities:					
Capital Assets, Not Depreciated:					
Land	\$ 2,558,693	\$	\$	\$	\$ 2,558,693
Construction in progress	<u>465,525</u>	<u>5,287,485</u>	<u>1,171,069</u>	<u> </u>	<u>4,581,941</u>
Total capital assets not being depreciated	<u>3,024,218</u>	<u>5,287,485</u>	<u>1,171,069</u>	<u>-0-</u>	<u>7,140,634</u>
Capital Assets, Being Depreciated:					
Buildings and improvements	55,721,983	121,823			55,843,806
Furniture, equipment and vehicles	22,649,023	2,558,462	1,568,511		23,638,974
Infrastructure	<u>37,549,239</u>	<u>1,175,108</u>	<u>921,359</u>	<u> </u>	<u>37,802,988</u>
Total capital assets being depreciated	<u>115,920,245</u>	<u>3,855,393</u>	<u>2,489,870</u>	<u>-0-</u>	<u>117,285,768</u>
Less Accumulated Depreciation For:					
Buildings and improvements	20,825,419	1,883,128			22,708,547
Furniture, equipment and vehicles	14,360,663	2,251,367	1,549,156		15,062,874
Infrastructure	<u>19,535,941</u>	<u>1,928,126</u>	<u>886,074</u>	<u> </u>	<u>20,577,993</u>
Total accumulated depreciation	<u>54,722,023</u>	<u>6,062,621</u>	<u>2,435,230</u>	<u>-0-</u>	<u>58,349,414</u>
Total capital assets being depreciated, net	<u>61,198,222</u>	<u>(2,207,228)</u>	<u>54,640</u>	<u>-0-</u>	<u>58,936,354</u>
Governmental activities capital assets, net	<u>\$ 64,222,440</u>	<u>\$ 3,080,257</u>	<u>\$ 1,225,709</u>	<u>\$ -0-</u>	<u>\$ 66,076,988</u>

During the year ended September 30, 2014, the County received equipment and roads from various sources totaling \$ 1,397,450.

Depreciation

Depreciation expense was charged as direct expense to functional categories of the County as follows:

	<u>09-30-14</u>
Governmental Activities:	
General government	\$ 1,449,219
Administration of justice	20,969
Law enforcement	1,809,227
Highways and streets	2,746,657
Health and welfare	21,834
Culture and recreation	<u>14,715</u>
Total depreciation expense	<u>\$ 6,062,621</u>

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
 For The Year Ended September 30, 2014

NOTE 5 - CAPITAL ASSETS - Continued

Construction Commitments

Construction in progress for various projects at September 30, 2014 is as follows.

	<u>Contract Value</u>	<u>Expended To Date</u>	<u>Commitment</u>
Motorola simulcast radio system	\$ 587,093	\$ 528,384	\$ 58,709
Jail construction	1,071,390	128,475	942,915
Alvarado sub-courthouse	2,693,129	2,105,633	587,496
Jail lift station	163,285	13,140	150,145
Software projects	<u>4,576,330</u>	<u>2,021,260</u>	<u>2,555,070</u>
Total	<u>\$ 9,091,227</u>	<u>\$ 4,796,892</u>	<u>\$ 4,294,335</u>

NOTE 6 - DISAGGREGATION OF ACCOUNTS AND ACCRUED LIABILITIES PAYABLE

Accounts and accrued liabilities payable as of September 30, 2014, for the government's individual governmental major and nonmajor funds, and fiduciary funds in the aggregate are as follows:

	<u>Governmental Funds</u>				<u>Total</u>
	<u>General Fund</u>	<u>Road & Bridge Fund</u>	<u>General Debt Service Fund</u>	<u>Other Governmental Funds</u>	
Accounts and Accrued Liabilities Payable:					
Vendors	\$ 2,322,919	\$ 191,660	\$	\$ 1,304,555	\$ 3,819,134
Accrued compensation	1,343,433	241,925		70,179	1,655,537
Due to others	<u>369,196</u>			<u>10,974</u>	<u>380,170</u>
Total	<u>\$ 4,035,548</u>	<u>\$ 433,585</u>	<u>\$ -0-</u>	<u>\$ 1,385,708</u>	<u>\$ 5,854,841</u>
				<u>Fiduciary Funds</u>	
Accounts and Accrued Liabilities Payable:					
Vendors					\$ 17,138
Bonds payable					161,348
Accrued compensation					<u>200,227</u>
Total					<u>\$ 378,713</u>

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
 For The Year Ended September 30, 2014

NOTE 7 - LONG-TERM DEBT

General Obligation Bonded Debt

General obligation and certificates of obligations payable at September 30, 2014, are summarized as follows:

	Interest Rate %	Series Dates			Bonds Outstanding 09-30-14
		Issued	Maturity	Callable	
General Obligation Refunding Bonds, Series 2007	4.00 - 5.00	2007	2020		\$ 10,792,359
General Obligation Refunding Bonds, Series 2010	2.00	2010	2014		<u>-0-</u>
Total					<u>\$ 10,792,359</u>

General obligation and certificates of obligation bond transactions for the year ended September 30, 2014 were as follows:

Bonds outstanding, October 1, 2013	\$ 11,996,322
Accreted	101,037
Maturities	<u>(1,305,000)</u>
Bonds outstanding, September 30, 2014	<u>\$ 10,792,359</u>

The \$ 102,641 difference between the general obligation and certificates of obligation bonds outstanding at September 30, 2014 of \$ 10,792,359 and the general obligation and certificates of obligation bond principal requirements of \$ 10,895,000 represents the amount of capital appreciation bonds to be accreted as interest over the life of these bonds.

