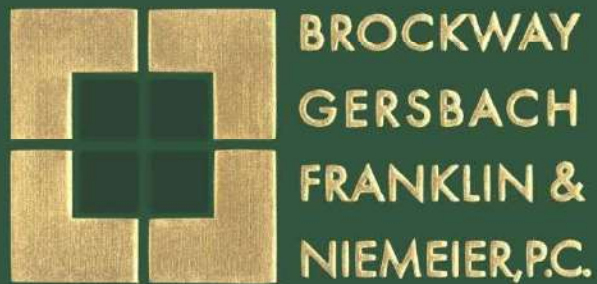


City of Llano, Texas

September 30, 2020

Financial Statements



**BROCKWAY
GERSBACH
FRANKLIN &
NIEMEIER, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF LLANO, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
September 30, 2020

TOGETHER WITH INDEPENDENT AUDITORS' REPORT THEREON
AND REQUIRED SUPPLEMENTARY INFORMATION

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Members of the City Council
City of Llano, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Llano, Texas (the City), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

INDEPENDENT AUDITORS' REPORT
(Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Llano, Texas, as of September 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary information for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 - 16, the Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Employer Contributions for the Texas Municipal Retirement System (TMRS) and the Texas Emergency Services Retirement System (TESRS) on pages 78 - 81 and the Schedule of Changes in Total OPEB Liability and Related Ratios and Schedule of Employer Contributions for TMRS – Supplemental Death Benefits and Retiree Health Care Plan on pages 82 - 84 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 City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

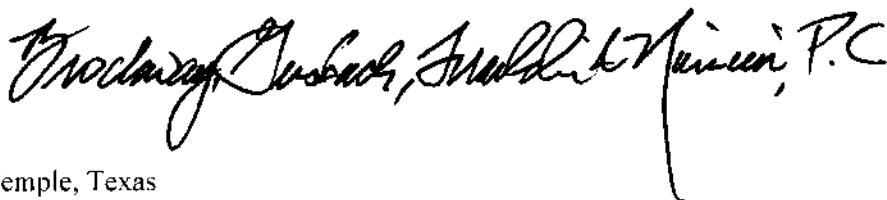
INDEPENDENT AUDITORS' REPORT
(Continued)

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal 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 nonmajor fund financial statements and the schedule of expenditures of federal 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2021, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Temple, Texas
March 17, 2021

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**CITY OF LLANO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial Report, we, the managers of the City of Llano, Texas (the City), discuss and analyze the City's financial performance for the fiscal year ended September 30, 2020. Please read it in conjunction with the Independent Auditors' Report on pages 5 - 7, and the City's Basic Financial Statements which begin on page 18.

FINANCIAL HIGHLIGHTS

- The City's net position of the primary government was \$ 28,794,350 at September 30, 2020. Of this amount \$ 2,720,113 is unrestricted and may be used to meet the City's future obligations. Of the \$ 2,720,113 net unrestricted net position, \$ 250,509 is related to governmental activities, which includes the general fund. The \$ 2,469,604 net balance of unrestricted net position is related to business-type activities, which includes the City's utility fund.
- The City's total net position increased by \$ 1,489,348 during the current fiscal year. Net position of governmental activities increased \$ 962,094 from the prior year's net position of \$ 13,180,783. Overall, the net increase in governmental activities and in the business-type activities is attributable to an increase in the City's investment in capital assets.
- Net pension liability decreased due to favorable market performance which resulted in a corresponding decrease in deferred outflows of resources and an increase in deferred inflows of resources.
- As of September 30, 2020, the City's governmental funds reported combined ending fund balances of \$ 2,391,899, a decrease of \$ 926,352 in comparison with the prior fiscal year. The capital projects fund had a decrease of \$ 1,006,833 due to the expenditure of bond proceeds received in prior periods. In addition, there was an increase in fund balance in the nonmajor governmental funds of \$ 78,564. The offset to the overall increase is attributable to an increase in the fund balance in the general fund of \$ 1,917.
- At the end of the current fiscal year, assigned/unassigned fund balance for the general fund was \$ 1,518,368 or approximately 29.2% of total general fund expenditures.
- The City's total net bonded debt decreased by \$ 1,162,891 during the current fiscal year. This net decrease was due to debt service payments during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City'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 required supplementary information and other information in addition to the basic financial statements themselves.

**CITY OF LLANO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

The statement of net position presents information on all of the City's assets and deferred outflows of resources, and liabilities and deferred inflows of resources with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the City is improving or deteriorating. The statement of net position combines and consolidates governmental funds current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other nonfinancial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and wastewater lines, etc.), to assess the overall health or financial condition of the City.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as 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 future fiscal periods such as uncollected property tax. Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting.

In the Statement of Net Position and the Statement of Activities, the City is divided into three kinds of activities:

- **Governmental activities** - Most of the City's basic services are reported here, including the police, fire, library, airport, streets, parks and recreation, and general government. Property taxes, sales taxes and franchise fees finance most of these activities.
- **Business-type activities** - The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's electricity, water, wastewater, and sanitation systems activity are reported here.
- **Component units** - The City includes one separate legal entity in its report - the Llano Economic Development Corporation. Although legally separate, this "component unit" is important because the City is financially accountable for it.

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 City, 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 City can be divided into three categories: governmental funds, proprietary funds and agency 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 near-term inflows and outflows 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.

CITY OF LLANO, TEXAS MANAGEMENT'S DISCUSSION AND ANALYSIS

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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

The City maintains numerous 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 and Capital Project Funds as they are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

Proprietary funds - The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electricity, water, wastewater, and sanitation utilities and utility development projects.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the utilities. The utility fund is considered a major fund of the City.

Agency funds - Agency funds are used to account for resources held for the benefit of parties outside the government. Agency funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

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.

Other information - The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. In addition, this report presents certain required supplementary information concerning the City's net pension obligation as it relates to Texas Municipal Retirement System and Texas Emergency Services Retirement System as well as the total OPEB liabilities as it relates to the TMRS-SDBF.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position was \$ 28,794,350 as of September 30, 2020. The following tables focus on the net position (Table I) and general revenues and significant expenses of the City's governmental and business-type activities (Table II).

**CITY OF LLANO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

By far the largest portion of the City's net position (86.6%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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.

An additional portion of the City's net position (4.0%) represents resources that are subject to external restrictions on how they may be used. The balance of net position, \$ 2,720,113, is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for the government as a whole.

There was an increase of \$ 527,254 in net position reported in connection with the City's business-type activities.

Table I
Summary of Statement of Net Position
in thousands

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 3,706	\$ 3,641	\$ 7,821	\$ 8,914	\$ 11,527	\$ 12,555
Capital assets	18,307	16,875	19,984	18,496	38,291	35,371
Total Assets	<u>22,013</u>	<u>20,516</u>	<u>27,805</u>	<u>27,410</u>	<u>49,818</u>	<u>47,926</u>
Deferred outflow of resources	230	491	199	323	429	814
Other liabilities	1,294	385	1,345	770	2,639	1,155
Long-term liabilities	6,549	7,536	11,897	12,837	18,446	20,373
Total Liabilities	<u>7,843</u>	<u>7,921</u>	<u>13,242</u>	<u>13,607</u>	<u>21,085</u>	<u>21,528</u>
Deferred inflows of resources	257	4	111	2	368	6
Net Position:						
Invested in capital assets, net of related debt	13,682	12,749	11,249	10,778	24,931	23,527
Restricted	211	146	932	845	1,143	991
Unrestricted	250	187	2,470	2,501	2,720	2,688
Total Net Position	<u>\$ 14,143</u>	<u>\$ 13,082</u>	<u>\$ 14,651</u>	<u>\$ 14,124</u>	<u>\$ 28,794</u>	<u>\$ 27,206</u>

**CITY OF LLANO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Governmental and business-type activities increased the City's net position by \$ 1,489,348. The key elements of this increase are as follows:

Table II
Statement of Activities, Changes in Net Position
in thousands

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program Revenues:						
Charges for services	\$ 768	\$ 761	\$ 8,562	\$ 8,528	\$ 9,330	\$ 9,289
Operating grants and contributions	-	-	58	436	58	436
Capital grants and contributions	243	-	15	22	258	22
General Revenues:						
Property taxes	1,256	1,193	-	-	1,256	1,193
Sales taxes	1,018	926	-	-	1,018	926
Hotel and other taxes	123	139	-	-	123	139
Franchise fees	99	93	-	-	99	93
Investment earnings	116	277	-	-	116	277
Rents and royalties	168	197	-	-	168	197
Miscellaneous	230	440	-	-	230	440
Total Revenues	<u>4,021</u>	<u>4,026</u>	<u>8,635</u>	<u>8,986</u>	<u>12,656</u>	<u>13,012</u>
Expenses:						
Administration	952	1,110	-	-	952	1,110
Police	913	898	-	-	913	898
Parks and recreation	515	598	-	-	515	598
Golf course	538	480	-	-	538	480
Street	453	594	-	-	453	594
Airport	452	464	-	-	452	464
JLK Arena	287	242	-	-	287	242
Other departments	512	618	-	-	512	618
Interest and other charges	141	169	-	-	141	169
Electricity, water, sewer and sanitation	-	-	6,404	6,364	6,404	6,364
Total Expenses	<u>4,763</u>	<u>5,173</u>	<u>6,404</u>	<u>6,364</u>	<u>11,167</u>	<u>11,537</u>
Increase (decrease) in net position before transfers	(742)	(1,147)	2,231	2,622	1,489	1,475
Transfers	1,704	1,482	(1,704)	(1,482)	-	-
Extraordinary items	-	3,448	-	-	-	3,448
Total	<u>1,704</u>	<u>4,930</u>	<u>(1,704)</u>	<u>(1,482)</u>	<u>-</u>	<u>3,448</u>
Increase (decrease) in net position	962	3,783	527	1,140	1,489	4,923
Net position - beginning	13,082	9,299	14,124	12,984	27,206	22,283
Prior period adjustment	99	-	-	-	99	-
Net position - ending	<u>\$ 14,143</u>	<u>\$ 13,082</u>	<u>\$ 14,651</u>	<u>\$ 14,124</u>	<u>\$ 28,794</u>	<u>\$ 27,206</u>

**CITY OF LLANO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For FY 2020, revenues from governmental activities totaled \$ 5,723,754. Property taxes and sales tax are the largest components of revenues (40%). Charges for services account for 13% of total governmental revenue.

For FY 2020, expenses for governmental activities totaled \$ 4,761,660. The City's five largest funded programs are for administration, police, streets, parks and recreation, and the golf course.

For governmental activities, the Statement of Activities on page 20 shows that \$ 767,526 was financed by those receiving services and \$ 242,531 was financed by grants and contributions with the City's general revenues financing \$ 3,751,603 of the remaining program expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY 2020, the City had \$ 38,290,327, net of depreciation, invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, and utility distribution infrastructure.

Table III
Capital Assets at Year-End
in thousands

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Land	\$ 1,788	\$ 1,788	\$ 534	\$ 534	\$ 2,322	\$ 2,322
Construction in Progress	4,746	3,529	2,295	1,144	7,041	4,673
Buildings and improvements	8,004	7,817	-	-	8,004	7,817
Equipment	987	802	492	348	1,479	1,150
Infrastructure	2,780	2,939	16,663	16,471	19,443	19,410
Total	\$ 18,305	\$ 16,875	\$ 19,984	\$ 18,497	\$ 38,289	\$ 35,372

This year's major additions included:

- Progress on the City-wide paving project - \$ 955,099
- Improvements at Robinson Park - \$ 281,841
- Progress on the Main Street water and sewer line project - \$ 1,890,006

Additional information on the City's capital assets can be found in Note III, C on page 51 of this report.

**CITY OF LLANO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Debt

At year-end, the City had \$ 16,461,998 in bonds, notes and contractual obligations outstanding as shown in Table IV. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements starting on page 53.

Table IV
Outstanding Debt at Year-End
in thousands

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
General Obligation Bonds	\$ 4,295	\$ 4,545	\$ 4,300	\$ 4,525	\$ 8,595	\$ 9,070
Certificates of Obligation	-	-	5,990	6,280	5,990	6,280
Limited Tax Notes	48	84	-	-	48	84
Contractual Obligations	514	713	497	659	1,011	1,372
Issuance Premium	271	295	547	581	818	876
Total	\$ 5,128	\$ 5,637	\$ 11,334	\$ 12,045	\$ 16,462	\$ 17,682

FINANCIAL ANALYSIS OF THE GOVERNMENT FUNDS

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City'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.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 2,391,899. Approximately 69.1% of this total amount, \$ 1,653,414, constitutes assigned/unassigned fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it is nonspendable for inventory (\$ 24,975); has already been restricted to pay for debt service (\$ 210,631), or to pay for bond-funded construction projects (\$ 502,879).

The City's General Fund balance of \$ 1,543,343 reported on page 22 differs from the General Fund's budgeted fund balance of \$ 1,104,426 reported in the budgetary comparison schedule on page 27 due to incoming transfers being less than budgeted amounts.

Budget amendments for fiscal year 2020 in the general fund related to flood repairs for the parks and golf course, the purchase of police technology with grant proceeds, the purchase of a police patrol unit with expenses not needed for police personnel, the purchases of parks and golf course equipment and a parks pickup with an excess of budgeted street department and golf course personnel expenses. In the utility fund, a water/wastewater service truck was purchased with budgeted funds not used for personal services and maintenance. An electric bucket truck and equipment for the water and wastewater treatment plants were purchased with an excess of budgeted maintenance funds.

