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**REPORT OF EXAMINATION**

**CITY OF  
LLANO**

*Llano, Texas*

**For the Year Ended  
September 30, 2017**

CITY OF LLANO, TEXAS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2017

CITY OF LLANO  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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**NEFFENDORF & KNOPP, P.C.**  
**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, 2017, 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, 2017, 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, 47, 48-50 and 51-53 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 28, 2018

## 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, 2017. 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 \$21,104,848 (net position). Of this amount, \$931,131 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position increased by \$114,222 as a result of this year's operations.
- At September 30, 2017, the City's governmental funds reported combined ending fund balances of \$5,896,758, an increase of \$5,146,310 in comparison with the prior year.
- At September 30, 2017, the City's Enterprise Funds reported unrestricted net position of \$1,117,244 an increase of \$226,229 in comparison with the prior year.
- The City issued Series 2017 General Obligation Bonds, Series 2017, in the amount of \$5,025,000 for various infrastructure improvements. The City also issued Series 2017 Combination Tax & Revenue Certificates of Obligation in the amount of \$1,700,000 for water and sewer system improvements.

### 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 12). 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 13) 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 25) 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 47 through 53.

## 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 increased from \$8,763,016 to \$8,978,507. 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 (\$186,113) at September 30, 2017. This increase in governmental net position was the result of four factors. First, the City's revenues exceeded the expenditures by \$5,146,310. Second, the City issued long-term debt in the amount of \$5,025,000, paid principal on long-term debt of \$145,315 and acquired capital assets in the amount of \$866,304. Third the City recorded depreciation in the amount of \$565,448 and fourth, due to implementation of GASB Statement No. 68 an increase in expenses was necessary in the amount of \$1,036,603.

Net position of the City's business-type activities decreased from \$12,227,610 to \$12,126,341. Unrestricted net position was \$1,117,244 at September 30, 2017. This decrease in business-type net position was the result of net loss of \$5,310 and a prior period adjustment of (\$95,959).

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

**NET POSITION**  
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2017	2016	2017	2016	2017	2016
Current and Restricted Assets	\$ 6,348	\$ 1,134	\$ 4,873	\$ 3,622	\$ 11,221	\$ 4,756
Capital Assets	10,103	9,802	16,844	16,363	26,947	26,165
Total Assets	\$ 16,451	\$ 10,936	\$ 21,717	\$ 19,985	\$ 38,168	\$ 30,921
Deferred Outflow of Resources						
Deferred Charge for Refunding	\$	\$	\$ 114	\$ 120	\$ 114	\$
Deferred Outflow Related to Pension Plan	432	396	190	174	622	
	\$ 432	\$ 396	\$ 304	\$ 294	\$ 736	\$ -
Long-Term Liabilities	\$ 7,100	\$ 2,017	\$ 8,489	\$ 6,919	\$ 15,589	\$ 8,936
Other Liabilities	757	495	1,385	1,109	2,142	1,604
Total Liabilities	\$ 7,857	\$ 2,512	\$ 9,874	\$ 8,028	\$ 17,731	\$ 10,540
Deferred Inflow of Resources						
Unavailable Revenue - Property Taxes	\$ 3	\$ 6	\$	\$	\$ 3	\$ 6
Deferred Inflow Related to Pension Plan	45	50	21	23	66	
Total Deferred Inflows of Resources	\$ 48	\$ 56	\$ 21	\$ 23	\$ 69	\$ 6
Net Position:						
Net Investment						
in Capital Assets	\$ 9,119	\$ 9,004	\$ 10,244	\$ 10,361	\$ 19,363	\$ 19,365
Restricted	46	30	765	976	811	1,006
Unrestricted	(186)	(271)	1,117	891	931	620
Total Net Position	\$ 8,979	\$ 8,763	\$ 12,126	\$ 12,228	\$ 21,105	\$ 20,991

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

**CHANGES IN NET POSITION**  
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2017	2016	2017	2016	2017	2016
<b>Revenues:</b>						
Charges for Services	\$ 783	\$ 800	\$ 7,399	\$ 7,364	\$ 8,182	\$ 8,164
Property Tax Collections	681	641			681	641
Sales Tax	844	823			844	823
Franchise Tax	95	90			95	90
Operating Grants & Contributions	19	44			19	44
Capital Grants & Contributions	505	29			505	29
Investment Earnings	5	5	21	7	26	12
Other Taxes	107	108			107	108
Miscellaneous	350	315	7	-	357	315
<b>Total Revenue</b>	<b>\$ 3,389</b>	<b>\$ 2,855</b>	<b>\$ 7,427</b>	<b>\$ 7,371</b>	<b>\$ 10,816</b>	<b>\$ 10,226</b>
<b>Expenses:</b>						
City Council	\$ 42	\$ 20			\$ 42	\$ 20
General Administration	1,037	1,057			1,037	1,057
Main Street	189	178			189	178
Police	928	950			928	950
Code Enforcement	83	119			83	119
Fire	59	84			59	84
Recreation and Parks	430	525			430	525
Lantex Theater	33	39			33	39
Cemetary		-			-	-
Municipal Court	118	125			118	125
Golf Course	410	424			410	424
Street	468	566			468	566
Airport	383	451			383	451
Other	52	37			52	37
JLK Arena	185	127			185	
JLK Events Center		63			-	
Water			702	800	702	800
Sewer			571	644	571	644
Sanitation			656	621	656	621
Electric			3,526	3,697	3,526	3,697
Other Utility			521	434	521	434
Debt Service	97	28	222	166	319	194
<b>Total Expenses</b>	<b>\$ 4,514</b>	<b>\$ 4,793</b>	<b>\$ 6,198</b>	<b>\$ 6,362</b>	<b>\$ 10,712</b>	<b>\$ 10,965</b>
<b>Increase in Net Assets Before</b>						
Transfers & Capital Contributions	\$ (1,125)	\$ (1,938)	\$ 1,229	\$ 1,009	\$ 104	\$ (929)
<b>Capital Contributions</b>						
Capital Contributions	\$ -	\$ -	\$ 106	\$ 22	\$ 106	\$ 22
Transfers	1,341	1,377	(1,341)	(1,377)	-	-
<b>Total</b>	<b>\$ 1,341</b>	<b>\$ 1,377</b>	<b>\$ (1,235)</b>	<b>\$ (1,355)</b>	<b>\$ 106</b>	<b>\$ 22</b>
<b>Net Change</b>						
Net Change	\$ 216	\$ (561)	\$ (6)	\$ (346)	\$ 210	\$ (907)
Net Position, Beginning	8,763	9,373	12,227	12,574	20,990	21,947
Prior Period Adjustment		(49)	\$ (95)	-	(95)	(49)
<b>Net Position, Ending</b>	<b>\$ 8,979</b>	<b>\$ 8,763</b>	<b>\$ 12,126</b>	<b>\$ 12,228</b>	<b>\$ 21,105</b>	<b>\$ 20,991</b>

The cost of all governmental activities this year was \$4,514,417. However, as shown in the Statement of Activities on page 11 and 12, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$680,892 because the other costs were paid by sales tax (\$843,606), other tax (\$107,342), user charges (\$782,869), operating and capital grants (\$519,334), and other miscellaneous (\$349,550).

#### THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$5,896,758, which is more than last year's total of \$750,448. Included in this year's total change in fund balance is a decrease of \$161,002 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 more than budgeted amounts and expenditures were less than budgeted amounts.

#### CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2017, 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	
	2017	2016	2017	2016	2017	2016
Land	\$ 1,627	\$ 1,627	\$ 534	\$ 534	\$ 2,161	\$ 2,161
Construction in Progress	293	190	569	46	862	236
Distribution & Collection Systems			23,440	23,277	23,440	23,277
Buildings & Improvements	8,440	7,919			8,440	7,919
Equipment	4,346	4,264	3,569	3,199	7,915	7,463
Infrastructure	5,174	5,014			5,174	5,014
Total Capital Assets	\$ 19,880	\$ 19,014	\$ 28,112	\$ 27,056	\$ 47,992	\$ 46,070
Less: Accumulated Depreciation	(9,777)	(9,212)	(11,268)	(10,693)	(21,045)	(19,905)
Capital Assets, Net	<u>\$ 10,103</u>	<u>\$ 9,802</u>	<u>\$ 16,844</u>	<u>\$ 16,363</u>	<u>\$ 26,947</u>	<u>\$ 26,165</u>

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

DEBT

At September 30, 2017, the City had the following outstanding debt:

**OUTSTANDING DEBT**  
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2017	2016	2017	2016	2017	2016
Bonds Payable	\$ 5,364	\$	\$ 7,309	\$ 5,809	\$ 12,673	\$ 5,809
Notes Payable	238	313	991	837	1,229	1,150
Capital Leases Payable	341	411	-	-	341	411
Compensated Absences	67	74			67	74
<b>Total Outstanding Debt</b>	<b>\$ 6,010</b>	<b>\$ 798</b>	<b>\$ 8,300</b>	<b>\$ 6,646</b>	<b>\$ 14,310</b>	<b>\$ 7,444</b>

For governmental activities, the City paid \$145,315 in principal on the outstanding long-term debt and issued \$5,025,000 in General Obligation Bonds, Series 2017.

For business-type activities, the City paid \$351,675 in principal on the outstanding long-term debt and issued \$1,700,000 in Combination Tax & Revenue CO, Series 2017.

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 2018 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 2018. Amounts available for appropriation in the General Fund budget are \$4,665,834 and expenditures are estimated to be \$4,627,144.

If these estimates are realized, the City's budgetary General fund balance is expected to increase by the close of 2018.

**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.

## BASIC FINANCIAL STATEMENTS

CITY OF LLANO, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2017

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Nonmajor Component Unit
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 586,594	\$ (84,548)	\$ 502,046	\$ 337,072
Investments - Current	142,146	1,554,793	1,696,939	2,097
Taxes Receivable	27,776	-	27,776	-
Accounts Receivable (Net)	68,898	1,024,037	1,092,935	94,761
Special Assessments Receivable (Net)	23,467	-	23,467	-
Due from Other Governments	119,338	15,683	135,021	-
Due from Other Funds	9,744	-	9,744	-
Due from Component Unit	28,310	-	28,310	-
Due from Primary Government	-	-	-	15,083
Inventories	47,040	218,991	266,031	-
Prepaid Items	6,432	-	6,432	-
Restricted Assets:				
Restricted Asset - Projects Construction	5,288,536	1,379,670	6,668,206	-
Restricted Asset - Debt Service	-	181,103	181,103	-
Restricted Asset - Capital Improvements	-	583,698	583,698	-
Capital Assets:				
Land Purchase and Improvements	1,626,981	-	1,626,981	-
Infrastructure, Net	2,668,878	-	2,668,878	-
Buildings, Net	4,536,017	-	4,536,017	-
Furniture and Equipment, Net	737,631	-	737,631	-
Capital Assets, Net	-	16,844,040	16,844,040	3,543,651
Construction in Progress	533,442	-	533,442	-
Total Assets	<u>16,451,230</u>	<u>21,717,467</u>	<u>38,168,697</u>	<u>3,992,664</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>				
Deferred Charge for Refunding	-	114,344	114,344	-
Deferred Outflow Related to Pension Plan	431,669	189,606	621,275	-
Total Deferred Outflows of Resources	<u>431,669</u>	<u>303,950</u>	<u>735,619</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts Payable	181,328	609,345	790,673	1,163
Wages and Salaries Payable	165,269	28,335	193,604	-
Compensated Absences Payable	-	46,363	46,363	-
Intergovernmental Payable	15,289	8,980	24,269	-
Due to Fiduciary Funds	-	9,744	9,744	-
Due to Primary Government	-	-	-	28,051
Due to Others	2,325	-	2,325	-
Due to Component Unit	15,342	-	15,342	-
Accrued Interest Payable	-	9,626	9,626	-
Unearned Revenues	3,100	-	3,100	925
Note Payable - Current	98,001	164,000	262,001	149,379
Bonds Payable - Current	235,000	-	235,000	-
Other Current Liabilities	41,094	229,272	270,366	-
Noncurrent Liabilities:				
Debt Due Within One Year	-	280,000	280,000	-
Due In More Than One Year - Noncurrent	5,676,633	7,855,744	13,532,377	1,253,903
Net Pension Liability	1,423,525	632,609	2,056,134	-
Total Liabilities	<u>7,856,906</u>	<u>9,874,018</u>	<u>17,730,924</u>	<u>1,433,421</u>
<b>DEFERRED INFLOW OF RESOURCES</b>				
Unavailable Revenue - Property Taxes	2,739	-	2,739	-
Deferred Inflow Related to Pension Plan	44,747	21,058	65,805	-
Total Deferred Inflows of Resources	<u>47,486</u>	<u>21,058</u>	<u>68,544</u>	<u>-</u>
<b>NET POSITION</b>				

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

CITY OF LLANO, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2017

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Nonmajor Component Unit
Net Investment in Capital Assets	9,118,315	10,244,296	19,362,611	2,140,368
Restricted for:				
Restricted for Capital Improvements	-	583,698	583,698	-
Restricted for Debt Service	29,277	181,103	210,380	-
Restricted for Special Revenue	17,028	-	17,028	-
Unrestricted Net Position	(186,113)	1,117,244	931,131	418,875
Total Net Position	\$ 8,978,507	\$ 12,126,341	\$ 21,104,848	\$ 2,559,243