The bond ordinances require that a tax be levied sufficient to pay current interest and create a sinking fund of not less than the amount to pay current principal and interest. For the year ended September 30, 2014, the amount of ad valorem taxes collected for interest and sinking was \$ 1,794,478, while the debt service requirements for principal and interest were \$ 1,664,100. The bond resolutions provide no express remedies in the event of default and make no provision for acceleration of maturity of the bonds.

General Obligation Bonded Debt

The following is a summary of general obligation bond requirements by year as of September 30, 2014:

Year Ending September 30,	Principal	Interest	Total Requirement
2015	\$ 1,415,000	\$ 340,712	\$ 1,755,712
2016	1,520,000	340,713	1,860,713
2017	1,675,000	298,838	1,973,838
2018	1,880,000	219,362	2,099,362
2019	2,090,000	138,918	2,228,918
2020	<u>2,315,000</u>	<u>48,036</u>	<u>2,363,036</u>
Total	<u>\$ 10,895,000</u>	<u>\$ 1,386,579</u>	<u>\$ 12,281,579</u>

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 7 - LONG-TERM DEBT - Continued

General Obligation Bonded Debt - continued

On March 27, 2007 the County sold \$ 10,895,000 of General Obligation Refunding Bonds, Series 2007. The net proceeds of \$ 9,938,058 were placed in escrow for the defeasement of \$ 9,649,961 in Certificate of Obligation, Series 2001 bonds. These refunding bonds (Series 2007) were issued for the purpose of generating resources and decreasing the total debt service payments. This refunding issue defeased a portion of the outstanding certificates of obligation bonds from the original issue of 2001. All future debt service payments on the original bonds were provided for by placing the proceeds of the refunding bonds in an irrevocable trust. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's basic financial statements.

The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 662,684. The economic gain resulting from the transaction was \$ 457,782.

On September 23, 2010, the County sold \$ 4,495,000 of General Obligation Refunding Bonds, Series 2010. The net proceeds of \$ 4,503,384, less \$ 23,383 in defeasement costs, were placed in escrow for the defeasement of \$ 4,890,000 in Certificate of Obligation, Series 2001 bonds. These refunding bonds (Series 2010) were issued for the purpose of generating resources and decreasing total debt service payments. This refunding issue defeased the remaining portion of the outstanding certificate of obligation bonds from the original issue of 2001. All future debt service payments on the original bonds were provided for by placing the proceeds of the refunding bonds in an irrevocable trust. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's basic financial statements.

The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 227,922. The economic gain resulting from the transaction was \$ 234,712.

Tax Note Debt

On November 26, 2013, the County issued a tax note from American National Bank of Texas in the amount of \$ 4,370,000, with an interest rate of 1.82% and a maturity date of November 15, 2020 and a call date of November 15, 2015 at par value. This tax note debt is to be utilized in the County's software upgrade project.

	<u>Interest Rate %</u>	<u>Issued</u>	<u>Maturity</u>	<u>Callable</u>	<u>Tax Note Outstanding 09-30-14</u>
Tax Note: Series 2013	1.82	2013	2020	2015	\$ <u>4,370,000</u>
Total					\$ <u>4,370,000</u>

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
 For The Year Ended September 30, 2014

NOTE 7 - LONG-TERM DEBT - Continued

Tax Note Debt - continued

Tax note transactions for the year ended September 30, 2014 were as follows:

Tax notes outstanding, October 1, 2013	\$ -0-
Issued	<u>4,370,000</u>
Tax notes outstanding, September 30, 2014	<u>\$ 4,370,000</u>

The tax note requires that a tax be levied sufficient to pay current interest and create a sinking fund of not less than the amount to pay current principal and interest. For the year ended September 30, 2014, no ad valorem taxes were collected for interest and sinking and no debt service requirements for principal and interest were made. The tax note resolution provides for the acceleration of maturity in the event of default.

The following is a summary of general obligation and certificates of obligation bond requirements by year as of September 30, 2014:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2015	\$ 565,000	\$ 111,729	\$ 676,729
2016	510,000	64,610	574,610
2017	405,000	56,284	461,284
2018	285,000	50,005	335,005
2019	160,000	45,955	205,955
2020	30,000	44,226	74,226
2021	<u>2,415,000</u>	<u>21,976</u>	<u>2,436,976</u>
Total	<u>\$ 4,370,000</u>	<u>\$ 394,785</u>	<u>\$ 4,764,785</u>

