

CITY OF LLANO, TEXAS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2016

CITY OF LLANO  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
Independent Auditors' Report .....	1
Management's Discussion and Analysis .....	3
 <u>Basic Financial Statements</u>	
<b>Government Wide Statements:</b>	
A-1 Statement of Net Position .....	9
B-1 Statement of Activities .....	10
<b>Governmental Fund Financial Statements:</b>	
C-1 Balance Sheet .....	12
C-2 Reconciliation for C-1 .....	13
C-3 Statement of Revenues, Expenditures and Changes in Fund Balance.....	14
C-4 Reconciliation for C-3 .....	15
<b>Proprietary Fund Financial Statements:</b>	
D-1 Statement of Net Position .....	16
D-2 Statement of Revenues, Expenses and Changes in Fund Net Position .....	18
D-3 Statement of Cash Flows .....	20
<b>Fiduciary Fund Financial Statements:</b>	
E-1 Statement of Fiduciary Net Position.....	22
E-2 Statement of Changes in Fiduciary Net Position.....	23
Notes to the Financial Statements .....	24
 <u>Required Supplementary Information</u>	
G-1 Budgetary Comparison Schedule - General Fund .....	46
G-2 Schedule of Changes in Net Pension Liability and Related Ratios – TMRS.....	47
G-3 Schedule of Employer Contributions – TMRS.....	48
Notes to the Schedule of Contributions – TMRS.....	49
G-4 Schedule of City's Proportionate Share of Net Pension Liability – TESRS.....	50
G-5 Schedule of Contributions – TESRS.....	51
Notes to Schedule of Contributions – TESRS.....	52
 <u>Supplementary Information</u>	
H-1 Combining Balance Sheet - Nonmajor Governmental Funds .....	53
H-2 Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds .....	55

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**Certified Public Accountants**

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Aldermen  
City of Llano, Texas  
Llano, TX 78643

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 City of Llano, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, required supplementary schedules Texas Municipal Retirement System and required supplementary schedules Texas Emergency Services Retirement System on pages 3-8, 46, 47-49 and 50-52 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 City of Llano, Texas's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements 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 nonmajor and fiduciary fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole



NEFFENDORF & KNOPP, P.C.  
Fredericksburg, Texas

March 29, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Llano, we offer readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the year ended September 30, 2016. Please read it in conjunction with the independent auditors' report on page 1, and City's Basic Financial Statements which begin on page 9.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$20,990,627 (net position). Of this amount, \$620,565 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position decreased by \$906,999 as a result of this year's operations.
- At September 30, 2016, the City's governmental funds reported combined ending fund balances of \$750,448, a decrease of \$41,231 in comparison with the prior year.
- At September 30, 2016, the City's Enterprise Funds reported unrestricted net position of \$891,015 a decrease of \$1,615,984 in comparison with the prior year.
- The TMRS pension liability increased \$991,021 (112%) over the prior year and the City was required to recognize \$86,082 in pension liability related to the Texas Emergency Services Retirement System contributions for the volunteer fireman.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 9 through 11). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

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

The notes to the financial statements (starting on page 24) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (operating fund) , the required supplementary schedules Texas Municipal Retirement System and the required supplementary schedules Texas Emergency Services Retirement System are presented as required supplementary information on pages 46 through 52.

## Reporting the City as a Whole

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

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

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

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

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

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

## Reporting the City's Most Significant Funds

### *Fund Financial Statements*

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

The City has two kinds of funds:

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the City's governmental activities decreased from \$9,372,692 to \$8,763,015. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was (\$270,450) at September 30, 2016. This decrease in governmental net position was the result of five factors. First, the City's expenditures exceeded the revenues by \$41,231. Second, the City paid principal on long-term debt of \$154,920 and acquired capital assets in the amount of \$385,086. Third, the City issued notes payable in the amount of \$108,000. Fourth the City recorded depreciation in the amount of \$553,584 and fifth, due to implementation of GASB Statement No. 68 for the Texas Emergency Services Retirement System (contributions for the volunteer firemen) a prior period adjustment was necessary in the amount of (\$48,882).

Net position of the City's business-type activities decreased from \$12,573,815 to \$12,227,611. Unrestricted net position was \$891,015 at September 30, 2016. This decrease in business-type net position was the result of net loss of \$346,204 primarily due to the increase in TMRS pension liability.

**Table I**  
**City of Llano**

**NET POSITION**  
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2016	2015	2016	2015	2016	2015
Current and Restricted Assets	\$ 1,134	\$ 1,273	\$ 3,622	\$ 4,327	\$ 4,756	\$ 5,600
Capital Assets	9,802	9,970	16,363	16,765	26,165	26,735
Total Assets	\$ 10,936	\$ 11,243	\$ 19,985	\$ 21,092	\$ 30,921	\$ 32,335
Deferred Outflow of Resources						
Deferred Charge for Refunding	\$	\$	\$ 120	\$	\$ 120	\$
Deferred Outflow Related to Pension Plan	396	121	174	57	570	
	\$ 396	\$ 121	\$ 294	\$ 57	\$ 690	\$ -
Long-Term Liabilities	\$ 2,017	\$ 1,316	\$ 6,919	\$ 7,214	\$ 8,936	\$ 8,530
Other Liabilities	495	584	1,109	1,322	1,604	1,906
Total Liabilities	\$ 2,512	\$ 1,900	\$ 8,028	\$ 8,536	\$ 10,540	\$ 10,436
Deferred Inflow of Resources						
Unavailable Revenue - Property Taxes	\$ 6	\$ 7	\$	\$	\$ 6	\$ 7
Deferred Inflow Related to Pension Plan	50	84	23	39	73	
Total Deferred Inflows of Resources	\$ 56	\$ 91	\$ 23	\$ 39	\$ 79	\$ 7
Net Position:						
Net Investment						
in Capital Assets	\$ 9,004	\$ 9,119	\$ 10,361	\$ 8,558	\$ 19,365	\$ 17,677
Restricted	30	32	976	1,509	1,006	1,541
Unrestricted	(271)	222	891	2,507	620	2,729
Total Net Position	\$ 8,763	\$ 9,373	\$ 12,228	\$ 12,574	\$ 20,991	\$ 21,947

**Table II**  
**City of Llano**

**CHANGES IN NET POSITION**  
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
Charges for Services	\$ 800	\$ 829	\$ 7,364	\$ 7,739	\$ 8,164	\$ 8,568
Property Tax Collections	641	626			641	626
Sales Tax	823	798			823	798
Franchise Tax	90	97			90	97
Operating Grants & Contributions	44	37			44	37
Capital Grants & Contributions	29	60			29	60
Investment Earnings	5	15	7	8	12	23
Other Taxes	108	105			108	105
Miscellaneous	315	320		7	315	327
<b>Total Revenue</b>	<b>\$ 2,855</b>	<b>\$ 2,887</b>	<b>\$ 7,371</b>	<b>\$ 7,754</b>	<b>\$ 10,226</b>	<b>\$ 10,641</b>
<b>Expenses:</b>						
City Council	\$ 20	\$ 25			\$ 20	\$ 25
General Administration	1,057	1,114			1,057	1,114
Main Street	178	159			178	159
Police	950	708			950	708
Code Enforcement	119	104			119	104
Fire	84	68			84	68
Recreation and Parks	525	428			525	428
Lantex Theater	39	34			39	34
Cemetary	-	5			-	5
Municipal Court	125	107			125	107
Golf Course	424	530			424	530
Street	566	503			566	503
Airport	451	424			451	424
Other	37	53			37	53
JLK Arena	127				127	
JLK Events Center	63				63	
Water			800	756	800	756
Sewer			644	613	644	613
Sanitation			621	615	621	615
Electric			3,697	3,855	3,697	3,855
Other Utility			434	383	434	383
Debt Service	28	19	166	306	194	325
<b>Total Expenses</b>	<b>\$ 4,793</b>	<b>\$ 4,281</b>	<b>\$ 6,362</b>	<b>\$ 6,528</b>	<b>\$ 11,155</b>	<b>\$ 10,809</b>
<b>Increase in Net Assets Before</b>						
Transfers & Capital Contributions	\$ (1,938)	\$ (1,394)	\$ 1,009	\$ 1,226	\$ (929)	\$ (168)
<b>Capital Contributions</b>						
Transfers	\$ -	\$ -	\$ 22	\$ -	\$ 22	\$ -
Total	\$ 1,377	\$ 1,336	\$ (1,377)	\$ (1,336)	\$ -	\$ -
<b>Total</b>	<b>\$ 1,377</b>	<b>\$ 1,336</b>	<b>\$ (1,355)</b>	<b>\$ (1,336)</b>	<b>\$ 22</b>	<b>\$ -</b>
<b>Net Change</b>	<b>\$ (561)</b>	<b>\$ (58)</b>	<b>\$ (346)</b>	<b>\$ (110)</b>	<b>\$ (907)</b>	<b>\$ (168)</b>
Net Position, Beginning	9,373	10,033	12,574	12,967	21,947	23,000
Prior Period Adjustment	(49)	(602)		(283)	(49)	(885)
<b>Net Position, Ending</b>	<b>\$ 8,763</b>	<b>\$ 9,373</b>	<b>\$ 12,228</b>	<b>\$ 12,574</b>	<b>\$ 20,991</b>	<b>\$ 21,947</b>

The cost of all governmental activities this year was \$4,793,179. However, as shown in the Statement of Activities on page 10, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$640,743 because the other costs were paid by sales tax (\$822,631), other tax (\$199,045), user charges (\$800,628), operating and capital grants (\$73,529), and other miscellaneous (\$314,438).

#### THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$750,448, which is less than last year's total of \$791,679. Included in this year's total change in fund balance is a decrease of \$36,732 in the City's General Fund. This decrease in the General Fund balance was caused by the excess of expenditures over revenues.

The City adopted the General Fund Budget. The City did amend the original budget several times during the year; actual revenues were less than budgeted amounts and expenditures were less than budgeted amounts.

#### CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2016, the City had the following amounts invested in capital assets, net of depreciation:

#### CAPITAL ASSETS in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,627	\$ 1,627	\$ 534	\$ 534	\$ 2,161	\$ 2,161
Construction in Progress	190	159	46	-	236	159
Distribution & Collection Systems			23,277	23,175	23,277	23,175
Buildings & Improvements	7,919	7,906			7,919	7,906
Equipment	4,264	4,037	3,199	3,196	7,463	7,233
Infrastructure	5,014	4,900			5,014	4,900
Total Capital Assets	\$ 19,014	\$ 18,629	\$ 27,056	\$ 26,905	\$ 46,070	\$ 45,534
Less: Accumulated Depreciation	(9,212)	(8,659)	(10,693)	(10,139)	(19,905)	(18,798)
Capital Assets, Net	\$ 9,802	\$ 9,970	\$ 16,363	\$ 16,766	\$ 26,165	\$ 26,736

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

DEBT

At September 30, 2016, the City had the following outstanding debt:

**OUTSTANDING DEBT**  
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2016	2015	2016	2015	2016	2015
Bonds Payable	\$	\$	\$ 5,809	\$ 6,238	\$ 5,809	\$ 6,238
Notes Payable	313	284	837	1,010	1,150	1,294
Capital Leases Payable	411	487	-	-	411	487
Compensated Absences	74	81			74	81
Total Outstanding Debt	\$ 798	\$ 852	\$ 6,646	\$ 7,248	\$ 7,444	\$ 8,100

For governmental activities, the City paid \$154,920 in principal on the outstanding long-term debt and issued \$108,000 in notes payable.

For business-type activities, the City paid \$6,238,000 in principal on the outstanding long-term debt and issued \$5,165,000 in General Obligation Refunding bonds.

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

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

The City's elected and appointed officials considered many factors when setting the fiscal-year 2017 budget and tax rates. The major factors are the assessed property valuation and population growth. These indicators were taken into account when adopting the General Fund budget for 2017. Amounts available for appropriation in the General Fund budget are \$4,242,709 and expenditures are estimated to be \$4,219,386.

If these estimates are realized, the City's budgetary General fund balance is expected to increase by the close of 2017.

**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 business office, at City of Llano, Llano, Texas.

CITY OF LLANO, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2016

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Nonmajor Component Unit
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 676,507	\$ 16,718	\$ 693,225	\$ 272,849
Investments - Current	141,244	1,315,986	1,457,230	2,083
Receivables (net of allowance for uncollectibles)	248,787	951,904	1,200,691	116,821
Due from Other Governments	-	15,713	15,713	-
Internal Balances	9,744	(9,744)	-	-
Due from Component Unit	27,727	-	27,727	-
Due from Primary Government	-	-	-	15,083
Inventories	29,600	259,461	289,061	-
Capitalized Debt Issuance Costs	-	95,959	95,959	-
Restricted Assets:				
Restricted Asset - Debt Service	-	181,103	181,103	-
Restricted Asset - Capital Improvements	-	794,314	794,314	-
Capital Assets:				
Capital Assets, net	9,802,093	16,363,473	26,165,566	3,638,818
Total Assets	<u>10,935,702</u>	<u>19,984,887</u>	<u>30,920,589</u>	<u>4,045,654</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>				
Deferred Charge for Refunding	-	120,362	120,362	-
Deferred Outflow Related to Pension Plan	395,797	174,116	569,913	-
Total Deferred Outflows of Resources	<u>395,797</u>	<u>294,478</u>	<u>690,275</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts Payable	284,899	546,869	831,768	7,476
Intergovernmental Payable	10,094	-	10,094	-
Due to Component Unit	15,342	-	15,342	-
Due to Primary Government	-	-	-	27,468
Accrued Interest Payable	-	8,530	8,530	-
Unearned Revenues	1,800	-	1,800	-
Note Payable - Current	32,535	123,354	155,889	161,655
Other Current Liabilities	38,950	225,870	264,820	-
Noncurrent Liabilities				
Due Within One Year	111,272	205,000	316,272	-
Due in More Than One Year	654,420	6,317,815	6,972,235	1,403,282
Net Pension Liability	1,362,925	600,866	1,963,791	-
Total Liabilities	<u>2,512,237</u>	<u>8,028,304</u>	<u>10,540,541</u>	<u>1,599,881</u>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Unavailable Revenue - Property Taxes	6,415	-	6,415	-
Deferred Resource Inflow Related to Pension Plan	49,831	23,450	73,281	-
Total Deferred Inflows of Resources	<u>56,246</u>	<u>23,450</u>	<u>79,696</u>	<u>-</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	9,003,866	10,361,179	19,365,045	2,073,881
Restricted for:				
Restricted for Debt Service	-	181,103	181,103	-
Restricted for Capital Improvements	-	794,314	794,314	-
Restricted for Special Revenue	29,600	-	29,600	-
Unrestricted Net Position	(270,450)	891,015	620,565	371,892
Total Net Position	<u>\$ 8,763,016</u>	<u>\$ 12,227,611</u>	<u>\$ 20,990,627</u>	<u>\$ 2,445,773</u>

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

CITY OF LLANO, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
City Council	\$ 19,885	\$ -	\$ -	\$ -
General Administration	1,057,277	45,249	-	-
Main Street	178,503	-	-	-
Police	949,857	-	-	-
Municipal Court	125,438	92,153	-	-
Code Enforcement	118,768	22,240	-	-
Fire	83,701	-	-	-
Parks and Recreation	525,177	11,295	-	-
Lantex Theater	38,628	99,624	-	-
Cemetery	10	-	-	-
Golf Course	423,533	240,241	-	-
Street	565,688	-	-	-
Airport	451,517	289,826	-	29,083
Christmas Lighting	32,482	-	-	-
Depot Museum	4,622	-	-	-
JLK Arena	126,586	-	-	-
JLK Events Center	63,249	-	-	-
Other Debt Interest	28,258	-	-	-
Total Governmental Activities:	4,793,179	800,628	-	29,083
BUSINESS-TYPE ACTIVITIES:				
Utility Fund	6,362,303	7,364,286	-	22,575
Total Business-Type Activities:	6,362,303	7,364,286	-	22,575
TOTAL PRIMARY GOVERNMENT:	\$ 11,155,482	\$ 8,164,914	\$ -	\$ 51,658
<b>Component Unit:</b>				
Llano Economic Development Corporation	\$ 173,955	\$ -	\$ -	\$ -
TOTAL COMPONENT UNITS:	\$ 173,955	\$ -	\$ -	\$ -

General Revenues:

Taxes:

