

CITY OF LLANO, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
September 30, 2021

TOGETHER WITH INDEPENDENT AUDITOR'S REPORT THEREON
AND REQUIRED SUPPLEMENTARY INFORMATION

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Llano, Texas (the City), as of and for the year ended September 30, 2021, 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. 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, 2021, and, the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis pages on 9 - 16, the Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Employer Contributions for the Texas Municipal Retirement System (TMRS) and the Texas Emergency Services Retirement System (TESRS), and the schedule of the City's proportionate share of the net pension liability – TESRS on pages 76 - 79 and the Schedule of Changes in Total OPEB Liability and Related Ratios and Schedule of Employer Contributions for TMRS – Supplemental Death Benefits and Retiree Health Care Plan on pages 80 - 82 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

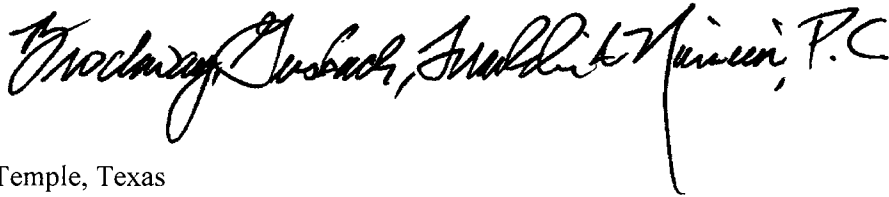
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Temple, Texas
June 17, 2022

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial Report, we, the managers of the City of Llano, Texas (the City), discuss and analyze the City's financial performance for the fiscal year ended September 30, 2021. Please read it in conjunction with the Independent Auditors' Report on pages 5 - 7, and the City's Basic Financial Statements which begin on page 18.

FINANCIAL HIGHLIGHTS

- The City's net position of the primary government was \$ 30,063,127 at September 30, 2021. Of this amount \$ 4,072,756 is unrestricted and may be used to meet the City's future obligations. Of the \$ 4,072,756 net unrestricted net position, \$ 909,277 is related to governmental activities, which includes the general fund. The \$ 3,163,479 net balance of unrestricted net position is related to business-type activities, which includes the City's utility fund.
- The City's total net position increased by \$ 1,268,777 during the current fiscal year. Net position of governmental activities increased \$ 812,253 from the prior year's net position of \$ 14,142,877. Overall, the net increase in governmental activities and in the business-type activities is attributable to an increase in the City's investment in capital assets.
- Net pension liability decreased due to favorable market performance which resulted in a corresponding decrease in deferred outflows of resources and an increase in deferred inflows of resources.
- As of September 30, 2021, the City's governmental funds reported combined ending fund balances of \$ 2,921,001, an increase of \$ 529,102 in comparison with the prior fiscal year. The capital projects fund had a decrease of \$ 17,470 due to the expenditure of bond proceeds received in prior periods. In addition, there was an increase in fund balance in the nonmajor governmental funds of \$ 57,366. The offset to the overall increase is attributable to an increase in the fund balance in the general fund of \$ 489,206.
- At the end of the current fiscal year, assigned/unassigned fund balance for the general fund was \$ 2,007,574 or approximately 36.6% of total general fund expenditures.
- The City's total net bonded debt decreased by \$ 233,579 during the current fiscal year. This net decrease was due to debt service payments during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as uncollected property tax. Both the statement of net position and the statement of activities are prepared utilizing the accrual basis of accounting.

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

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

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

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

CITY OF LLANO, TEXAS MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The City maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Capital Project Funds as they are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

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

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net position was \$ 30,063,127 as of September 30, 2021. The following tables focus on the net position (Table I) and general revenues and significant expenses of the City's governmental and business-type activities (Table II).

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

By far the largest portion of the City's net position (82.3%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (4.1%) represents resources that are subject to external restrictions on how they may be used. The balance of net position, \$ 4,072,756, is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

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

There was an increase of \$ 456,524 in net position reported in connection with the City's business-type activities.