**CITY OF LLANO, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in establishing the City's budget for 2020-2021:

- The City's budgeted expenditures for fiscal year 2021 total \$4,621,439 for the general fund and \$8,341,307 for the utility fund.
- The City's total tax rate for fiscal year 2020 was \$0.68737 per \$100 of valuation. The rate adopted for the fiscal year 2021 is \$0.65673 per \$100 valuation. The rates approved were \$.38400 for maintenance and operations and \$0.27273 for interest and sinking.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's finance department, at the City of Llano, 301 West Main Street, Llano, Texas 78643.

BASIC FINANCIAL STATEMENTS

CITY OF LLANO, TEXAS
STATEMENT OF NET POSITION
September 30, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Llano Economic Development Corporation
ASSETS				
Cash and cash equivalents	\$ 1,014,023	\$ 159,052	\$ 1,173,075	\$ 376,217
Investments	649,748	2,939,176	3,588,924	315,352
Receivables (net of allowances for uncollectibles)	346,854	778,562	1,125,416	57,483
Other receivables	12,390	-	12,390	-
Inventory	24,975	230,631	255,606	-
Restricted assets: cash and cash equivalents	1,658,425	3,713,912	5,372,337	-
Capital assets, net of accumulated depreciation:				
Land	1,788,431	533,711	2,322,142	-
Construction in progress	4,746,270	2,295,104	7,041,374	-
Building and improvements	8,003,719	-	8,003,719	-
Equipment	988,352	492,027	1,480,379	-
Infrastructure	2,779,867	16,662,846	19,442,713	-
Total Assets	<u>22,013,054</u>	<u>27,805,021</u>	<u>49,818,075</u>	<u>749,052</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts on refunding	-	96,290	96,290	-
Contributions subsequent to measurement date - pension	193,813	87,076	280,889	-
Change in assumptions - pension	15,631	7,022	22,653	-
Change in assumptions - OPEB	14,461	6,498	20,959	-
Contributions subsequent to measurement date - OPEB	5,763	2,589	8,352	-
Total Deferred Outflows of Resources	<u>229,668</u>	<u>199,475</u>	<u>429,143</u>	<u>-</u>

The accompanying notes are an integral part of the financial statements.

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Llano Economic Development Corporation
LIABILITIES				
Accounts payable	945,029	990,494	1,935,523	490
Retainage payable	213,682	91,848	305,530	-
Accrued expenses	94,875	34,810	129,685	-
Accrued payroll	14,742	48,526	63,268	-
Accrued interest	6,054	13,815	19,869	-
Customer deposits	19,141	165,416	184,557	1,225
Internal balances	-	-	-	12,390
Noncurrent liabilities:				
Due within one year	411,489	725,300	1,136,789	141,190
Due in more than one year	6,137,473	11,172,112	17,309,585	847,702
Total Liabilities	<u>7,842,485</u>	<u>13,242,321</u>	<u>21,084,806</u>	<u>1,002,997</u>
DEFERRED INFLOWS OF RESOURCES				
Difference between projected and actual investment earnings - pension	157,886	66,211	224,097	-
Difference in expected and actual experience - pension	89,764	40,328	130,092	-
Change in assumptions - pension	344	-	344	-
Difference in expected and actual experience - OPEB	9,366	4,163	13,529	-
Total Deferred Inflows of Resources	<u>257,360</u>	<u>110,702</u>	<u>368,062</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	13,681,737	11,249,449	24,931,186	-
Restricted for:				
Debt service	210,631	317,745	528,376	-
Capital projects	-	614,675	614,675	88,564
Unrestricted	250,509	2,469,604	2,720,113	(342,509)
Total Net Position	<u>\$ 14,142,877</u>	<u>\$ 14,651,473</u>	<u>\$ 28,794,350</u>	<u>\$ (253,945)</u>

**CITY OF LLANO, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2020**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
City Council	\$ 29,559	\$ -	\$ -	\$ -
Administration	951,800	17,232	-	-
Main Street	117,497	-	-	-
Police	912,770	-	-	-
Municipal Court	94,460	68,658	-	-
Code Enforcement	82,875	29,737	-	-
Fire	63,125	-	-	10,000
Parks and Recreation	514,527	123,368	-	-
Lantex Theater	34,799	-	-	-
Golf Course	538,204	197,519	-	-
Street	453,017	-	-	158,372
Airport	451,692	331,012	-	74,159
Christmas Lighting	28,852	-	-	-
Depot Museum	61,107	-	-	-
JLK Arena	287,048	-	-	-
Interest and other charges	140,328	-	-	-
Total governmental activities	4,761,660	767,526	-	242,531
Business-type activities:				
Water and sewer	6,403,218	8,561,637	58,308	14,590
Total business-type activities	6,403,218	8,561,637	58,308	14,590
Total primary government	\$ 11,164,878	\$ 9,329,163	\$ 58,308	\$ 257,121
Component unit:				
Llano Economic				
Development Corporation	\$ 72,521	\$ -	\$ -	\$ -
Total component unit:	\$ 72,521	\$ -	\$ -	\$ -
General Revenues:				
Property taxes				
Sales taxes				
Hotel and other taxes				
Franchise fees				
Investment earnings				
Rents and royalties				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position (deficit) - beginning, as restated				
Net position (deficit) - ending				

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	Llano EDC
\$ (29,559)	\$ -	\$ (29,559)	\$ -
(934,568)	-	(934,568)	-
(117,497)	-	(117,497)	-
(912,770)	-	(912,770)	-
(25,802)	-	(25,802)	-
(53,138)	-	(53,138)	-
(53,125)	-	(53,125)	-
(391,159)	-	(391,159)	-
(34,799)	-	(34,799)	-
(340,685)	-	(340,685)	-
(294,645)	-	(294,645)	-
(46,521)	-	(46,521)	-
(28,852)	-	(28,852)	-
(61,107)	-	(61,107)	-
(287,048)	-	(287,048)	-
(140,328)	-	(140,328)	-
<u>(3,751,603)</u>	<u>-</u>	<u>(3,751,603)</u>	<u>-</u>
-	2,231,317	2,231,317	-
-	2,231,317	2,231,317	-
<u>(3,751,603)</u>	<u>2,231,317</u>	<u>(1,520,286)</u>	<u>-</u>
-	-	-	(72,521)
-	-	-	(72,521)
1,255,972	-	1,255,972	-
1,018,177	-	1,018,177	339,203
122,705	-	122,705	-
99,198	-	99,198	-
115,768	-	115,768	8,700
168,089	-	168,089	-
229,725	-	229,725	-
<u>1,704,063</u>	<u>(1,704,063)</u>	<u>-</u>	<u>-</u>
<u>4,713,697</u>	<u>(1,704,063)</u>	<u>3,009,634</u>	<u>347,903</u>
962,094	527,254	1,489,348	275,382
13,180,783	14,124,219	27,305,002	(529,327)
<u>\$ 14,142,877</u>	<u>\$ 14,651,473</u>	<u>\$ 28,794,350</u>	<u>\$ (253,945)</u>

**CITY OF LLANO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2020**

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 864,933	\$ 1,105	\$ 147,985	\$ 1,014,023
Investments	649,748	-	-	649,748
Receivables, net				
Property taxes	21,883	-	12,499	34,382
Accounts and other	117,181	-	-	117,181
Sales taxes	172,448	-	-	172,448
Hotel occupancy taxes	22,843	-	-	22,843
Due from other funds	11,400	-	2,221	13,621
Due from component unit	12,390	-	-	12,390
Inventories	24,975	-	-	24,975
Restricted assets: debt service	-	-	207,586	207,586
Restricted assets: investments	-	1,450,839	-	1,450,839
Total assets	<u>\$ 1,897,801</u>	<u>\$ 1,451,944</u>	<u>\$ 370,291</u>	<u>\$ 3,720,036</u>
LIABILITIES				
Liabilities				
Accounts payable	\$ 208,107	\$ 735,383	\$ 1,539	\$ 945,029
Retainage payable	-	213,682	-	213,682
Accrued payroll	14,742	-	-	14,742
Unearned revenue	17,593	-	9,454	27,047
Due to other funds	-	-	13,621	13,621
Due to other governments	52,445	-	-	52,445
Customer deposits	19,141	-	-	19,141
Other accrued liabilities	42,430	-	-	42,430
Total liabilities	<u>354,458</u>	<u>949,065</u>	<u>24,614</u>	<u>1,328,137</u>
FUND BALANCES				
Fund Balances				
Nonspendable				
Inventories	24,975	-	-	24,975
Restricted for:				
Debt service	-	-	210,631	210,631
Capital projects	-	502,879	-	502,879
Assigned to:				
Other projects	-	-	135,046	135,046
Unassigned	1,518,368	-	-	1,518,368
Total fund balances	<u>1,543,343</u>	<u>502,879</u>	<u>345,677</u>	<u>2,391,899</u>
Total liabilities and fund balances	<u>\$ 1,897,801</u>	<u>\$ 1,451,944</u>	<u>\$ 370,291</u>	<u>\$ 3,720,036</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LLANO, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
For the Year Ended September 30, 2020

Total fund balances-governmental funds \$ 2,391,899

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. These assets consist of:

Land	\$ 1,788,431	
Construction in progress	4,746,270	
Buildings and improvements	12,794,019	
Equipment	5,024,261	
Infrastructure	5,603,668	
Accumulated depreciation	<u>(11,650,010)</u>	
Total capital assets	<u>\$ 18,306,639</u>	18,306,639

Deferred outflows of resources represent the consumption of net position that applies to future periods and will not be recognized as an expense until then:

Deferred amounts of contributions - pension	\$ 193,813	
Difference in projected and actual investment earnings	99	
Assumption change - pension	<u>15,631</u>	
	<u>\$ 209,543</u>	209,543

Some revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year end. On the accrual basis, however, those revenues would be recognized, regardless of when they are collected. 27,047

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet. Those liabilities consist of:

Accrued interest on debt	\$ (6,054)	
Long-term debt, including premium/discount	(4,614,079)	
Notes payable	(513,702)	
Compensated absences	(85,982)	
Net pension liability	(1,188,353)	
Other post-employment benefits	<u>(146,846)</u>	
	<u>\$ (6,555,016)</u>	(6,555,016)

Deferred inflow of resources represent an acquisition of net position that applies to future periods and so will not be recognized as revenue until then:

Difference in projected and actual investment earnings	\$ (147,471)	
Difference in expected and actual experience	<u>(89,764)</u>	
	<u>\$ (237,235)</u>	<u>(237,235)</u>

Net position of governmental activities \$ 14,142,877

The accompanying notes are an integral part of the financial statements.

CITY OF LLANO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
For the Year Ended September 30, 2020

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 746,030	\$ -	\$ 525,115	\$ 1,271,145
Sales taxes	1,018,177	-	-	1,018,177
Other taxes	122,705	-	-	122,705
Franchise fees	99,198	-	-	99,198
Licenses, permits and fees	29,737	-	-	29,737
Charges for services	669,210	-	-	669,210
Fines	68,579	-	-	68,579
Interest and other	11,097	13,703	90,968	115,768
Rents and royalties	168,089	-	-	168,089
Grants	242,531	-	-	242,531
Miscellaneous	229,725	-	-	229,725
Total Revenues	<u>3,405,078</u>	<u>13,703</u>	<u>616,083</u>	<u>4,034,864</u>
EXPENDITURES				
Current:				
City Council	29,559	-	-	29,559
Administration	1,095,657	-	-	1,095,657
Main Street	96,350	-	21,262	117,612
Police	860,583	-	-	860,583
Municipal Court	94,567	-	-	94,567
Code Enforcement	82,975	-	-	82,975
Fire	41,978	-	-	41,978
Parks and Recreation	578,831	-	-	578,831
Lantex Theater	24,509	-	-	24,509
Golf Course	468,419	-	-	468,419
Street	224,004	-	-	224,004
Airport	376,945	-	-	376,945
Christmas Lighting	-	-	52,777	52,777
Depot Museum	10,293	-	-	10,293
JLK Arena	163,204	-	-	163,204
Debt service:				
Principal retirement	268,767	-	287,179	555,946
Interest and other charges	7,870	-	155,362	163,232
Capital outlay	782,713	1,020,536	20,939	1,824,188
Total expenditures	<u>5,207,224</u>	<u>1,020,536</u>	<u>537,519</u>	<u>6,765,279</u>
Excess (deficiency) of revenues over (under) expenditures	(1,802,146)	(1,006,833)	78,564	(2,730,415)
OTHER FINANCING SOURCES (USES)				
Issuance of debt	100,000	-	-	100,000
Transfers in	1,704,063	-	-	1,704,063
Total other financing sources (uses)	<u>1,804,063</u>	<u>-</u>	<u>-</u>	<u>1,804,063</u>
Net change in fund balances	1,917	(1,006,833)	78,564	(926,352)
Fund balances, beginning of year, as restated	<u>1,541,426</u>	<u>1,509,712</u>	<u>267,113</u>	<u>3,318,251</u>
Fund balances, end of year	<u>\$ 1,543,343</u>	<u>\$ 502,879</u>	<u>\$ 345,677</u>	<u>\$ 2,391,899</u>

The accompanying notes are an integral part of the financial statements.

**CITY OF LLANO, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2020**

Net change in fund balances - governmental funds \$ (926,352)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the government-wide statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlay	\$ 2,193,260	
Depreciation expense	<u>(761,940)</u>	
	<u>\$ 1,431,320</u>	1,431,320

Revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the funds. These include recognizing deferred revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy and to reflect the disposals of capital assets. The net effect these reclassifications and recognitions is to decrease net position.