Note Payable

On February 28, 2011 the County entered into an agreement with Southwest Correctional, LLC where Southwest Correctional, LLC was to construct an addition to the current County jail facility. Per the agreement, the County took ownership of the new facility on February 29, 2012 at which time the County became liable for a note payable to Southwest Correctional, LLC for \$ 1,526,172, which is the total of the construction costs. No interest is payable on this note. The note payable has monthly payments which are based on the County's monthly revenue for additional transportation and additional inmate telephone revenue, all of which result from the new facility. The total of all note payments are not to exceed \$ 1,526,172. The payment period ends on August 31, 2015, if not paid in full prior to that date. In the event there is an unpaid balance due then the County's obligation to reimburse Southwest Correctional, LLC will be terminated. The balance due on the note payable at September 30, 2014 was \$ 793,242. As of September 30, 2014, the County had paid \$ 393,531 less than the initial payment expectation of \$ 1,126,460. The following is a comparison of the initial expectation for payments and those actually paid based upon the revenues noted above:

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
 For The Year Ended September 30, 2014

NOTE 7 - LONG-TERM DEBT - Continued

Note Payable - continued

<u>Year Ending September 30,</u>	<u>Initial Expectation</u>	<u>Actual</u>	<u>Difference</u>	<u>Percent Difference</u>
2012	\$ 254,362	\$ 146,735	\$ 107,627	42.31%
2013	436,049	298,924	137,125	31.45%
2014	<u>436,049</u>	<u>287,270</u>	<u>148,779</u>	34.12%
Total	1,126,460	\$ <u>732,929</u>	\$ <u>393,531</u>	34.94%
2015	<u>399,712</u>			
Total	\$ <u>1,526,172</u>			

The following is a summary of the actual revenues collected and the total required to be paid on the note payable at September 30, 2014:

<u>Year Ending September 30,</u>	<u>Additional Transportation</u>	<u>Inmate Phone</u>	<u>Ice Fees</u>	<u>Total</u>
2012	\$	\$	\$ 146,735	\$ 146,735
2013		96,379	202,545	298,924
2014		<u>46,790</u>	<u>240,480</u>	<u>287,270</u>
Total	\$ <u>-0-</u>	\$ <u>143,169</u>	\$ <u>589,760</u>	\$ <u>732,929</u>

Note payable transactions for the year ended September 30, 2014 were as follows:

	<u>2014</u>
Note payable outstanding, October 1, 2013	
Assumed	\$ 1,080,513
Maturities	<u>(287,270)</u>
Note payable outstanding, September 30, 2014	\$ <u>793,243</u>

The following is a summary of note payable requirements, based on the original balance of \$ 1,526,172 and expectation of revenues collected, by year, as of September 30, 2014:

<u>Year Ending September 30,</u>	<u>Total Requirement</u>
2015	\$ <u>793,243</u>
Total	\$ <u>793,243</u>

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 7 - LONG-TERM DEBT - Continued

Changes in Long-Term Debt

Transactions for the year ended September 30, 2014 are summarized as follows:

	<u>Balance 10-01-13</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09-30-14</u>	<u>Due Within One Year</u>
Governmental Type Activities:					
General obligation bonds	\$ 11,996,322	\$ 101,037	\$ 1,305,000	\$ 10,792,359	\$ 1,516,037
Tax note		4,370,000		4,370,000	565,000
Notes payable	1,080,513		287,270	793,243	793,243
Component of Bonded Debt:					
Premium on bonds	52,107		18,350	33,757	6,277
Accrued interest	46,228	110,053	46,228	110,053	110,053
Compensated absences	848,824	872,698	810,543	910,979	910,979
Unfunded OPEB obligation	<u>908,864</u>	<u>243,781</u>	<u>59,175</u>	<u>1,093,470</u>	<u>60,000</u>
 Total governmental activities	 <u>\$ 14,932,858</u>	 <u>\$ 5,697,569</u>	 <u>\$ 2,526,566</u>	 <u>\$ 18,103,861</u>	 <u>\$ 3,961,589</u>

NOTE 8 - LEASING OPERATIONS

Operating Leases - Lessor

The County is involved in various operating leases as lessor. These leases are for facilities rental. These leases expire from 2014 through 2015. These assets are, in many cases, undivided spaces therefore, the County has not determined the cost or accumulated depreciation of these facilities as of September 30, 2014.

Minimum future rentals to be received on noncancelable leases, as of September 30, 2014, for each of the next five years and in the aggregate are as follows:

<u>Year Ended September 30,</u>	
2015	\$ <u>13,500</u>
Total	\$ <u>13,500</u>

Gross rental income for operating leases, including month-to-month, for the year ended September 30, 2014 was \$ 172,108.

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
 For The Year Ended September 30, 2014

NOTE 8 - LEASING OPERATIONS - Continued

Operating Leases - Lessee

The County is involved in an operating lease with the City of Cleburne for parking facilities as lessee. This lease expires in 2022.

Minimum future rentals to be paid on noncancelable leases, as of September 30, 2014, for each of the next five years and in the aggregate are as follows:

<u>Year Ended</u> <u>September 30,</u>	
2015	\$ 3,600
2016	3,600
2017	3,600
2018	3,600
2019	3,600
2020-2022	<u>10,800</u>
Total	<u>\$ 28,800</u>

Gross rental expenditures for this operating lease for the year ended September 30, 2014 were \$ 3,600.

NOTE 9 - PENSION PLAN

Plan Description

The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 656 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 9 - PENSION PLAN - Continued

Plan Description - continued

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of the employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 10.24% for the months on the accounting year in 2014, and 9.81% for the months of the accounting year in 2013.