Property Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Sales Taxes

Franchise Taxes

Other Taxes

Grants and Contributions Not Restricted

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Prior Period Adjustment

Net Position--Ending

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Nonmajor Component Unit
\$ (19,885)	\$ -	\$ (19,885)	\$ -
(1,012,028)	-	(1,012,028)	-
(178,503)	-	(178,503)	-
(949,857)	-	(949,857)	-
(33,285)	-	(33,285)	-
(96,528)	-	(96,528)	-
(83,701)	-	(83,701)	-
(513,882)	-	(513,882)	-
60,996	-	60,996	-
(10)	-	(10)	-
(183,292)	-	(183,292)	-
(565,688)	-	(565,688)	-
(132,608)	-	(132,608)	-
(32,482)	-	(32,482)	-
(4,622)	-	(4,622)	-
(126,586)	-	(126,586)	-
(63,249)	-	(63,249)	-
(28,258)	-	(28,258)	-
(3,963,468)	-	(3,963,468)	-
-	1,024,558	1,024,558	-
-	1,024,558	1,024,558	-
(3,963,468)	1,024,558	(2,938,910)	-
-	-	-	(173,955)
-	-	-	(173,955)
596,244	-	596,244	-
44,499	-	44,499	-
822,631	-	822,631	278,307
90,522	-	90,522	-
108,523	-	108,523	-
44,446	-	44,446	-
314,438	50	314,488	2,141
3,856	6,703	10,559	4,351
1,377,515	(1,377,515)	-	-
3,402,674	(1,370,762)	2,031,912	284,799
(560,794)	(346,204)	(906,998)	110,844
9,372,692	12,573,815	21,946,507	2,334,929
(48,882)	-	(48,882)	-
\$ 8,763,016	\$ 12,227,611	\$ 20,990,627	\$ 2,445,773

CITY OF LLANO, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2016

	General Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 667,506	\$ 9,001	\$ 676,507
Investments - Current	141,244	-	141,244
Taxes Receivable	30,882	1,194	32,076
Receivables (Net)	72,785	-	72,785
Special Assessments Receivable, net	24,588	-	24,588
Intergovernmental Receivables	119,338	-	119,338
Due from Other Funds	15,476	27,528	43,004
Due from Component Unit	27,727	-	27,727
Inventories	29,600	-	29,600
Total Assets	<u>\$ 1,129,146</u>	<u>\$ 37,723</u>	<u>\$ 1,166,869</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 97,044	\$ 9,000	\$ 106,044
Wages and Salaries Payable	175,930	-	175,930
Intergovernmental Payable	10,094	-	10,094
Due to Other Funds	33,260	-	33,260
Due to Others	2,925	-	2,925
Due to Component Unit	15,342	-	15,342
Unearned Revenues	1,800	-	1,800
Other Current Liabilities	38,950	-	38,950
Total Liabilities	<u>375,345</u>	<u>9,000</u>	<u>384,345</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	30,882	1,194	32,076
Total Deferred Inflows of Resources	<u>30,882</u>	<u>1,194</u>	<u>32,076</u>
<b>FUND BALANCES</b>			
Nonspendable Fund Balance:			
Inventories	29,600	-	29,600
Restricted Fund Balance:			
Restricted for Tourism	26,620	-	26,620
Assigned Fund Balance:			
Other Assigned Fund Balance	-	27,529	27,529
Unassigned Fund Balance	666,699	-	666,699
Total Fund Balances	<u>722,919</u>	<u>27,529</u>	<u>750,448</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,129,146</u>	<u>\$ 37,723</u>	<u>\$ 1,166,869</u>

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

CITY OF LLANO, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2016

<b>Total Fund Balances - Governmental Funds</b>	\$	750,448
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		8,552,787
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays and debt principal payments is to increase net position.		438,756
This is the second year of the implementation of GASB 68 for the TMRS Pension plan and the first year for the TESRS. This fiscal year required that the City report their net pension liability in the Government Wide Statement of Net Position. The items reported as a result of this implementation included a net pension liability of \$1,362,925, Deferred Resource Outflow of \$395,797 and a Deferred Resource Inflow of \$49,831. The net effect of these was to decrease the ending net position by \$1,016,959.		(1,016,959)
The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(553,584)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		591,568
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>8,763,016</b>

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

CITY OF LLANO, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

EXHIBIT C-3

	General Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>			
Taxes:			
Property Taxes	\$ 598,809	\$ 44,499	\$ 643,308
General Sales and Use Taxes	822,631	-	822,631
Franchise Tax	90,522	-	90,522
Other Taxes	108,523	-	108,523
Licenses and Permits	27,967	-	27,967
Intergovernmental Revenue and Grants	35,388	17,695	53,083
Charges for Services	684,066	-	684,066
Fines	88,595	-	88,595
Investment Earnings	3,855	-	3,855
Rents and Royalties	151,172	-	151,172
Contributions & Donations from Private Sources	20,446	-	20,446
Other Revenue	163,266	-	163,266
Total Revenues	2,795,240	62,194	2,857,434
<b>EXPENDITURES:</b>			
Current:			
City Council	17,398	-	17,398
General Administration	859,241	-	859,241
Main Street	124,221	22,194	146,415
Police	721,487	-	721,487
Municipal Court	98,067	-	98,067
Code Enforcement	95,251	-	95,251
Fire	63,257	-	63,257
Parks and Recreation	420,994	-	420,994
Lantex Theater	33,796	-	33,796
Cemetery	9	-	9
Golf Course	338,687	-	338,687
Street	511,491	-	511,491
Airport	382,762	-	382,762
Christmas Lighting	28,419	-	28,419
Depot Museum	4,043	-	4,043
JLK Arena	101,281	-	101,281
JLK Events Center	49,529	-	49,529
Debt Service:			
Other Debt Principal	123,644	31,277	154,921
Other Debt Interest	20,235	8,023	28,258
Capital Outlay:			
Capital Outlay	328,874	-	328,874
Total Expenditures	4,322,686	61,494	4,384,180
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,527,446)	700	(1,526,746)
<b>OTHER FINANCING SOURCES (USES):</b>			
Non-Current Loans	108,000	-	108,000
Transfers In	1,422,014	39,300	1,461,314
Transfers Out (Use)	(39,300)	(44,499)	(83,799)
Total Other Financing Sources (Uses)	1,490,714	(5,199)	1,485,515
Net Change in Fund Balances	(36,732)	(4,499)	(41,231)
Fund Balance - October 1 (Beginning)	759,651	32,028	791,679
Fund Balance - September 30 (Ending)	\$ 722,919	\$ 27,529	\$ 750,448

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

CITY OF LLANO, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(41,231)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays and debt principal payments is to increase the change in net position.		438,756
The implementation of the requirements of GASB 68 for this fiscal year resulted in a prior period adjustment to record the retroactive impact for the TESRS. This is not included in the explanation as to why the change in net position is different on Exhibit B-1 than the change in fund balance on Exhibit C-3. The entries required by GASB 68 did require that some expenses on B-1 be adjusted. Total credits to expenses were \$222,023 and total debits to expenses were \$624,193. The net effect on the change in net position on Exhibit B-1 is a decrease of \$402,170.		(402,170)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(553,584)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease the change in net position.		(2,566)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>(560,795)</b>

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

CITY OF LLANO, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2016

EXHIBIT D-1 (Cont'd)

	Business Type Activities
	Utility Fund
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 16,718
Investments - Current	1,315,986
<b>Restricted Assets - Current:</b>	
Restricted Asset - Debt Service	181,103
Restricted Asset - Capital Improvements	794,314
Accounts Receivable-Net of Uncollectible Allowance	951,904
Due from Other Governments	15,713
Inventories	259,461
Total Current Assets	3,535,199
<b>Noncurrent Assets:</b>	
Capitalized Debt Issuance Costs	95,959
<b>Capital Assets:</b>	
Land Purchase and Improvements	51,121
Infrastructure	25,572,946
Accumulated Depreciation - Infrastructure	(9,807,972)
Machinery and Equipment	1,386,503
Accumulated Depreciation - Machinery & Equipment	(885,247)
Construction in Progress	46,122
Total Noncurrent Assets	16,459,432
Total Assets	19,994,631
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Charge for Refunding	120,362
Deferred Outflow Related to Pension Plan	174,116
Total Deferred Outflows of Resources	294,478