Tax adjustment (15,173)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt is an expenditure in the governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the government-wide statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Issuance of notes payable	\$ (100,000)	
Bond principal repayments	250,000	
Capital lease and note principal repayments	336,104	
Amortization of bond issuance premiums	<u>22,591</u>	
Net adjustment	<u>\$ 508,695</u>	508,695

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Decrease in compensated absences liability (9,308)

The accompanying notes are an integral part of the financial statements.

(Continued)

CITY OF LLANO, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2020

Governmental funds report contributions to the pension and OPEB plans as expenditures. However, in the Statement of Activities, pension and OPEB expense is determined by an actuary as of the measurement period.

Increase in deferred pension contributions	\$	12,215	
Differences in experience losses, net - Pension		(167,081)	
Differences in earnings projections, net - Pension		(386,513)	
Differences in assumption gains - Pension		15,060	
Increase in net pension liability		506,128	
Decrease in OPEB liability		(18,389)	
Change in assumptions		15,740	
Difference in expected and actual experience		(7,024)	
Change in deferred OPEB contributions		2,463	
	<u>\$</u>	<u>(27,401)</u>	\$ (27,401)

Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as expenditures in governmental funds. This amount is the change in accrued interest.

Change in accrued interest		<u>313</u>	
Change in net position of governmental activities	<u>\$</u>	<u>962,094</u>	

The accompanying notes are an integral part of the financial statements.

CITY OF LLANO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended September 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 726,954	\$ 726,954	\$ 746,030	\$ 19,076
Sales taxes	940,000	940,000	1,018,177	78,177
Other taxes	128,500	128,500	122,705	(5,795)
Franchise fees	89,750	89,750	99,198	9,448
Licenses, permits and fees	29,150	29,150	29,737	587
Charges for services	660,000	660,000	669,210	9,210
Fines	50,000	50,000	68,579	18,579
Interest and other	19,500	19,500	11,097	(8,403)
Rents and royalties	184,995	184,995	168,089	(16,906)
Grants	122,500	163,600	242,531	78,931
Miscellaneous	141,150	373,150	229,725	(143,425)
Total Revenues	<u>3,092,499</u>	<u>3,365,599</u>	<u>3,405,078</u>	<u>39,479</u>
EXPENDITURES				
Current:				
City Council	25,756	25,756	29,559	(3,803)
Administration	1,166,840	1,166,840	1,095,657	71,183
Main Street	100,709	100,709	96,350	4,359
Police	969,492	927,492	860,583	66,909
Municipal Court	104,646	104,646	94,567	10,079
Code Enforcement	103,299	103,299	82,975	20,324
Fire	97,569	97,569	41,978	55,591
Parks and Recreation	456,554	672,054	578,831	93,223
Lantex Theater	28,675	28,675	24,509	4,166
Golf Course	394,888	529,888	468,419	61,469
Street	455,675	355,675	224,004	131,671
Airport	387,858	387,858	376,945	10,913
Depot Museum	7,725	13,725	10,293	3,432
JLK Arena	189,964	189,964	163,204	26,760
Debt service:				
Principal retirement	10,000	10,000	268,767	(258,767)
Interest and other charges	98,867	98,867	7,870	90,997
Capital outlay	1,031,000	1,300,844	782,713	518,131
Total Expenditures	<u>5,629,517</u>	<u>6,113,861</u>	<u>5,207,224</u>	<u>906,637</u>
Excess (deficiency) of revenues over (under) expenditures	(2,537,018)	(2,748,262)	(1,802,146)	946,116
OTHER FINANCING SOURCES (USES)				
Issuance of debt	418,000	549,244	100,000	(449,244)
Transfers in	1,762,018	1,762,018	1,704,063	(57,955)
Total other financing sources (uses)	<u>2,180,018</u>	<u>2,311,262</u>	<u>1,804,063</u>	<u>(507,199)</u>
Net change in fund balance	(357,000)	(437,000)	1,917	438,917
Fund balance, beginning of year	1,541,426	1,541,426	1,541,426	-
Fund balance, end of year	<u>\$ 1,184,426</u>	<u>\$ 1,104,426</u>	<u>\$ 1,543,343</u>	<u>\$ 438,917</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LLANO, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
September 30, 2020

	Private Purpose Trust Fund	Pension Trust Fund
ASSETS		
Cash and cash equivalents	\$ 119	\$ 539
Investments	37,239	-
Total Assets	37,358	539
LIABILITIES		
Accounts payable	-	-
Total Liabilities	-	-
NET POSITION		
Fiduciary net position - held for pensions	-	539
Fiduciary net position - held for others	37,358	-
Total Net Fiduciary Positions	\$ 37,358	\$ 539

The accompanying notes are an integral part of the financial statements.

CITY OF LLANO, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended September 30, 2020

	Private Purpose Trust Fund	Pension Trust Fund
ADDITIONS		
Investment income	\$ 337	\$ -
Total Additions	<u>337</u>	<u>-</u>
Net change in net position	337	-
Net Position, beginning of year	<u>37,021</u>	<u>539</u>
Net Position, end of year	<u><u>\$ 37,358</u></u>	<u><u>\$ 539</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF LLANO, TEXAS
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
September 30, 2020

	Business-Type Activities - Enterprise Funds	Utility System Funds
ASSETS		
Current assets:		
Cash and cash equivalents	\$	159,052
Investments		2,939,176
Receivables, net		778,562
Inventory		230,631
Total current assets		4,107,421
Noncurrent assets:		
Restricted assets:		
Cash, cash equivalents and investments		3,713,912
Capital assets:		
Land		533,711
Equipment		4,019,897
Infrastructure		26,344,435
Construction in progress		2,295,104
Accumulated depreciation		(13,209,459)
Total noncurrent assets		23,697,600
Total assets		27,805,021
DEFERRED OUTFLOW OF RESOURCES		
Deferred amounts on refunding		96,290
Change in assumptions - OPEB		6,498
Change in assumption - pension		7,022
Contributions subsequent to measurement date - pension		87,076
Contributions subsequent to measurement date - OPEB		2,589
Total deferred outflows of resources		199,475

The accompanying notes are an integral part of the financial statements.

	Business-Type Activities - Enterprise Funds <u>Utility System Funds</u>
LIABILITIES	
Current liabilities:	
Accounts payable	990,494
Retainage payable	91,848
Accrued expenses	34,810
Accrued payroll	48,526
Accrued interest	13,815
Customer deposits	165,416
Long-term debt - current portion	725,300
Total current liabilities	<u>2,070,209</u>
Noncurrent liabilities:	
Long-term debt - net of current portion	11,172,112
Total noncurrent liabilities	<u>11,172,112</u>
Total liabilities	<u>13,242,321</u>
DEFERRED INFLOW OF RESOURCES	
Difference in expected and actual experience - pension	40,328
Difference between projected and actual investment earnings - pension	66,211
Difference in expected and actual experience - OPEB	4,163
Total deferred inflows of resources	<u>110,702</u>
NET POSITION	
Net investment in capital assets	11,249,449
Restricted for:	
Debt service	317,745
Capital projects	614,675
Unrestricted	2,469,604
Total net position	<u>\$ 14,651,473</u>

CITY OF LLANO, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – PROPRIETARY FUNDS
For the Year Ended September 30, 2020

	Business-Type Activities - Enterprise Funds	Utility System Funds
OPERATING REVENUES		
Charges for electricity	\$ 4,096,078	
Charges for water service	1,408,052	
Charges for sewer service	1,532,721	
Charges for trash collection	847,660	
Other	677,126	
Total operating revenues	8,561,637	
OPERATING EXPENSES		
Personnel services	1,105,870	
Materials and supplies	124,874	
Repairs and maintenance	389,564	
Utilities	276,641	
Electricity purchases	2,608,393	
Trash collection	761,524	
Other	162,463	
Depreciation	704,287	
Total operating expenses	6,133,616	
Operating income	2,428,021	
NONOPERATING REVENUES (EXPENSES)		
Interest and investment revenue	58,308	
Interest and fiscal charges	(269,602)	
Total nonoperating revenues (expenses)	(211,294)	
Income before contributions and transfers	2,216,727	
Capital contributions	14,590	
Transfers to general fund	(1,704,063)	
Change in net position	527,254	
Net position - beginning	14,124,219	
Net position - ending	\$ 14,651,473	

The accompanying notes are an integral part of the financial statements.

**CITY OF LLANO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2020**

	Business-Type Activities - Enterprise Funds
	Utility System Funds
Cash flows from operating activities:	
Receipts from customers	\$ 8,626,032
Payments to suppliers	(3,756,920)
Payments to employees	(1,124,135)
Net cash provided by operating activities	3,744,977
Cash flows from noncapital financing activities:	
Transfers to other funds, net	(1,743,955)
Net cash used by noncapital financing activities	(1,743,955)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(1,487,309)
Principal payments on debt	(676,787)
Interest and other fiscal charges	(919,947)
Net cash used by capital and related financing activities	(3,084,043)
Cash flows from investing activities:	
Investment and other income	58,309
Net cash provided by investing activities	58,309
Net decrease in cash and cash equivalents	(1,024,712)
Cash and cash equivalents - beginning of the year	7,836,852
Cash and cash equivalents - end of the year	\$ 6,812,140

The accompanying notes are an integral part of the financial statements.

(Continued)

**CITY OF LLANO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2020**

	<u>Business-Type Activities - Enterprise Funds</u> <u>Utility System Funds</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 2,428,021
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	704,287
Changes in assets and liabilities:	
Receivables	85,494
Inventory	(17,778)
Accounts payable	492,469
Retainage payable	91,848
Accrued payroll	(16,178)
Customer deposits	(21,099)
Net pension liability	(236,736)
OPEB liability	8,262
Deferred outflows - pension	116,242
Deferred inflows - pension	110,145
Net cash provided by operating activities	<u>\$ 3,744,977</u>
Reconciliation of cash and cash equivalents from Statement of Cash Flows to Statement of Net Position:	
Cash	\$ 159,052
Investments	2,939,176
Restricted cash	<u>3,713,912</u>
Total cash and cash equivalents	<u>\$ 6,812,140</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING MODEL AND ENTITY

Financial Reporting Entity

The City of Llano, Texas (the "City"), a Type-A General Law municipality organized and existing under the provisions of the Constitution of the State of Texas, was founded in 1856. The City operates under a council-manager form of government and, as authorized by its charter, provides the following services: police, fire, streets, parks, and airport facilities.

In evaluating the City's financial reporting entity, management has considered all potential component units. The decision to include a potential component unit in the financial reporting entity was made by applying the criteria set forth in Section 2100 of the Government Accounting Standards Boards (GASB) *Codification of Government Account and Financial Reporting Standards*. The following legally separate entity is noted as a discrete component unit of the City.

Discrete Component Unit

Llano Economic Development Corporation (the Corporation) is a legally separate entity from the City. The Corporation was created for the purpose of promoting economic development within the City of Llano, Texas. Directors of the Corporation are removable by the City Council of the City of Llano at will, the overall economic development plan of the corporation must be approved by the City Council of the City of Llano, and the budget for each forthcoming fiscal year must be approved by the City Council of the City of Llano. Since the Corporation is financially accountable to the City, it is treated as a component unit of the City and is reported as part of the overall financial reporting entity of the City.

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of a "management's discussion and analysis" (MD&A). This analysis is similar to the analysis the private sector provides in their annual reports.

Government-Wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities and business-type activities on the statement of net position and statement of activities. The City's statement of net position includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Obligations Account Group (such as building and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

In addition, the government-wide statement of activities reflects depreciation expense on the City's capital assets, including infrastructure. In addition to the government-wide financial statements, the City has prepared governmental fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. Accordingly, the accounting and financial reporting for the City's General Fund, the City's major governmental fund, is similar to that previously presented in the City's financial statements, although the format of the financial statements has been modified by GASB Statement No. 34.

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities). Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Position and report depreciation expense - in the Statement of Activities. The net position of the government will be broken down into three categories - 1) net investment in capital assets, 2) restricted and 3) unrestricted.

Statement of Activities - The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

B. BASIS OF PRESENTATION

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the activities of the primary government with most of the interfund activities removed. Governmental activities which 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 services. Interfund services provided to the Utility Fund and used are not eliminated in the process of consolidating for entity-wide reporting.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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 function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. 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 proprietary funds. The City has two fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. In applying the susceptible to accrual concept under 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 City 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.

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. FUND ACCOUNTING

The government reports the following major governmental fund:

General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Projects Fund – to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The government reports the following major proprietary funds:

Utility System Fund - to account for the electric, water, sewer and sanitation services provided to residents of the City.

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

Additionally, the City reports the following fund types:

Nonmajor Governmental Funds:

Debt Service Fund – to account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Special Revenue Funds – to account for the proceeds of specific revenue, other than major capital projects, that are legally restricted to expenditures for specified purposes. These funds consist of the Main Street Fund, the Christmas Lighting Fund and the Cemetery Fund.

The government reports the following fiduciary funds:

Cemetery Perpetual Care Fund and the Firemen’s Relief Fund are operated as fiduciary funds.

Reconciliation of Government-wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net position for governmental activities as shown on the government-wide statement of net position is presented in an accompanying schedule to the governmental funds balance sheet. The asset and liability elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. A summary reconciliation of the difference between net changes in fund balances as reflected on the governmental funds statement of revenues, expenditures, changes in fund balances and change in net position for governmental activities as shown on the government-wide statement of activities is presented in an accompanying schedule to the governmental funds statement of revenues, expenditures, and changes in fund balances. The revenue and expense elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Cash, Cash Equivalents and Investments

Cash of the general fund and utility fund are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's equity in the pooled cash accounts is available upon demand and are considered to be "cash equivalents" when preparing these financial statements. In addition, any marketable securities not included in the common pooled accounts that are purchased with maturity of ninety days or less are also considered to be "cash equivalents". Negative balances incurred in pooled cash at year-end are treated as interfund receivables of the General Fund and interfund payables of the deficit fund.