The contribution rate payable by the employee members for calendar years 2014 and 2013 is the rate of 7% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Annual Pension Cost

For the employer's accounting years ending September 30, 2014 and 2013, the annual pension cost for the TCDRS plan for its employees was \$ 2,169,217 and \$ 2,216,698, and the actual contributions were \$ 2,169,217 and \$ 2,216,698, respectively.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2012 and December 31, 2013, the basis for determining the contribution rates for calendar years 2013 and 2014. The December 31, 2013 actuarial valuation is the most recent valuation.

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 9 - PENSION PLAN - Continued

Annual Pension Cost - continued

Actuarial Valuation Information

Actuarial valuation date	12/31/11	12/31/12	12/31/13
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, closed	level percentage of payroll, closed	level percentage of payroll, closed
Amortization period in years	20	20	20
Asset valuation method	SAF: 10 Year smoothed value ESP: Fund value	SAF: 10 Year smoothed value ESP: Fund value	SAF: 5 Year smoothed value ESP: Fund value
	<u>12/31/11</u>	<u>12/31/12</u>	<u>12/31/13</u>
Actuarial Assumptions:			
Investment return ¹	8.0%	8.0%	8.0%
Projected salary increases ¹	5.4%	5.4%	4.9%
Inflation	3.5%	3.5%	3.0%
Cost-of-living adjustments	0.0%	0.0%	0.0%

¹Includes inflation at the stated rate

Trend Information

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/12	\$ 2,108,149	100.00%	\$ -0-
9/30/13	2,216,698	100.00%	-0-
9/30/14	2,169,217	100.00%	-0-

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll ¹ (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/11	\$ 47,988,144	\$ 55,362,781	\$ 7,374,637	86.68%	\$ 22,151,038	33.29%
12/31/12	51,939,019	60,597,284	8,658,265	85.71%	22,926,651	37.77%
12/31/13	56,409,050	64,846,145	8,437,095	86.99%	22,834,220	36.95%

¹The annual covered payroll is based on the employee contributions received by TCDRS for the year ending with the valuation date.

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 10 - POST EMPLOYMENT HEALTH INSURANCE BENEFITS

The County provides post employment health insurance benefits for retired employees that meet the following criteria: full time regular employees who, at the time they leave County employment are eligible for retirement benefits under the Texas County and District Retirement guidelines and have a total of 20 years of service with the County of which 10 years are continuous service and are covered under the County health insurance program at the time of their retirement and are not eligible for Medicare; or elected officials who at the time they leave County employment are eligible for retirement benefits under the Texas County and District Retirement guidelines and have a total of 16 years of service with the County of which at least 10 years are continuous service and are covered under the County group health insurance program at the time of their retirement and are not eligible for Medicare. The County does not contribute toward the coverage for retirees who do not meet the eligibility requirements stated previously. The plan began in the year ended September 30, 2009 and is funded on a pay-as-you-go basis. In October, 2011, the plan was amended to limit the County provided benefit to three years following retirement date. A separate, audited GAAP-basis post employment benefit plan report is not available for this plan.

Funding Policy - The County may contribute all, part, or none of the premium payment and the County's contribution, if any, is determined annually by Commissioners Court during the County budget process and is effective on a fiscal year basis. For the year ended September 30, 2014 the County contributed \$ 59,175 to the post employment health insurance benefits.

Annual Other Post Employment Benefit (OPEB) Cost and Net OPEB Obligation - The County's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters established by GASB Statement 45. The annual OPEB cost represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or excess) over a period not to exceed thirty years. Calculations are based on OPEB benefits provided under the terms of the substantive plan in effect at the time of the valuation. Actuarial valuations which are used to value OPEB plans reflect a long-term perspective and involve estimates of the value of reported amounts and assumptions about the possibility of events far into the future and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

Annual required contribution	\$ 296,319
Interest on net OPEB obligation	41,006
Adjustment to annual required contribution	(93,544)
Annual OPEB cost	243,781
Contributions made	(59,175)
Increase in net OPEB obligation	184,606
Net OPEB obligation – beginning of year	<u>908,864</u>
Net OPEB obligation – end of year	<u>\$ 1,093,470</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended September 30, 2014 and the preceding two years were as follows:

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 10 - POST EMPLOYMENT HEALTH INSURANCE BENEFITS - Continued

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/12	\$ 248,074	\$ 42,633	17.2%	\$ 719,085
9/30/13	255,516	65,737	25.7%	908,864
9/30/14	243,781	59,175	19.9%	1,093,470

Funding Status and Funding Progress - As of September 30, 2014, the most recent actuarial valuation date, the plan was 0% funded as the County is using a pay-as-you-go approach. The actuarial accrued liability for benefits was \$ 2,311,018, and the actuarial value of assets was \$ -0- resulting in an unfunded liability (UAAL) of \$ 2,311,018. Annual covered payroll is \$ 22,834,220 and the ratio of the UAAL to the covered payroll was 8.2 percent.