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, 2017

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
City Council	\$ 41,728	\$ -	\$ -	\$ -
General Administration	1,037,298	-	-	-
Main Street	189,073	-	-	143,605
Police	928,705	-	-	-
Municipal Court	117,661	80,694	-	-
Code Enforcement	82,775	39,835	-	-
Fire	58,620	-	-	-
Parks and Recreation	430,013	121,654	3,045	-
Lantex Theater	32,890	-	-	-
Cemetery	-	6,759	-	-
Golf Course	409,749	216,274	-	-
Street	468,101	-	-	362,116
Airport	383,939	310,894	10,568	-
Christmas Lighting	46,183	-	-	-
Depot Museum	5,762	-	-	-
JLK Arena	185,420	6,759	-	-
Interest on Debt	17,638	-	-	-
Other Debt Service	78,862	-	-	-
Total Governmental Activities	4,514,417	782,869	13,613	505,721
BUSINESS-TYPE ACTIVITIES:				
Utility Fund	6,198,321	7,399,592	-	106,310
Total Business-Type Activities	6,198,321	7,399,592	-	106,310
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 10,712,738</b>	<b>\$ 8,182,461</b>	<b>\$ 13,613</b>	<b>\$ 612,031</b>
<b>Component Unit:</b>				
Llano Economic Development Corporation	\$ 172,439	\$ -	\$ -	\$ -
<b>TOTAL COMPONENT UNITS</b>	<b>\$ 172,439</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

General Revenues:

Taxes:

Property Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

General Sales and Use Taxes

Franchise Tax

Other Taxes

Grants and Contributions Not Restricted

Investment Earnings

Miscellaneous Revenue

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
(41,728)	-	(41,728)	-
(1,037,298)	-	(1,037,298)	-
(45,468)	-	(45,468)	-
(928,705)	-	(928,705)	-
(36,967)	-	(36,967)	-
(42,940)	-	(42,940)	-
(58,620)	-	(58,620)	-
(305,314)	-	(305,314)	-
(32,890)	-	(32,890)	-
6,759	-	6,759	-
(193,475)	-	(193,475)	-
(105,985)	-	(105,985)	-
(62,477)	-	(62,477)	-
(46,183)	-	(46,183)	-
(5,762)	-	(5,762)	-
(178,661)	-	(178,661)	-
(17,638)	-	(17,638)	-
(78,862)	-	(78,862)	-
(3,212,214)	-	(3,212,214)	-
-	1,307,581	1,307,581	-
-	1,307,581	1,307,581	-
(3,212,214)	1,307,581	(1,904,633)	-
-	-	-	(172,439)
-	-	-	(172,439)
634,979	-	634,979	-
45,913	-	45,913	-
843,606	-	843,606	282,517
95,211	-	95,211	-
107,342	-	107,342	-
4,845	-	4,845	300
5,417	21,237	26,654	3,092
349,550	6,714	356,264	-
1,340,842	(1,340,842)	-	-
3,427,705	(1,312,891)	2,114,814	285,909
215,491	(5,310)	210,181	113,470
8,763,016	12,227,610	20,990,626	2,445,773
-	(95,959)	(95,959)	-
\$ 8,978,507	\$ 12,126,341	\$ 21,104,848	\$ 2,559,243

CITY OF LLANO, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2017

	General Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 560,368	\$ -	\$ 26,226	\$ 586,594
Investments - Current	142,146	-	-	142,146
Taxes Receivable	26,523	-	1,253	27,776
Accounts Receivable (Net)	68,898	-	-	68,898
Special Assessments Receivable (Net)	23,467	-	-	23,467
Due from Other Governments	119,338	-	-	119,338
Due from Other Funds	17,501	-	20,079	37,580
Due from Component Unit	28,310	-	-	28,310
Inventories	47,040	-	-	47,040
Prepaid Items	6,432	-	-	6,432
Restricted Asset - Capital Construction	-	5,288,536	-	5,288,536
Total Assets	<u>\$ 1,040,023</u>	<u>\$ 5,288,536</u>	<u>\$ 47,558</u>	<u>\$ 6,376,117</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 181,328	\$ -	\$ -	\$ 181,328
Wages and Salaries Payable	165,269	-	-	165,269
Intergovernmental Payable	15,289	-	-	15,289
Due to Other Funds	27,836	-	-	27,836
Due to Others	2,325	-	-	2,325
Due to Component Unit	15,342	-	-	15,342
Unearned Revenues	3,100	-	-	3,100
Other Current Liabilities	41,094	-	-	41,094
Total Liabilities	<u>451,583</u>	<u>-</u>	<u>-</u>	<u>451,583</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Property Taxes	26,523	-	1,253	27,776
Total Deferred Inflows of Resources	<u>26,523</u>	<u>-</u>	<u>1,253</u>	<u>27,776</u>
<b>FUND BALANCES</b>				
Nonspendable Fund Balance:				
Inventories	47,040	-	-	47,040
Restricted Fund Balance:				
Restricted for Tourism	23,673	-	-	23,673
Capital Acquisition and Contractual Obligation	-	5,288,536	-	5,288,536
Retirement of Long-Term Debt	-	-	29,277	29,277
Assigned Fund Balance:				
Other Assigned Fund Balance	-	-	17,028	17,028
Unassigned Fund Balance	491,204	-	-	491,204
Total Fund Balances	<u>561,917</u>	<u>5,288,536</u>	<u>46,305</u>	<u>5,896,758</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,040,023</u>	<u>\$ 5,288,536</u>	<u>\$ 47,558</u>	<u>\$ 6,376,117</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, 2017

<b>Total Fund Balances - Governmental Funds</b>	\$	5,896,758
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.		9,003,866
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 2017 capital outlays and debt principal payments is to increase net position.		1,018,759
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 \$1,423,525, a Deferred Resource Outflow of \$431,669 and a Deferred Resource Inflow of \$44,747. The net effect of these was to decrease the ending net position by \$1,036,603.		(1,036,603)
The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(565,448)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(5,338,825)
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b>8,978,507</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 BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT C-3

	General Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 635,671	\$ -	\$ 45,845	\$ 681,516
General Sales and Use Taxes	843,606	-	-	843,606
Franchise Tax	95,211	-	-	95,211
Other Taxes	107,342	-	-	107,342
Licenses and Permits	33,076	-	-	33,076
Intergovernmental Revenue and Grants	375,729	-	143,605	519,334
Charges for Services	675,858	-	-	675,858
Fines	73,935	-	-	73,935
Investment Earnings	1,853	3,536	29	5,418
Rents and Royalties	182,539	-	-	182,539
Contributions & Donations from Private Sources	4,845	-	-	4,845
Other Revenue	167,013	-	-	167,013
Total Revenues	3,196,678	3,536	189,479	3,389,693
<b>EXPENDITURES:</b>				
City Council	29,840	-	-	29,840
General Administration	913,208	-	-	913,208
Main Street	120,781	-	397,967	518,748
Police	813,050	-	-	813,050
Municipal Court	103,869	-	-	103,869
Code Enforcement	72,884	-	-	72,884
Fire	60,352	-	-	60,352
Parks and Recreation	380,699	-	-	380,699
Lantex Theater	29,018	-	-	29,018
Golf Course	355,932	-	-	355,932
Street	409,604	-	-	409,604
Airport	340,182	-	-	340,182
Christmas Lighting	40,746	-	-	40,746
Depot Museum	5,084	-	-	5,084
JLK Arena	164,718	-	-	164,718
Debt Service:				
Principal on Debt	112,780	-	32,535	145,315
Interest on Debt	13,925	-	3,713	17,638
Other Debt Service	-	78,862	-	78,862
Capital Outlay:				
Capital Outlay	468,337	-	-	468,337
Total Expenditures	4,435,009	78,862	434,215	4,948,086
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,238,331)	(75,326)	(244,736)	(1,558,393)
<b>OTHER FINANCING SOURCES (USES):</b>				
Issuance of Bonds	-	5,025,000	-	5,025,000
Transfers In	1,340,841	-	263,512	1,604,353
Premium or Discount on Issuance of Bonds	-	338,862	-	338,862
Transfers Out (Use)	(263,512)	-	-	(263,512)
Total Other Financing Sources (Uses)	1,077,329	5,363,862	263,512	6,704,703
Net Change in Fund Balances	(161,002)	5,288,536	18,776	5,146,310
Fund Balance - October 1 (Beginning)	722,919	-	27,529	750,448
Fund Balance - September 30 (Ending)	\$ 561,917	\$ 5,288,536	\$ 46,305	\$ 5,896,758