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

CITY OF LLANO, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2016

	Business Type Activities
	Utility Fund
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable	479,245
Wages and Salaries Payable	40,563
Compensated Absences Payable	27,061
Due to Other Funds	9,744
Accrued Interest Payable	8,530
Notes Payable - Current	123,354
Bonds Payable - Current	205,000
Other Current Liabilities	225,870
Total Current Liabilities	<u>1,119,367</u>
<b>NonCurrent Liabilities:</b>	
Bonds Payable - Noncurrent	4,960,000
Notes Payable - Noncurrent	713,940
Unamortized Premiums (Discounts) on Bonds	643,875
Net Pension Liability	600,866
Total Noncurrent Liabilities	<u>6,918,681</u>
Total Liabilities	<u>8,038,048</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Resource Inflow - Related to Pension Plan	23,450
Total Deferred Inflows of Resources	<u>23,450</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	10,361,179
Restricted for Debt Service	181,103
Restricted for Capital Improvements	794,314
Unrestricted Net Position	891,015
Total Net Position	<u>\$ 12,227,611</u>

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

CITY OF LLANO, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

EXHIBIT D-2 (Cont'd)

	Business Type Activities
	Utility Fund
<b>OPERATING REVENUES:</b>	
Charges for Water Services	\$ 1,108,708
Charges for Sewerage Service	950,190
Charges for Sanitation Service	710,162
Charges for Electricity Service	4,415,270
Charges for Services Administration Services	106,232
Charges for Services Customer Convenience Station	56,403
Charges for Services Miscellaneous Services	17,321
Other Revenue	50
Total Operating Revenues	7,364,336
<b>OPERATING EXPENSES:</b>	
Administration	
Personnel Services - Salaries and Wages	144,680
Personnel Services - Employee Benefits	102,570
Purchased Professional & Technical Services	12,017
Purchased Property Services	43,088
Other Operating Expenses	16,691
Supplies	11,543
Total Administration	330,589
Customer Convenience Station	
Personnel Services - Salaries and Wages	28,336
Personnel Services - Employee Benefits	27,638
Purchased Professional & Technical Services	44,497
Purchased Property Services	729
Other Operating Expenses	360
Supplies	1,516
Total Customer Convenience Station	103,076
Sanitation	
Purchased Professional & Technical Services	558,844
Water Plant	
Personnel Services - Salaries and Wages	65,607
Personnel Services - Employee Benefits	50,689
Purchased Professional & Technical Services	37,136
Purchased Property Services	86,943
Other Operating Expenses	42,472
Supplies	113,662
Total Water Plant	396,509
Water Distribution	
Personnel Services - Salaries and Wages	95,325
Personnel Services - Employee Benefits	63,675
Purchased Professional & Technical Services	60,523
Purchased Property Services	84,922
Other Operating Expenses	6,801
Supplies	12,995
Total Water Distribution	324,241
Sewer Plant	

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

CITY OF LLANO, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

EXHIBIT D-2

	Business Type Activities
	Utility Fund
Personnel Services - Salaries and Wages	56,386
Personnel Services - Employee Benefits	42,349
Purchased Professional & Technical Services	42,772
Purchased Property Services	33,153
Other Operating Expenses	31,465
Supplies	60,428
Total Sewer Plant	266,553
Sewer Collection	
Personnel Services - Salaries and Wages	39,378
Personnel Services - Employee Benefits	23,969
Purchased Professional & Technical Services	61,319
Purchased Property Services	165,462
Other Operating Expenses	5,852
Supplies	19,089
Total Sewer Collection	315,069
Electric	
Personnel Services - Salaries and Wages	216,559
Personnel Services - Employee Benefits	137,076
Purchased Professional & Technical Services	2,777,708
Purchased Property Services	173,780
Other Operating Expenses	11,692
Supplies	15,337
Total Electric	3,332,152
Depreciation	568,991
Total Operating Expenses	6,196,024
Operating Income	1,168,312
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	6,703
Interest Expense - Non-Operating	(165,879)
Paying Agent Fee	(400)
Total Non-operating Revenue (Expenses)	(159,576)
Income Before Contributions & Transfers	1,008,736
Capital Contributions	22,575
Transfers Out	(1,377,515)
Change in Net Position	(346,204)
Total Net Position -October 1 (Beginning)	12,573,815
Total Net Position -September 30 (Ending)	\$ 12,227,611

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

CITY OF LLANO, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Business Type Activities
	Utility Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 7,274,472
Cash Received from Assessments - Other Services	180,006
Cash Payments to Employees for Services	(901,964)
Cash Payments for Suppliers	(234,570)
Cash Payments for Other Operating Expenses	(4,511,044)
Net Cash Provided by Operating Activities	<u>1,806,900</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	<u>(1,377,515)</u>
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>	
Acquisition of Capital Assets	(166,864)
Capital Contributed by Other Funds	22,575
Increase in Restricted Assets	(129,856)
Loan Payments	(173,216)
Principal Payments Certificates of Obligation	(6,238,000)
Series 2016 General Obligation Refunding	5,592,153
Interest Paid	(168,416)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(1,261,624)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>6,703</u>
Net Increase(Decrease) in Cash and Cash Equivalents	(825,536)
Cash and Cash Equivalents at Beginning of the Year:	<u>2,158,240</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 1,332,704</u>

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

CITY OF LLANO, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Business Type Activities
	Utility Fund
<hr/>	
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided By Operating Activities:</u>	\$ 1,168,312
Operating Income:	
Adjustments to Reconcile Operating Income	
to Net Cash Provided by Operating Activities:	
Depreciation	568,991
Effect of Increases and Decreases in Current	
Assets and Liabilities:	
Decrease (increase) in Receivables	90,142
Decrease (increase) in Inventories	27,734
Decrease (increase) in Due From Other Funds	27,578
Increase (decrease) in Accounts Payable	(220,323)
Increase (decrease) in Accrued Wages	8,382
Increase (decrease) in Due To Other Funds	(27,578)
Increase (decrease) in Other Current Liab	(6,135)
Increase (decrease) in Pension Liability	183,891
Decrease (increase) in Intergovernmental	(14,094)
Net Cash Provided by Operating	
Activities	<u>\$ 1,806,900</u>

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

CITY OF LLANO, TEXAS  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2016

EXHIBIT E-1

	Private Purpose Trust Fund	Total Pension Trust Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 115	\$ 539
Investments - Current	35,265	-
Total Assets	35,380	539
<b>NET POSITION</b>		
Unrestricted Net Position	35,380	539
Total Net Position	\$ 35,380	\$ 539

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

CITY OF LLANO, TEXAS  
 STATEMENT OF CHANGES IN NET POSITION  
 FIDUCIARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Private Purpose Trust Fund	Total Pension Trust Fund
<b>OPERATING REVENUES:</b>		
Investment Earnings	\$ 102	\$ -
Total Operating Revenues	<u>102</u>	<u>-</u>
Operating Income	102	-
Total Net Position - October 1 (Beginning)	<u>35,278</u>	<u>539</u>
 Total Net Position September 30 (Ending)	 <u>\$ 35,380</u>	 <u>\$ 539</u>

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

CITY OF LLANO, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Llano, Texas conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

- A. Reporting Entity - The Mayor and City Council is the level of government which has governance responsibilities over all activities within the jurisdiction of the City of Llano. The City is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since the Mayor and Aldermen are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

Llano Economic Development Corporation - The Llano Economic Development Corporation (the Corporation) was established in 1994 under the Development Corporation Act of 1979, Article 5190.6, Tex. Rev. Civ. Stat. Ann., as amended. 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.

- B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

D. Fund Accounting

The City reports the following major governmental funds:

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

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

Governmental Funds:

1. **Special Revenue Funds** - The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Proprietary Fund:

1. **Enterprise Fund** - The Utility Fund is operated as an Enterprise Fund.

Fiduciary Funds:

1. **Private Purpose Trust and Agency Funds** - The Cemetery Perpetual Care Fund and the Firemen's Relief Fund are operated as Fiduciary Funds.

E. Assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position

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

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

2. All inventories are valued at cost using the first in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.
3. Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Infrastructure	50
Distribution & Collection	40-50
Buildings	40-50
Improvements	10-40
Equipment	5-10
Vehicles	5

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

4. Vacation leave and sick leave is earned by each full-time employee. Vacation leave is earned at a rate based on years of service.

5. Beginning with fiscal year end September 30, 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Non-spendable fund balance – amounts that are not in non-spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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

6. Implementation of GASB Accounting Standard:

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

7. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. The original budget is adopted by the City Council prior to the beginning of the fiscal year through passage of an ordinance. The budget includes proposed expenditures and the means of financing them.

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

9. Pensions. For purposes of measuring the net pension liability or asset, 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.