Actuarial Methods and Assumptions - In the September 30, 2014 actuarial valuation, the projected unit credit method was used. The actuarial assumptions include a 4.5% investment rate of return. An inflation rate of 3.0%, salary growth rate of 3.0% and a health care cost trend rate ranging from 9% down to 5.5% after 9 years is used. An interest discount rate of 4.5% was used to value the liability. The UAAL is being amortized over a closed period of thirty years using the level percent of payroll method. The remaining amortization period at September 30, 2014, was 26 years.

The County has made contributions each year which are below the required annual required contribution (ARC), therefore a liability has been reported within the Governmental Activities financial statements. As of September 30, 2014, the County has contributed a total of \$ 377,850 which when compared to the annual OPEB cost results in a net OPEB obligation of \$ 1,093,470. The County's general fund is considered responsible for liquidating the net OPEB obligation on an ongoing basis. The County's general fund fund balance would be used to eliminate the net OPEB obligation.

NOTE 11 - GRANTS, ENTITLEMENTS AND SHARED REVENUES

During the year ended September 30, 2014, the County applied for and received federal and state grants related to various activities. The operations of these grants are reported in the general fund, various special revenue funds, and capital projects fund. For the most part, these grants are reimbursement type grants, therefore, revenues equal expenditures. Grant revenues are classified as intergovernmental revenues. The federal financial assistance programs are covered by the requirements of the Single Audit Act and OMB Circular A-133.

The state financial assistance programs are covered by the State of Texas Single Audit Circular. A single audit was performed on the state financial assistance programs as the state financial assistance programs met the \$ 500,000 threshold, while the federal financial assistance programs did not.

NOTE 12 - BAIL BOND COLLATERAL

The County holds, as collateral, time deposits and other cash equivalents and real property pledged toward bail bonds. The County does not have access to the assets unless the bond is violated; therefore, these assets are not reported in the financial statements of the County as of September 30, 2014. As of September 30, 2014, bail bonds outstanding totaled \$ 6,187,800 and collateral pledged against these bonds amounted to \$ 275,000, respectively.

JOHNSON COUNTY, TEXAS

Notes to the Financial Statements

For The Year Ended September 30, 2014

NOTE 13 - LITIGATION

The County is involved in the following legal actions, and is represented by legal counsel. The stated probable outcome and the possible effect are the opinion of legal counsel based upon conditions existing as of March 27, 2015.

Cause No. 3-13-CV-04089, *Bonnie Allen-Pieroni, Brian Allen, Steve Gibbs and Mark Gibbs, Individually and as Heirs of Law to the Estate of Ivan Earl Allen, deceased vs. Southwestern Correctional, LLC d/b/a LaSalle Southwest Corrections, LaSalle Management, LLD, Johnson County, Sheriff Bob Alford, John Does 1-5 and Jane Does 1-5, in the United States District Court for the Northern District of Texas in the Dallas Division.* Plaintiffs claim wrongful death of Ivan Earl Allen while in the Johnson County jail. Mr. Allen was placed in the jail on or about October 9, 2011 for an infraction of a probation requirement. Plaintiffs claim Allen was denied medical attention and later died on or about October 30, 2011 at Harris Methodist Hospital. Plaintiffs are seeking compensatory, punitive, presumed and normal damages. An exact settlement figure is unknown at this time. Jail was privatized and Johnson County has been under contract with LaSalle Southwest Corrections since June 1, 2010. Pursuant to Section 11.1, Article XI, of the contract with LaSalle Southwest Corrections, Johnson County intends to and will assert its right to indemnification in this alleged wrongful death.

Cause No. 3-13-CV-00231, *Jared Fuller vs. Johnson County Sheriff Department et al, In the United States District Court for the Northern District of Texas Dallas Division.* Plaintiff alleges Johnson County Sheriff's Department violated the American Disabilities Act of 1990 by failing to provide Plaintiff with reasonable accommodations for Plaintiff's alleged disabilities and instead discharged plaintiff because of the disability. Plaintiff is seeking compensatory, monetary and punitive damages. An exact settlement figure is unknown at this time. Defendant's original answer denying all claims was filed on behalf of the Johnson County Sheriff's Department on February 13, 2013. On August 20, 2014, defendant's brief in support of its motion for judgment on the pleadings and, in the alternative, motion for summary judgment was filed with the U.S. District Court.

Cause No. 3-14-CV-03724, *Oliver Vaughn, Jr. vs. Southwestern Correctional, LLC d/b/a LaSalle Southwest Corrections, LaSalle Corrections Transport, LLC, Johnson County, Texas, Robert Alford, and Eddie Williams, in the United States District Court for the Northern District of Texas Dallas Division.* Plaintiff claims he was unlawfully detained without any legal authority for 22 days. Plaintiff claims said detention violated the Fourth Amendment and the Due Process Clause of the Fourteenth Amendment to the United States Constitution. An exact settlement figure is unknown at this time. On December 22, 2014, the parties signed an agreed joint stipulation of dismissal with prejudice and compromise settlement agreement and release and payment in the amount of \$ 125,000.00 was paid to plaintiff by LaSalle Defendants. Defendants Johnson County and Sheriff Alford received a full release after LaSalle Defendants payment in full to plaintiff.

The County has been notified of potential claims for which liability is disputed, no suits have been filed and the County's insurance carrier has been notified.

