

REPORT OF EXAMINATION

**CITY OF
LLANO**

Llano, Texas

**For the Year Ended
September 30, 2018**

CITY OF LLANO, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2018

CITY OF LLANO
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2018

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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, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Note N to the financial statements, in 2018, the City adopted new accounting guidance prescribed by GASB #75 for its Other Post Employment Benefit (OPEB). Because GASB #75 implements new measurement criteria and reporting provisions, information has been added to the Government Wide Statements, Statement of Net Position and Governmental Funds Balance Sheet discloses the City's Net OPEB liability and deferred resource outflows related to the City's supplemental death benefits. The Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balance discloses the adjustment to the City's Beginning Net Position. Our opinion is not modified with respect to the matter

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, required supplementary schedules Texas Emergency Services Retirement System and the required supplementary schedule Texas Municipal Retirement System Other Post Employment Benefits on pages 51-59 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 13, 2019

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, 2018. 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 \$22,283,571 (net position). Of this amount, \$2,692,417 (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 \$1,534,934 as a result of this year's operations.
- At September 30, 2018, the City's governmental funds reported combined ending fund balances of \$5,728,645, a decrease of \$168,115 in comparison with the prior year.
- At September 30, 2018, the City's Enterprise Funds reported unrestricted net position of \$2,779,997 an increase of \$1,098,507 in comparison with the prior year.
- The City issued a total of \$4,910,000 in Combination Tax and Surplus Revenue Certificates of Obligation 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 14). 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 15) 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 27) 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, the required supplementary schedules Texas Emergency Services Retirement System and the required supplementary schedule Texas Municipal Retirement System Other Post Employment Benefits are presented as required supplementary information on pages 51 through 59.

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 \$8,978,509 to \$9,299,302. 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 (\$87,580) at September 30, 2018. This increase in governmental net position was the result of five factors. First, the City's expenditures exceeded the revenues by \$168,115. Second, the City issued long-term debt in the amount of \$403,040, paid principal on long-term debt of \$410,748 and acquired capital assets in the amount of \$1,269,396. Third the City recorded depreciation in the amount of \$541,217 and fourth, due to implementation of GASB Statement No. 68 an increase in expenses was necessary in the amount of \$41,332. Fifth, due to implementation of GASB Statement No. 75 a prior period adjustment was necessary in the amount of (\$115,634) and a net decrease of \$5,897 due to recognition of deferred outflows and OPEB liability related to GASB 75 accounting and financial reporting for other post-employment benefits.

Net position of the City's business-type activities increased from \$12,126,343 to \$12,984,269. Unrestricted net position was \$2,779,997 at September 30, 2018. This increase in business-type net position was the result of a net gain of \$1,098,507 and a prior period adjustment of (\$240,581).

Table I
City of Llano

NET POSITION in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2018	2017	2018	2017	2018	2017
Current and Restricted Assets	\$ 6,133	\$ 6,348	\$ 9,563	\$ 4,873	\$ 15,696	\$ 11,221
Capital Assets	10,723	10,103	17,228	16,844	27,951	26,947
Total Assets	\$ 16,856	\$ 16,451	\$ 26,791	\$ 21,717	\$ 43,647	\$ 38,168
Deferred Outflow of Resources						
Deferred Charge for Refunding	\$	\$	\$ 108	\$ 114	\$ 108	\$
Deferred Outflow Related to Pension Plan & OPEB	417	432	179	190	596	
	\$ 417	\$ 432	\$ 287	\$ 304	\$ 704	\$ -
Long-Term Liabilities	\$ 7,023	\$ 7,100	\$ 12,676	\$ 8,489	\$ 19,699	\$ 15,589
Other Liabilities	719	757	1,318	1,385	2,037	2,142
Total Liabilities	\$ 7,742	\$ 7,857	\$ 13,994	\$ 9,874	\$ 21,736	\$ 17,731
Deferred Inflow of Resources						
Unavailable Revenue - Property Taxes	\$ 9	\$ 3	\$	\$	\$ 9	\$ 3
Deferred Inflow Related to Pension Plan	222	45	100	21	322	
Total Deferred Inflows of Resources	\$ 231	\$ 48	\$ 100	\$ 21	\$ 331	\$ 3
Net Position:						
Net Investment						
in Capital Assets	\$ 4,670	\$ 9,119	\$ 9,393	\$ 10,244	\$ 14,063	\$ 19,363
Restricted	92	46	811	765	903	811
Unrestricted	4,538	(186)	2,780	1,117	7,318	931
Total Net Position	\$ 9,300	\$ 8,979	\$ 12,984	\$ 12,126	\$ 22,284	\$ 21,105

Table II
City of Llano

CHANGES IN NET POSITION
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues:						
Charges for Services	\$ 745	\$ 783	\$ 8,601	\$ 7,399	\$ 9,346	\$ 8,182
Property Tax Collections	1,163	681			1,163	681
Sales Tax	886	844			886	844
Franchise Tax	94	95			94	95
Operating Grants & Contributions	19	19			19	19
Capital Grants & Contributions	4	505			4	505
Investment Earnings	95	5	63	21	158	26
Other Taxes	126	107			126	107
Miscellaneous	498	350	1	7	499	357
Total Revenue	\$ 3,630	\$ 3,389	\$ 8,665	\$ 7,427	\$ 12,295	\$ 10,816
Expenses:						
City Council	\$ 16	\$ 42			\$ 16	\$ 42
General Administration	1,129	1,037			1,129	1,037
Main Street	144	189			144	189
Police	983	928			983	928
Code Enforcement	99	83			99	83
Fire	62	59			62	59
Recreation and Parks	428	430			428	430
Lantex Theater	29	33			29	33
Cemetary					-	-
Municipal Court	111	118			111	118
Golf Course	440	410			440	410
Street	451	468			451	468
Airport	420	383			420	383
Other	40	52			40	52
JLK Arena	187	185			187	
JLK Events Center					-	
Water			760	702	760	702
Sewer			557	571	557	571
Sanitation			608	656	608	656
Electric			3,521	3,526	3,521	3,526
Other Utility			477	521	477	521
Debt Service	159	97	433	222	592	319
Total Expenses	\$ 4,698	\$ 4,514	\$ 6,356	\$ 6,198	\$ 11,054	\$ 10,527
Increase in Net Assets Before						
Transfers & Capital Contributions	\$ (1,068)	\$ (1,125)	\$ 2,309	\$ 1,229	\$ 1,241	\$ 104
Capital Contributions						
Transfers	\$ -	\$ -	\$ 293	\$ 106	\$ 293	\$ 106
Total	\$ 1,504	\$ 1,341	\$ (1,211)	\$ (1,235)	\$ 293	\$ 106
Net Change	\$ 436	\$ 216	\$ 1,098	\$ (6)	\$ 1,534	\$ 210
Net Position, Beginning	8,979	8,763	12,126	12,227	21,105	20,990
Prior Period Adjustment	(115)		\$ (240)	\$ (95)	(355)	(95)
Net Position, Ending	\$ 9,300	\$ 8,979	\$ 12,984	\$ 12,126	\$ 22,284	\$ 21,105

The cost of all governmental activities this year was \$4,698,359. 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 \$1,163,016 because the other costs were paid by sales tax (\$885,898), other tax (\$219,823), user charges (\$745,548), operating and capital grants (\$23,107), and other miscellaneous (\$498,561).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 15) reported a combined fund balance of \$5,728,645, which is less than last year's total of \$5,896,760. Included in this year's total change in fund balance is an increase of \$539,267 in the City's General Fund. This increase in the General Fund balance was caused by the excess of revenues over expenditures.