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, 2017

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	5,146,310
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 2017 capital outlays and debt principal payments is to increase the change in net position.		1,018,759
The entries required by GASB 68 did require that some expenses on B-1 be adjusted. Total credits to expenses were \$296,987 and total debits to expenses were \$316,631. The net effect on the change in net position on Exhibit B-1 is a decrease of \$19,644.		(19,644)
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.		(565,448)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease the change in net position.		(5,364,486)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>215,491</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, 2017

	Business Type Activities
	Utility Fund
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ (84,548)
Investments - Current	1,554,793
Restricted Assets - Current:	
Restricted Asset - Construction	1,379,670
Restricted Asset - Debt Service	181,103
Restricted Asset - Capital Improvements	583,698
Accounts Receivable (Net)	1,024,037
Due from Other Governments	15,683
Due from Other Funds	3,303
Inventories	218,991
Total Current Assets	<u>4,876,730</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	51,121
Infrastructure	25,736,726
Accumulated Depreciation - Infrastructure	(10,260,172)
Furniture and Equipoment	1,755,353
Accumulated Depreciation - Furniture & Equipment	(1,008,136)
Construction in Progress	569,148
Total Noncurrent Assets	<u>16,844,040</u>
Total Assets	<u>21,720,770</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Charge for Refunding	114,344
Deferred Outflow Related to Pension Plan	189,606
Total Deferred Outflows of Resources	<u>303,950</u>

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, 2017

	Business Type Activities
	Utility Fund
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	609,345
Wages and Salaries Payable	28,335
Compensated Absences Payable	46,363
Intergovernmental Payable	8,980
Due to Other Funds	3,303
Due to Fiduciary Funds	9,744
Accrued Interest Payable	9,626
Notes Payable - Current	164,000
Bonds Payable - Current	280,000
Other Current Liabilities	229,272
Total Current Liabilities	<u>1,388,968</u>
Noncurrent Liabilities:	
Bonds Payable - Noncurrent	6,380,000
Loans Payable - Noncurrent	826,780
Unamortized Premiums (Discounts) on Bonds Payable from Restricted Assets - Noncurrent:	648,964
Net Pension Liability	632,609
Total Noncurrent Liabilities	<u>8,488,353</u>
Total Liabilities	<u>9,877,321</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Resource Inflow Related to Pension Plan	21,058
Total Deferred Inflows of Resources	<u>21,058</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	10,244,296
Restricted for Capital Improvements	583,698
Restricted for Debt Service	181,103
Unrestricted Net Position	1,117,244
Total Net Position	<u>\$ 12,126,341</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, 2017

EXHIBIT D-2 (Cont'd)

	Business-Type Activities
	Utility Fund
<b>OPERATING REVENUES:</b>	
Charges for Water Services	\$ 1,121,878
Charges for Sewer Services	965,683
Charges for Sanitation Services	752,230
Charges for Electricity Services	4,349,979
Charges for Services - Other	209,822
Other Revenue	6,714
Total Operating Revenues	7,406,306
<b>OPERATING EXPENSES:</b>	
Administration	
Personnel Services - Salaries and Wages	192,557
Personnel Services - Employee Benefits	81,224
Purchased Professional & Technical Services	12,939
Purchased Property Services	25,744
Other Operating Costs	28,521
Supplies	12,372
Total Administration	353,357
Customer Convenience Station	
Personnel Services - Salaries and Wages	27,807
Personnel Services - Employee Benefits	21,587
Purchased Professional & Technical Services	72,906
Purchased Property Services	1,119
Other Operating Costs	2,628
Supplies	1,743
Total Customer Convenience Station	127,790
Sanitation	
Purchased Professional & Technical Services	586,761
Water Plant	
Personnel Services - Salaries and Wages	70,068
Personnel Services - Employee Benefits	38,166
Purchased Professional & Technical Services	23,668
Purchased Property Services	60,492
Other Operating Costs	35,440
Supplies	130,857
Total Water Plant	358,691
Water Distribution	
Personnel Services - Salaries and Wages	104,278
Personnel Services - Employee Benefits	54,552
Purchased Professional & Technical Services	3,373
Purchased Property Services	88,787
Other Operating Costs	7,021
Supplies	16,156
Total Water Distribution	274,167
Sewer Plant	
Personnel Services - Salaries and Wages	56,401
Personnel Services - Employee Benefits	32,812

CITY OF LLANO, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT D-2

	Business-Type Activities
	Utility Fund
Purchased Professional & Technical Services	34,133
Purchased Property Services	43,686
Other Operating Costs	35,431
Supplies	59,469
Total Sewer Plant	261,932
Sewer Collection	
Personnel Services - Salaries and Wages	43,160
Personnel Services - Employee Benefits	28,152
Purchased Professional & Technical Services	10,673
Purchased Property Services	138,159
Other Operating Costs	14,677
Supplies	16,852
Total Sewer Collection	251,673
Electric	
Personnel Services - Salaries and Wages	230,487
Personnel Services - Employee Benefits	111,205
Purchased Professional & Technical Services	2,679,387
Purchased Property Services	142,675
Other Operating Costs	8,827
Supplies	13,897
Total Electric	3,186,478
Depreciation	575,089
Total Operating Expenses	5,975,938
Operating Income	1,430,368
NONOPERATING REVENUES (EXPENSES):	
Investment Earnings	21,237
Interest Expense - Non-Operating	(222,383)
Total NonOperating Revenue (Expenses)	(201,146)
Income Before Contributions & Transfers	1,229,222
Capital Contributions	106,310
Non-Operating Transfers In	13,202
Transfers Out (Use)	(1,354,044)
Change in Net Position	(5,310)
Total Net Position - October 1 (Beginning)	12,227,610
Prior Period Adjustment	(95,959)
Total Net Position - September 30 (Ending)	\$ 12,126,341