NOTE 14 - RISK COVERAGE

The County is a participant in the Texas Association of Counties insurance pool for coverage of liability, property, and worker's compensation. The County pays annual premiums to the pool for the coverage stated. Property and liability insurance provide varying and appropriate coverage, with most claims subject to a \$ 5,000 deductible.

JOHNSON COUNTY, TEXAS
Notes to the Financial Statements
 For The Year Ended September 30, 2014

NOTE 15 - EVALUATION OF SUBSEQUENT EVENTS

The County has evaluated subsequent events through March 27, 2015, the date which the financial statements were available to be issued.

NOTE 16 - DEFICIT FUND BALANCES

As of September 30, 2014, various funds of the County had deficit fund balances as itemized below:

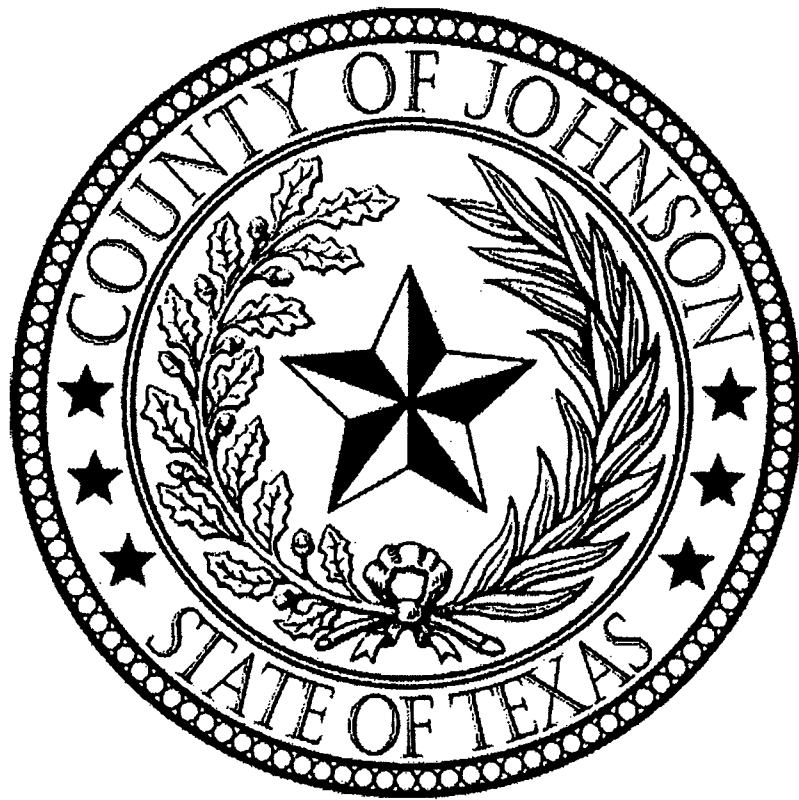
	2014
Fund Balances:	
Capital Projects Funds:	
Jail Construction Improvement Fund	\$ 8,937

Deficit balances will either be offset by future revenues or reimbursed by other funds. The special revenue and capital projects funds would be reimbursed by the General Fund.

NOTE 17 - LONG-TERM RECEIVABLE

The County and the City of Cleburne (the "City") entered into an interlocal agreement whereas the County agreed to pay funds in the amount of \$ 300,000 to the City to be used for construction of the entrance and exit ramps to connect the Chisholm Trail Parkway to CR 1125. The City has agreed to use Tax Increment Reinvestment Zone #3 Funds to repay the County. The following is a summary of note receivable requirements, based on the original balance of \$ 300,000 and expectation of revenues collected, by year, as of September 30, 2014:

Year Ended September 30,		
2015	\$	60,000
2016		30,000
2017		30,000
2018		30,000
2019		30,000
2020-2023		120,000
Total	\$	300,000



**REQUIRED SUPPLEMENTARY
INFORMATION**

JOHNSON COUNTY, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND AND MAJOR SPECIAL REVENUE FUND
(ROAD AND BRIDGE FUND)**