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, 2018, 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	
	2018	2017	2018	2017	2018	2017
Land	\$ 1,569	\$ 1,627	\$ 534	\$ 534	\$ 2,103	\$ 2,161
Construction in Progress	891	293	818	569	1,709	862
Distribution & Collection Systems			24,102	23,440	24,102	23,440
Buildings & Improvements	8,721	8,440			8,721	8,440
Equipment	4,526	4,346	3,646	3,569	8,172	7,915
Infrastructure	5,234	5,174			5,234	5,174
Total Capital Assets	\$ 20,941	\$ 19,880	\$ 29,100	\$ 28,112	\$ 50,041	\$ 47,992
Less: Accumulated Depreciation	(10,218)	(9,777)	(11,872)	(11,268)	(22,090)	(21,045)
Capital Assets, Net	\$ 10,723	\$ 10,103	\$ 17,228	\$ 16,844	\$ 27,951	\$ 26,947

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

DEBT

At September 30, 2018, the City had the following outstanding debt:

	OUTSTANDING DEBT					
	in thousands					
	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2018	2017	2018	2017	2018	2017
Bonds Payable	\$ 5,106	\$ 5,364	\$ 11,905	\$ 7,309	\$ 17,011	\$ 12,673
Notes Payable	424	238	827	991	1,251	1,229
Net Pension Liability	1,263		538		1,801	-
Net OPEB Liability	131		59		190	-
Capital Leases Payable	383	341	-	-	383	341
Compensated Absences	75	67			75	67
Total Outstanding Debt	\$ <u>7,382</u>	\$ <u>6,010</u>	\$ <u>13,329</u>	\$ <u>8,300</u>	\$ <u>20,711</u>	\$ <u>14,310</u>

For governmental activities, the City paid \$410,748 in principal on the outstanding long-term debt and issued \$403,040 in notes payable and capital leases.

For business-type activities, the City paid \$444,000 in principal on the outstanding long-term debt and issued a total of \$4,910,000 in Combination Tax & Surplus Revenue COs, Series 2018A-C.

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 2019 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 2019. Amounts available for appropriation in the General Fund budget are \$4,460,259 and expenditures are estimated to be \$4,260,856.

If these estimates are realized, the City's budgetary General fund balance is expected to increase by the close of 2019.

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, 2018

EXHIBIT A-1 (Cont'd)

	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Nonmajor Component Unit
ASSETS				
Cash and Cash Equivalents	\$ 1,078,302	\$ 144,212	\$ 1,222,514	\$ 146,428
Investments - Current	144,112	1,855,325	1,999,437	305,362
Taxes Receivable, Net	43,449	-	43,449	-
Accounts Receivable (Net)	57,180	799,857	857,037	25,856
Special Assessments Receivable (Net)	24,960	-	24,960	-
Due from Other Governments	133,539	462	134,001	44,513
Taxes Levied for Other Governments	10,547	-	10,547	-
Due from Other Funds	9,745	-	9,745	-
Due from Primary Government	-	-	-	15,342
Due from Component Unit	28,375	-	28,375	-
Inventories	42,728	218,991	261,719	-
Restricted Assets:				
Restricted Asset - Construction	4,559,705	5,732,958	10,292,663	-
Restricted Asset - Debt Service	-	317,745	317,745	-
Restricted Asset - Capital Improvements	-	493,656	493,656	-
Capital Assets:				
Land Purchase and Improvements	1,569,431	51,121	1,620,552	-
Infrastructure, Net	2,629,570	15,689,220	18,318,790	-
Buildings, Net	4,302,942	-	4,302,942	-
Improvements other than Buildings, Net	270,790	-	270,790	-
Furniture and Equipment, Net	819,713	670,017	1,489,730	-
Capital Assets, Net	-	-	-	3,448,483
Construction in Progress	1,130,732	818,014	1,948,746	-
Total Assets	<u>16,855,820</u>	<u>26,791,578</u>	<u>43,647,398</u>	<u>3,985,984</u>
DEFERRED OUTFLOW OF RESOURCES				
Deferred Charge for Refunding	-	108,326	108,326	-
Deferred Outflow Related to TMRS Pension Plan	387,819	174,238	562,057	-
Deferred Resource Outflow Related to OPEB	9,772	4,391	14,163	-
Deferred Outflow Related to TESRS Pension Plan	19,312	-	19,312	-
Total Deferred Outflows of Resources	<u>416,903</u>	<u>286,955</u>	<u>703,858</u>	<u>-</u>

CITY OF LLANO, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Nonmajor Component Unit
LIABILITIES				
Accounts Payable	160,775	346,860	507,635	300
Wages and Salaries Payable	126,400	26,521	152,921	-
Compensated Absences Payable	-	33,200	33,200	-
Due to Primary Government	-	-	-	28,375
Intergovernmental Payable	5,242	25,908	31,150	-
Due to Fiduciary Funds	-	9,744	9,744	-
Due to Others	2,725	-	2,725	-
Due to Component Unit	15,342	-	15,342	-
Accrued Interest Payable	-	13,815	13,815	-
Unearned Revenues	6,350	-	6,350	925
Notes Payable - Current	113,977	167,487	281,464	129,705
Bonds Payable - Current	245,000	-	245,000	-
Other Current Liabilities	43,714	209,773	253,487	-
Noncurrent Liabilities:				
Debt Due Within One Year	-	485,000	485,000	-
Due in More Than One Year - Noncurrent	5,628,838	12,079,199	17,708,037	1,124,198
Net Pension Liability - TMRS	1,197,216	537,880	1,735,096	-
Net Pension Liability - TESRS	65,525	-	65,525	-
Net OPEB Liability	131,303	58,991	190,294	-
Total Liabilities	<u>7,742,407</u>	<u>13,994,378</u>	<u>21,736,785</u>	<u>1,283,503</u>
DEFERRED INFLOW OF RESOURCES				
Unavailable Revenue - Property Taxes	8,689	-	8,689	-
Deferred Inflow Related to Pension Plan	222,325	99,886	322,211	-
Total Deferred Inflows of Resources	<u>231,014</u>	<u>99,886</u>	<u>330,900</u>	<u>-</u>
NET POSITION				
Net Investment in Capital Assets	9,295,068	9,392,871	18,687,939	2,194,580
Restricted for:				
Restricted for Capital Improvements	-	493,656	493,656	118,564
Restricted for Debt Service	67,754	317,745	385,499	-
Restricted for Special Revenue	24,060	-	24,060	-
Unrestricted Net Position	(87,580)	2,779,997	2,692,417	389,337
Total Net Position	<u>\$ 9,299,302</u>	<u>\$ 12,984,269</u>	<u>\$ 22,283,571</u>	<u>\$ 2,702,481</u>

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

CITY OF LLANO, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
City Council	\$ 16,587	\$ -	\$ -	\$ -
General Administration	1,128,983	-	-	-
Main Street	143,590	-	-	-
Police	983,386	-	-	-
Municipal Court	110,942	71,736	-	-
Code Enforcement	98,742	37,210	-	-
Fire	62,352	-	10,000	-
Parks and Recreation	427,921	116,927	-	-
Lantex Theater	28,700	-	-	-
Cemetery	-	6,496	-	-
Golf Course	440,191	207,870	-	-
Street	450,864	-	-	-
Airport	419,790	298,813	9,466	-
Community Development	590	-	-	-
Christmas Lighting	35,774	-	-	-
Depot Museum	3,283	-	-	-
JLK Arena	187,191	6,496	-	-
Interest on Debt	159,273	-	-	-
Other Debt Service	200	-	-	-
Total Governmental Activities	4,698,359	745,548	19,466	-
BUSINESS-TYPE ACTIVITIES:				
Utility Fund	6,356,211	8,600,962	-	293,478
Total Business-Type Activities	6,356,211	8,600,962	-	293,478
TOTAL PRIMARY GOVERNMENT	\$ 11,054,570	\$ 9,346,510	\$ 19,466	\$ 293,478
Component Unit:				
Llano Economic Development Corporation	\$ 153,570	\$ -	\$ -	\$ -
TOTAL COMPONENT UNITS	\$ 153,570	\$ -	\$ -	\$ -