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

Investments in government pools are recorded at amortized cost. All other investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

The investment policies of the City are governed by State Statute and an adopted City Investment Policy. Major provisions of the City's investment policy include: responsibility for investments, authorized investments, bank and security dealer selection and qualifying procedures, safekeeping and custodial procedures, statement of investment objectives and investment reporting procedures. This policy permits investment in U. S. Treasury or U. S. Agency issues, mutual funds, public funds investment pools and repurchase agreements. Statutes require that securities underlying repurchase agreements are limited to federal government securities having a market value of at least 102 percent of the cost of the repurchase agreement.

Receivables

Receivables are presented net of allowances for doubtful accounts. The amounts of these allowances by fund are as follows:

General Fund	\$	146,861
Utility Fund	\$	322,000
Debt Service Fund	\$	5,300

Interfund Transactions

During the course of normal business operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, or satisfy certain obligations. These transactions are generally reflected as transfers. Subsidies between funds are recorded as transfers.

Inventories and Prepaid Items

All inventories are valued at cost and use the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Reported inventories items in governmental funds are offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

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

Restricted Assets

Restricted assets represent cash that has been set aside in the Utility Fund for future debt payments and capital improvements and in the Capital Projects Fund for capital construction and improvements.

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 50
Building improvements	10 - 40
Infrastructure	30 - 50
Machinery and equipment	5 - 10
Vehicles	5

Compensated Absences

Full-time employees earn vacation leave time at a rate base on years of service. For employees with 5 or more years of service, fifteen days (120 hours) accrues each year. Vacation time that can be carried over is limited to 192 hours and every December 31st any excess is lost. A maximum of 192 hours accrued leave can be paid upon separation from service. No payment is made for accumulated sick leave upon separation from service.

All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured, for example, as a result of employee resignations or retirements.

Other Post-Employment Benefits

For purposes of measuring the Other Post-Employment Benefits (OPEB) liability, OPEB related deferred outflows and inflows of resources, and OPEB expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) Supplemental Death Benefit Plan and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms.

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

Long-Term Obligations

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

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 debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Connection Fees and Impact Fees

Water and sewer connection fees represent reimbursement of the costs incurred to perform the connection of the respective utilities. These fees are recorded as operating revenue at the time of service. The City does not charge impact fees.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category:

- Deferred charges on refundings - A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension and OPEB contributions after measurement date - These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets - This difference is deferred and amortized over a closed five-year period.
- Changes in assumptions - The result of changes in actuarial assumptions used to measure the total OPEB liability. The change is deferred and amortized over the average of the remaining service lives.
- Differences in expected and actual experience - The change is deferred and amortized over the average of the remaining service lives.

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following items that qualify for reporting in this category:

- Difference in projected and actual investment earnings - The difference is deferred and amortized over a closed five-year period.
- Difference in expected and actual pension experience - The difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension liability - This difference is deferred and amortized over the estimated average remaining lives of all members determined as at the measurement date.

Net Position

Net Position in government-wide and proprietary financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Equity

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the specific purposes for which amounts in those funds can be spent. The City uses the following classifications:

Nonspendable Fund Balance are amounts that are not in spendable form or are required to be maintained intact.

Restricted Fund Balance is reported when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance. These committed amounts cannot be used for any other purpose unless the Council removes or changes the constraint through passage of another ordinance.

Assigned Fund Balance includes amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself or a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. Assignments may not result in a deficit in Unassigned Fund Balance.

Unassigned Fund Balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance, the highest level of action. Assigned fund balance is established by City Council by passage of a resolution either through adoption or amendment of the budget as intended for specific purposes.

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

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available.

Minimum Fund Balance

In the general fund, the City strives to maintain an unassigned fund balance to be used for unanticipated emergencies of 25% of the annual net budgeted operating expenditures.

The working capital in the Utility Fund should be maintained at 25% of total operating expenses or the equivalent of 90 days.

Estimates

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Specifically, the actuarial calculations used to determine the annual required contribution and related liability of the City's retirement and other post-employment benefits are based on assumptions about events far into the future. Accordingly, actual results could differ from those estimates.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and the Texas Emergency Services Retirement System (TESRS) and additions to/deductions from TMRS's and TESRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS and TESRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

New and Future Financial Reporting Requirements

The GASB has issued the following statement which became effective in fiscal year 2020.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* - This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICAP Pronouncements, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

The GASB has issued the following statements which will become effective in future years.

Statement No. 84, *Fiduciary Activities* - This statement establishes criteria for identifying fiduciary activities of governments and for identifying fiduciary component units and post employment benefit arrangements that are fiduciary activities. This statement will become effective for the City in fiscal year 2021.

Statement No. 87, *Leases* - This statement changes the recognition requirements for certain lease assets and liabilities currently classified as operating leases. This statement will become effective for the City in fiscal year 2022.

Statement No. 90, *Majority Equity Interests - an amendment to GASB Statements No. 14 and No. 61* - This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement will be implemented in fiscal year 2021.

Statement No. 92, Omnibus 2020. This statement will become effective for the City in fiscal year 2022.

Statement No. 93, Replacement of Interbank Offered Rates. This statement will become effective for the City in fiscal year 2021/2022.

Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. This statement will become effective for the City in fiscal year 2023.

Statement No. 96, Subscription-Based Information Technology Arrangements. This statement will become effective for the City in fiscal year 2023.

Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. This statement will become effective for the City in fiscal year 2022/immediately.

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to August 15, the City Manager submits a proposed budget to the City Council for the fiscal year commencing the following October 1. The budget includes proposed expenditures and the means of financing them.
- On or before September 30, the budget is legally adopted by the Council.
- The City Manager has the authority to transfer appropriation balances among programs within a department or organizational unit without approval of the City Council. The City Council must approve any revisions that alter the total expenditures of any fund. City council must approve transfers of appropriations. Costs are monitored on an expenditure category level. The reported budgetary data has been revised for amendments authorized during the year.
- The City's legal level of budgetary control is at the department level, as City Council's approval is required for transfers between departments.
- Formal budgetary integration is employed as a management control device by expenditure category during the year for the general fund, special revenue funds, and debt service fund.
- Budgets for the general fund, special revenue fund and debt service fund are adopted on a basis consistent with the modified accrual basis of accounting.

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

	Original Budget	Amendments Increase (Decrease)	Final Budget
Revenues -			
Property taxes	\$ 726,954	\$ -	\$ 726,954
Sales taxes	940,000	-	940,000
Other taxes	128,500	-	128,500
Franchise fees	89,750	-	89,750
Licenses, permits and fees	660,000	-	660,000
Charges for services	29,150	-	29,150
Fines	50,000	-	50,000
Interest and other	19,500	-	19,500
Rents and royalties	184,995	-	184,995
Grants	122,500	41,100	163,600
Miscellaneous	141,150	232,000	373,150
Total revenues	<u>3,092,499</u>	<u>273,100</u>	<u>3,365,599</u>
Expenditures -			
Current -			
City Council	25,756	-	25,756
Administration	1,166,840	-	1,166,840
Main Street	100,709	-	100,709
Police	969,492	(42,000)	927,492
Municipal Court	104,646	-	104,646
Code Enforcement	103,299	-	103,299
Fire	97,569	-	97,569
Parks and Recreation	456,554	215,500	672,054
Lantex Theater	28,675	-	28,675
Golf Course	394,888	135,000	529,888
Street	455,675	(100,000)	355,675
Airport	387,858	-	387,858
Depot Museum	7,725	6,000	13,725
JLK Arena	189,964	-	189,964
Debt service:			
Principal retirement	10,000	-	10,000
Interest and other charges	98,867	-	98,867
Capital outlay	1,031,000	269,844	1,300,844
Total expenditures	<u>5,629,517</u>	<u>484,344</u>	<u>6,113,861</u>
Excess (deficiency) of revenues over expenditures	(2,537,018)	(211,244)	(2,748,262)
Other financing sources -			
Issuance of lease	418,000	131,244	549,244
Transfers in	1,762,018	-	1,762,018
Total other financing sources	<u>2,180,018</u>	<u>131,244</u>	<u>2,311,262</u>
Net change in fund balances	<u>\$ (357,000)</u>	<u>\$ (80,000)</u>	<u>\$ (437,000)</u>

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

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

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

Deposits

As of September 30, 2020, the City's deposit balances were as follows:

	Primary Government	Llano FDC	Total Reporting Entity
Total Deposits	<u>\$ 2,160,125</u>	<u>\$ 376,438</u>	<u>\$ 2,536,563</u>
Carrying Amount	<u>\$ 1,862,022</u>	<u>\$ 376,217</u>	<u>\$ 2,238,239</u>
Petty Cash	<u>\$ 5,760</u>	<u>\$ -</u>	<u>\$ 5,760</u>

**CITY OF LLANO, TEXAS
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SEPTEMBER 30, 2020**

Foreign Currency Risk - The City's deposits are not exposed to foreign currency risk.

Custodial Credit Risk - The City's policy is to be collateralized. The City was fully collateralized during the year for deposits. The policies of the Llano Economic Development Corporation, discretely presented component unit, also require full collateralization. As of September 30, 2020, the Llano Economic Development Corporation had a total of \$ 376,217 in deposits which was collateralized with securities held by pledging financial institution's agent in the entity's name.

Investments

The City evaluated all of its investment positions and determined that it had no investments subject to recurring fair value recognition or disclosures. As of September 30, 2020, the City had the following investments:

	Carrying Amount	Fair Value
Primary Government		
Investment pools - Texpool	\$ 5,230,376	\$ 5,230,376
Treasury obligation - TWDB escrow	3,017,822	3,017,822
Certificates of deposit	15,000	15,000
Total investments	\$ 8,263,198	\$ 8,263,198
Discretely Presented Component Unit		
Investment pools - Texpool	\$ 315,352	\$ 315,352
Total investments	\$ 315,352	\$ 315,352
Total Reporting Entity		
Total investments	\$ 8,578,550	\$ 8,578,550

Foreign Currency Risk - The City's investments are not exposed to foreign currency risk.

Custodial Credit Risk - The City's investments are not exposed to custodial credit risk.

Interest Rate Risk - In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to less than nine months. As of September 30, 2020, the weighted average maturity of the City's investment portfolio was 36 days.

Other Credit Risk - There is risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, TexPool Investment Pool invests only in investments authorized under the Public Funds Investment Act. TexPool's portfolio has low market (credit) risk due to restrictions on weighted average maturity and maximum maturity of any one investment. The investment manager is required to maintain a stable \$ 1.00 net asset value and must take immediate action if the net asset value of the portfolio falls below \$ 0.995 or rises above \$ 1.005.

CITY OF LLANO, TEXAS
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TexPool has been established for governmental entities in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. Finally, TexPool is rated AAAM by Standard & Poor's. TexPool carries investments at amortized cost, which approximates fair value. The City's fair value position is the same as the value of TexPool shares.

The local government investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

Concentration Risk - The City's investments are with TexPool with the exception of TWDB funds which are held in an interest bearing escrow account.

A reconciliation of cash and investments as shown on the Statement of Net Position for the City follows:

	Primary Government	Llano EDC
Cash and investments (from above):		
Cash on hand	\$ 5,760	\$ -
Carrying amount of deposits	1,865,378	376,217
Carrying amount of investments	8,263,198	315,352
Total cash and investments	\$ 10,134,336	\$ 691,569
Statement of net position presentation:		
Cash and cash equivalents	\$ 1,173,075	\$ 376,217
Investments	3,588,924	315,352
Restricted assets -		
Cash and cash equivalents	5,372,337	-
Total cash and cash equivalents and investments	\$ 10,134,336	\$ 691,569

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

Fair Value Measurements

The City categorizes its fair value measurements within the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. As of September 30, 2020, the TexPool investments are measured at amortized cost and fair value in accordance with GASB Statement No. 72 and 79.

B. PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and business personal property located in the City. The assessed value at January 1, 2019, upon which the 2020 levy was based, was \$ 294,110,710.

The tax assessment of October 1, 2019 set a tax levy at \$ 0.68737 per \$ 100 of assessed valuation at 100 percent of assumed market value. Of this \$ 0.40318 was for maintenance and operations and \$ 0.28419 was for debt service. The City may levy a tax of up to \$ 2.50 per \$ 100 of assessed valuation.

Taxes are due by January 31 following the October 1 levy date, at which time a lien attaches to the property.

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue. At September 30, 2020 delinquent property taxes receivable were \$ 48,982.

Legislation was passed in 1979 and amended in 1981 by the Texas Legislature which affects the method of property assessment and tax collection in the City. This legislation, with certain exceptions, exempts intangible personal property and household goods.

In addition, this legislation creates a "Property Tax Code" and provides, among other things, for the establishment of county-wide appraisal district and for a State Property Tax Board which commenced operations in January 1980. The appraisal of property within the City is the responsibility of the Tax Appraisal District of Llano County. The Appraisal District is required under the Property Tax Code to assess all property within the Appraisal District on the basis of 100 percent of its appraised value and is prohibited from applying any assessment ratios. The value of property within the Appraisal District must be reviewed at least every five years. The City may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on property within the City limits. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements and revaluation, exceeds the rate of the previous year by more than eight percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than eight percent above the rate of the previous year.