Table I
Summary of Statement of Net Position
in thousands

	Governmental Activities		Business-type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 3,675	\$ 3,706	\$ 6,616	\$ 7,821	\$ 10,291	\$ 11,527
Capital assets	18,434	18,307	21,688	19,984	40,122	38,291
Total Assets	<u>22,109</u>	<u>22,013</u>	<u>28,304</u>	<u>27,805</u>	<u>50,413</u>	<u>49,818</u>
Deferred outflow of resources	232	230	188	199	420	429
Other liabilities	730	1,294	1,747	1,345	2,477	2,639
Long-term liabilities	6,384	6,549	11,518	11,897	17,902	18,446
Total Liabilities	<u>7,114</u>	<u>7,843</u>	<u>13,265</u>	<u>13,242</u>	<u>20,379</u>	<u>21,085</u>
Deferred inflows of resources	272	257	120	111	392	368
Net Position:						
Invested in capital assets, net of related debt	13,769	13,682	10,984	11,249	24,753	24,931
Restricted	277	211	960	932	1,237	1,143
Unrestricted	909	250	3,164	2,470	4,073	2,720
Total Net Position	<u>\$ 14,955</u>	<u>\$ 14,143</u>	<u>\$ 15,108</u>	<u>\$ 14,651</u>	<u>\$ 30,063</u>	<u>\$ 28,794</u>

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

Governmental and business-type activities increased the City's net position by \$ 1,268,777. The key elements of this increase are as follows:

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program Revenues:						
Charges for services	\$ 854	\$ 768	\$ 8,703	\$ 8,562	\$ 9,557	\$ 9,330
Operating grants and contributions	-	-	447	58	447	58
Capital grants and contributions	145	243	140	15	285	258
General Revenues:						
Property taxes	1,265	1,256	-	-	1,265	1,256
Sales taxes	1,180	1,018	-	-	1,180	1,018
Hotel and other taxes	190	123	-	-	190	123
Franchise fees	101	99	-	-	101	99
Investment earnings	85	116	-	-	85	116
Rents and royalties	180	168	-	-	180	168
Miscellaneous	422	230	-	-	422	230
Total Revenues	<u>4,422</u>	<u>4,021</u>	<u>9,290</u>	<u>8,635</u>	<u>13,712</u>	<u>12,656</u>
Expenses:						
Administration	1,113	952	-	-	1,113	952
Police	941	913	-	-	941	913
Parks and recreation	614	515	-	-	614	515
Golf course	546	538	-	-	546	538
Street	455	453	-	-	455	453
Airport	494	452	-	-	494	452
JLK Arena	319	287	-	-	319	287
Other departments	629	512	-	-	629	512
Interest and other charges	153	141	-	-	153	141
Electricity, water, sewer and sanitation	-	-	7,179	6,404	7,179	6,404
Total Expenses	<u>5,264</u>	<u>4,763</u>	<u>7,179</u>	<u>6,404</u>	<u>12,443</u>	<u>11,167</u>
Increase in net position before transfers	(842)	(742)	2,111	2,231	1,269	1,489
Transfers	1,654	1,704	(1,654)	(1,704)	-	-
Total	<u>1,654</u>	<u>1,704</u>	<u>(1,654)</u>	<u>(1,704)</u>	<u>-</u>	<u>-</u>
Increase in net position	812	962	457	527	1,269	1,489
Net position - beginning	14,143	13,181	14,651	14,124	28,794	27,305
Net position - ending	<u>\$ 14,955</u>	<u>\$ 14,143</u>	<u>\$ 15,108</u>	<u>\$ 14,651</u>	<u>\$ 30,063</u>	<u>\$ 28,794</u>

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

For FY 2021, revenues from governmental activities totaled \$ 4,276,917. Property taxes and sales tax are the largest components of revenues (57%). Charges for services account for 20% of total governmental revenue.

For FY 2021, expenses for governmental activities totaled \$ 5,264,297. The City's five largest funded programs are for administration, police, streets, parks and recreation, and the golf course.

For governmental activities, the Statement of Activities on page 20 shows that \$ 853,974 was financed by those receiving services and \$ 145,455 was financed by grants and contributions with the City's general revenues financing \$ 4,264,868 of the remaining program expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY 2021, the City had \$ 40,122,278, net of depreciation, invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, and utility distribution infrastructure.