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

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

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
(16,587)	-	(16,587)	-
(1,128,983)	-	(1,128,983)	-
(143,590)	-	(143,590)	-
(983,386)	-	(983,386)	-
(39,206)	-	(39,206)	-
(61,532)	-	(61,532)	-
(52,352)	-	(52,352)	-
(310,994)	-	(310,994)	-
(28,700)	-	(28,700)	-
6,496	-	6,496	-
(232,321)	-	(232,321)	-
(450,864)	-	(450,864)	-
(111,511)	-	(111,511)	-
(590)	-	(590)	-
(35,774)	-	(35,774)	-
(3,283)	-	(3,283)	-
(180,695)	-	(180,695)	-
(159,273)	-	(159,273)	-
(200)	-	(200)	-
(3,933,345)	-	(3,933,345)	-
-	2,538,229	2,538,229	-
-	2,538,229	2,538,229	-
(3,933,345)	2,538,229	(1,395,116)	-
-	-	-	(153,570)
-	-	-	(153,570)
686,776	-	686,776	-
476,240	-	476,240	-
885,898	-	885,898	290,557
93,744	-	93,744	-
126,079	-	126,079	-
3,641	-	3,641	-
498,561	905	499,466	-
94,667	63,539	158,206	6,251
1,504,166	(1,504,166)	-	-
4,369,772	(1,439,722)	2,930,050	296,808

CITY OF LLANO, TEXAS
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
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
436,427	1,098,507	1,534,934	143,238
8,978,509	12,126,343	21,104,852	2,559,243
(115,634)	(240,581)	(356,215)	-
<u>\$ 9,299,302</u>	<u>\$ 12,984,269</u>	<u>\$ 22,283,571</u>	<u>\$ 2,702,481</u>

CITY OF LLANO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	General Fund	Capital Projects	Other Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 1,010,548	\$ -	\$ 67,754	\$ 1,078,302
Investments - Current	144,112	-	-	144,112
Taxes Receivable	30,414	-	13,035	43,449
Accounts Receivable (Net)	57,180	-	-	57,180
Special Assessments Receivable (Net)	24,960	-	-	24,960
Due from Other Governments	133,539	-	-	133,539
Taxes Levied for Other Governments	10,547	-	-	10,547
Due from Other Funds	13,488	-	-	13,488
Due from Component Unit	28,375	-	-	28,375
Inventories	42,728	-	-	42,728
Restricted Asset - Capital Construction	-	4,559,705	-	4,559,705
Total Assets	<u>\$ 1,495,891</u>	<u>\$ 4,559,705</u>	<u>\$ 80,789</u>	<u>\$ 6,136,385</u>
LIABILITIES				
Accounts Payable	\$ 160,775	\$ -	\$ -	\$ 160,775
Wages and Salaries Payable	126,400	-	-	126,400
Intergovernmental Payable	5,242	-	-	5,242
Due to Other Funds	3,743	-	-	3,743
Due to Others	2,725	-	-	2,725
Due to Component Unit	15,342	-	-	15,342
Unearned Revenues	6,350	-	-	6,350
Other Current Liabilities	43,714	-	-	43,714
Total Liabilities	<u>364,291</u>	<u>-</u>	<u>-</u>	<u>364,291</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Taxes	30,414	-	13,035	43,449
Total Deferred Inflows of Resources	<u>30,414</u>	<u>-</u>	<u>13,035</u>	<u>43,449</u>
FUND BALANCES				
Nonspendable Fund Balance:				
Inventories	42,728	-	-	42,728
Restricted Fund Balance:				
Restricted for Tourism	24,060	-	-	24,060
Capital Acquisition and Contractual Obligation	-	4,559,705	-	4,559,705
Retirement of Long-Term Debt	-	-	67,754	67,754
Unassigned Fund Balance	1,034,398	-	-	1,034,398
Total Fund Balances	<u>1,101,186</u>	<u>4,559,705</u>	<u>67,754</u>	<u>5,728,645</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,495,891</u>	<u>\$ 4,559,705</u>	<u>\$ 80,789</u>	<u>\$ 6,136,385</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, 2018

Total Fund Balances - Governmental Funds	\$	5,728,645
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 (decrease) net position.		4,093,315
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 2018 capital outlays and debt principal payments is to increase net position.		1,586,305
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 \$1,262,741, a Deferred Resource Outflow of \$407,131 and a Deferred Resource Inflow of \$222,325. The net effect of these was to decrease the ending net position by \$1,077,935.		(1,077,935)
The City implemented GASB 75 reporting requirements for the OPEB benefit plan through TMRS. Since this is the first year of implementation, a prior period adjustment had to be made in the amount of (\$115,634). The implementation resulted in an OPEB liability of \$131,303 and a deferred outflow of \$9,772. This resulted in a difference between the ending fund balance and the ending net position of (\$121,531).		(121,531)
The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(541,217)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(368,280)
Net Position of Governmental Activities	\$	9,299,302

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, 2018

EXHIBIT C-3

	General Fund	Capital Projects	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property Taxes	\$ 677,053	\$ -	\$ 476,240	\$ 1,153,293
General Sales and Use Taxes	885,898	-	-	885,898
Franchise Tax	93,744	-	-	93,744
Other Taxes	126,079	-	-	126,079
Licenses and Permits	30,714	-	-	30,714
Intergovernmental Revenue and Grants	19,466	-	-	19,466
Charges for Services	649,593	-	-	649,593
Fines	65,240	-	-	65,240
Investment Earnings	13,243	78,679	2,746	94,668
Rents and Royalties	178,633	-	-	178,633
Contributions & Donations from Private Sources	3,641	-	-	3,641
Other Revenue	220,438	669	-	221,107
Total Revenues	2,963,742	79,348	478,986	3,522,076
EXPENDITURES:				
City Council	14,609	-	-	14,609
General Administration	980,257	-	-	980,257
Main Street	125,817	-	-	125,817
Police	849,924	-	-	849,924
Municipal Court	96,023	-	-	96,023
Code Enforcement	85,307	-	-	85,307
Fire	58,696	-	-	58,696
Parks and Recreation	371,325	-	-	371,325
Lantex Theater	25,278	-	-	25,278
Golf Course	382,450	-	-	382,450
Street	445,000	-	-	445,000
Airport	368,603	-	-	368,603
Community Development	590	-	-	590
Christmas Lighting	31,509	-	-	31,509
Depot Museum	3,283	-	-	3,283
JLK Arena	163,202	-	-	163,202
Debt Service:				
Principal on Debt	69,823	-	268,844	338,667
Interest on Debt	10,399	-	171,465	181,864
Other Debt Service	-	-	200	200
Capital Outlay:				
Capital Outlay	401,304	808,179	-	1,209,483
Total Expenditures	4,483,399	808,179	440,509	5,732,087
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,519,657)	(728,831)	38,477	(2,210,011)
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	134,691	-	-	134,691
Proceeds from Capital Leases	153,040	-	-	153,040
Non-Current Loans	250,000	-	-	250,000
Transfers In	1,521,193	-	-	1,521,193
Transfers Out (Use)	-	-	(17,028)	(17,028)
Total Other Financing Sources (Uses)	2,058,924	-	(17,028)	2,041,896
Net Change in Fund Balances	539,267	(728,831)	21,449	(168,115)
Fund Balance - October 1 (Beginning)	561,919	5,288,536	46,305	5,896,760
Fund Balance - September 30 (Ending)	\$ 1,101,186	\$ 4,559,705	\$ 67,754	\$ 5,728,645