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

C. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2020 was as follows:

	Balance October 1, 2019	Additions	Transfers/ Retirements	Balance September 30, 2020
Primary government:				
<i>Governmental Activities</i>				
Capital Assets not being depreciated:				
Land	\$ 1,788,431	\$ -	\$ -	\$ 1,788,431
Construction in Progress	3,528,705	1,436,170	(218,605)	4,746,270
Total Capital Assets not being depreciated	5,317,136	1,436,170	(218,605)	6,534,701
Capital Assets being depreciated:				
Buildings and improvements	12,220,015	574,004	-	12,794,019
Equipment	4,622,570	401,691	-	5,024,261
Infrastructure	5,603,668	-	-	5,603,668
Total Capital Assets being depreciated	22,446,253	975,695	-	23,421,948
Less Accumulated Depreciation for:				
Buildings and improvements	(4,403,181)	(387,119)	-	(4,790,300)
Equipment	(3,819,831)	(216,078)	-	(4,035,909)
Infrastructure	(2,665,058)	(158,743)	-	(2,823,801)
Total Accumulated Depreciation	(10,888,070)	(761,940)	-	(11,650,010)
Total Capital Assets being depreciated, net	11,558,183	213,755	-	11,771,938
Governmental Activities Capital Assets, net	\$ 16,875,319	\$ 1,649,925	\$ (218,605)	\$ 18,306,639
<i>Business-type Activities</i>				
Capital Assets not being depreciated:				
Land	\$ 533,711	\$ -	\$ -	\$ 533,711
Construction in Progress	1,143,789	1,890,006	(738,691)	2,295,104
Total Capital Assets not being depreciated	1,677,500	1,890,006	(738,691)	2,828,815
Capital Assets being depreciated:				
Equipment	3,735,808	284,089	-	4,019,897
Infrastructure	25,588,243	756,192	-	26,344,435
Total Capital Assets being depreciated	29,324,051	1,040,281	-	30,364,332
Less Accumulated Depreciation for:				
Equipment	(3,387,708)	(140,162)	-	(3,527,870)
Infrastructure	(9,117,464)	(564,125)	-	(9,681,589)
Total Accumulated Depreciation	(12,505,172)	(704,287)	-	(13,209,459)
Total Capital Assets being depreciated, net	16,818,879	335,994	-	17,154,873
Business-type Activities Capital Assets, net	\$ 18,496,379	\$ 2,226,000	\$ (738,691)	\$ 19,983,688

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities:	
Administration	\$ 12,403
Police	53,292
Fire	1,803
Parks and recreation	105,423
JLK	124,241
Depot	50,814
Lantex Theater	10,884
Golf Course	79,310
Streets	229,152
Airport	94,618
Total depreciation expense - Governmental activities	<u>\$ 761,940</u>
Business-type activities:	
Water and sewer	<u>\$ 704,287</u>
Total depreciation expense - Business-type activities	<u>\$ 704,287</u>

D. INTERFUND RECEIVABLES AND PAYABLES

Individual interfund receivable and payable balances at September 30, 2020 were:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Major Funds:		
General Fund	\$ 13,621	\$ 2,221
Nonmajor Governmental Funds:		
Christmas Lighting Fund	2,221	-
Main Street Fund	-	13,621
Totals	<u>\$ 15,842</u>	<u>\$ 15,842</u>

Interfund receivables represent advances to funds to be repaid with future operating revenues.

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

E. DEFERRED AMOUNT ON REFUNDING

The amounts reported for deferred amount of refunding balances of the City for the year ended September 30, 2020:

	Balance October 1, 2019	Additions	Retirements	Balance September 30, 2020
<u>Business-Type Activities</u>				
General obligation bonds	\$ 102,308	\$ -	\$ (6,018)	\$ 96,290
Total business-type activities	<u>102,308</u>	<u>-</u>	<u>(6,018)</u>	<u>96,290</u>
Total primary government	<u>\$ 102,308</u>	<u>\$ -</u>	<u>\$ (6,018)</u>	<u>\$ 96,290</u>

F. LONG-TERM DEBT

The following is a summary of long-term debt transactions, including the current portion of the City for the year ended September 30, 2020:

	Balance October 1, 2019	Additions	Retirements	Balance September 30, 2020	Due within one year
<i>Governmental Activities</i>					
General Obligation Bonds	\$ 4,545,000	\$ -	\$ (250,000)	\$ 4,295,000	\$ 260,000
Limited Tax Notes	84,477	-	(36,487)	47,990	38,094
Contractual Obligations	713,319	100,000	(299,617)	513,702	90,804
Plus deferred amount:					
Issuance Premium	293,680	-	(22,591)	271,089	22,591
Compensated Absences	76,674	9,308	-	85,982	-
OPEB Obligation	128,457	18,389	-	146,846	-
Net Pension Liability - TMRS	1,633,645	-	(526,927)	1,106,718	-
Net Pension Liability - TESRS	60,836	20,799	-	81,635	-
Total governmental activities	<u>\$ 7,536,088</u>	<u>\$ 148,496</u>	<u>\$ (1,135,622)</u>	<u>\$ 6,548,962</u>	<u>\$ 411,489</u>
<i>Business-Type Activities</i>					
General Obligation Bonds	\$ 4,525,000	\$ -	\$ (225,000)	\$ 4,300,000	\$ 230,000
Certificates of Obligation	6,280,000	-	(290,000)	5,990,000	295,000
Contractual Obligations	659,214	-	(161,787)	497,427	166,242
Plus deferred amount:					
Issuance Premium	580,847	-	(34,057)	546,790	34,058
OPEB Obligation	57,713	8,262	-	65,975	-
Net Pension Liability - TMRS	733,956	-	(236,736)	497,220	-
Total business-type activities	<u>\$ 12,836,730</u>	<u>\$ 8,262</u>	<u>\$ (947,580)</u>	<u>\$ 11,897,412</u>	<u>\$ 725,300</u>
Total primary government	<u>\$ 20,372,818</u>	<u>\$ 156,758</u>	<u>\$ (2,083,202)</u>	<u>\$ 18,446,374</u>	<u>\$ 1,136,789</u>
<i>Component Unit</i>					
Contractual Obligations	\$ 1,124,198	\$ -	\$ (135,306)	\$ 988,892	\$ 141,190

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

Compensated Absences –

Compensated absences represent the estimated liability for employees' accrued vacation and sick leave for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General Fund and Utility Fund based on the assignment of an employee at termination.

Other Post-Employment Benefits Obligation –

The other post-employment benefits (OPEB) obligation represents a liability for the amount of actuarially required contribution for retiree health care benefits in excess of the actual contributions made. The General Fund and Utility Fund is responsible for liquidating the net OPEB liability for all employees.

Net Pension Liability –

The net pension liability represents the actuarially-determined liability for employees' for projected pension benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service less the pension plan's fiduciary net position.

Long-term debt at September 30, 2020 is comprised of the following:

	Governmental Activities	Business - Type Activities
General Obligation Bonds:		
\$ 5,165,000 Series 2016 refunding bonds due in annual installments of \$ 130,000 to \$ 345,000 through September 15, 2036, interest at 2.00% to 4.00%.	\$ -	\$ 4,300,000
\$ 5,025,000 Series 2017 improvement bonds due in annual installments of \$ 245,000 to \$ 430,000 through September 15, 2032, interest at 2.00% to 4.00%.	4,295,000	-
	4,295,000	4,300,000
Certificates of Obligation:		
\$ 1,700,000 Series 2017 combination tax and revenue certificates of obligation due in annual installments of \$ 65,000 to \$ 110,000 through September 15, 2037, interest at 3.00% to 3.2%.	-	1,505,000
\$ 3,390,000 Series 2018A combination tax and surplus revenue certificates of obligation due in annual installments of \$ 140,000 to \$ 195,000 through September 15, 2038, interest at 0.19% to 1.70%.	-	3,095,000
\$ 890,000 Series 2018B combination tax and surplus revenue certificates of obligation due in annual installments of \$ 35,000 to \$ 50,000 through September 15, 2038, interest at 0.49% to 2.00%.	-	815,000

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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	Governmental Activities	Business - Type Activities
\$ 630,000 Series 2018C combination tax and surplus revenue certificates of obligation due in annual installments of \$ 25,000 to \$ 35,000 through September 15, 2038, interest at 0.19% to 1.70%.	-	575,000
	-	5,990,000
Limited Tax Notes:		
\$ 240,000 Series 2014 limited tax notes due in monthly installments of \$ 3,275 through December 5, 2021, interest at 3.95%.	47,990	-
	47,990	-
Contractual Obligations:		
\$ 250,000 in a 2018 note payable due in monthly installments of \$ 1,745 through 2033, interest at 3.15%; construction of the golf course pro shop was funded with this note.	220,832	-
\$ 108,000. in a 2015 note payable due in monthly installments of \$ 1,892 through 2021, interest at 2.00%; 2016 Peterbilt dump truck was acquired with this note.	5,604	-
\$ 991,000 in a 2014 note payable due in monthly installments of \$ 9,569 through 2024, interest at 3.00%; automated meter reading system was acquired with this note.	-	397,846
\$ 210,161 in a 2017 note payable due in monthly installments of \$ 3,707 through 2022, interest at 2.25%; Vac-con and vacuum unit were acquired with this note.	-	61,844
\$ 90,000 in a 2017 note payable due in monthly installments of \$ 1,588 through 2022, interest at 2.25%; bucket truck was acquired with this note.	-	37,737
\$ 122,650 in a 2019 note payable due in monthly installments of \$ 2,682 through 2023, interest at 2.37%; John Deere 544K loader was acquired with this note.	78,059	-
\$ 173,088 in a 2018 capital lease due in monthly installments of \$ 2,106 through 2022 with a final payment of \$ 72,000, interest at 4.52%; golf carts were acquired under this capital lease.	109,207	-
\$ 100,000 in a 2019 note payable due in monthly installments of \$ 1,753 through 2025 , interest at 2.00%; Caterpillar motor grader 140M3 was refinanced under this note.	100,000	-
	513,702	497,427
Issuance premium	271,089	546,790
Accrual for compensated absences	85,982	-
Accrual for OPEB liability	146,846	65,975
Accrual for net pension liability - TMRS	1,106,718	497,220
Accrual for net pension liability - TESRS	81,635	-
Total primary government debt	\$ 6,548,962	\$ 11,897,412

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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The annual requirements to amortize debt outstanding as of September 30, 2020, follow. Due to the nature of the obligation for compensated absences, annual requirements to amortize such obligations are not determinable and have not been included in the following summary.

General Obligation Bonds

Year Ending September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2021	\$ 260,000	\$ 145,300	\$ 230,000	\$ 162,600	\$ 797,900
2022	295,000	137,500	230,000	155,700	818,200
2023	320,000	125,700	240,000	148,800	834,500
2024	330,000	112,900	240,000	141,600	824,500
2025	345,000	99,700	250,000	134,400	829,100
2026-2030	1,900,000	304,900	1,365,000	516,200	4,086,100
2031-2035	845,000	38,250	1,615,000	224,400	2,722,650
2036-2038	-	-	130,000	5,200	135,200
Total	\$ 4,295,000	\$ 964,250	\$ 4,300,000	\$ 1,488,900	\$ 11,048,150

Certificates of Obligation

Year Ending September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2021	\$ -	\$ -	\$ 295,000	\$ 107,756	\$ 402,756
2022	-	-	295,000	104,366	399,366
2023	-	-	305,000	100,596	405,596
2024	-	-	305,000	96,224	401,224
2025	-	-	310,000	91,624	401,624
2026-2030	-	-	1,630,000	377,836	2,007,836
2031-2035	-	-	1,800,000	220,000	2,020,000
2036-2038	-	-	1,050,000	39,714	1,089,714
Total	\$ -	\$ -	\$ 5,990,000	\$ 1,138,116	\$ 7,128,116

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

Limited Tax Notes

Year Ending September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2021	\$ 38,094	\$ 1,206	\$ -	\$ -	\$ 39,300
2022	9,896	64	-	-	9,960
Total	<u>\$ 47,990</u>	<u>\$ 1,270</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,260</u>

Contractual Obligations

Year Ending September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2021	\$ 90,804	\$ 14,412	\$ 166,242	\$ 12,116	\$ 283,574
2022	153,979	11,113	144,684	7,681	317,457
2023	48,423	6,948	110,751	4,079	170,201
2024	35,984	5,984	75,750	746	118,464
2025	36,893	5,074	-	-	41,967
2026-2030	88,482	16,192	-	-	104,674
2031-2035	59,137	2,641	-	-	61,778
Total	<u>\$ 513,702</u>	<u>\$ 62,364</u>	<u>\$ 497,427</u>	<u>\$ 24,622</u>	<u>\$ 1,098,115</u>

Component Unit

Year Ending September 30,	Principal	Interest	Total
2021	\$ 141,190	\$ 39,782	\$ 180,972
2022	147,244	33,687	180,931
2023	153,602	27,329	180,931
2024	160,235	20,696	180,931
2025	167,155	13,777	180,932
2026-2030	219,466	7,034	226,500
Total	<u>\$ 988,892</u>	<u>\$ 142,305</u>	<u>\$ 1,131,197</u>

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

General Obligation Bonds and Certificates of Obligation

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General Obligation Bonds and Certificates of Obligation require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

Arbitrage provisions of the Internal Revenue Tax Act of 1986 require the City to rebate excess arbitrage earnings from bond proceeds to the federal government.

Certain Certificates of Obligation are to be repaid by revenues of the enterprise fund.

Debt Issuance

2020 Notes Payable

In fiscal year 2020, the City entered into a note payable in the amount of \$ 100,000 in which equipment was refinanced. Interest rate is 2.0% and matures in 2025.

G. INTERFUND TRANSFERS

Interfund transfers during the year ended September 30, 2020 were as follows:

	Transfers In	Transfers Out
Major Funds:		
General	\$ 1,704,063	\$ -
Utility System	-	1,704,063
Total	\$ 1,704,063	\$ 1,704,063

Transfers between the Utility Fund and the General Fund was to support general operations of the City.