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

## NOTE II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

### A. Deposits and Investments

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

At September 30, 2016, the carrying amount of the City's deposits was \$1,002,499 and the bank balance was \$1,386,578. The carrying amount of the Llano Economic Development Corporation's deposit was \$272,849 and the bank balance was \$252,800. The City's cash deposits held at First State Bank Central Texas and Llano National Bank at September 30, 2016 and during the year ended September 30, 2016 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

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 carrying value of investments at September 30, 2016 was \$2,123,373 (TexPool Investment Pool). Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

#### Policies Governing Deposits and Investments

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

**Custodial Credit Risk - Deposits:** This is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2016 was covered by depository insurance or by pledged collateral held by the City's agent bank in the City's name.

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

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

B. Property Taxes

Property taxes are levied by October 1 and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

The City contracted with the Llano County Appraisal District for the appraisal and with Llano County for the collection of taxes. For the 2015 tax roll, the assessed valuation was \$161,691,227 and the tax rate was \$.39633 per \$100 valuation (\$.36729 for maintenance and operations and \$.02904 for interest and sinking).

C. Court Fines and Fees Receivable

With the implementation of GASB Statement Number 34, the City has determined the amount of court fines and fees receivable to be \$103,800. Based on historical collection rates for the various courts, the City has booked an allowance for uncollectible court fines and fees of \$77,850, resulting in a net receivable of \$25,950.

D. Notes Receivable – Component Unit

On June 24, 2009 the Llano Economic Development Corporation loaned the SAANCO, INC. \$190,000. Accrued interest only was due and payable quarterly from October 1, 2009 through October 1, 2010 at an interest rate of 4.25%. Beginning January 1, 2011 principal and interest are due in quarterly installments in the amount of \$6,530 continuing until July 1, 2019. The loan is secured by a security agreement that includes personal property and all proceeds. The balance of the loan at September 30, 2016 was \$73,613.

E. Restricted Assets

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

F. Land, Structures and Equipment-Proprietary Fund

A summary of changes in fixed assets for the enterprise funds appears below:

	Balance 10/01/15	Additions	Deletions	Balance 09/30/16
Land and Land Rights	\$ 533,711	\$	\$	\$ 533,711
Distribution and Collection Systems	23,174,905	116,767	(14,800)	23,276,872
Equipment	3,196,011	3,975		3,199,986
Construction Work In Progress	-	46,122		46,122
Totals	\$ 26,904,627	\$ 166,864	\$ (14,800)	\$ 27,056,691
Accumulated Depreciation	(10,139,027)	(568,991)	14,800	(10,693,218)
Fixed Assets, Net	\$ 16,765,600	\$ (402,127)	\$ -	\$ 16,363,473

G. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2016, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 1,626,981	\$	\$	\$ 1,626,981
Buildings and Improvements	7,906,011	12,668		7,918,679
Equipment	4,037,210	227,098		4,264,308
Infrastructure	4,900,221	114,252		5,014,473
Construction Work In Progress	158,809	64,005	32,937	189,877
Totals at Historic Cost	\$ 18,629,232	\$ 418,023	\$ 32,937	\$ 19,014,318
Less Accumulated				
Depreciation for:				
Buildings and Improvements	(3,207,282)	(224,212)		(3,431,494)
Equipment	(3,135,559)	(236,668)		(3,372,227)
Infrastructure	(2,315,800)	(92,704)		(2,408,504)
Total Accumulated Depreciation	\$ (8,658,641)	\$ (553,584)	\$ -	\$ (9,212,225)
Governmental Activities				
Capital Assets, Net	\$ 9,970,591	\$ (135,561)	\$ 32,937	\$ 9,802,093

Capital asset activities of the Llano Economic Development Corporation were as follows:

	Component Unit			
	Beginning Balance	Additions	Retirements	Ending Balance
Component Unit Activities:				
Land	\$ 219,000	\$	\$	\$ 219,000
Other Capital Assets:				
Buildings and Improvements	3,570,843	20,837		3,591,680
Distribution & Collection Systems	125,000			125,000
Equipment	15,800			15,800
Construction Work In Progress	-			-
Total	3,930,643	20,837	-	3,951,480
Less Accumulated Depreciation for:				
Distribution & Collection Systems	(38,889)			(38,889)
Buildings and Improvements	(178,691)	(95,081)		(273,772)
Component Unit Activities:				
Capital Assets, Net	\$ 3,713,063	\$ (74,244)	\$ -	\$ 3,638,819

H. Changes in Long-Term Liabilities

A summary of changes in long-term debt for the year ended September 30, 2016 follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
<b>Notes Payable -</b>					
Llano National Bank	\$ 20,918		13,312	\$ 7,606	\$ 7,606
JP Morgan Chase	10,077		7,887	2,190	2,190
Arrowhead Bank	35882	108,000	26,663	117,219	32,408
Limited Tax Notes,- Series 2014	217338		31,277	186,061	32,535
<b>Capital Leases</b>					
Caterpillar Financial	289,500		19,297	270,203	16,858
John Deere Credit	6,539		6,539	-	
Yamaha	123,029		19,760	103,269	20,580
Schertz Bank & Trust	26,858		13,099	13,759	13,759
Wells Fargo	41,096		17,086	24,010	17,871
	\$ 771,237	\$ 108,000	\$ 154,920	\$ 724,317	\$ 143,807
<b>Compensated Absences</b>	<b>80,660</b>		<b>6,749</b>	<b>73,911</b>	
<b>Governmental Activity Long-Term Debt</b>	<b>\$ 851,897</b>	<b>\$ 108,000</b>	<b>\$ 161,669</b>	<b>\$ 798,228</b>	<b>\$ 143,807</b>

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Business-Type Activities</b>					
<b>Bonds Payable</b>					
Revenue Bonds - Series 1998 Certificates of Obligation Series 2003	\$ 1,512,000	\$ -	\$ 1,512,000	\$ -	\$ -
Certificates of Obligation Series 2008	1,485,000	-	1,485,000	-	-
General Obl Refunding - Series 2016	3,241,000	-	3,241,000	-	-
		5,165,000		5,165,000	205,000
<b>Subtotal</b>	<b>\$ 6,238,000</b>	<b>\$ 5,165,000</b>	<b>\$ 6,238,000</b>	<b>\$ 5,165,000</b>	<b>\$ 205,000</b>
<b>Premium on Refunding Bonds</b>		<b>643,875</b>		<b>643,875</b>	
<b>Notes Payable</b>					
Arrowhead Bank	41,648		10,331	31,317	10,540
JP Morgan Chase	93,375		73,089	20,286	20,286
First State Bank Central Texas	875,487		89,796	785,691	92,528
<b>Business Type Activity Long-Term Debt</b>	<b>\$ 7,248,510</b>	<b>\$ 5,808,875</b>	<b>\$ 6,411,216</b>	<b>\$ 6,646,169</b>	<b>\$ 328,354</b>

I. Refunding Bonds

The City issued \$5,165,000 General Obligation Refunding Bonds, Series 2016 for the purpose of providing funds to refund the remaining outstanding Revenue Bonds, Series 1998, Certificates of Obligation, Series 2003 and Certificates of Obligation, Series 2008. These bonds were called and were redeemed on August 23, 2016 by depositing \$6,358,362 into an escrow account. The aforementioned bonds have been defeased and removed as a liability of the City. The financial gain on these refunding bonds was \$2,758,175 and the economic gain was \$1,899,737.