Table III
Capital Assets at Year-End
in thousands

	Governmental Activities		Business-type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Land	\$ 1,788	\$ 1,788	\$ 534	\$ 534	\$ 2,322	\$ 2,322
Construction in Progress	4,465	4,746	4,508	2,295	8,973	7,041
Buildings and improvements	8,189	8,004	-	-	8,189	8,004
Equipment	1,338	988	473	492	1,811	1,480
Infrastructure	2,654	2,780	16,173	16,663	18,827	19,443
Total	\$ 18,434	\$ 18,306	\$ 21,688	\$ 19,984	\$ 40,122	\$ 38,290

This year's major additions included:

- Progress on the Main Street water and sewer line project - \$ 2,213,442
- Purchase of Fire Department pumper truck - \$ 499,244
- Golf Course intake wet well - \$ 137,217
- Purchase of electric utility bucket truck - \$ 134,995

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

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

Debt

At year-end, the City had \$ 16,171,770 in bonds, notes and contractual obligations outstanding as shown in Table IV. More detailed information about the City's long-term liabilities is presented in the notes to the financial statements starting on page 53.

Table IV
Outstanding Debt at Year-End
in thousands

	Governmental Activities		Business-type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
General Obligation Bonds	\$ 4,035	\$ 4,295	\$ 4,070	\$ 4,300	\$ 8,105	\$ 8,595
Certificates of Obligation	-	-	5,695	5,990	5,695	5,990
Limited Tax Notes	10	48	-	-	10	48
Contractual Obligations	857	514	744	497	1,601	1,011
Issuance Premium	248	271	513	547	761	818
Total	\$ 5,150	\$ 5,128	\$ 11,022	\$ 11,334	\$ 16,172	\$ 16,462

FINANCIAL ANALYSIS OF THE GOVERNMENT FUNDS

Governmental Funds

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 2,921,001. Approximately 73% of this total amount, \$ 2,133,485, constitutes assigned/unassigned fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it is nonspendable for inventory (\$ 24,975); has already been restricted to pay for debt service (\$ 277,132), or to pay for bond-funded construction projects (\$ 485,409).

The City's General Fund balance of \$ 2,032,549 reported on page 22 differs from the General Fund's budgeted fund balance of \$ 1,705,452 reported in the budgetary comparison schedule on page 27 due to sales and other tax revenues being more than budgeted amounts.

Budget amendments for fiscal year 2021 in the general fund related to winter storms repairs with insurance proceeds, airport runway project expenditures with grant proceeds, and the purchase of fire pump truck with loan proceeds. In the utility fund, a water tank painting and improvement project was completed with budgeted funds not used for personal services and maintenance. An electric bucket truck was purchased with proceeds of utility equipment sold at auction.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in establishing the City's budget for 2021-2022:

- The City's budgeted expenditures for fiscal year 2022 total \$ 5,993,267 for the general fund and \$ 9,484,694 for the utility fund.
- The City's total tax rate for fiscal year 2021 was \$ 0.65673 per \$ 100 of valuation. The rate adopted for the fiscal year 2022 is \$ 0.52100 per \$ 100 valuation. The rates approved were \$ 0.37344 for maintenance and operations and \$ 0.14750 for interest and sinking.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CITY OF LLANO, TEXAS
STATEMENT OF NET POSITION
September 30, 2021

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Llano Economic Development Corporation
ASSETS				
Cash and cash equivalents	\$ 975,923	\$ 609,014	\$ 1,584,937	\$ 421,846
Investments	1,400,066	2,940,635	4,340,701	315,509
Receivables (net of allowances for uncollectibles)	301,155	887,599	1,188,754	62,700
Other receivables	-	-	-	29,486
Inventory	24,975	230,631	255,606	-
Restricted assets: cash and cash equivalents	973,145	1,948,154	2,921,299	-
Capital assets, net of accumulated depreciation:				
Land	1,788,431	533,711	2,322,142	-
Construction in progress	4,464,429	4,508,546	8,972,975	-
Building and improvements	8,189,095	-	8,189,095	-
Equipment	1,337,940	473,498	1,811,438	-
Infrastructure	2,653,889	16,172,739	18,826,628	-
Total Assets	22,109,048	28,304,527	50,413,575	829,541
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts on refunding	-	84,254	84,254	-
Contributions subsequent to measurement date - pension	193,945	87,135	281,080	-
Change in assumptions - pension	8,258	3,710	11,968	-
Change in assumptions - OPEB	23,313	10,475	33,788	-
Difference in projected and actual earnings	399	-	399	-
Contributions subsequent to measurement date - OPEB	6,136	2,757	8,893	-
Total Deferred Outflows of Resources	232,051	188,331	420,382	-