IV. OTHER INFORMATION

A. COMMITMENTS AND CONTINGENCIES

Litigation

The City is involved in several lawsuits during the course of normal city business. In the opinion of City management, after consultation with legal counsel, the potential loss, if any, will not materially affect the City's financial position.

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

Grants

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

Employee Health, Dental and Life Insurance Benefits

All regular full-time employees of the City are eligible, after one month of employment, for coverage under the group hospitalization, medical, dental and life insurance program provided by the City. The City pays 100% of the premium for the employee for medical and dental insurance and 65% of the employee's dependent's premiums. Employees are also provided \$ 20,000 in life insurance benefits.

B. RISK MANAGEMENT

The City is a member of the Texas Municipal League's Intergovernmental Risk Pool ("Pool"). The Pool was created for the purpose of providing coverage against risks which are inherent in operating a political subdivision. The City pays annual premiums to the Pool for liability, property and workers' compensation coverage. The City's agreement with the Pool provides that the Pool will be self-sustaining through member premiums and will provide through commercial company's reinsurance contracts. The Pool agrees to handle all liability, property and workers' compensation claims and provide any defense as is necessary. The Pool makes available to the City loss control services to assist the City in following a plan of loss control that may result in reduced losses. The City agrees that it will cooperate in instituting any and all reasonable loss control recommendations made by the Pool. The City also carries commercial insurance on all other risks of loss including employee health and accident insurance.

The City has experienced no significant reductions in coverage through the Pool over the past year. There have been no insurance settlements exceeding Pool coverage for any of the past three years.

C. EMPLOYEE BENEFIT PLANS

(1) Retirement Plans

The City participates in two retirement plans. The Texas Municipal Retirement System covered 47 employees as of December 31, 2019. The Texas Emergency Services Retirement System covered 26 volunteers as of August 31, 2019.

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

The Texas Municipal Retirement System

Plan Description

The City participates as one of 888 plans in the non-traditional, joint contributory, hybrid defined benefit plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS' defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

Benefits Provided

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

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

A summary of plan provisions for the City are as follows:

Employee deposit rate	7.00%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

Employees covered by benefit terms:

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	42
Inactive employees entitled to but not yet receiving benefits	27
Active employees	47
Total	116

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. For fiscal year 2020, the City made contributions of 15% for the months in both calendar year 2019 and calendar year 2020. The City's contributions to TMRS for the year ended September 30, 2020, were \$ 370,389, and exceeded the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019 and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.75%
Salary increases	3.50% to 11.50% per year including inflation
Investment rate of return	6.75%

CITY OF LLANO, TEXAS
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Salary increases are based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2109 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global equity	30.0%	5.30%
Core fixed income	10.0%	1.25%
Non-core fixed income	20.0%	4.14%
Real return	10.0%	3.85%
Real estate	10.0%	4.00%
Absolute return	10.0%	3.48%
Private equity	10.0%	7.75%
Total	100.0%	

CITY OF LLANO, TEXAS
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Discount Rate

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2018	\$ 8,589,057	\$ 6,221,456	\$ 2,367,601
Changes for the year:			
Service cost	345,603	-	345,603
Interest	575,162	-	575,162
Changes of benefit terms	-	-	-
Difference between expected and and actual experience	(248,886)	-	(248,886)
Changes of assumptions	33,338	-	33,338
Contributions - employer	-	347,490	(347,490)
Contributions - employee	-	165,247	(165,247)
Net investment income	-	961,741	(961,741)
Benefit payments, including refunds of employee contributions	(481,881)	(481,881)	-
Administrative expense	-	(5,435)	5,435
Other	-	(163)	163
Net changes	<u>223,336</u>	<u>986,999</u>	<u>(763,663)</u>
Balance at December 31, 2019	<u>\$ 8,812,393</u>	<u>\$ 7,208,455</u>	<u>\$ 1,603,938</u>

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75% as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.75%) or 1 percentage-point higher (7.75%) than the current rate:

	1% Decrease	Current	1% Increase
	(5.75%)	Discount Rate	(7.75%)
		(6.75%)	
City's net pension liability	\$ 2,748,177	\$ 1,603,938	\$ 651,316

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2020, the City recognized pension expense of \$ 353,208.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
	of Resources	of Resources
Differences between expected and actual economic experience	\$ -	\$ 130,093
Change in actuarial assumptions	22,653	-
Difference between projected and actual investment earnings	-	213,583
Total as of December 31, 2019 measurement date	22,653	343,676
Contributions subsequent to the measurement date	280,889	-
Total	\$ 303,542	\$ 343,676

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$ 280,889 will be recognized as a reduction of the net pension liability for the measurement year ending September 30, 2020.

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year ended December 31	Net deferred outflows (inflows) of resources
2020	\$ (96,229)
2021	(125,128)
2022	8,694
2023	(108,360)
2024	-
Thereafter	-
Total	\$ (321,023)

The Texas Emergency Services Retirement System

Plan Description

The City participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by the Texas Emergency Services Retirement System (“TESRS”) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration.

Covered by Benefit Terms

At August 31, 2019, there were 238 member fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department. At August 31, 2019, TESRS membership consisted of:

Inactive employees or beneficiaries currently receiving benefits	3,649
Inactive employees entitled to but not yet receiving benefits	1,842
Active employees	3,702
Total	9,193

Pension Plan Fiduciary Net Position

Detailed information about the TESRS’s fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and required supplementary information, which can be obtained at www.tesrs.org. The separately issued actuarial valuations which may be of interest are also available at the same link.

CITY OF LLANO, TEXAS
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SEPTEMBER 30, 2020

Benefits Provided

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS, and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contributions levels, benefit formulas, and eligibility requirements by Board rule. The benefit provisions include retirement benefits, as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percentage multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of TESRS, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$ 36 per member and the department may make a higher monthly contribution for its members). The City contributes \$ 150 effective February 1, 2018 per active participant per month, before that the amount was \$ 132. This is referred to as a Part One contribution, which is the legacy portion of TESRS contribution that directly impacts future retiree annuities.

The State is required to contribute an amount necessary to make TESRS "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended in 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the August 31, 2019 actuarial valuation, the Part Two contributions are not required for an adequate contribution arrangement.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to 15 years of credit for prior service per member. Prior service must have occurred before the department began participation in the System.

**CITY OF LLANO, TEXAS
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A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by Board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2019, total contributions (dues, prior service, and interest on prior service financing) of \$ 7,941 were paid by the City. The State appropriated \$ 1,329,224 for the fiscal year ending August 31, 2019 to TESRS as a whole.

Actuarial Assumptions

The total pension liability in the August 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date	August 31, 2019
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar, Open
Amortization Period	30 years
Asset Valuation	Method Market value smoothed by a 5-year deferred recognition method with an 80%/120% corridor on market value
Actuarial Assumptions:	
Investment Rate of Return *	7.75%, net of pension plan investment expense, including inflation
Projected Salary Increases	N/A
Cost of Living Adjustments	None

* Includes Inflation at 3.00%

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (currently 5.01%) and by adding expected inflation (3.00%). In addition, the final 7.75% assumption was selected by “rounding down” and thereby reflects a reduction of 0.26% for adverse deviation.

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Net Real Rate of Return</u>
Equities		
Large cap domestic	32%	5.81%
Small cap domestic	15%	5.92%
Developed international	15%	6.21%
Emerging markets	5%	7.18%
Global infrastructure	5%	7.61%
Real estate	5%	4.46%
Fixed income	23%	1.61%
Total	100.0%	
Weighted Average		5.01%

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2019 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>1% Decrease</u> <u>(6.75%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(7.75%)</u>	<u>1% Increase</u> <u>(8.75%)</u>
City's net pension liability	\$ 145,094	\$ 81,635	\$ 39,157

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2019, the City reported a liability of \$ 81,635 for its proportionate share of the plan's net pension liability. This liability reflects a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the City were as follows:

City's Proportionate share of the collective net pension liability	\$ 81,635
State's proportionate share that is associated with the City*	24,215
Total	\$ 105,850

*Calculated using the City's proportionate share of contributions multiplied by the State's share of the collective net pension liability.

TESRS's net pension liability was measured as of August 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's portion of the net pension liability was based on the City's contributions to the pension plan relative to the contribution of all entities to the plan for the period September 1, 2018 through August 31, 2019.

For the year ended August 31, 2019, the City recognized pension expense of \$ 19,344. The City recognized on-behalf revenues of \$ 3,828 calculated by taking the State's total contributions to TESRS multiplied by the City's proportionate share.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ -
Change in actuarial assumptions	-	-
Difference between projected and actual investment earnings	10,513	99
Total as of August 31, 2019 measurement date	10,513	99
Contributions subsequent to the measurement date	-	-
Total	\$ 10,513	\$ 99

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date in the amount of \$ 0 will be recognized as a reduction to the net position liability for the year ended September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

<u>Year ended September 30</u>	<u>Net deferred outflows (inflows) of resources</u>
2021	\$ 2,216
2022	1,162
2023	2,584
2024	4,452
2025	-
Thereafter	-
Total	<u>\$ 10,414</u>

D. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plane (i.e. no assets are accumulated).

Benefits Provided

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (OPEB) and is a fixed amount of \$ 7,500.

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

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

Employees Covered by Benefit Terms -

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	32
Inactive employees entitled to but not yet receiving benefits	5
Active employees	47
Total	84

Total OPEB Liability - SDBF

The City's total OPEB liability for SDBF of \$ 212,821 was measured as of December 31, 2019, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions -

The total OPEB liability for SDBF in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50% per year
Salary increases	3.50% to 11.50% including inflation
Discount rate*	2.75%
Retirees' share of benefit-related costs	\$ 0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements for GASB Statement No. 68.
Mortality rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year setforward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

**CITY OF LLANO, TEXAS
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Discount Rate -

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

Changes in the Total OPEB Liability - SDBF

	Increase (Decrease) Total OPEB Liability
Balance at December 31, 2018	\$ 186,170
Changes for the year:	
Service cost	6,610
Interest	6,981
Changes of benefit terms	-
Difference between expected and and actual experience	(14,564)
Changes of assumptions	30,221
Contributions - employer	-
Contributions - employee	-
Net investment income	-
Benefit payments, including refunds of employee contributions *	(2,597)
Administrative expense	-
Other changes	-
Net changes	26,651
Balance at December 31, 2019	\$ 212,821

*Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated being equal to the employer's yearly contributions for the retirees.

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

Sensitivity of the Total OPEB Liability SDBF to Changes in the Discount Rate -

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.75%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	(1.75%)	(2.75%)	(3.75%)
City's total OPEB liability	\$ 250,855	\$ 212,821	\$ 182,755

OPEB Expense and Deferred Outflows of Resources Related to OPEB - SDBF

For the year ended September 30, 2020, the City recognized OPEB expense of \$ 16,614.

At September 30, 2020, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 13,429
Change in actuarial assumptions	20,959	-
Difference between projected and actual investment earnings	-	-
	\$ 20,959	\$ 13,429
Contributions subsequent to the measurement date	2,623	-
Total	\$ 23,582	\$ 13,429

Deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date of \$ 2,632 will be recognized as a reduction of the total OPEB liability for the measurement year ending December 31, 2020 (i.e. recognized in the City's financial statements September 30, 2021).

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expenses as follows:

Measurement Year ended December 31	Net deferred outflows (inflows) of resources
2020	\$ 3,023
2021	1,390
2022	2,232
2023	885
Total	\$ 7,530

E. RELATED PARTIES

In the ordinary course of business, the City has and expects to continue to have transactions with its employees and elected officials. In the opinion of management, such transactions were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectability or present any other unfavorable features to the City.

F. PRIOR PERIOD ADJUSTMENT

In fiscal year 2019, expenditures which were funded by federal awards were recognized however the associated revenues were recorded to fiscal year 2020. Beginning net position for the City's governmental activities has been restated on the Statement of Activities and the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to reflect the proper treatment of those revenues. The following illustrates the effect of the prior period adjustment:

	Governmental Activities	
	<i>General Fund - Fund Statement</i>	<i>Government-Wide Statement</i>
Net position at September 30, 2019, as previously reported	\$ 1,442,859	\$ 13,082,216
FEMA funding covering FY19 expenditures	98,567	98,567
Net position at September 30, 2019 as restated	\$ 1,541,426	\$ 13,180,783

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2020**

G. SUBSEQUENT EVENTS

Management has reviewed and evaluated events and transactions through March 17, 2021, the date of the independent auditors' report. Significant events are as follows:

The City was notified by the LCRA that the City owes \$ 853,000 for additional power costs incurred during the winter storm which occurred on the week of February 15, 2021. The LCRA is expected to finance a three-year monthly payback for this amount but the interest rate is not known at this time. Damages to City property caused by the winter storm are expected to be covered by insurance.