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, 2018

Total Net Change in Fund Balances - Governmental Funds	\$	(168,115)
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 2018 capital outlays and debt principal payments is to increase the change in net position.		1,586,305
The entries required by GASB 68 did require that some expenses on B-1 be adjusted. The net effect on the change in net position on Exhibit B-1 is a decrease of \$41,332		(41,332)
The implementation of GASB 75 to report the TMRS OPEB plan resulted in a prior period adjustment in the amount of (\$115,634). The changes in the ending net position as a result of reporting the OPEB items was a decrease in net position in the amount of \$5,897.		(5,897)
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.		(541,217)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease the change in net position.		(393,317)
Change in Net Position of Governmental Activities	\$	436,427

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, 2018

	Business Type Activities
	Utility Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 144,212
Investments - Current	1,855,325
Restricted Assets - Current:	
Restricted Asset - Construction	5,732,958
Restricted Asset - Debt Service	317,745
Restricted Asset - Capital Improvements	493,656
Accounts Receivable (Net)	799,857
Due from Other Governments	462
Inventories	218,991
Total Current Assets	<u>9,563,206</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	51,121
Infrastructure	26,398,100
Accumulated Depreciation - Infrastructure	(10,708,880)
Furniture and Equipment	1,833,425
Accumulated Depreciation - Furniture & Equipment	(1,163,408)
Construction in Progress	818,014
Total Noncurrent Assets	<u>17,228,372</u>
Total Assets	<u>26,791,578</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Charge for Refunding	108,326
Deferred Outflow Related to Pension Plan	174,238
Deferred Resource Outflow Related to OPEB	4,391
Total Deferred Outflows of Resources	<u>286,955</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, 2018

	Business Type Activities
	Utility Fund
LIABILITIES	
Current Liabilities:	
Accounts Payable	346,860
Wages and Salaries Payable	26,521
Compensated Absences Payable	33,200
Intergovernmental Payable	25,908
Due to Fiduciary Funds	9,744
Accrued Interest Payable	13,815
Notes Payable - Current	167,487
Bonds Payable - Current	485,000
Other Current Liabilities	209,773
Total Current Liabilities	<u>1,318,308</u>
Noncurrent Liabilities:	
Bonds Payable - Noncurrent	10,805,000
Loans Payable - Noncurrent	659,293
Unamortized Premiums (Discounts) on Bonds	614,906
Net Pension Liability	537,880
Net OPEB Liability	58,991
Total Noncurrent Liabilities	<u>12,676,070</u>
Total Liabilities	<u>13,994,378</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pension Plan	99,886
Total Deferred Inflows of Resources	<u>99,886</u>
NET POSITION	
Net Investment in Capital Assets	9,392,871
Restricted for Capital Improvements	493,656
Restricted for Debt Service	317,745
Unrestricted Net Position	2,779,997
Total Net Position	<u>\$ 12,984,269</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, 2018

EXHIBIT D-2 (Cont'd)

	Business-Type Activities
	Utility Fund
OPERATING REVENUES:	
Charges for Water Services	\$ 1,431,329
Charges for Sewer Services	1,564,373
Charges for Sanitation Services	832,549
Charges for Electricity Services	4,567,736
Charges for Services - Other	204,975
Other Revenue	905
Total Operating Revenues	8,601,867
OPERATING EXPENSES:	
Administration	
Personnel Services - Salaries and Wages	121,420
Personnel Services - Employee Benefits	80,949
Purchased Professional & Technical Services	11,390
Purchased Property Services	35,666
Other Operating Costs	27,737
Supplies	18,214
Total Administration	295,376
Customer Convenience Station	
Personnel Services - Salaries and Wages	31,889
Personnel Services - Employee Benefits	21,840
Purchased Professional & Technical Services	72,798
Purchased Property Services	3,110
Other Operating Costs	826
Supplies	1,792
Total Customer Convenience Station	132,255
Sanitation	
Purchased Professional & Technical Services	607,858
Water Plant	
Personnel Services - Salaries and Wages	76,291
Personnel Services - Employee Benefits	35,805
Purchased Professional & Technical Services	6,107
Purchased Property Services	40,877
Other Operating Costs	37,915
Supplies	90,736
Total Water Plant	287,731
Water Distribution	
Personnel Services - Salaries and Wages	129,286
Personnel Services - Employee Benefits	58,718
Purchased Professional & Technical Services	17,889
Purchased Property Services	69,029
Other Operating Costs	4,973
Supplies	22,144
Total Water Distribution	302,039
Sewer Plant	
Personnel Services - Salaries and Wages	62,620
Personnel Services - Employee Benefits	32,123

CITY OF LLANO, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

EXHIBIT D-2

	Business-Type Activities
	Utility Fund
Purchased Professional & Technical Services	11,203
Purchased Property Services	22,872
Other Operating Costs	40,202
Supplies	62,448
Total Sewer Plant	231,468
Sewer Collection	
Personnel Services - Salaries and Wages	39,601
Personnel Services - Employee Benefits	15,119
Purchased Professional & Technical Services	16,710
Purchased Property Services	68,862
Other Operating Costs	6,502
Supplies	16,957
Total Sewer Collection	163,751
Electric	
Personnel Services - Salaries and Wages	248,974
Personnel Services - Employee Benefits	108,338
Purchased Professional & Technical Services	2,797,760
Purchased Property Services	112,948
Other Operating Costs	11,196
Supplies	18,906
Total Electric	3,298,122
Depreciation	603,980
Total Operating Expenses	5,922,580
Operating Income	2,679,287
NONOPERATING REVENUES (EXPENSES):	
Investment Earnings	63,539
Interest Expense - Non-Operating	(234,301)
Bond Issuance Cost	(199,330)
Total NonOperating Revenue (Expenses)	(370,092)
Income Before Contributions & Transfers	2,309,195
Capital Contributions	293,478
Non-Operating Transfers In	143,337
Transfers Out (Use)	(1,647,503)
Change in Net Position	1,098,507
Total Net Position - October 1 (Beginning)	12,126,343
Prior Period Adjustment	(240,581)
Total Net Position - September 30 (Ending)	\$ 12,984,269

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, 2018

	Business-Type Activities
	Utility Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 8,584,561
Cash Received from Assessments - Other Funds	905
Cash Payments to Employees for Services	(1,023,883)
Cash Payments for Suppliers	(231,197)
Cash Payments for Other Operating Expenses	(4,274,266)
Net Cash Provided by Operating Activities	<u>3,056,120</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	<u>(1,504,166)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	(988,312)
Capital Contributed by Other Funds	293,478
Increase in Restricted Assets	(4,399,888)
Bond Proceeds	4,910,000
Bond Payments	(280,000)
Loan Payments	(164,000)
Bond Issuance Costs	(199,330)
Debt Interest	(258,151)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(1,086,203)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>63,541</u>
Net Increase in Cash and Cash Equivalents	529,292
Cash and Cash Equivalents at the Beginning of the Year	<u>1,470,245</u>
Cash and Cash Equivalents at the End of the Year	<u>\$ 1,999,537</u>

CITY OF LLANO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities
	Utility Fund
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided By Operating Activities:</u>	
Operating Income	\$ 2,679,287
Adjustments to Reconcile Operating Income To Net Cash Provided by Operating Activities:	
Depreciation	603,980
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	(16,401)
Decrease (Increase) in Inventories	15,221
Increase (Decrease) in Accounts Payable	(262,486)
Increase (Decrease) in Payroll Deductions	(1,814)
Increase (Decrease) in Compensated Absences	(13,163)
Increase (Decrease) in Other Current Liabilities	(19,499)
Increase (Decrease) in Intergovernmental Payable	16,928
Increase (Decrease) in Pension and OPEB Liability	54,067
Net Cash Provided by Operating Activities	<u>\$ 3,056,120</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, 2018