Debt service requirements are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 205,000	195,104	\$ 400,104
2018	215,000	180,250	395,250
2019	220,000	175,950	395,950
2020	225,000	169,350	394,350
2021	230,000	162,600	392,600
2022-2026	1,215,000	704,900	1,919,900
2027-2031	1,410,000	461,600	1,871,600
2032-2036	1,445,000	159,800	1,604,800
Totals	\$ <u>5,165,000</u>	\$ <u>2,209,554</u>	\$ <u>7,374,554</u>

J. Notes and Installments Payable

The following is a summary of notes and installments payable:

	<u>Balance at 09/30/16</u>
<b>GENERAL LONG TERM DEBT ACCOUNT GROUP</b>	
Long-term note payable to Llano National Bank - #6027999. Payable from the general fund for the purchase of, and secured by, improvements to the golf course; original principal \$150,000; due in monthly installments through March 1, 2017, with the payment to be adjusted each November 1; current payment amount \$1,132; interest adjusted annually at prime less 1%; current interest 4.0%	\$ 7,606
Long-term note payable to JP Morgan Chase - #1000135711. Payable from the general fund for 2011 Ford Expedition original principal \$41,015; due in monthly installments of \$733 through December 2, 2016, interest at 2.79%	2,190
Long-term note payable to Arrowhead Bank - #96103. Payable from the general fund for purchase of (3) John Deere Mowers original principal \$20,000; due in monthly installments of \$571 through January 15, 2018, interest at 1.75%	9,009
Long-term note payable to Arrowhead Bank - #97664. Payable from the general fund for purchase of 2016 Peterbilt Dump Truck. Original principal \$108,000; due in monthly installments of \$1,892 through January 2021, interest at 2.00%.	92,485
Long-term note payable to Arrowhead Bank - #96581. Payable from the general fund for purchase of 2014 F150 Truck original principal \$23,222; due in monthly installments of \$407 through January 15, 2020, interest at 2.00%	15,725
Limited Tax Notes, Series 2014 were issued December 14, 2014 in the amount of \$240,000 for the purchase of the Police Department building. Payments are due monthly in the amount of \$3,275 through December 5, 2021, Interest at 3.95%.	
Total General Long-Term Debt	<u>186,061</u> \$ <u>313,076</u>

Balance at  
09/30/16

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UTILITY FUNDS

Long-term note payable to JP Morgan Chase - #1000135711 for the purchase of a Vac-Con Vactor Suction Truck; original principal \$290,455; due in monthly installments of \$5,192 through 12/02/2016, interest at 2.79%.	\$ 15,504
Long-term note payable to JP Morgan Chase - #1000135711 for the purchase of a 2011 Dodge 5500 Aerial Device; original principal \$89,591; due in monthly installments of \$1,601 through 12/02/2016; interest at 2.79%.	4,782
Long-term note payable to First State Bank of Central Texas - #10661200 for the purchase of an Automated Meter Reading System; original principal 991,000 due in monthly installments of \$9,569.16 through 05/13/2024 interest at 3.0%.	785,691
Long-term note payable to Arrowhead Bank - #95124 for the purchase of a service truck; original principal \$42,500 due in monthly installments of \$922 through 08/15/2019 interest at 2.0%.	31,317
Total Utilities Fund	<u>\$ 837,294</u>
Total Notes Payable	<u>\$ 1,150,370</u>

The remaining balances of the notes and installments payable are due over the following fiscal years:

<u>September 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 198,093	\$ 31,833	\$ 229,926
2018	168,386	26,681	195,067
2019	170,182	21,667	191,849
2020	161,812	16,643	178,455
2021	148,095	11,746	159,841
2022-2026	303,802	12,345	316,147
Totals	<u>\$ 1,150,370</u>	<u>\$ 120,915</u>	<u>\$ 1,271,285</u>

K. Capitalized Leases and Other Commitments

Capital lease obligations at September 30, 2016, are composed of the following:

	Balance at 09/30/16
<hr/>	
GENERAL FUND	
Lease payable to Caterpillar Financial Services Corporation for 140M3 Caterpillar Motor Grader; 60 monthly installments of \$2,233 including principal and interest through September 21, 2020; interest at 3.2%.	270,203
Lease payable to Yamaha Leasing for golf carts; 48 monthly installments of \$2,034 including principal and interest through March 01, 2018; interest at 4.20%	103,269

	<u>Balance at 09/30/16</u>
Lease payable to Government Capital-Schertz Bank & Trust for CopSync, 4 annual installments of \$14,453 including principal and interest through October 1, 2016; interest at 2.8%	13,759
Lease payable to Wells Fargo for Jacobsen Greens & Rough Mowers, 60 annual installments of \$1,549 including principal and interest through December 7, 2017; interest at 1.93%	24,010
Total General Funds	<u>\$ 411,241</u>

Future minimum lease payments under the lease along with the present value of the minimum lease payments as of September 30, 2016:

<u>Year Ended September 30,</u>	<u>General Long-Term Obligations</u>
2017	\$ 82,006
2018	117,274
2019	26,793
2020	221,383
2021	
Total Minimum Lease Payments	<u>\$ 447,456</u>
Less Amount Representing Interest	<u>36,215</u>
Present Value of Lease Payments	<u>\$ 411,241</u>

L. Changes in Long-Term Liabilities – Component Unit

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Component Unit Activities:					
Notes Payable -					
First State Bank	\$ 1,727,455	\$ -	\$ 162,518	\$ 1,564,937	\$ 161,655
Component Unit Activity					
Long-Term Debt	<u>\$ 1,727,455</u>	<u>\$ -</u>	<u>\$ 162,518</u>	<u>\$ 1,564,937</u>	<u>\$ 161,655</u>

On December 12, 2011 the Llano Economic Development Corporation acquired a loan from First State Bank Central Texas in the amount of \$2,000,000 for the Community Facilities Project. The loan is payable in quarterly payments of \$45,232 (including interest at 4.250%) beginning March 10, 2012 and ending December 10, 2026. The balance of the loan at September 30, 2016 was \$1,497,428.

On April 17, 2012 the Llano Economic Development Corporation acquired a loan from First State Bank Central Texas in the amount of \$200,000 for the Community Facilities Project. The loan is payable in quarterly payment of \$9,345 (including interest at 3.750%) beginning June 30, 2012 and ending March 30, 2018. The balance of the loan at September 30, 2016 was \$60,887.

On August 14, 2014 the Llano Economic Development Corporation acquired a loan from First State Bank Central Texas in the amount of \$40,025 for the LanTex projector. The loan is payable in annual payment of \$15,000 (including interest at 5.000%) beginning October 15, 2014 and ending October 15, 2016. The balance of the loan at September 30, 2016 was \$6,622.

The remaining balances of the notes payable are due over the following fiscal years:

<u>September 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 161,655	64,271	\$ 225,926
2018	149,379	56,768	206,147
2019	129,705	51,226	180,931
2020	134,306	46,625	180,931
2021	141,149	39,782	180,931
2022-2026	802,609	102,047	904,656
2027-2031	46,134	476	46,610
Totals	\$ <u>1,564,937</u>	\$ <u>361,195</u>	\$ <u>1,926,132</u>

M. RETIREMENT PLANS

**Texas Municipal Retirement System (TMRS)**

Plan Description

The City of Llano, Texas participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension 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's 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.tmr.com](http://www.tmr.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 payments 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.

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

	Plan Year 2014	Plan Year 2015
Deposit Rate:	7%	7%
Matching Ratio (City to Employee):	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of serve)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	0% of CPI	0% of CPI

***Employees covered by benefit terms.***

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	34
Inactive employees entitled to but not yet receiving benefits	21
Active employees	46
	101

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 of Llano, Texas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Llano, Texas were 10.24% and 14.35% in calendar years 2015 and 2016, respectively. The city's contributions to TMRS for the year ended September 30, 2016, were \$264,599, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2015, 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, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation 2.5% per year

Overall payroll growth 3.0% per year

Investment Rate of Return 6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by a factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

#### 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.

	Increase/(Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a)-(b)
Balances as of December 31, 2014	\$ 5,932,543	\$ 5,045,854	\$ 886,689
Changes for the year:			
Service cost	216,328		216,328
Interest	452,805		452,805
Changes of Benefit Terms	596,175		596,175
Difference between Expected and Actual Experience	(107,658)		-
Changes in Assumptions	136,174		136,174
Contributions - Employer		175,995	(175,995)
Contributions - Employee		124,122	(124,122)
Net investment income		7,445	(7,445)
Benefit Payments, Including Refunds of Employee Contributions	(336,489)	(336,489)	-
Administrative Expense		(4,535)	4,535
Other Changes		(224)	224
	-		-
Net Changes	<u>957,335</u>	<u>(33,686)</u>	<u>1,098,679</u>
Balances as of December 31, 2015	<u>\$ 6,889,878</u>	<u>\$ 5,012,168</u>	<u>\$ 1,877,710</u>

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 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 2,761,093	\$ 1,877,710	\$ 1,138,527

**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.tmrs.com](http://www.tmrs.com).

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

For the year ended September 30, 2016, the City recognized pension expense of \$655,369.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 73,281	
Changes of assumptions	-	94,909
Net difference between projected and actual earnings	-	242,509
Contributions made subsequent to measurement date	-	206,726

\$206,726 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2016	\$ 39,908
2017	67,013
2018	84,055
2019	<u>69,153</u>
Total	\$ 260,129

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. At August 31, 2015 there were 197 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2015, the pension system membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	12
Terminated Members Entitled to Benefits but Not Yet Receiving Them	2
Active Participants (Vested and Nonvested)	<u>25</u>
	39

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](http://www.tesrs.org). The separately issued actuarial valuations which may be of interest are also available at the same link.