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, 2017

	Business-Type Activities
	Utility Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 7,327,459
Cash Received from - Other Services	6,714
Cash Payments to Employees for Services	(1,071,521)
Cash Payments for Suppliers	(251,346)
Cash Payments for Other Operating Expenses	(3,874,065)
Net Cash Provided by Operating Activities	<u>2,137,241</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	<u>(1,340,842)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	(1,055,656)
Capital Contributed by Other Funds	106,310
Increase in Restricted Assets	(1,169,054)
Loan Proceeds	300,161
Loan Payments	(146,675)
Series 2017 Combination Tax & Rev CO	1,700,000
Bond Payments	(205,000)
Interest Paid	(210,180)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(680,094)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>21,236</u>
Net Increase in Cash and Cash Equivalents	137,541
Cash and Cash Equivalents at the Beginning of the Year	<u>1,332,704</u>
Cash and Cash Equivalents at the End of the Year	<u>\$ 1,470,245</u>

CITY OF LLANO, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities
	Utility Fund
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided By Operating Activities:</u>	
Operating Income	\$ 1,430,368
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	575,089
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	(72,133)
Decrease (Increase) in Inventories	40,470
Decrease (Increase) in Due From Other Governments	30
Increase (Decrease) in Accounts Payable	130,100
Increase (Decrease) in Accrued Wages	(12,228)
Increase (Decrease) in Compensated Absences	19,302
Increase (Decrease) in Other Accrued Liabilities	3,402
Increase (Decrease) in Intergovernmental Payable	8,980
Increase (Decrease) in Pension Liability	13,861
Net Cash Provided by Operating Activities	<u>\$ 2,137,241</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, 2017

	Private Purpose Trust Fund	Total Pension Trust Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 115	\$ 539
Investments - Current	35,510	-
Total Assets	<u>35,625</u>	<u>539</u>
<b>NET POSITION</b>		
Unrestricted Net Position	<u>35,625</u>	<u>539</u>
Total Net Position	<u><u>\$ 35,625</u></u>	<u><u>\$ 539</u></u>

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, 2017

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	Private Purpose Trust Fund	Total Pension Trust Fund
<hr/>		
OPERATING REVENUES:		
Investment Earnings	\$ 245	\$ -
Total Operating Revenues	<u>245</u>	<u>-</u>
Operating Income	245	-
Total Net Position - October 1 (Beginning)	<u>35,380</u>	<u>539</u>
Total Net Position September 30 (Ending)	<u><u>\$ 35,625</u></u>	<u><u>\$ 539</u></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, 2017

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.
2. **The Capital Projects Fund** – To account for financial resources to be used for the acquisition and construction of major capital facilities.

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, 2017, the carrying amount of the City's deposits was \$825,618 and the bank balance was \$1,138,225. The carrying amount of the Llano Economic Development Corporation's deposit was \$317,088 and the bank balance was \$317,303. The City's cash deposits held at First State Bank Central Texas and Llano National Bank at September 30, 2017 and during the year ended September 30, 2017 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, 2017 was \$8,806,374 (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, 2017 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 2016 tax roll, the assessed valuation was \$166,241,026 and the tax rate was \$.416 per \$100 valuation (\$.38773 for maintenance and operations and \$.02827 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 \$142,886. Based on historical collection rates for the various courts, the City has booked an allowance for uncollectible court fines and fees of \$107,164, resulting in a net receivable of \$35,722.

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, 2017 was \$52,240.

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 and in the Capital Projects Fund for capital construction and improvements.

F. Land, Structures and Equipment-Proprietary Fund

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

	Balance 10/01/16	Additions	Deletions	Balance 09/30/17
Land and Land Rights	\$ 533,711	\$	\$	\$ 533,711
Distribution and Collection Systems	23,276,872	163,780		23,440,652
Equipment	3,199,986	368,850		3,568,836
Construction Work In Progress	46,122	523,025		569,147
Totals	\$ 27,056,691	\$ 1,055,655	\$ -	\$ 28,112,346
Accumulated Depreciation	(10,693,218)	(575,089)		(11,268,307)
Fixed Assets, Net	\$ 16,363,473	\$ 480,566	\$ -	\$ 16,844,039

G. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2017, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 1,626,981	\$	\$	\$ 1,626,981
Buildings and Improvements	7,918,679	521,525		8,440,204
Equipment	4,264,308	81,593		4,345,901
Infrastructure	5,014,473	159,634		5,174,107
Construction Work In Progress	189,877	238,332	134,780	293,429
Totals at Historic Cost	\$ 19,014,318	\$ 1,001,084	\$ 134,780	\$ 19,880,622
Less Accumulated				
Depreciation for:				
Buildings and Improvements	(3,431,494)	(232,680)		(3,664,174)
Equipment	(3,372,227)	(236,043)		(3,608,270)
Infrastructure	(2,408,504)	(96,725)		(2,505,229)
Total Accumulated Depreciation	\$ (9,212,225)	\$ (565,448)	\$ -	\$ (9,777,673)
Governmental Activities				
Capital Assets, Net	\$ 9,802,093	\$ 435,636	\$ 134,780	\$ 10,102,949

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	3,591,680			3,591,680
Distribution & Collection Systems	125,000			125,000
Equipment	15,800			15,800
Construction Work In Progress	-			-
Total	3,951,480	-	-	3,951,480
Less Accumulated Depreciation for:				
Distribution & Collection Systems	(36,250)	(2,500)		(38,750)
Buildings and Improvements	(276,411)	(92,667)		(369,078)
Component Unit Activities:				
Capital Assets, Net	\$ 3,638,819	\$ (95,167)	\$ -	\$ 3,543,652

H. Changes in Long-Term Liabilities

A summary of changes in long-term debt for the year ended September 30, 2017 follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Bonds, Series 2017	\$	\$ 5,025,000		\$ 5,025,000	\$ 235,000
Premium on Bonds		338,862		338,862	
<b>Notes Payable -</b>					
Llano National Bank	7,606		7,606	-	
JP Morgan Chase	2,190		2,190	-	
Arrowhead Bank	117,219		32,408	84,811	28,447
Limited Tax Notes,- Series 2014	186,061		32,535	153,526	33,844
<b>Capital Leases</b>					
Caterpillar Financial	270,203		18,366	251,837	18,963
Yamaha	103,269		20,580	82,689	10,608
Schertz Bank & Trust	13,759		13,759	-	
Wells Fargo	24,010		17,871	6,139	6,139
	\$ 724,317	\$ 5,363,862	\$ 145,315	\$ 5,942,864	\$ 333,001
Compensated Absences Governmental Activity Long-Term Debt	73,911		7,139	66,772	
	\$ 798,228	\$ 5,363,862	\$ 152,454	\$ 6,009,636	\$ 333,001
	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<b>Business-Type Activities</b>					
<b>Bonds Payable</b>					
General Obl Refunding - Series 2016	\$ 5,165,000	\$ -	\$ 205,000	\$ 4,960,000	\$ 215,000
Combination Tax & Revenue CO Series 2017		1,700,000		1,700,000	65,000
Subtotal	\$ 5,165,000	\$ 1,700,000	\$ 205,000	\$ 6,660,000	\$ 280,000
Premium on Bonds	643,875	37,282	32,194	648,963	
<b>Notes Payable</b>					
Arrowhead Bank	31,317	210,161	33,861	207,617	51,450
JP Morgan Chase	20,286		20,286	-	
First State Bank Central Texas	785,691		92,528	693,163	95,342
Llano National Bank		90,000		90,000	17,208
Business Type Activity Long-Term Debt	\$ 6,646,169	\$ 2,037,443	\$ 383,869	\$ 8,299,743	\$ 444,000

I. General Obligation, Refunding Bonds and Combination Tax & Revenue Certificates of Obligation

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.