	Private Purpose Trust Fund	Total Pension Trust Fund
ASSETS		
Cash and Cash Equivalents	\$ 116	\$ 539
Investments - Current	36,059	-
Total Assets	<u>36,175</u>	<u>539</u>
NET POSITION		
Unrestricted Net Position	36,175	539
Total Net Position	<u>\$ 36,175</u>	<u>\$ 539</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, 2018

	Private Purpose Trust Fund	Total Pension Trust Fund
<hr/>		
OPERATING REVENUES:		
Investment Earnings	\$ 550	\$ -
Total Operating Revenues	<u>550</u>	<u>-</u>
Operating Income	550	-
Total Net Position - October 1 (Beginning)	<u>35,625</u>	<u>539</u>
Total Net Position September 30 (Ending)	<u>\$ 36,175</u>	<u>\$ 539</u>

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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. Other Post-Employment Benefits. GASB 75 requires recognition of the Total OPEB Liability (TOL), deferred (inflows)/outflows of resources, and total OPEB expense on the face of the employer's financial statements. The TOL is calculated by the System's actuary in accordance with the provisions of GASB 75. The OPEB expense and deferred (inflows)/outflows of resources related to OPEB, which are required to be reported by an employer, primarily result from changes in the components of the TOL. Most changes in the TOL will be included in OPEB expense in the period of the change. The City participates in the Texas Municipal Retirement System Supplemental Death Benefit fund.
11. 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, 2018, the carrying amount of the City's deposits was \$1,885,088 and the bank balance was \$2,173,812. The carrying amount of the Llano Economic Development Corporation's deposit was \$146,428 and the bank balance was \$147,424. The City's cash deposits held at First State Bank Central Texas and Llano National Bank at September 30, 2018 and during the year ended September 30, 2018 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, 2018 was \$12,445,342 (TexPool Investment Pool and BOK Financial). 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, 2018 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 2017 tax roll, the assessed valuation was \$177,597,516 and the tax rate was \$.71936 per \$100 valuation (\$.41819 for maintenance and operations and \$.30117 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 \$134,673. Based on historical collection rates for the various courts, the City has booked an allowance for uncollectible court fines and fees of \$101,005, resulting in a net receivable of \$33,668.

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, 2018 was \$25,856.

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 10/01/17	Additions	Deletions	Balance 09/30/18
Land and Land Rights	\$ 533,711	\$	\$	\$ 533,711
Distribution and Collection Systems	23,440,652	661,374		24,102,026
Equipment	3,568,836	78,072		3,646,908
Construction Work In Progress	569,147	626,850	377,984	818,013
Totals	\$ 28,112,346	\$ 1,366,296	\$ 377,984	\$ 29,100,658
Accumulated Depreciation	(11,268,307)	(603,980)		(11,872,287)
Fixed Assets, Net	\$ 16,844,039	\$ 762,316	\$ 377,984	\$ 17,228,371

G. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2018, was as follows:

	Primary Government			
	Beginning			Ending
	Balance	Additions	Retirements	Balance
Governmental Activities:				
Land	\$ 1,626,981	\$	\$ 57,550	\$ 1,569,431
Buildings and Improvements	8,440,204	280,398		8,720,602
Equipment	4,345,901	331,795	151,200	4,526,496
Infrastructure	5,174,107	59,913		5,234,020
Construction Work In Progress	293,429	597,290		890,719
Totals at Historic Cost	\$ 19,880,622	\$ 1,269,396	\$ 208,750	\$ 20,941,268
Less Accumulated				
Depreciation for:				
Buildings and Improvements	(3,664,174)	(242,684)		(3,906,858)
Equipment	(3,608,270)	(199,313)	100,800	(3,706,783)
Infrastructure	(2,505,229)	(99,220)		(2,604,449)
Total Accumulated Depreciation	\$ (9,777,673)	\$ (541,217)	\$ 100,800	\$ (10,218,090)
Governmental Activities				
Capital Assets, Net	\$ 10,102,949	\$ 728,179	\$ 107,950	\$ 10,723,178

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

	Component Unit			
	Beginning			Ending
	Balance	Additions	Retirements	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	(38,750)	(2,500)		(41,250)
Buildings and Improvements	(369,078)	(92,669)		(461,747)
Component Unit Activities:				
Capital Assets, Net	\$ 3,543,652	\$ (95,169)	\$ -	\$ 3,448,483

H. Changes in Long-Term Liabilities

A summary of changes in long-term debt for the year ended September 30, 2018 follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities:					
General Obligation Bonds, Series 2017	\$ 5,025,000		235,000	\$ 4,790,000	\$ 245,000
Premium on Bonds	338,862		22,591	316,271	
Net Pension Liability	1,423,525	530,162	690,946	1,262,741	
Net OPEB Liability		131,303		131,303	
Notes Payable -					
Llano National Bank	-	250,000	2,180	247,820	13,324
Arrowhead Bank	84,811		28,447	56,364	26,711
Limited Tax Notes,- Series 2014	153,526		33,844	119,682	35,205
Capital Leases					
Caterpillar Financial	251,837		17,789	234,048	19,579
Yamaha	82,689	153,040	87,349	148,380	19,158
Wells Fargo	6,139		6,139	-	
	\$ 7,366,389	\$ 1,064,505	\$ 1,124,285	\$ 7,306,609	\$ 358,977
Compensated Absences	66,772	8,479		75,251	
Governmental Activity Long-Term Debt	\$ 7,433,161	\$ 1,072,984	\$ 1,124,285	\$ 7,381,860	\$ 358,977
Business-Type Activities					
Bonds Payable					
General Obl Refunding -					
Series 2016	\$ 4,960,000	-	215,000	\$ 4,745,000	\$ 220,000
Combination Tax & Revenue CO Series 2017	1,700,000		65,000	1,635,000	65,000
Combination Tax & Revenue CO Series 2018A		3,390,000		3,390,000	140,000
Combination Tax & Revenue CO Series 2018B		890,000		890,000	35,000
Combination Tax & Revenue CO Series 2018C		630,000		630,000	25,000
Subtotal	\$ 6,660,000	\$ 4,910,000	\$ 280,000	\$ 11,290,000	\$ 485,000
Premium on Bonds	648,963		34,058	614,905	
Net Pension Liability	632,609	134,461	229,190	537,880	
Net OPEB Liability		58,991		58,991	
Notes Payable					
Arrowhead Bank	207,617		51,450	156,167	51,646
First State Bank Central Texas	693,163		95,342	597,821	98,242
Llano National Bank	90,000		17,208	72,792	17,599
Business Type Activity Long-Term Debt	\$ 8,932,352	\$ 5,103,452	\$ 707,248	\$ 13,328,556	\$ 652,487

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

The City issued \$3,390,000 Combination Tax & Surplus Revenue Certificates of Obligation, Series 2018A for the purpose of paying contractual obligations incurred in connection with constructing improvements and extensions to the City’s wastewater system. The Certificates were issued at an interest rate of .190% to 1.70%. 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.

The City issued \$890,000 Combination Tax & Surplus Revenue Certificates of Obligation, Series 2018B for the purpose of paying contractual obligations incurred in connection with constructing improvements and extensions to the City’s water system. The Certificates were issued at an interest rate of .490% to 2.00%. 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.

The City issued \$630,000 Combination Tax & Surplus Revenue Certificates of Obligation, Series 2018C for the purpose of paying contractual obligations incurred in connection with constructing improvements and extensions to the City’s wastewater system. The Certificates were issued at an interest rate of .190% to 1.70%. 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. The financial assistance from the Texas Water Development Board consisted of a loan in the amount of \$738,000 and a loan forgiveness funds in the amount of \$108,000.