## Benefits Provided

Senate Bill 411, 65<sup>th</sup> Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79<sup>th</sup> Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees Authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by Board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 5-% 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 percent 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 or 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 the System, 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). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

The State is required to contribute an amount necessary to make the System "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 effective July 27, 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 near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2014, the Part Two contribution rate was 0%, since the first actuarial valuation report after adoption of the rules showed the System to have an adequate contribution arrangement without any Part Two contributions.

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

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

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2015, total contributions (dues, prior service, and interest on prior service financing) of \$15,510 were paid by the City. The State appropriated \$1,637,308 for the fiscal year ending August 31, 2015 to the plan as a whole.

Actuarial Assumptions

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date	8/31/2014
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 a 80%/120% corridor on market value
Actuarial Assumptions:	
Investment Rate of Return*	7.75%
Projected Salary Increases	N/A
*Includes Inflation At	3.50%
Cost of Living Adjustments	None

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 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 and by adding expected inflation (3.50%). In addition, the final 7.75% assumption reflected a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities		
Large cap domestic	32%	5.20%
Small cap domestic	10	5.8
Developed international	21	5.5
Emerging markets	6	5.4
Master limited partnership	5	7.1
Fixed income		
Domestic	21	1.4
International	5	1.6
Cash	0	0
Total	100%	
Weighted average		4.45%

### 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, 2014 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. That UAAL was based on an actuarial value of assets that was \$7.9 million less than the plan fiduciary net position as of August 31, 2014. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, 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.

### Discount Rate Sensitivity Analysis

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:

1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
\$ 150,643	\$ 86,082	\$ 49,067

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

At August 31, 2015, the City reported a liability of \$86,082 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	\$ 86,082
State's proportionate share that is associated with the City*	25,167
Total	<u>111,249</u>

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

The net pension liability was measured as of August 31 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the date GASB Statement No. 68 requires the net pension liability to be measured as of the date no earlier than the end of the employer's prior fiscal year. TESRS did not roll forward the net pension liability nor did they provide the necessary information for the participants to roll forward themselves. While the City acknowledges that the measurement date does not fall within this 12 month period, the City elected to honor the conservatism principle and report a net pension liability measured as of August 31, 2015. The City used the assumption that any differences in the net pension liability measured as of August 31, 2015 versus September 30, 2015 would be immaterial. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 thru August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.272%.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability during

the measurement period.

For the measurement period August 31, 2015, the City recognized pension expense of \$12,833 and revenue of \$4,453 for support provided by the State.

At August 31, 2015, the City reported its proportionate share of TESRS's deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Difference between projected and actual investment earnings		\$ 13,336
Contributions made subsequent to measurement date	-	12,464
	<u>-</u>	<u>\$ 25,800</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:		
2016	\$	3,334
2017		3,334
2018		3,334
2019		3,334
Total	<u>\$</u>	<u>13,336</u>

N. Supplemental Death Benefits Fund

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

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

Contributions

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

The City's contributions to the TMRS SDBF for the years ended 2016, 2015 and 2014 were \$2,884, \$2,186 and \$1,960, respectively, which equaled the required contributions each year.

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2014	0.12%	0.12%	100.00%
2015	0.13%	0.13%	100.00%
2016	0.15%	0.15%	100.00%

O. 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 50% of the employee's dependents premiums. Employees are also provided \$20,000 in life insurance benefits.

P. Contingent Liabilities

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

Q. Interfund Receivable and Payables

Interfund balances at September 30, 2016, consisted of the following:

	Receivable	Payable
<u>General Fund</u>		
Component Unit	\$ 27,727	\$ 15,342
Utility Fund	9,744	
Special Revenue	4,358	28,502
<u>Utility Fund</u>		
General Fund		9,744
<u>Special Revenue</u>		
General Fund	28,502	4,358
<u>Component Unit</u>		
General Fund	15,342	27,727
Totals	\$ 85,673	\$ 85,673

During the year ended September 30, 2016, the City's transfers between funds consisted of:

	Transfers In	Transfers Out
General Fund	1,422,014	39,300
Debt Service Fund	39,300	44,499
Enterprise Funds-		
Utility Fund		1,377,515
Totals	1,461,314	1,461,314

R. Cash Flows Statement - Supplemental Disclosures

Since the City is tax exempt no income tax was paid in 2016 and 2015. The City paid interest in the amount of \$168,416 in 2016 and \$306,095 in 2015.

S. Risk Management

The City's risk management program includes coverage for property, general liability, automobile liability, public officials' liability and employee dishonesty bonds. The City participates in the Texas Municipal League joint self-insurance fund, which is a public entity risk pool. The premiums paid to TML result in the transfer of risk to the pool.

T. 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.

U. Prior Period Adjustment

During fiscal year 2016, the City adopted GASB Statement No. 68 for Accounting and Reporting for Pensions for the Texas Emergency Services Retirement System contributions. Adoption of GASB Statement No. 68 required a prior period adjustment to report the effect of GASB Statement No. 68 retroactively. The amount of the prior period adjustment in the governmental activities is (\$48,882). The restated beginning net position of the Governmental Activities is \$9,323,810

V. Subsequent Events

The City has evaluated subsequent events through March 29, 2017, the date which the financial statements were available to be issued. Subsequent to year end the City issued a loan in the amount of \$210,161 for the purchase of equipment, applied to the Texas Water Development Board for \$1.7 million Certificates of Obligation for Utility Fund construction and upgrades and a bond election will be held in May 2017 for proposed bonds in the amount of \$5.285 million for street repairs, park repairs and equipment. The City is not aware of any other subsequent events that would materially impact the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LLANO, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

EXHIBIT G-1

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 622,984	\$ 622,984	\$ 598,809	\$ (24,175)
General Sales and Use Taxes	750,000	750,000	822,631	72,631
Franchise Tax	91,700	91,700	90,522	(1,178)
Other Taxes	112,395	112,395	108,523	(3,872)
Licenses and Permits	14,550	13,050	27,967	14,917
Intergovernmental Revenue and Grants	1,618,501	1,618,501	35,388	(1,583,113)
Charges for Services	779,550	803,050	684,066	(118,984)
Fines	65,000	65,000	88,595	23,595
Investment Earnings	13,500	13,500	3,855	(9,645)
Rents and Royalties	109,316	230,416	151,172	(79,244)
Contributions & Donations from Private Sources	-	8,500	20,446	11,946
Other Revenue	16,500	157,900	163,266	5,366
Total Revenues	4,193,996	4,486,996	2,795,240	(1,691,756)
<b>EXPENDITURES:</b>				
Current:				
City Council	27,434	27,434	17,398	10,036
General Administration	939,164	939,279	859,241	80,038
Main Street	84,174	129,174	124,221	4,953
Police	811,818	737,777	721,487	16,290
Municipal Court	107,301	107,301	98,067	9,234
Code Enforcement	122,382	122,382	95,251	27,131
Fire	70,396	70,396	63,257	7,139
Parks and Recreation	420,491	432,143	420,994	11,149
Lantex Theater	25,577	37,077	33,796	3,281
Cemetery	-	-	9	(9)
Golf Course	419,677	374,642	338,687	35,955
Street	647,093	619,750	511,491	108,259
Airport	421,867	421,867	382,762	39,105
Christmas Lighting	-	30,000	28,419	1,581
Depot Museum	4,175	4,175	4,043	132
JLK Arena	5,000	130,994	101,281	29,713
JLK Events Center	-	57,766	49,529	8,237
Debt Service:				
Other Debt Principal	-	145,417	123,644	21,773
Other Debt Interest	-	20,235	20,235	-
Capital Outlay:				
Capital Outlay	1,912,576	2,080,476	328,874	1,751,602
Total Expenditures	6,019,125	6,488,285	4,322,686	2,165,599
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,825,129)	(2,001,289)	(1,527,446)	473,843
<b>OTHER FINANCING SOURCES (USES):</b>				
Non-Current Loans	-	108,000	108,000	-
Transfers In	1,477,087	1,477,087	1,422,014	(55,073)
Transfers Out (Use)	-	-	(39,300)	(39,300)
Total Other Financing Sources (Uses)	1,477,087	1,585,087	1,490,714	(94,373)
Net Change in Fund Balances	(348,042)	(416,202)	(36,732)	379,470
Fund Balance - October 1 (Beginning)	759,651	759,651	759,651	-
Fund Balance - September 30 (Ending)	\$ 411,609	\$ 343,449	\$ 722,919	\$ 379,470