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LLANO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2020**

**Schedule of Changes in Net Pension Liability and Related Ratios-
Texas Municipal Retirement System
(Unaudited)**

Measurement period ending December 31,	2014	2015	2016
Total pension liability:			
Service Cost	\$ 208,031	\$ 216,328	\$ 315,794
Interest (on the Total Pension Liability)	403,095	452,805	465,907
Changes of benefit terms	-	596,175	-
Difference between expected and actual experience	(173,667)	(107,658)	91,027
Change of assumptions	-	136,174	-
Benefit payments, including refunds of employee contributions	(318,787)	(336,489)	(290,887)
Net change in total pension liability	118,672	957,335	581,841
Total pension liability - beginning	5,813,871	5,932,543	6,889,878
Total pension liability - ending (a)	\$ 5,932,543	\$ 6,889,878	\$ 7,471,719
 Plan fiduciary net position			
Contributions - employer	\$ 162,462	\$ 175,995	\$ 293,523
Contributions - employee	120,611	124,122	145,336
Net investment income	275,131	7,445	338,705
Benefit payments, including refunds of employee contributions	(318,787)	(336,489)	(290,887)
Administrative expense	(2,873)	(4,535)	(3,826)
Other	(236)	(224)	(206)
Net change in plan fiduciary net position	236,308	(33,686)	482,645
Plan fiduciary net position - beginning	4,809,546	5,045,854	5,012,168
Plan fiduciary net position - ending (b)	5,045,854	5,012,168	5,494,813
City net pension liability - ending (a) - (b)	\$ 886,689	\$ 1,877,710	\$ 1,976,906
 Plan fiduciary net position as a percentage			
of total pension liability	85.05%	72.75%	73.54%
Covered employee payroll	1,723,017	1,773,177	2,076,229
City net pension liability as a percentage			
of covered employee payroll	51.46%	105.90%	95.22%

Notes to Schedule:

- 1) No significant factors noted to disclose.
- 2) No significant methods and assumptions to disclose.
- 3) Schedule will be built out to 10 years, previous years information not available.

	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$	338,920	\$ 347,028	\$ 345,603
	505,219	545,370	575,162
	-	-	-
	163,185	50,699	(248,886)
	-	-	33,338
	<u>(312,916)</u>	<u>(520,167)</u>	<u>(481,881)</u>
	694,408	422,930	223,336
	7,471,719	8,166,127	8,589,057
\$	<u><u>8,166,127</u></u>	<u><u>8,589,057</u></u>	<u><u>\$8,812,393</u></u>

\$	333,444	\$ 343,760	\$ 347,490
	158,692	163,362	165,247
	761,145	(192,612)	961,741
	<u>(312,916)</u>	<u>(520,167)</u>	<u>(481,881)</u>
	(3,947)	(3,723)	(5,435)
	<u>(200)</u>	<u>(195)</u>	<u>(163)</u>
	936,218	(209,575)	986,999
	5,494,813	6,431,031	6,221,456
	<u>6,431,031</u>	<u>6,221,456</u>	<u>7,208,455</u>
\$	<u><u>1,735,096</u></u>	<u><u>2,367,601</u></u>	<u><u>\$1,603,938</u></u>

78.75%	72.43%	81.80%
2,267,026	2,333,747	2,360,674

76.54%	101.45%	67.94%
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**CITY OF LLANO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2020**

**Schedule of Employer Contributions
Texas Municipal Retirement System
(Unaudited)**

	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
Actuarially determined contribution	\$ 173,413	\$ 264,599	\$ 329,760	\$ 337,755	\$ 344,888	\$ 360,560
Contribution in relation of the actuarially determined contribution	(173,413)	(264,599)	(329,760)	(337,755)	(344,888)	(360,560)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	1,717,307	1,991,733	2,251,891	2,293,812	2,363,866	2,471,280
Contributions as a percentage of covered payroll	10.10%	13.28%	14.64%	14.72%	14.59%	14.59%

Notes to Schedule:

Valuation Date:

Actuarial determined contribution rates are calculated as of December 31st each year and become effective in January, 12 months and a day later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	26 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other Information	There were no benefit changes during the year.

Significant assumption differences for fiscal years prior to 2019:

Actuarial Cost Method	Projected Unit Credit for fiscal years prior to 2014.
Inflation	3% for fiscal years prior to 2016.
Investment Rate of Return	7% for fiscal years prior to 2016.
Mortality	Prior to fiscal year 2014, Gender Distinct RP2000 Combined Healthy Mortality Table projected to the year 2003 by scale AA

Schedule will be built out to 10 years, previous years information not available.

**CITY OF LLANO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2020**

**Schedule of the City's Proportionate Share of the Net Pension Liability
Texas Emergency Services Retirement System
(Unaudited)**

Measurement period ending August 31.	2014	2015	2016	2017	2018	2019
City's proportion of the net pension liability	0.269%	0.272%	0.272%	0.273%	0.281%	0.288%
City's proportionate share of the net pension liability	\$ 48.882	\$ 86.082	\$ 79.228	\$ 65.525	\$ 60.838	\$ 79.651
State's proportionate share of the net pension liability	4.117	25.167	27.390	21.458	16.885	16.885
Total	<u>\$ 52.999</u>	<u>\$ 111.249</u>	<u>\$ 106.618</u>	<u>\$ 86.983</u>	<u>\$ 77.723</u>	<u>\$ 96.536</u>
Plan fiduciary net position as a percentage of the total pension liability	83.5%	76.9%	76.3%	81.4%	83.4%	83.4%

**Schedule of Employer Contributions
Texas Emergency Services Retirement System
(Unaudited)**

	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
Contractually determined contribution	\$ 12.177	\$ 12.833	\$ 12.464	\$ 11.913	\$ 19.952	\$ 15.500	\$ 7.941
Contribution in relation of the contractually determined contribution	<u>(12.177)</u>	<u>(12.833)</u>	<u>(12.464)</u>	<u>(11.913)</u>	<u>(19.952)</u>	<u>(15.500)</u>	<u>(7.941)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Notes to Schedule:

Valuation Date: August 31, 2019

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar, Open
Remaining Amortization Period	30 years
Asset Valuation Method	Market value smoother by a 5-year deferred recognition method with a 80%/120% corridor on market value
Inflation	3.00%
Salary Increases	N/A
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation
Mortality	Mortality rates were based on the PubS-2010 (public safety) below-median income mortality tables for employees and for retirees, projected for mortality improvement generationally using projection scale MP-2019.

Changes in the Methods and Assumptions Since the August 31, 2018 Valuation:

There are no changes in methods.

**CITY OF LLANO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2020**

**Schedule of Changes in Total OPEB Liability and Related Ratios
Texas Municipal Retirement System – Supplemental Death Benefit Fund
(Unaudited)**

	Measurement Year 2017*	Measurement Year 2018*	Measurement Year 2019*
Total OPEB Liability - SDBF:			
Changes for the year:			
Service cost	\$ 6,121	\$ 7,235	\$ 6,610
Interest	6,408	6,380	6,981
Changes of benefit terms	-	-	-
Difference between expected and and actual experience	-	(4,202)	(14,564)
Changes of assumptions	12,447	(11,203)	30,221
Benefit payments, including refunds of employee contributions *	(2,267)	(2,334)	(2,597)
Net changes	22,709	(4,124)	26,651
Total OPEB liability - beginning	167,585	190,294	186,170
Total OPEB liability - ending	\$ 190,294	\$ 186,170	\$ 212,821
Covered employee payroll	\$ 2,267,026	\$ 2,333,747	\$ 2,333,747
Total OPEB liability as a percentage of covered payroll	8.39%	7.98%	9.12%

* As of December 31

**CITY OF LLANO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2020**

**Schedule of Employer Contributions – OPEB
Texas Municipal Retirement System – Supplemental Death Benefit Fund
(Unaudited)**

	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
Actuarially determined contribution	\$ 6,652	\$ 6,855	\$ 6,846
Contribution in relation of the actuarially determined contribution	(6,652)	(6,855)	(6,846)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	2,293,812	2,363,866	2,360,674
Contributions as a percentage of covered payroll	0.29%	0.29%	0.29%

**COMBINING FINANCIAL STATEMENTS
NONMAJOR GOVERNMENTAL FUNDS**

Special Revenue Funds

Main Street Fund – to account for revenues to be expended on downtown economic development and historic preservation.

Christmas Lighting Fund – to account for revenues to be spent on holiday beautification and events.

Cemetery Fund – to account for revenues to be spent on maintenance of the City cemetery.

Debt Service Fund

Debt Service Fund – to account for the accumulation of resources for, and the payment of, governmental long-term debt principal and interest. The governmental long-term debt serviced by the Debt Service Fund consists of general obligation bonds and certificates of obligation.

**CITY OF LLANO, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020**

	Special Revenue Funds				Debt Service	Total Nonmajor Governmental Funds
	Christmas Lighting	Main Street	Cemetery	Total Special Revenue		
ASSETS						
Cash and cash equivalents	\$ 83,063	\$ 46,586	\$ 18,336	\$ 147,985	\$ -	\$ 147,985
Receivables, net						
Property taxes	-	-	-	-	12,499	12,499
Restricted cash - debt service	-	-	-	-	207,586	207,586
Due from other funds	2,221	-	-	2,221	-	2,221
	<u>2,221</u>	<u>-</u>	<u>-</u>	<u>2,221</u>	<u>-</u>	<u>2,221</u>
Total Assets	<u>\$ 85,284</u>	<u>\$ 46,586</u>	<u>\$ 18,336</u>	<u>\$ 150,206</u>	<u>\$ 220,085</u>	<u>\$ 370,291</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 51	\$ 1,488	\$ -	\$ 1,539	\$ -	\$ 1,539
Unearned revenue	-	-	-	-	9,454	9,454
Due to other funds	-	13,621	-	13,621	-	13,621
	<u>51</u>	<u>13,621</u>	<u>-</u>	<u>13,621</u>	<u>-</u>	<u>13,621</u>
Total Liabilities	<u>51</u>	<u>15,109</u>	<u>-</u>	<u>15,160</u>	<u>9,454</u>	<u>24,614</u>
Fund Balances						
Restricted for:						
Debt service	-	-	-	-	210,631	210,631
Assigned to:						
Other purposes	85,233	31,477	18,336	135,046	-	135,046
	<u>85,233</u>	<u>31,477</u>	<u>18,336</u>	<u>135,046</u>	<u>210,631</u>	<u>345,677</u>
Total Fund Balances	<u>85,233</u>	<u>31,477</u>	<u>18,336</u>	<u>135,046</u>	<u>210,631</u>	<u>345,677</u>
Total Liabilities and Fund Balances	<u>\$ 85,284</u>	<u>\$ 46,586</u>	<u>\$ 18,336</u>	<u>\$ 150,206</u>	<u>\$ 220,085</u>	<u>\$ 370,291</u>

CITY OF LLANO, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2020

	Special Revenue Funds			Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
	Christmas Lighting	Main Street	Cemetery			
REVENUES						
Property tax	\$ -	\$ -	\$ -	\$ -	\$ 525,115	\$ 525,115
Interest and other	66,470	21,680	127	88,277	2,691	90,968
Total revenues	<u>66,470</u>	<u>21,680</u>	<u>127</u>	<u>88,277</u>	<u>527,806</u>	<u>616,083</u>
EXPENDITURES						
Current:						
Christmas Lighting operations	52,777	-	-	52,777	-	52,777
Main Street operations	-	21,262	-	21,262	-	21,262
Debt service:						
Principal retirement	-	-	-	-	287,179	287,179
Interest and other charges	-	-	-	-	155,362	155,362
Capital outlay	-	-	-	-	20,939	20,939
Total expenditures	<u>52,777</u>	<u>21,262</u>	<u>-</u>	<u>74,039</u>	<u>463,480</u>	<u>537,519</u>
Excess of revenues over expenditures	<u>13,693</u>	<u>418</u>	<u>127</u>	<u>14,238</u>	<u>64,326</u>	<u>78,564</u>
Net change in fund balance	13,693	418	127	14,238	64,326	78,564
Fund balances - beginning	<u>71,540</u>	<u>31,059</u>	<u>18,209</u>	<u>120,808</u>	<u>146,305</u>	<u>267,113</u>
Fund balances - ending	<u>\$ 85,233</u>	<u>\$ 31,477</u>	<u>\$ 18,336</u>	<u>\$ 135,046</u>	<u>\$ 210,631</u>	<u>\$ 345,677</u>

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COMPLIANCE SECTION

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

Members of the City Council
City of Llano, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Llano, Texas (the City), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 17, 2021.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2020-003 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-004 to be significant deficiencies.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)**

Compliance and Other Matters

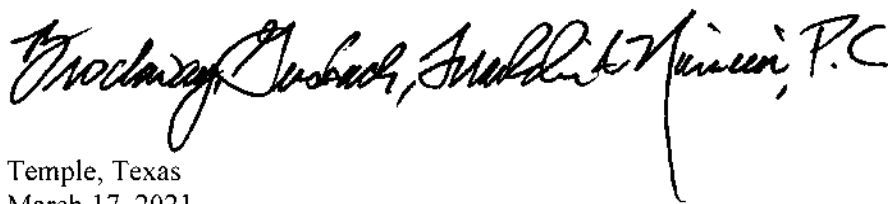
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2020-002 and 2020-004.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Temple, Texas
March 17, 2021



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Members of the City Council
City of Llano, Texas

Report on Compliance for Each Major Federal Program

We have audited the City of Llano, Texas's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2020. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2020.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
(Continued)**

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2020-004. Our opinion on each major federal program is not modified with respect to this matter.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

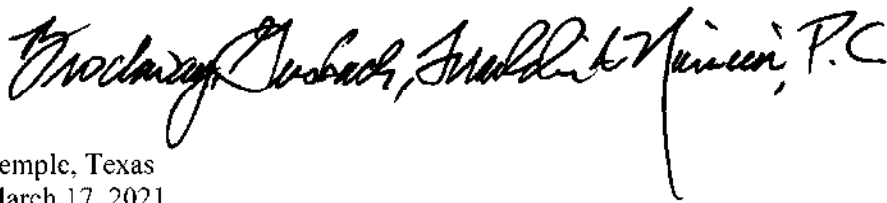
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questions costs as items 2020-004 that we consider to be significant deficiencies.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE
(Continued)**

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Temple, Texas
March 17, 2021

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CITY OF LLANO, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2020

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified:	Yes
Significant deficiency(ies) identified:	Yes
Noncompliance material to financial statements noted:	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified:	No
Significant deficiency(ies) identified:	Yes

Type of auditors' report issued on compliance for major programs was unmodified.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
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<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
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Auditee qualified as low-risk auditee?	No
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CITY OF LLANO, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2020

Section II – Financial Statement Findings

Finding 2020-001:

Condition:

Expenses, including expenditures of federal awards, relating to the current fiscal period are recorded in the subsequent period due to lack of cutoff procedures.