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>
2019	\$ 730,000	468,904	\$ 1,198,904
2020	765,000	432,766	1,197,766
2021	785,000	415,656	1,200,656
2022	820,000	397,566	1,217,566
2023	865,000	375,096	1,240,096
2024-2028	4,645,000	1,480,584	6,125,584
2029-2033	4,870,000	759,420	5,629,420
2034-2038	2,600,000	162,944	2,762,944
Totals	\$ <u>16,080,000</u>	\$ <u>4,492,936</u>	\$ <u>20,572,936</u>

J. Notes and Installments Payable

The following is a summary of notes and installments payable:

	<u>Balance at 09/30/18</u>
Governmental Activities	
Long-term note payable to Llano National - #671745200. Payable from the general fund for construction of a Pro Shop Building original principal \$250,000; due in monthly installments of \$1,745 through July 2033, interest at 3.15%	\$ 247,820
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%.	49,956
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%	6,408
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%.	119,682
Total General Long-Term Debt	<u>\$ 423,866</u>
 UTILITY FUNDS	
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%.	597,821
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%.	10,024
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%.	146,143
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%	72,792
Total Utilities Fund	<u>\$ 826,780</u>
Total Notes Payable	<u>\$ 1,250,646</u>

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

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 242,727	\$ 33,600	\$ 276,327
2020	236,130	26,804	262,934
2021	224,228	20,091	244,319
2022	169,089	14,041	183,130
2023	125,862	9,907	135,769
2024-2028	158,921	22,328	181,249
2029-2033	93,689	7,429	101,118
Totals	\$ <u>1,250,646</u>	\$ <u>134,200</u>	\$ <u>1,384,846</u>

K. Capitalized Leases and Other Commitments

Capital lease obligations at September 30, 2018, are composed of the following:

	<u>Balance at 09/30/18</u>
GENERAL FUND	
Lease payable to Caterpillar Financial Services Corporation for 140M3 Caterpillar Motor Grader; 60 monthly installments of \$2,233 including principal and interest through September 21, 2020; interest at 3.2%.	234,048
Lease payable to Yamaha Leasing for golf carts; 48 monthly installments of \$2,106 including principal and interest through June 2022; interest at 4.52%	148,380
Total General Funds	<u>\$ 382,428</u>

Future minimum lease payments under the lease along with the present value of the minimum lease payments as of September 30, 2018:

<u>Year Ended September 30,</u>	<u>General Long-Term Obligations</u>
2019	\$ 52,066
2020	49,087
2021	222,505
2022	90,955
Total Minimum Lease Payments	\$ 414,613
Less Amount Representing Interest	<u>32,185</u>
Present Value of Lease Payments	\$ <u>382,428</u>

L. Changes in Long-Term Liabilities – Component Unit

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Component Unit Activities:					
Notes Payable -					
First State Bank	\$ 1,403,282	\$ -	\$ 149,379	\$ 1,253,903	\$ 129,705
Component Unit Activity					
Long-Term Debt	<u>\$ 1,403,282</u>	<u>\$ -</u>	<u>\$ 149,379</u>	<u>\$ 1,253,903</u>	<u>\$ 129,705</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, 2018 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, 2018 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>
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	153,602	27,329	180,931
2024-2028	547,897	41,507	589,404
Totals	<u>\$ 1,253,903</u>	<u>\$ 240,156</u>	<u>\$ 1,494,059</u>

M. RETIREMENT PLANS

Texas Municipal Retirement System (TMRS)

Plan Description

The City of Llano, Texas participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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 2016	Plan Year 2017
Deposit Rate:	7%	7%
Matching Ratio (City to Employee):	2 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, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	39
Inactive employees entitled to but not yet receiving benefits	22
Active employees	44
	<hr/>
	105

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 15.00% and 15.00% in calendar years 2017 and 2018, respectively. The city's contributions to TMRS for the year ended September 30, 2018, were \$337,755, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, 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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvement subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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 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 in 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
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, 2016	\$ 7,471,719	\$ 5,494,813	\$ 1,976,906
Changes for the year:			
Service cost	338,920		338,920
Interest	505,219		505,219
Changes of Benefit Terms	-		-
Difference between Expected and Actual Experience	163,185		163,185
Changes in Assumptions	-		-
Contributions - Employer		333,444	(333,444)
Contributions - Employee		158,692	(158,692)
Net investment income		761,145	(761,145)
Benefit Payments, Including Refunds of Employee Contributions	(312,916)	(312,916)	-
Administrative Expense		(3,947)	3,947
Other Changes		(200)	200
	-		-
Net Changes	<u>694,408</u>	<u>936,217</u>	<u>(241,810)</u>
Balances as of December 31, 2017	<u>\$ 8,166,127</u>	<u>\$ 6,431,030</u>	<u>\$ 1,735,097</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%
\$ 2,784,189	\$ 1,735,097	\$ 859,030

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2018, the City recognized pension expense of \$382,809.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 9,786	\$ 151,893
Changes of assumptions	-	12,379
Net difference between projected and actual earnings	312,426	150,615
Contributions made subsequent to measurement date	-	247,171
	<u>\$ 322,212</u>	<u>\$ 562,058</u>

\$247,171 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, 2018. 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, 2017 there were 235 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, 2017, 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. The separately issued actuarial valuations which may be of interest are also available at the same link.

Benefits Provided

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees Authority to establish vesting requirements, 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 2%.

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, 2017, total contributions (dues, prior service, and interest on prior service financing) of \$13,202 were paid by the City. The State appropriated \$1,583,825 for the fiscal year ending August 31, 2017 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%
\$ 122,362	\$ 65,525	\$ 29,669

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

At August 31, 2017, the City reported a liability of \$65,525 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	\$ 65,525
State's proportionate share that is associated with the City*	21,458
Total	<u>86,983</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, 2017 the employer's proportion of the collective net pension liability was 0.273%.

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, 2017, the City recognized pension expense of \$13,748 and revenue of \$4,324 for support provided by the State.

At August 31, 2017, 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		\$ 70
Changes of assumptions		957
Difference between projected and actual investment earnings		6,110
Contributions made subsequent to measurement date	-	12,175
	<u>-</u>	<u>\$ 19,312</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:		
2018	\$	3,083
2019		5,656
2020		(271)
2021		(1,331)
Total	\$	<u>7,137</u>

N. Defined Other Post-Employment Benefit Plan

Benefit Plan Description. Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). The plan is a single employer defined benefit group life insurance plan. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated). 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 member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers.

All eligible employees of the city are required to participate in the SDBF.

The City's contributions to the TMRS SDBF for the year ended 2018, 2017 and 2016 were \$6,316, \$6,831 and \$6,617 respectively, which equaled the required contributions each year.

Employees covered by benefit terms.

At the December 31, 2017 valuation and measurement date, the following employees were covered by benefit terms:

Inactive employees currently receiving benefits	31
Inactive employees entitled to but not yet receiving benefits	4
Active Employees	<u>44</u>
Total	79

Total OPEB Liability

The City's Total OPEB Liability (TOL) was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The TOL in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Salary Increases	3.50% to 10.5% including inflation
Discount rate*	3.31%
Retirees' share of benefit-related cost	\$0
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates- service retirees	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
Mortality rates- disabled retirees	RP 2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

* The discount rate was based on the Fidelity Index's "20- Year Municipal GO AA Index" rate as of December 31, 2017.

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013.

Discount Rate

Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of the measurement date.