The City issued \$1,700,000 Combination Tax & Revenue Certificates of Obligation, Series 2017 for the purpose of providing funds for paying contractual obligations incurred for constructing, improving,

repairing, replacing and extending the City's water and waste water system. The Certificates were issued at an interest rate of 3.0% to 3.25%. The Certificates are payable from and secured by an ad valorem tax levied on all taxable property in the City limits allowed by law and from a limited pledge of the City's surplus water and sewer system revenues not to exceed \$1,000.

The City issued \$5,025,000 General Obligation Bonds, Series 2017 for the purpose of constructing, improving, extending, expanding, upgrading and/or developing streets, roads, bridges and intersections, including utility relocations, sidewalks, traffic safety and operational improvements, renovating, equipping, and/or developing land, buildings and facilities for City park and recreational purposes including improvements to the swimming pool and playground equipment. The bonds were issued at an interest rate of 2.0% to 4.0%. The Bonds are payable from the levy and collection of a direct continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City.

Debt service requirements are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 515,000	398,321	\$ 913,321
2019	530,000	383,762	913,762
2020	540,000	370,312	910,312
2021	560,000	354,112	914,112
2022	595,000	337,312	932,312
2023-2027	3,360,000	1,346,410	4,706,410
2028-2032	3,925,000	716,210	4,641,210
2033-2037	1,660,000	153,910	1,813,910
Totals	\$ <u>11,685,000</u>	\$ <u>4,060,349</u>	\$ <u>15,745,349</u>

J. Notes and Installments Payable

The following is a summary of notes and installments payable:

	<u>Balance at 09/30/17</u>
<b>GENERAL LONG TERM DEBT ACCOUNT GROUP</b>	
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%	\$ 2,265
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%.	71,433
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%	11,113
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%.	153,526
<b>Total General Long-Term Debt</b>	<u>\$ 238,337</u>

	Balance at 09/30/17
<b>UTILITY FUNDS</b>	
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%.	693,163
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%.	20,777
Long-term note payable to Arrowhead Bank - #98322 for the purchase of a Vac-Con and Vacuum Unit; original principal \$210,161 due in monthly Installments of \$3,707 through 02/15/2022 interest at 2.25%.	186,840
Long-term note payable to Llano National Bank for the purchase of a Bucket Truck; original principal \$90,000 due in monthly installments of \$1,588 through 09/13/2022 interest at 2.25%	90,000
 Total Utilities Fund	\$ 990,780
 Total Notes Payable	\$ 1,229,117

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

September 30,	Principal	Interest	Total
2018	\$ 226,291	\$ 33,324	\$ 259,615
2019	229,403	25,985	255,388
2020	222,380	19,628	242,008
2021	210,040	13,341	223,381
2022	154,445	7,745	162,190
2023-2027	186,558	4,933	191,491
Totals	\$ 1,229,117	\$ 104,956	\$ 1,334,073

**K. Capitalized Leases and Other Commitments**

Capital lease obligations at September 30, 2017, are composed of the following:

	Balance at 09/30/17
<b>GENERAL FUND</b>	
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%.	251,837
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%	82,689
Lease payable to Wells Fargo for Jacobsen Greens & Rough Mowers, 60	6,139

	<u>Balance at 09/30/17</u>
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%	
Total General Funds	<u>\$ 340,665</u>

Future minimum lease payments under the lease along with the present value of the minimum lease payments as of September 30, 2017:

<u>Year Ended September 30,</u>	<u>General Long-Term Obligations</u>
2018	\$ 45,193
2019	98,875
2020	26,793
2021	<u>193,081</u>
Total Minimum Lease Payments	\$ 363,942
Less Amount Representing Interest	<u>23,277</u>
Present Value of Lease Payments	<u>\$ 340,665</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 Sate Bank	\$ 1,564,937	\$ -	\$ 161,655	\$ 1,403,282	\$ 149,379
Component Unit Activity					
Long-Term Debt	<u>\$ 1,564,937</u>	<u>\$ -</u>	<u>\$ 161,655</u>	<u>\$ 1,403,282</u>	<u>\$ 149,379</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, 2017 was \$1,378,239.

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, 2017 was \$25,043.

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>
2018	\$ 149,379	56,595	\$ 205,974
2019	129,705	51,226	180,931
2020	134,306	46,625	180,931
2021	141,149	39,782	180,931
2022	147,244	33,687	180,931
2023-2027	701,499	67,459	768,958
Totals	\$ <u>1,403,282</u>	\$ <u>295,374</u>	\$ <u>1,698,656</u>

M. RETIREMENT PLANS

**Texas Municipal Retirement System (TMRS)**

Plan Description

The City of Llano, Texas participates as one of 872 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.tmrs.com](http://www.tmrs.com).

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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 2015	Plan Year 2016
Deposit Rate:	7%	7%
Matching Ratio (City to Employee):	1.5 to 1	2 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, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	37
Inactive employees entitled to but not yet receiving benefits	22
Active employees	45
	<hr/>
	104

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 14.35% and 15.00% in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017, were \$329,760, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2016, 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, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation 2.5% per year

Overall payroll growth 2.3% 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, 2016, 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 2016 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, 2015	\$ 6,889,878	\$ 5,012,168	\$ 1,877,710
Changes for the year:			
Service cost	315,794		315,794
Interest	465,907		465,907
Changes of Benefit Terms	-		-
Difference between Expected and Actual Experience	91,027		-
Changes in Assumptions	-		-
Contributions - Employer		293,523	(293,523)
Contributions - Employee		145,336	(145,336)
Net investment income		338,705	(338,705)
Benefit Payments, Including Refunds of Employee Contributions	(290,887)	-	-
Administrative Expense		(3,826)	3,826
Other Changes		(206)	206
	-		-
Net Changes	<u>581,841</u>	<u>482,645</u>	<u>8,169</u>
Balances as of December 31, 2016	<u>\$ 7,471,719</u>	<u>\$ 5,494,813</u>	<u>\$ 1,976,906</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%
\$ 2,933,965	\$ 1,976,906	\$ 1,177,179

**Pension Plan Fiduciary Net Position**

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

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

For the year ended September 30, 2017, the City recognized pension expense of \$290,454.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 65,498	\$ 63,936
Changes of assumptions	-	53,644
Net difference between projected and actual earnings	307	232,075
Contributions made subsequent to measurement date	-	242,895
	<u>\$ 65,805</u>	<u>\$ 592,550</u>

\$242,895 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, 2017. 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:

2017	\$ 94,027
2018	111,069
2019	78,830
2020	(76)
Total	<u>\$ 283,850</u>

### 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, 2016 there were 199 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, 2016, 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>26</u>
	40

#### 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, 2016, 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, 2016, total contributions (dues, prior service, and interest on prior service financing) of \$11,913 were paid by the City. The State appropriated \$1,583,825 for the fiscal year ending August 31, 2016 to the plan as a whole.

## Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date	8/31/2016
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	3.00%
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 (currently 4.97%) and by adding expected inflation (3.00%). In addition, the final 7.75% assumption reflected a reduction of 0.22% 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%	5.72%
Small cap domestic	10	5.96
Developed international	21	6.21
Emerging markets	6	7.18
Master limited partnership	5	7.61
Fixed income		
Domestic	21	1.61
International	5	1.81
Cash	0	0
Total	100%	
Weighted average		4.97%

## 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, 2016 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method 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%
\$ 134,135	\$ 79,228	\$ 44,245

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

At August 31, 2016, the City reported a liability of \$79,228 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	\$ 79,228
State's proportionate share that is associated with the City*	<u>27,390</u>
Total	<u><u>106,618</u></u>

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

At August 31, 2016 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, 2016, the City recognized pension expense of \$12,464 and revenue of \$4,308 for support provided by the State.

At August 31, 2016, 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>
Differences between expected and actual experience		\$ 123
Changes of assumptions		1,687
Difference between projected and actual investment earnings		16,812
Contributions made subsequent to measurement date	-	11,913
	<u>-</u>	<u>\$ 28,725</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:		
2017	\$	4,656
2018		4,656
2019		4,655
2020		4,655
Total	\$	<u>18,622</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 2017, 2016 and 2015 were \$6,831, \$6,617 and \$5,186, respectively, which equaled the required contributions each year.

<u>Plan/ Calendar Year</u>	<u>Annual Required Contribution (Rate)</u>	<u>Actual Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>
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 65% 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, 2017, consisted of the following:

	<u>Receivable</u>	<u>Payable</u>
<u>General Fund</u>		
Component Unit	\$ 28,310	\$ 15,083
Utility Fund	9,744	
Debt Service Fund		3,051
Special Revenue		19,131
<u>Debt Service Fund</u>		
General Fund	3,051	
<u>Utility Fund</u>		
General Fund		9,744
<u>Special Revenue</u>		
General Fund	19,131	
<u>Component Unit</u>		
General Fund	<u>15,083</u>	<u>28,310</u>
 Totals	 <u>\$ 75,319</u>	 <u>\$ 75,319</u>

During the year ended September 30, 2017, the City's transfers between funds consisted of:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	1,340,842	263,512
Debt Service Fund	19,651	
Special Revenue Funds	243,861	
Enterprise Funds-		
Utility Fund		1,340,842
Totals	<u>1,604,354</u>	<u>1,604,354</u>

R. Cash Flows Statement - Supplemental Disclosures

Since the City is tax exempt no income tax was paid in 2017 and 2016. The City paid interest in the amount of \$210,180 in 2017 and \$168,416 in 2016.

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. Excess of Expenditures over Appropriations

Expenditures in several line items in the General Fund exceeded appropriations but not in total.

V. Prior Period Adjustment

A prior period adjustment in the amount of (\$95,959) was recorded in the Utility Fund. This adjustment was necessary to write off bond issuance cost in compliance with GASB 65 that became effective for periods beginning after December 15, 2012. The restated beginning fund net position for the Utility Fund is \$12,131,651.

W. Subsequent Events

The City has evaluated subsequent events through March 28, 2018, the date which the financial statements were available to be issued. Subsequent to year end the City was approved by the Texas Water Development Board to receive \$4.910 million in loan/loan forgiveness to fund drinking water and clean water projects. The City also received \$134,691 for the sale of property on Ford Street. 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, 2017

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property Taxes	\$ 665,273	\$ 665,273	\$ 635,671	\$ (29,602)
General Sales and Use Taxes	805,000	805,000	843,606	38,606
Franchise Tax	90,200	90,200	95,211	5,011
Other Taxes	117,395	117,395	107,342	(10,053)
Licenses and Permits	20,500	20,500	33,076	12,576
Intergovernmental Revenue and Grants	20,000	20,000	375,729	355,729
Charges for Services	860,090	751,325	675,858	(75,467)
Fines	80,000	80,000	73,935	(6,065)
Investment Earnings	400	400	1,853	1,453
Rents and Royalties	75,300	184,065	182,539	(1,526)
Contributions & Donations from Private Sources	30,000	4,000	4,845	845
Other Revenue	172,400	202,900	167,013	(35,887)
Total Revenues	2,936,558	2,941,058	3,196,678	255,620
<b>EXPENDITURES:</b>				
City Council	23,277	28,827	29,840	(1,013)
General Administration	965,237	960,352	913,208	47,144
Main Street	118,771	122,771	120,781	1,990
Police	875,838	805,638	813,050	(7,412)
Municipal Court	112,018	108,768	103,869	4,899
Code Enforcement	84,641	84,641	72,884	11,757
Fire	63,742	63,742	60,352	3,390
Parks and Recreation	437,322	417,774	380,699	37,075
Lantex Theater	27,100	27,100	29,018	(1,918)
Golf Course	441,714	387,605	355,932	31,673
Street	482,690	458,980	409,604	49,376
Airport	376,806	376,806	340,182	36,624
Christmas Lighting	30,000	30,500	40,746	(10,246)
Depot Museum	3,800	3,800	5,084	(1,284)
JLK Arena	175,430	175,430	164,718	10,712
Debt Service:				
Principal on Debt	-	112,780	112,780	-
Interest on Debt	-	31,722	13,925	17,797
Capital Outlay:				
Capital Outlay	76,000	376,295	468,337	(92,042)
Total Expenditures	4,294,386	4,573,531	4,435,009	138,522
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,357,828)	(1,632,473)	(1,238,331)	394,142
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	1,381,151	1,381,151	1,340,841	(40,310)
Transfers Out (Use)	-	-	(263,512)	(263,512)
Total Other Financing Sources (Uses)	1,381,151	1,381,151	1,077,329	(303,822)
Net Change in Fund Balances	23,323	(251,322)	(161,002)	90,320
Fund Balance - October 1 (Beginning)	722,919	722,919	722,919	-
Fund Balance - September 30 (Ending)	\$ 746,242	\$ 471,597	\$ 561,917	\$ 90,320