Criteria:

Expenses should be recorded in the period in which the expenses are incurred.

Cause of Condition:

Expenses are recorded to the accounting system when invoices are received rather than when the goods were received or services rendered.

Effect of Condition:

Understatement of expenses and liabilities in the financial statements and also understatement of federal expenditures presented in the Schedule of Expenditures of Federal Awards.

Recommendation:

Record expenses to the accounting system to the period to which they were incurred rather than by invoice date. Additionally, scan disbursements in the two- or three-month period following the end of the fiscal year for expenses that need to be accrued to the previous fiscal year.

Corrective Action Plan:

Procedures will be developed to identify the period to which expenses and expenditures of federal awards belong and apply the transactions to the proper period.

Finding 2020-002:

Condition:

Pooled balances are not reconciled to accounts in the governmental and proprietary fund. Specifically, pooled accounts payable are not balanced to accounts payable accounts in the general fund and utility fund.

Criteria:

Pooled accounts represent activity of actual funds and should balance to the respective accounts in those actual funds.

Cause of Condition:

Manual journal entries posted many years ago to these accounts appear to have caused the imbalance.

Effect of Condition:

The liabilities of the general and utility funds may be over- or under-stated by the imbalance.

Recommendation:

On a monthly basis, management should utilize the reconciliation function in the accounting software to ensure the pooled balances reconcile to the respective accounts in the general and utility funds.

CITY OF LLANO, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2020

Corrective Action Plan:

Procedures will be developed to utilize the reconciliation functions within the accounting software to ensure affected accounts are in balance.

Finding 2020-003:

Condition:

Bank reconciliations or copies of bank statements are not reviewed by anyone outside the accounting department.

Criteria:

Involvement of personnel outside of the accounting department may be required to achieve control objectives when segregation of duties cannot be achieved with department personnel alone.

Cause of Condition:

Internal controls over cash, including review of bank statements and bank reconciliations to the general ledger, are performed by accounting department personnel only. This department has access to process transactions including electronic disbursements which may not be reviewed by the City Manager or the governing body.

Effect of Condition:

The possibility exists that errors or improprieties could be recorded in the accounting system and go undetected without additional review by management.

Recommendation:

The City Manager and a member of the City Council was given access (read-only) to online bank statements for review but should also be given bank reconciliations for review. Each month, these personnel should review the accuracy of the bank reconciliations and inquire about unusual reconciling items. These personnel should also review the bank statements for suspicious activity.

Corrective Action Plan:

Online bank statement access has been granted to appropriate personnel however additional procedures will be developed to ensure sufficient oversight of cash accounts is achieved.

Section III – Federal Award Findings and Questioned Costs

Finding 2020-004:

Condition:

Written procedures and policies for the determinations of the allowability of costs, conflicts of interest and procedures for procurement transactions surrounding federal awards is not available.

Criteria:

2 CFR 200.302(b)(7), 2 CFR 200.318(c)(1), and 2 CFR 200.319(c) of the Uniform Guidance.

Cause of Condition:

Unfamiliarity with requirements stated in 2 CFR 200 of the Uniform Guidance.

CITY OF LLANO, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2020

Effect of Condition:

Instances of noncompliance with direct and material compliance requirements may occur.

Recommendation:

Management and staff who are involved with federal programs should become familiar with requirements stated in 2 CFR 200 of the Uniform Guidance.

Corrective Action Plan:

Written procedures and policies will be developed and adopted to bring the City into compliance with requirements of the Uniform Guidance.

CITY OF LLANO, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2020

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
<u>U.S. Environmental Protection Agency</u>				
United States Environmental Protection Agency Programs				
Capitalization Grants for Clean Water State Revolving Funds	66.458	73779, 73780	\$ -	\$ 531.352
<i>Total Clean Water State Revolving Fund Cluster</i>			-	531.352
Capitalization Grants for Drinking Water State Revolving Funds	66.468	62766	-	1,305.608
<i>Total Drinking Water State Revolving Fund Cluster</i>			-	1,305.608
<u>U.S. Department of Homeland Security</u>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		-	44.159
<i>Total Department of Homeland Security</i>			-	44.159
<u>U.S. Department of Transportation</u>				
Airport Improvement Program	20.106		-	30.000
<i>Total Department of Transportation</i>			-	30.000
<i>Total Expenditures of Federal Awards</i>			\$ -	\$ 1,911.119

CITY OF LLANO, TEXAS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2020

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Llano, Texas. The City's reporting entity is defined in Note I to the City's financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included on the schedule.

Summary of Significant Accounting Policies

The accompanying schedule of federal and state financial assistance is presented using the modified accrual basis of accounting, which is described in Note I to the City's financial statements. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

The City has elected not to use the 10% de minimis indirect cost rate allowed under Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

CITY OF LLANO, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2020

Finding 2019-001:

Condition:

Financial information presented to City Council are not timely and do not include disbursement registers (checks and electronic payments) for the month.

Criteria:

Financial information presented to City Council should be relevant and timely.

Cause of Condition:

Financial information is not prepared timely and disbursement registers are not included in the City Council's financial packets.

Effect of Condition:

The ability of the City Council to effectively participate in oversight and internal controls is reduced when financial data is not timely and excludes key information such as cash disbursement registers. This could result in catching errors too late and making incorrect financial decisions.

Recommendation:

Monthly financial information should be prepared and presented in the subsequent month and include disbursement registers for review and oversight by City Council.

Status:

Implemented. We added registers of all check and electronic disbursements to the monthly financial packets provided to the City Council. We also present monthly financial information to the City Council no later than the subsequent month.

Finding 2019-002:

Condition:

Bank reconciliations or copies of bank statements are not reviewed by anyone outside the accounting department.

Criteria:

Involvement of personnel outside of the accounting department may be required to achieve control objectives when segregation of duties cannot be achieved with department personnel alone.

Cause of Condition:

Internal controls over cash, including review of bank statements and bank reconciliations to the general ledger, are performed by accounting department personnel only. This department has access to process transactions including electronic disbursements which may not be reviewed by the City Manager or the governing body.

CITY OF LLANO, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2020

Effect of Condition:

The possibility exists that errors or improprieties could be recorded in the accounting system and go undetected without additional review by management.

Recommendation:

The City Manager and at least one member of the City Council should receive bank reconciliations and be given access (read-only) to online bank statements for review. These personnel should review the accuracy of the bank reconciliations and inquire about unusual reconciling items. These personnel should also review the bank statements for suspicious activity.

Status:

Partially implemented. Provided the City Manager and a member of the City Council with online access to the bank statements. Procedures to ensure review by these parties will be implemented in FY21.

Finding 2019-003:

Condition:

Year-end closing procedures have not been designed or implemented, including the posting of audit journal entries in order to reconcile the general ledger to the audited financial statements.

Criteria:

The general ledger, being the final repository of the City's financial information, should be accurate and complete.

Cause of Condition:

A policy, including relevant procedures, does not exist to guide the year-end closing of the accounting system and reconciliation of the general ledger to the audited financial statements.

Effect of Condition:

Several significant accounting errors were discovered and corrected which were, in part, due to several prior year audit entries not posted. Failure to post audit entries has the potential to materially misstate fund balance.

Recommendation:

Year-end closing procedures should be developed to ensure all necessary adjustments are made following year-end to ensure the financial records are accurate. These procedures should be completed within a reasonable period of time following year-end. Post-audit closing procedures should be developed to ensure financial data in the accounting system agrees to the audited financial statements.

CITY OF LLANO, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2020

Status:

Implemented. We developed year-end closing procedures to bring the City's accounts into compliance with GAAP. Year-end closing procedures are completed within three months of the fiscal year-end.

Finding 2019-004:

Condition:

Utility billing accounts receivable aging report is not reconciled to the utility billing accounts receivable accounts in the general ledger.

Criteria:

Utility billing accounts receivable aging should reconcile to the related general ledger receivables accounts.

Cause of Condition:

Utility billings are processed monthly however, the related general ledger receivables accounts are not reconciled to the aging reports.

Effect of Condition:

Variances between the utility billing reports and the related general ledger receivables accounts may exist. Errors may accumulate over time undetected and result in material misstatement.

Recommendation:

Utility billing accounts receivable should be reconciled to the related general ledger receivables accounts on a monthly basis.

Status:

Implemented. We developed procedures to reconcile utility billing receivable accounts to supporting schedules monthly and include investigation of unusual activity and balances in the receivables accounts and documentation of follow-up procedures to rectify errors and unknown balances.

Finding 2019-005:

Condition:

Expenditures of federal awards are not tracked sufficiently to enable management to determine if a single audit is required.

Criteria:

2 CFR 200.501(a) and 2 CFR 200.502(a) of the Uniform Guidance.

CITY OF LLANO, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2020

Cause of Condition:

Unfamiliarity with the basis for determining federal awards expended.

Effect of Condition:

Noncompliance with 2 CFR 200.501(a) may occur.

Recommendation:

Management and staff who are involved with federal awards should become familiar with the basis for determining federal awards expended in order to be in compliance with the Uniform Guidance.

Status:

Implemented. Managers and staff who are involved with federal awards have received additional training to increase familiarity with various aspects of federal awards including information on the basis for determining federal awards expended, compliance requirements specific to the City's federal awards, and compliance with federal regulations (Uniform Guidance). Additionally, we developed procedures to aid in the identification and tracking of federal expenditures by program and by fiscal year.

Finding 2019-006:

Condition:

Property tax, fines and utility billing receivables are not analyzed to determine allowances for uncollectible accounts.

Criteria:

The Governmental Accounting Standards Board requires that non-exchange transactions, such as property taxes receivable and fines receivable, should be reduced by an allowance for uncollectible receivables. Furthermore, exchange transactions, such as receivables for utility billing, should be reduced by an allowance for uncollectible receivables.

Cause of Condition:

Analysis of receivables to estimate an allowance for uncollectible accounts is not performed during the year.

Effect of Condition:

The financial statement accounts for receivables, allowances for uncollectible accounts and related revenues may not be prepared in accordance with generally accepted accounting principles.

Recommendation:

Perform analysis at least annually to estimate allowances for uncollectible accounts for property taxes, fines and utility billing.

CITY OF LLANO, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2020

Status:

Implemented. We developed procedures and methodologies to calculate and maintain allowances for uncollectible accounts for material receivables accounts, specifically property tax receivables, fines receivables, and utility billing receivables. Allowance methodologies will utilize historical collection rates to determine a rate of collectability and the analyses will be performed at least as part of year-end closing procedures.

Finding 2019-007:

Condition:

Several instances of noncompliance with the City's purchasing policy have occurred.

Criteria:

Purchasing policy adopted by the City.

Cause of Condition:

Noncompliance was caused by either failure to document results of required procedures or failure to perform required procedures.

Effect of Condition:

The results of noncompliance with purchasing policy may range from use of public funds to violation of state law.

Recommendation:

Conduct annual training with all personnel who have the authority to make city purchases, including those purchased with city credit cards. Design and implement controls to ensure purchasing policy requirements are satisfied for all applicable transactions.

Status:

Implemented. City Council has adopted an amended purchasing policy and procedures have been developed to ensure compliance with this policy.

Finding 2019-008:

Condition:

Payable accounts such as payroll and other accruals are incorrect.

Criteria:

Payable account balances should reflect the City's actual liabilities at month-end and year-end.

Cause of Condition:

Payable accounts are not reconciled to underlying information (payroll and other).

CITY OF LLANO, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2020

Effect of Condition:

The accumulation of errors in payable accounts may reach the level of material misstatement.

Recommendation:

Perform reconciliations for all significant payables monthly and all other payables either monthly or quarterly.

Status:

Implemented. We developed procedures as a part of our year- or month-end closing procedures to reconcile payables accounts to supporting schedules.

Finding 2019-009:

Condition:

Written procedures and policies for the determinations of the allowability of costs, conflicts of interest and procedures for procurement transactions surrounding federal awards is not available.

Criteria:

2 CFR 200.302(b)(7), 2 CFR 200.318(c)(1), and 2 CFR 200.319(c) of the Uniform Guidance.

Cause of Condition:

Unfamiliarity with requirements stated in 2 CFR 200 of the Uniform Guidance.

Effect of Condition:

Instances of noncompliance with direct and material compliance requirements may occur.

Recommendation:

Management and staff who are involved with federal programs should become familiar with requirements stated in 2 CFR 200 of the Uniform Guidance.

Status:

In-progress. Written procedures and policies will be developed and adopted in FY21 to bring the City into compliance with requirements of the Uniform Guidance.

Finding 2019-010:

Condition:

Utility fund depreciation is not estimated and incorporated into the budget or the financial information presented to the City Council throughout the year.

Criteria:

Budgeted financial information presented to City Council should be complete.

CITY OF LLANO, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2020

Cause of Condition:

Utility fund depreciation is not posted to the general ledger until after year-end.

Effect of Condition:

Incomplete monthly financial information is presented to the City Council which may impact decisions made by the Council throughout the year.

Recommendation:

Estimate annual depreciation expense for the utility funds and record to the general ledger monthly to provide a more accurate financial picture to the City Council each month.

Status:

Implemented. We post adjustments to depreciation expense as needed and relay required information to the City Council, as needed.