Covered Payroll	\$	2,267,026
Total OPEB Liability- beginning of year		167,585
Changes for the year		
Service Cost		6,121
Interest on Total OPEB Liability		6,408
Changes of benefit terms		-
Differences between expected and actual experience		-
Changes in assumptions or other inputs		12,447
Benefit Payments **		(2,267)
Net Changes		<u>22,709</u>
Total OPEB Liability- end of year	\$	<u>190,294</u>
Total OPEB Liability as a Percentage of Covered Payroll		8.39%

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

Sensitivity of the Total OPEB Liability to changes in the discount rate

The following presents the Total OPEB Liability of the City, calculated using the discount rate of 3.31%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.31%) or 1-percentage-point higher (4.31%) than the current rate:

1% Decrease (2.31%)	Current Discount Rate (3.31%)	1% Increase (4.31%)
221,597	190,294	165,241

OPEB Expense and Deferred Outflows of Resources

For the year ended September 30, 2018, the City recognized OPEB expense of \$15,345.

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred (Inflows) of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions and other inputs	-	9,631
Contributions made subsequent to measurement date	N/A	4,531
Total (excluding contributions made subsequent to measurement date)	\$ -	\$ 14,163

\$4,531 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Total OPEB liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	
2018	\$ 2,816
2019	2,816
2020	2,816
2021	1,183
2022	-
Thereafter	-
Total	\$ 9,631

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, 2018, consisted of the following:

	<u>Receivable</u>	<u>Payable</u>
<u>General Fund</u>		
Component Unit	\$ 28,375	\$ 15,342
Utility Fund	9,744	
<u>Utility Fund</u>		
General Fund		9,744
<u>Component Unit</u>		
General Fund	<u>15,342</u>	<u>28,375</u>
 Totals	 <u>\$ 53,461</u>	 <u>\$ 53,461</u>

During the year ended September 30, 2018, the City's transfers between funds consisted of:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	1,521,193	
Debt Service Fund		
Special Revenue Funds		17,028
Enterprise Funds-		
Utility Fund	<u>143,337</u>	<u>1,647,502</u>
Totals	<u>1,664,530</u>	<u>1,664,530</u>

R. Cash Flows Statement - Supplemental Disclosures

Since the City is tax exempt no income tax was paid in 2018 and 2017. The City paid interest in the amount of \$258,151 in 2018 and \$210,180 in 2017.

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

V. Prior Period Adjustment

A prior period adjustment in the amount of (\$115,634) was recorded in the governmental activities net position. This adjustment was due to the required adoption of GASB Statement No. 75 for *Other Post Employment Benefits*. Under GASB Statement No. 75 the City must report their Net OPEB Liability of the TMRS (Texas Municipal Retirement System) Supplemental Death Benefit Fund. The restated beginning net position for the governmental activities is \$8,862,875.

A prior period adjustment in the amount of (\$240,581) was recorded in the Utility Fund. This adjustment consisted of three items. The first item is the adjustment of the estimated unbilled utility receivable in the amount of (\$216,934). Since the City changed their utility billing period to coincide with the month end, the estimate for unbilled receivables is no longer necessary. The second item is the correction of the payable to Lower Colorado River Authority in the amount of \$28,304. The third item is the required adoption of GASB Statement No. 75 for *Other Post Employment Benefits* in the amount of (\$51,951). Under GASB Statement No. 75 the City must report their Net OPEB Liability of the TMRS (Texas Municipal Retirement System) Supplemental Death Benefit Fund. The restated beginning net position for the Utility Fund is \$11,885,762.

W. Subsequent Events

The City has evaluated subsequent events through March 13, 2019, the date which the financial statements were available to be issued. The City is not aware of any 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, 2018

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts (GAAP BASIS)	Final Budget Positive or (Negative)
REVENUES:				
Taxes:				
Property Taxes	\$ 707,482	\$ 707,482	\$ 677,053	\$ (30,429)
General Sales and Use Taxes	830,000	830,000	885,898	55,898
Franchise Tax	92,500	92,500	93,744	1,244
Other Taxes	120,700	120,700	126,079	5,379
Licenses and Permits	24,775	24,775	30,714	5,939
Intergovernmental Revenue and Grants	10,000	10,000	19,466	9,466
Charges for Services	685,075	685,075	649,593	(35,482)
Fines	80,000	80,000	65,240	(14,760)
Investment Earnings	1,000	1,000	13,243	12,243
Rents and Royalties	176,940	186,940	178,633	(8,307)
Contributions & Donations from Private Sources	4,000	4,000	3,641	(359)
Other Revenue	112,400	162,400	220,438	58,038
Total Revenues	2,844,872	2,904,872	2,963,742	58,870
EXPENDITURES:				
City Council	23,763	23,763	14,609	9,154
General Administration	1,017,755	1,017,755	980,257	37,498
Main Street	80,611	129,611	125,817	3,794
Police	839,872	897,872	849,924	47,948
Municipal Court	103,377	103,377	96,023	7,354
Code Enforcement	90,388	90,388	85,307	5,081
Fire	63,442	63,442	58,696	4,746
Parks and Recreation	444,880	444,880	371,325	73,555
Lantex Theater	25,850	27,250	25,278	1,972
Golf Course	418,164	393,164	382,450	10,714
Street	468,158	468,158	445,000	23,158
Airport	368,202	368,202	368,603	(401)
Community Development	-	-	590	(590)
Christmas Lighting	30,500	30,500	31,509	(1,009)
Depot Museum	5,300	5,300	3,283	2,017
JLK Arena	171,529	182,529	163,202	19,327
Debt Service:				
Principal on Debt	68,326	93,326	69,823	23,503
Interest on Debt	10,399	10,399	10,399	-
Capital Outlay:				
Capital Outlay	427,128	639,168	401,304	237,864
Total Expenditures	4,657,644	4,989,084	4,483,399	505,685
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,812,772)	(2,084,212)	(1,519,657)	564,555
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	-	-	134,691	134,691
Proceeds from Capital Leases	-	-	153,040	153,040
Non-Current Loans	340,000	340,000	250,000	(90,000)
Transfers In	1,511,462	1,511,462	1,521,193	9,731
Total Other Financing Sources (Uses)	1,851,462	1,851,462	2,058,924	207,462
Net Change in Fund Balances	38,690	(232,750)	539,267	772,017
Fund Balance - October 1 (Beginning)	561,919	561,919	561,919	-
Fund Balance - September 30 (Ending)	\$ 600,609	\$ 329,169	\$ 1,101,186	\$ 772,017

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
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
A. Total Pension Liability				
Service Cost	\$ 338,920	\$ 315,794	\$ 216,328	\$ 208,031
Interest (on the Total Pension Liability)	505,219	465,907	452,805	403,095
Changes of Benefit Terms	-0-	-0-	596,175	-0-
Difference between Expected and Actual Experience	163,185	91,027	(107,658)	(173,667)
Changes of Assumptions	-0-	-0-	136,174	-0-
Benefit Payments, including refunds of employee contributions	(312,916)	(290,887)	(336,489)	(318,787)
Net change in Total Pension Liability	\$ 694,408	\$ 581,841	\$ 957,335	\$ 118,672
Total Pension Liability - Beginning	7,471,719	6,889,878	5,932,543	5,813,871
Total Pension Liability - Ending	\$ 8,166,127	\$ 7,471,719	\$ 6,889,878	\$ 5,932,543
B. Total Fiduciary Net Position				
Contributions - Employer	\$ 333,444	\$ 293,523	\$ 175,995	\$ 162,462
Contributions - Employee	158,692	145,336	124,122	120,611
Net Investment Income	761,145	338,705	7,445	275,131
Benefit Payments, including refunds of employee contributions	(312,916)	(290,887)	(336,489)	(318,787)
Administrative Expense	(3,947)	(3,826)	(4,535)	(2,873)
Other	(200)	(206)	(224)	(236)
Net Change in Plan Fiduciary Net Position	\$ 936,217	\$ 482,645	\$ (33,686)	\$ 236,308
Plan Fiduciary Net Position - Beginning	5,494,813	5,012,168	5,045,854	4,809,546
Plan Fiduciary Net Position - Ending	\$ 6,431,030	\$ 5,494,813	\$ 5,012,168	\$ 5,045,854
C. Net Pension Liability	\$ 1,735,097	\$ 1,976,906	\$ 1,877,710	\$ 886,689
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	78.75%	73.54%	72.75%	85.05%
E. Covered Payroll	\$ 2,267,026	\$ 2,076,229	\$ 1,773,177	\$ 1,723,017
F. Net Pension Liability as a Percentage of Covered Payroll	76.54%	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 four 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
FOR THE FISCAL YEAR 2018