For the Year Ended September 30, 2014

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues:				
Taxes	\$ 36,061,904	\$ 36,061,904	\$ 37,211,095	\$ 1,149,191
Intergovernmental	1,104,130	1,241,208	1,107,144	(134,064)
Prisoner housing services	6,000,000	6,000,000	6,675,022	675,022
Fees	4,115,600	4,115,600	4,428,017	312,417
Fines	1,570,000	1,570,000	1,418,989	(151,011)
Investment income	83,400	83,400	57,247	(26,153)
Miscellaneous	<u>626,882</u>	<u>626,882</u>	<u>1,077,755</u>	<u>450,873</u>
Total revenues	<u>49,561,916</u>	<u>49,698,994</u>	<u>51,975,269</u>	<u>2,276,275</u>
Expenditures (Including Capital Outlay)				
Current:				
General administration	12,660,269	12,402,818	11,295,481	1,107,337
Administration of justice	7,785,601	7,868,448	6,811,140	1,057,308
Financial administration	976,846	976,846	920,170	56,676
Elections	531,244	531,244	387,951	143,293
Law enforcement	27,115,861	29,667,065	28,861,765	805,300
Highways and streets				-0-
Health and welfare	520,021	696,616	686,419	10,197
Culture and recreation	261,705	254,675	191,692	62,983
Conservation	196,178	196,178	179,566	16,612
Capital outlay	10,000	425,441	425,181	260
Debt Service:				
Principal	<u>325,000</u>	<u>325,000</u>	<u>287,270</u>	<u>37,730</u>
Total expenditures	<u>50,382,725</u>	<u>53,344,331</u>	<u>50,046,635</u>	<u>3,297,696</u>
Excess (deficiency) of revenues over expenditures	<u>(820,809)</u>	<u>(3,645,337)</u>	<u>1,928,634</u>	<u>5,573,971</u>
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	2,000	2,000	52,091	50,091
Transfers in	1,530,034	1,557,759	292,347	(1,265,415)
Transfers out	<u>(5,252,940)</u>	<u>(6,398,522)</u>	<u>(4,858,146)</u>	<u>1,540,376</u>
Total other financing sources (uses)	<u>(3,720,906)</u>	<u>(4,838,763)</u>	<u>(4,513,708)</u>	<u>325,055</u>
Net change in fund balances	<u>(4,541,715)</u>	<u>(8,484,100)</u>	<u>(2,585,074)</u>	<u>5,899,026</u>
Fund balances – beginning	<u>21,567,380</u>	<u>21,567,380</u>	<u>21,567,380</u>	<u>-0-</u>
Fund balances – ending	<u>\$ 17,025,665</u>	<u>\$ 13,083,280</u>	<u>\$ 18,982,306</u>	<u>\$ 5,899,026</u>

Road and Bridge Fund			
Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
Original	Final		
\$ 5,159,345	\$ 5,159,345	\$ 5,228,763	\$ 69,418
		766,162	766,162
			-0-
1,865,000	1,865,000	2,118,673	253,673
			-0-
12,900	12,900	13,991	1,091
<u>98,000</u>	<u>98,000</u>	<u>291,658</u>	<u>193,658</u>
<u>7,135,245</u>	<u>7,135,245</u>	<u>8,419,247</u>	<u>1,284,002</u>
			-0-
			-0-
			-0-
			-0-
			-0-
11,079,745	11,112,982	6,881,825	4,231,157
			-0-
			-0-
			-0-
1,220,500	1,239,500	746,721	492,779
			-0-
<u>12,300,245</u>	<u>12,352,482</u>	<u>7,628,546</u>	<u>4,723,936</u>
(5,165,000)	(5,217,237)	790,701	6,007,938
25,000	25,000	27,171	2,171
500,000	563,711	563,711	-0-
			-0-
<u>525,000</u>	<u>588,711</u>	<u>590,882</u>	<u>2,171</u>
(4,640,000)	(4,628,526)	1,381,583	6,010,109
<u>5,354,940</u>	<u>5,354,940</u>	<u>5,354,940</u>	<u>-0-</u>
<u>\$ 714,940</u>	<u>\$ 726,414</u>	<u>\$ 6,736,523</u>	<u>\$ 6,010,109</u>

JOHNSON COUNTY, TEXAS
TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
LAST THREE YEARS

Exhibit 7

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets*</u>	<u>Actuarial Accrued Liability* (AAL)-</u>	<u>Unfunded AAL (UAAL)</u>	<u>Percentage Funded (a/b)</u>	<u>Annual Covered Payroll**</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/(c)</u>
	(a)	(b)	(b-a)		(c)	
12-31-11	\$ 47,988,144	\$ 55,362,781	\$ 7,374,637	86.68%	\$ 22,151,038	33.29%
12-31-12	\$ 51,939,019	\$ 60,597,284	\$ 8,658,265	85.71%	\$ 22,926,651	37.77%
12-31-13	\$ 56,409,050	\$ 64,846,145	\$ 8,437,095	86.99%	\$ 22,834,220	36.95%

* As of December 31 of the preceding year, the date of the actuarial valuation.

** Annual covered payroll is based on the employee contributions received by TCDRS for the year ending with the valuation date.

JOHNSON COUNTY, TEXAS

Notes to the Required Supplementary Information
For The Year Ended September 30, 2014

NOTE 1 - BUDGETARY INFORMATION

The budget law of the State of Texas provides that amounts budgeted for current expenditures from the various funds of the County shall not exceed the balances in the funds, plus the anticipated revenues for the current year as estimated by the County Auditor. The fund budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles. The major funds, General Fund and Road and Bridge Fund, budget and actual comparisons are presented as Required Supplementary Information at the fund level.

Although the level of budgetary control is total revenues plus available fund balance, the County adopts its budget at a line-item level for managerial control purposes. Line item level is defined for revenue purposes as the type of revenue to be derived and for expenditures purposes by department and type of expenditures (salaries and wages and employee benefits; operating expenditures; and capital outlay). Budget amendments to transfer budgeted amounts from one line item to another may be made at the discretion of the Commissioners Court. Appropriations not exercised in the current year lapse at the end of the year. The County made transfers out of the general fund for a communications upgrade to construct new communications towers. Other amendments include increases for building maintenance and capital murder trial expenditures.