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

CITY OF LLANO, TEXAS  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SEPTEMBER 30, 2016

EXHIBIT G-2

	2016	2015
<b>A. Total Pension Liability</b>		
Service Cost	\$ 216,328	\$ 208,031
Interest (on the Total Pension Liability)	452,805	403,095
Changes of Benefit Terms	596,175	-0-
Difference between Expected and Actual Experience	(107,658)	(173,667)
Changes of Assumptions	136,174	-0-
Benefit Payments, including refunds of employee contributions	(336,489)	(318,787)
Net change in Total Pension Liability	\$ 957,335	\$ 118,672
Total Pension Liability - Beginning	5,932,543	5,813,871
Total Pension Liability - Ending	\$ 6,889,878	\$ 5,932,543
<b>B. Total Fiduciary Net Position</b>		
Contributions - Employer	\$ 175,995	\$ 162,462
Contributions - Employee	124,122	120,611
Net Investment Income	7,445	275,131
Benefit Payments, including refunds of employee contributions	(336,489)	(318,787)
Administrative Expense	(4,535)	(2,873)
Other	(224)	(236)
Net Change in Plan Fiduciary Net Position	\$ (33,686)	\$ 236,308
Plan Fiduciary Net Position - Beginning	5,045,854	4,809,546
Plan Fiduciary Net Position - Ending	\$ 5,012,168	\$ 5,045,854
<b>C. Net Pension Liability</b>	\$ 1,877,710	\$ 886,689
<b>D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	72.75%	85.05%
<b>E. Covered Employee Payroll</b>	\$ 1,773,177	\$ 1,723,017
<b>F. Net Pension Liability as a Percentage of Covered Employee Payroll</b>	105.90%	51.46%

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only two years of data are presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF LLANO, TEXAS  
SCHEDULE OF CONTRIBUTIONS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SEPTEMBER 30, 2016

EXHIBIT G-3

	2016	2015
Actuarially Determined Contribution	\$ 264,599	\$ 173,413
Contributions in Relation to the Actuarially Determined Contributions	(264,599)	(173,413)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
Covered Employee Payroll	\$ 1,991,733	\$ 1,717,307
Contributions as a Percentage of Covered Employee Payroll	13.28%	10.10%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31, 2014 for Fiscal Year 2015 and December 31, 2015 for Fiscal Year 2016.

Note: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF LLANO, TEXAS  
 NOTES TO THE SCHEDULE OF TMRS CONTRIBUTIONS  
 SEPTEMBER 30, 2016

**Valuation Date:**

Notes Actuarially determined contribution rates are calculated as of December 31, and become effective in January 13 months 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	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based tables of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP-2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

**Other Information:**

Notes 1)Increased municipal matching ratio from 1.5-1 to 2-1  
 2)Removed statutory max

CITY OF LLANO, TEXAS  
SCHEDULE OF THE CITY'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)  
For the Year Ended September 30, 2016

EXHIBIT G-4

	Measurement Year*	
	2015	2014
City's proportion of the net pension liability	0.272%	0.269%
City's proportionate share of the net pension liability	\$ 86,082	\$ 48,882
State's proportionate share of the net pension liability	25,167	4,117
Total	\$ 111,249	\$ 52,999
Number of Active Members**	25	24
City's Net Pension Liability per Active Member	4,450	2,208
Plan fiduciary net position as a percentage of the total pension liability	76.9%	83.5%

\*Only two years of information is currently available. The City will build this schedule over the next eight year period.

\*\*There is no compensation for active members. Number of active members is used instead.

CITY OF LLANO, TEXAS  
SCHEDULE OF CONTRIBUTIONS  
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)  
For the Year Ended September 30, 2016

EXHIBIT G-5

	Fiscal Year*		
	2016	2015	2014
Contractually required contribution	\$ 12,464	\$ 12,833	\$ 12,177
Contributions in relation to the contractually required contribution	12,464	12,833	12,177
Contribution deficiency(excess)	\$ -	\$ -	\$ -
Number of Active members**	27	25	24
Contributions per active member	\$ 462	\$ 513	\$ 507

\*Only three years of information is currently available. The City will build this schedule over the next seven year period.

\*\*There is no compensation for active members. Number of active members is used instead.

CITY OF LLANO, TEXAS  
NOTES TO THE SCHEDULE OF TESRS CONTRIBUTIONS  
SEPTEMBER 30, 2016

Defined Benefit Pension Plan

*Changes in benefit terms*

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

*Changes in assumptions*

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

SUPPLEMENTARY INFORMATION

CITY OF LLANO, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2016

	TEA-21 Grant	Main Street Grant	Total Nonmajor Special Revenue Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ -	\$ 9,001	\$ 9,001
Taxes Receivable	-	-	-
Due from Other Funds	17,028	10,500	27,528
Total Assets	<u>\$ 17,028</u>	<u>\$ 19,501</u>	<u>\$ 36,529</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ -	\$ 9,000	\$ 9,000
Total Liabilities	-	9,000	9,000
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	-	-	-
Total Deferred Inflows of Resources	-	-	-
<b>FUND BALANCES</b>			
Assigned Fund Balance:			
Other Assigned Fund Balance	17,028	10,501	27,529
Total Fund Balances	<u>17,028</u>	<u>10,501</u>	<u>27,529</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u><u>\$ 17,028</u></u>	<u><u>\$ 19,501</u></u>	<u><u>\$ 36,529</u></u>

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

Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 9,001
1,194	1,194
-	27,528
<u>\$ 1,194</u>	<u>\$ 37,723</u>
\$ -	\$ 9,000
-	9,000
1,194	1,194
<u>1,194</u>	<u>1,194</u>
-	27,529
-	27,529
<u>\$ 1,194</u>	<u>\$ 37,723</u>

CITY OF LLANO, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	TEA-21 Grant	Main Street Grant	Total Nonmajor Special Revenue Funds
<b>REVENUES:</b>			
Taxes:			
Property Taxes	\$ -	\$ -	\$ -
Intergovernmental Revenue and Grants	-	17,695	17,695
Total Revenues	<u>-</u>	<u>17,695</u>	<u>17,695</u>
<b>EXPENDITURES:</b>			
Current:			
Main Street	-	22,194	22,194
Debt Service:			
Other Debt Principal	-	-	-
Other Debt Interest	-	-	-
Total Expenditures	<u>-</u>	<u>22,194</u>	<u>22,194</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(4,499)</u>	<u>(4,499)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers In	-	-	-
Transfers Out (Use)	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	-	(4,499)	(4,499)
Fund Balance - October 1 (Beginning)	<u>17,028</u>	<u>15,000</u>	<u>32,028</u>
Fund Balance - September 30 (Ending)	<u>\$ 17,028</u>	<u>\$ 10,501</u>	<u>\$ 27,529</u>

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

Debt Service Fund	Total Nonmajor Governmental Funds
\$ 44,499	\$ 44,499
<u>-</u>	<u>17,695</u>
44,499	62,194
-	22,194
31,277	31,277
<u>8,023</u>	<u>8,023</u>
39,300	61,494
<u>5,199</u>	<u>700</u>
39,300	39,300
<u>(44,499)</u>	<u>(44,499)</u>
<u>(5,199)</u>	<u>(5,199)</u>
-	(4,499)
-	<u>32,028</u>
<u>\$ -</u>	<u>\$ 27,529</u>

**NEFFENDORF & KNOPP, P.C.**  
**Certified Public Accountants**

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MEMBER  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER  
TEXAS SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

March 29, 2017

Honorable Mayor and Aldermen  
City of Llano, Texas  
Llano, TX 78643

We have audited 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 for the year ended September 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 14, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Llano, Texas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2016. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

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

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial

statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 29, 2017.

*Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

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

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

*We did find non-material weakness, included for informational purposes as follows:*

Recommendations

Debt Service Fund

Creation documents for debt issue Series 2014 Tax Note required a special "Interest and Sinking Fund" account be established and maintained at First State Bank Central Texas for the deposit of the I & S tax collections and payment of the tax note payments. It also required a Debt Service Fund be created to account for the transactions related to the Series 2014 Tax Note issue. Through audit procedures we determined the City was not in compliance with either requirement. A Debt Service fund was created through audit journal entries. We recommend the City establish and maintain the required bank account and post the transactions related to the Series 2014 Tax Note issue to the Debt Service Fund.

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

Very truly yours,



NEFFENDORF & KNOPP, P.C.  
Fredericksburg, Texas