	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 337,755	\$ 329,760	\$ 264,599	\$ 173,413
Contributions in Relation to the Actuarially Determined Contributions	(337,755)	(329,760)	(264,599)	(173,413)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Covered Payroll	\$ 2,293,812	\$ 2,251,891	\$ 1,991,733	\$ 1,717,307
Contributions as a Percentage of Covered Payroll	14.73%	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, 2018

Valuation Date:

Notes Actuarially determined contribution rates are calculated as of December 31, and become effective in January 13 months later.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based tables of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP-2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

Other Information:

Notes 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, 2018

EXHIBIT G-4

	Measurement			
	2017	2016	2015	2014
City's proportion of the net pension liability	0.273%	0.272%	0.272%	0.269%
City's proportionate share of the net pension liability	\$ 65,525	\$ 79,228	\$ 86,082	\$ 48,882
State's proportionate share of the net pension liability	21,458	27,390	25,167	4,117
Total	\$ <u>86,983</u>	\$ <u>106,618</u>	\$ <u>111,249</u>	\$ <u>52,999</u>
Number of Active Members**	26	26	25	24
City's Net Pension Liability per Active Member	3,346	4,101	4,450	2,208
Plan fiduciary net position as a percentage of the total pension liability	81.40%	76.3%	76.9%	83.5%

*Only four 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 EXHIBIT G-5
SCHEDULE OF CONTRIBUTIONS
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)
For the Year Ended September 30, 2018

	<u>2018</u>	<u>2017</u>	<u>Fiscal Year*</u> <u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 19,952	\$ 11,913	\$ 12,464	\$ 12,833	\$ 12,177
Contributions in relation to the contractually required contribution	<u>19,952</u>	<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>	<u>\$ -</u>
Number of Active members**	26	26	27	25	24
Contributions per active member	\$ 767	\$ 458	\$ 462	\$ 513	\$ 507

*Only five 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 TESRS CONTRIBUTIONS
SEPTEMBER 30, 2018

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.

CITY OF LLANO, TEXAS
 SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>FY 2018 Plan Year 2017</u>
Total OPEB Liability	
Service Cost	\$ 6,121
Interest on the Total OPEB Liability	6,408
Changes of Benefit Terms	-0-
Difference between Expected and Actual Experience	-0-
Changes of Assumptions	12,447
Benefit Payments*	(2,267)
Net change in Total OPEB Liability	<u>22,709</u>
Total OPEB Liability - Beginning	167,585
Total OPEB Liability - Ending	<u><u>\$ 190,294</u></u>
Covered Payroll	\$ 2,267,026
Total OPEB Liability as a Percentage of Covered Payroll	8.39%

*The Supplemental Death Benefit Fund is considered to be an unfunded OPEB plan under GASB 75. Because of this benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Note: GASB Codification, Vol. 2, P52.139 states that the information on this schedule should be determined as of the measurement date of the plan.

As required by GASB 75, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

CITY OF LLANO, TEXAS
 NOTES TO THE SCHEDULE OF CHANGES IN THE
 TOTAL OPEB LIABILITY AND RELATED RATIOS
 SEPTEMBER 30, 2018

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:

Inflation	2.5%
Salary increases	Salary increases are assumed to occur once a year, on January 1. Therefore, the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. Salaries are assumed to increase by 3.50% to 10.5% including inflation
Actuarial Cost Method:	Entry Age Normal
Valuation of Assets:	For purposes of calculating the Total OPEB Liability, The plan is considered to be unfunded and therefore no assets are accumulated for OPEB.
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	RP2000 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.
Mortality rates – disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.
Discount Rate	Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of the measurement date. Discount rate is 3.31%.
Supplemental Death Benefit	The contribution rate for the Supplemental Death Benefit (SDB) is equal to the expected benefit payments during the upcoming year divided by the annualized pay of current active members and is calculated separately for actives and retirees. Due to the significant reserve in the Supplemental Death Fund, the SDB rate for retiree coverage is currently only one-third of the total term cost.

Other Information:

Notes There were no benefit changes during the year.

SUPPLEMENTARY INFORMATION

CITY OF LLANO, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2018

	TXDot Tap Grant	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ -	\$ 67,754	\$ 67,754
Taxes Receivable	-	13,035	13,035
Total Assets	<u>\$ -</u>	<u>\$ 80,789</u>	<u>\$ 80,789</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	-	13,035	13,035
Total Deferred Inflows of Resources	<u>-</u>	<u>13,035</u>	<u>13,035</u>
FUND BALANCES			
Restricted Fund Balance:			
Retirement of Long-Term Debt	-	67,754	67,754
Total Fund Balances	<u>-</u>	<u>67,754</u>	<u>67,754</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ -</u>	<u>\$ 80,789</u>	<u>\$ 80,789</u>

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

CITY OF LLANO, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

	TXDot Tap Grant	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	\$ -	\$ 476,240	\$ 476,240
Investment Earnings	-	2,746	2,746
Total Revenues	<u>-</u>	<u>478,986</u>	<u>478,986</u>
EXPENDITURES:			
Debt Service:			
Principal on Debt	-	268,844	268,844
Interest on Debt	-	171,465	171,465
Other Debt Service	-	200	200
Total Expenditures	<u>-</u>	<u>440,509</u>	<u>440,509</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>38,477</u>	<u>38,477</u>
OTHER FINANCING SOURCES (USES):			
Transfers Out (Use)	<u>(17,028)</u>	<u>-</u>	<u>(17,028)</u>
Total Other Financing Sources (Uses)	<u>(17,028)</u>	<u>-</u>	<u>(17,028)</u>
Net Change in Fund Balance	(17,028)	38,477	21,449
Fund Balance - October 1 (Beginning)	<u>17,028</u>	<u>29,277</u>	<u>46,305</u>
Fund Balance - September 30 (Ending)	<u>\$ -</u>	<u>\$ 67,754</u>	<u>\$ 67,754</u>

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

NEFFENDORF & KNOPP, P.C.
Certified Public Accountants

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CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

March 13, 2019

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, 2018. 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 January 10, 2019. 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. GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was adopted and the application of existing policies was not changed during the year ended September 30, 2018. 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 13, 2019.

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:

Prior Year Recommendations

Utility System Reports

The City did not reconcile the utility system receivable reports to the general ledger. We again recommend procedures be implemented to reconcile the system reports to the general ledger on a monthly basis.

Current Year Recommendations

Bank Reconciliation Items

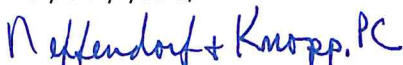
The consolidated cash bank reconciliation contains a number of old outstanding checks. We recommend the City research and either re-issue the checks or escheat the funds to the State.

Fixed Asset Acquired by Capital Lease

The City acquired golf carts financed with a capital lease. The City did not record the entire purchase as a capital outlay expenditure and the related capital lease proceeds as an other financing source. The City should also amend the budget for the additional expenditure and related other financing source. We recommend that the City record the entire purchase price as an expenditure in the year acquired and to amend the budget for the additional expenditure and other financing source.

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

Very truly yours,



NEFFENDORF & KNOPP, P.C.
Fredericksburg, Texas