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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SAN ANTONIO, TEXAS 78205-3503
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Proposed Form of Opinion of Bond Counsel

*An opinion in substantially the following form will be delivered by
McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the
Certificates, assuming no material changes in facts or law.*

**JOHNSON COUNTY, TEXAS
CERTIFICATES OF OBLIGATION,
TAXABLE SERIES 2015, DATED NOVEMBER 1, 2015
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$20,605,000**

AS BOND COUNSEL for Johnson County, Texas, the issuer (the "Issuer") of the Certificates of Obligation described above (the "Certificates"), we have examined into the legality and validity of the Certificates, which bear interest from the date specified in the text of the Certificates, until maturity or redemption, at the rates and payable on the dates as stated in the text of the Certificates, and maturing serially on the dates specified in the text of the Certificates, with the Certificates being subject to redemption, all in accordance with the terms and conditions stated in the text of the Certificates.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Certificates, including one of the executed Certificates (Certificate Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been authorized, issued and delivered in accordance with law; and that except as may be limited by laws applicable to the Issuer relating to governmental immunity and bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity which permit the exercise of judicial discretion, the Certificates constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates have been levied and pledged for such purpose, within the limit prescribed by law.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not "specified private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Certificates.

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of the Certificates, relating to, among other matters, the use of the projects financed by the Certificates and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Certificates, the accuracy of which we have not independently verified. We call your attention to the fact that if such

representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

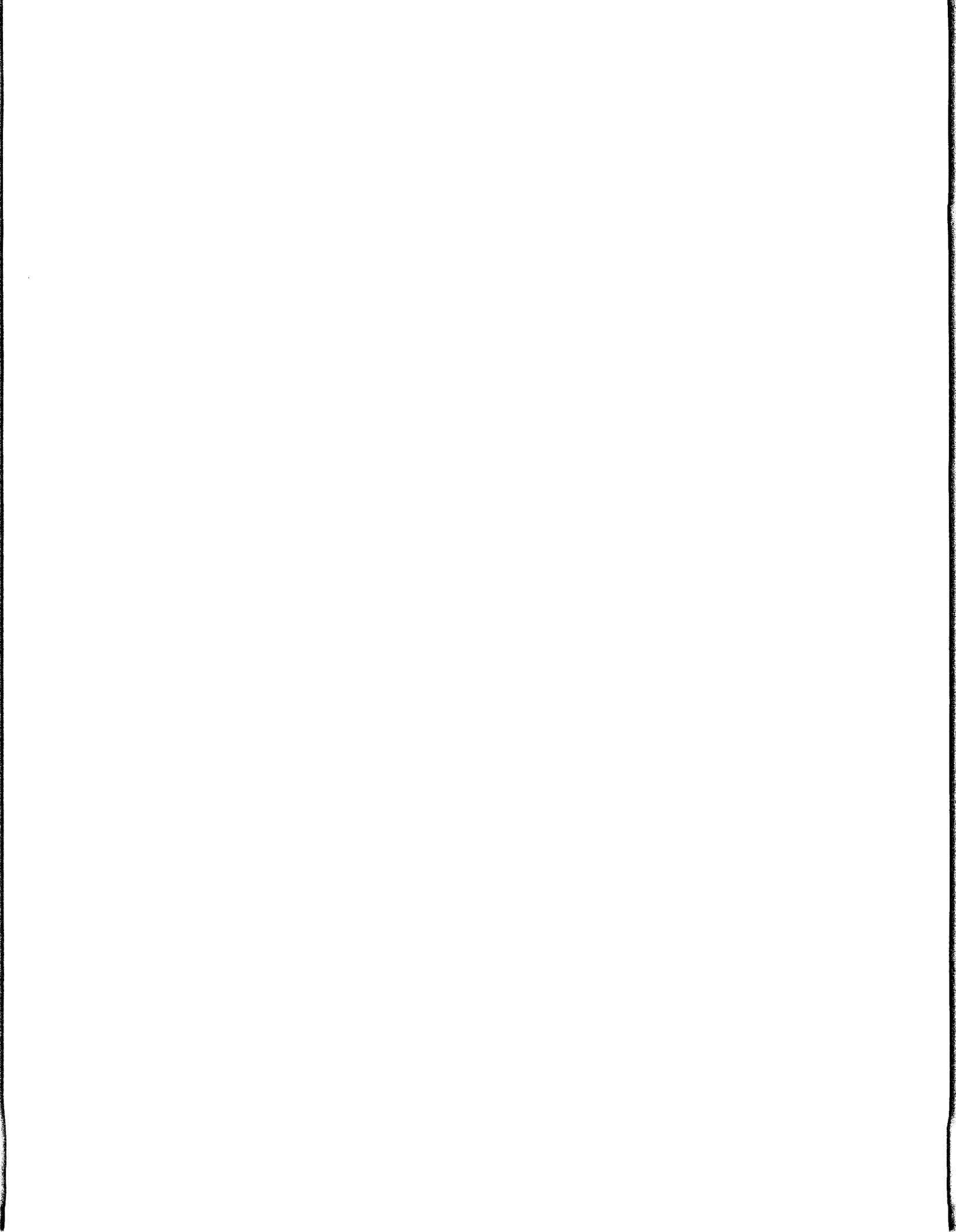
WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Certificates, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Certificates, nor as to any such insurance policies issued in the future.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

Respectfully,



Financial Advisory Services
Provided By

FirstSouthwest 