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, 2017

EXHIBIT G-2

	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
<b>A. Total Pension Liability</b>			
Service Cost	\$ 315,794	\$ 216,328	\$ 208,031
Interest (on the Total Pension Liability)	465,907	452,805	403,095
Changes of Benefit Terms	-0-	596,175	-0-
Difference between Expected and Actual Experience	91,027	(107,658)	(173,667)
Changes of Assumptions	-0-	136,174	-0-
Benefit Payments, including refunds of employee contributions	(290,887)	(336,489)	(318,787)
Net change in Total Pension Liability	\$ 581,841	\$ 957,335	\$ 118,672
Total Pension Liability - Beginning	6,889,878	5,932,543	5,813,871
Total Pension Liability - Ending	\$ 7,471,719	\$ 6,889,878	\$ 5,932,543
<b>B. Total Fiduciary Net Position</b>			
Contributions - Employer	\$ 293,523	\$ 175,995	\$ 162,462
Contributions - Employee	145,336	124,122	120,611
Net Investment Income	338,705	7,445	275,131
Benefit Payments, including refunds of employee contributions	(290,887)	(336,489)	(318,787)
Administrative Expense	(3,826)	(4,535)	(2,873)
Other	(206)	(224)	(236)
Net Change in Plan Fiduciary Net Position	\$ 482,645	\$ (33,686)	\$ 236,308
Plan Fiduciary Net Position - Beginning	5,012,168	5,045,854	4,809,546
Plan Fiduciary Net Position - Ending	\$ 5,494,813	\$ 5,012,168	\$ 5,045,854
<b>C. Net Pension Liability</b>	\$ 1,976,906	\$ 1,877,710	\$ 886,689
<b>D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	73.54%	72.75%	85.05%
<b>E. Covered Employee Payroll</b>	\$ 2,076,229	\$ 1,773,177	\$ 1,723,017
<b>F. Net Pension Liability as a Percentage of Covered Employee Payroll</b>	95.22%	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 three 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, 2017

EXHIBIT G-3

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially Determined Contribution	\$ 329,760	\$ 264,599	\$ 173,413
Contributions in Relation to the Actuarially Determined Contributions	(329,760)	(264,599)	(173,413)
Contribution Deficiency (Excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Covered Employee Payroll	\$ 2,251,891	\$ 1,991,733	\$ 1,717,307
Contributions as a Percentage of Covered Employee Payroll	14.64%	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 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "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, 2017

**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 Remaining Amortization Period	Level Percentage of Payroll, Closed  25 years
Asset Valuation Method Inflation	10 Year smoothed market; 15% soft corridor 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 There were no benefit changes during this year.

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, 2017

EXHIBIT G-4

	<u>2016</u>	Measurement Year* <u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.272%	0.272%	0.269%
City's proportionate share of the net pension liability	\$ 79,228	\$ 86,082	\$ 48,882
State's proportionate share of the net pension liability	<u>27,390</u>	<u>25,167</u>	<u>4,117</u>
Total	<u>\$ 106,618</u>	<u>\$ 111,249</u>	<u>\$ 52,999</u>
Number of Active Members**	26	25	24
City's Net Pension Liability per Active Member	4,101	4,450	2,208
Plan fiduciary net position as a percentage of the total pension liability	76.3%	76.9%	83.5%

\*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  
SCHEDULE OF CONTRIBUTIONS  
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)  
For the Year Ended September 30, 2017

EXHIBIT G-5

	Fiscal Year*			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 11,913	\$ 12,464	\$ 12,833	\$ 12,177
Contributions in relation to the contractually required contribution	<u>11,913</u>	<u>12,464</u>	<u>12,833</u>	<u>12,177</u>
Contribution deficiency(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Number of Active members**	26	27	25	24
Contributions per active member	\$ 458	\$ 462	\$ 513	\$ 507

\*Only four years of information is currently available. The City will build this schedule over the next six 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 TERSRS CONTRIBUTIONS  
SEPTEMBER 30, 2017

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, 2017

	TXDot Tap Grant	TCF Main Street Grant	Total Nonmajor Special Revenue Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ -	\$ -	\$ -
Taxes Receivable	-	-	-
Due from Other Funds	17,028	-	17,028
Total Assets	<u>\$ 17,028</u>	<u>\$ -</u>	<u>\$ 17,028</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	-	-	-
Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>			
Restricted Fund Balance:			
Retirement of Long-Term Debt	-	-	-
Assigned Fund Balance:			
Other Assigned Fund Balance	17,028	-	17,028
Total Fund Balances	<u>17,028</u>	<u>-</u>	<u>17,028</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 17,028</u>	<u>\$ -</u>	<u>\$ 17,028</u>

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

Debt Service Fund	Total Nonmajor Governmental Funds
\$ 26,226	\$ 26,226
1,253	1,253
3,051	20,079
<u>\$ 30,530</u>	<u>\$ 47,558</u>
1,253	1,253
<u>1,253</u>	<u>1,253</u>
29,277	29,277
-	17,028
<u>29,277</u>	<u>46,305</u>
<u>\$ 30,530</u>	<u>\$ 47,558</u>

CITY OF LLANO, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	TXDot Tap Grant	TCF Main Street Grant	Total Nonmajor Special Revenue Funds
<b>REVENUES:</b>			
Taxes:			
Property Taxes	\$ -	\$ -	\$ -
Intergovernmental Revenue and Grants	-	143,605	143,605
Investment Earnings	-	-	-
Total Revenues	<u>-</u>	<u>143,605</u>	<u>143,605</u>
<b>EXPENDITURES:</b>			
Main Street	238,332	159,635	397,967
Debt Service:			
Principal on Debt	-	-	-
Interest on Debt	-	-	-
Total Expenditures	<u>238,332</u>	<u>159,635</u>	<u>397,967</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(238,332)</u>	<u>(16,030)</u>	<u>(254,362)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers In	<u>238,332</u>	<u>5,529</u>	<u>243,861</u>
Total Other Financing Sources (Uses)	<u>238,332</u>	<u>5,529</u>	<u>243,861</u>
Net Change in Fund Balance	-	(10,501)	(10,501)
Fund Balance - October 1 (Beginning)	<u>17,028</u>	<u>10,501</u>	<u>27,529</u>
Fund Balance - September 30 (Ending)	<u>\$ 17,028</u>	<u>\$ -</u>	<u>\$ 17,028</u>

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

Debt Service Fund	Total Nonmajor Governmental Funds
\$ 45,845	\$ 45,845
-	143,605
29	29
45,874	189,479
-	397,967
32,535	32,535
3,713	3,713
36,248	434,215
9,626	(244,736)
19,651	263,512
19,651	263,512
29,277	18,776
-	27,529
\$ 29,277	\$ 46,305

**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 28, 2018

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, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), 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 September 30, 2017. 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, 2017. 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 28, 2018.

#### *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

##### Pooled Cash Balances

The pooled cash balance in the Utility Fund is negative. We recommend the City review the pooled cash balances prior to year end and correct the allocation.

##### Interfund Receivables and Payables

Interfund receivables and payables were not reconciled and in balance. This contributed to the double recording of capital outlay expenditures in the governmental funds. We recommend the interfund receivables and payables be reviewed and reconciled prior to year end.

##### Utility System Reports


Audit procedures revealed Utility System receivable reports did not agree with the general ledger. We recommend procedures be implemented to reconcile the system reports to the general ledger on a monthly basis.

Budget Amendments

Several line item functions in the General Fund budget exceeded appropriations. Expenditures did not exceed appropriations in total. We recommend the City monitor the budget and make the appropriate budget amendments.

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,

A handwritten signature in blue ink that reads "Neffendorf & Knopp, P.C." in a cursive style.

NEFFENDORF & KNOPP, P.C.  
Fredericksburg, Texas