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

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Llano Economic Development Corporation
LIABILITIES				
Accounts payable	365,131	1,275,842	1,640,973	491
Retainage payable	213,681	197,865	411,546	-
Accrued expenses	84,873	14,659	99,532	-
Accrued payroll	25,879	47,087	72,966	-
Accrued interest	6,054	13,815	19,869	-
Customer deposits	19,481	182,721	202,202	1,225
Internal balances	(14,639)	14,639	-	-
Due to EDC	29,486	-	29,486	-
Noncurrent liabilities:				
Due within one year	526,469	874,829	1,401,298	147,244
Due in more than one year	5,857,828	10,642,954	16,500,782	699,442
Total Liabilities	<u>7,114,243</u>	<u>13,264,411</u>	<u>20,378,654</u>	<u>848,402</u>
DEFERRED INFLOWS OF RESOURCES				
Difference between projected and actual investment earnings - pension	138,629	62,283	200,912	-
Difference in expected and actual experience - pension	119,140	51,951	171,091	-
Change in assumptions - pension	120	-	120	-
Difference in expected and actual experience - OPEB	13,837	6,216	20,053	-
Total Deferred Inflows of Resources	<u>271,726</u>	<u>120,450</u>	<u>392,176</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	13,768,721	10,984,141	24,752,862	-
Restricted for:				
Debt service	277,132	317,745	594,877	-
Capital projects	-	642,632	642,632	88,564
Unrestricted	909,277	3,163,479	4,072,756	(107,425)
Total Net Position	<u>\$ 14,955,130</u>	<u>\$ 15,107,997</u>	<u>\$ 30,063,127</u>	<u>\$ (18,861)</u>

CITY OF LLANO, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2021

<u>Functions/Programs</u>	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
City Council	\$ 18,507	\$ -	\$ -	\$ -
Administration	1,112,996	27,690	-	-
Main Street	154,786	-	-	-
Police	940,855	-	-	-
Municipal Court	98,966	55,263	-	-
Code Enforcement	81,769	57,530	-	-
Fire	114,907	-	-	10,000
Parks and Recreation	613,781	128,195	-	-
Lantex Theater	21,294	-	-	-
Golf Course	545,610	300,096	-	-
Street	455,162	-	-	53,507
Airport	493,908	285,200	-	81,948
Christmas Lighting	60,817	-	-	-
Depot Museum	78,600	-	-	-
JLK Arena	319,048	-	-	-
Interest and other charges	153,291	-	-	-
Total governmental activities	5,264,297	853,974	-	145,455
Business-type activities:				
Water and sewer	7,178,928	8,702,500	446,825	140,305
Total business-type activities	7,178,928	8,702,500	446,825	140,305
Total primary government	\$ 12,443,225	\$ 9,556,474	\$ 446,825	\$ 285,760
Component unit:				
Llano Economic				
Development Corporation	\$ 131,337	\$ -	\$ -	\$ -
Total component unit:	\$ 131,337	\$ -	\$ -	\$ -
General Revenues:				
Property taxes				
Sales taxes				
Hotel and other taxes				
Franchise fees				
Investment earnings				
Rents and royalties				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position (deficit) - beginning				
Net position (deficit) - ending				

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

Net (Expense) Revenue and Changes in Net Position			Component Units
Primary Government			
Governmental Activities	Business-Type Activities	Total	Llano EDC
\$ (18,507)	\$ -	\$ (18,507)	\$ -
(1,085,306)	-	(1,085,306)	-
(154,786)	-	(154,786)	-
(940,855)	-	(940,855)	-
(43,703)	-	(43,703)	-
(24,239)	-	(24,239)	-
(104,907)	-	(104,907)	-
(485,586)	-	(485,586)	-
(21,294)	-	(21,294)	-
(245,514)	-	(245,514)	-
(401,655)	-	(401,655)	-
(126,760)	-	(126,760)	-
(60,817)	-	(60,817)	-
(78,600)	-	(78,600)	-
(319,048)	-	(319,048)	-
(153,291)	-	(153,291)	-
<u>(4,264,868)</u>	<u>-</u>	<u>(4,264,868)</u>	<u>-</u>
-	2,110,702	2,110,702	-
-	2,110,702	2,110,702	-
<u>(4,264,868)</u>	<u>2,110,702</u>	<u>(2,154,166)</u>	<u>-</u>
-	-	-	(131,337)
-	-	-	(131,337)
1,265,032	-	1,265,032	-
1,180,139	-	1,180,139	363,879
189,521	-	189,521	-
101,137	-	101,137	-
84,654	-	84,654	2,542
180,319	-	180,319	-
422,141	-	422,141	-
1,654,178	(1,654,178)	-	-
<u>5,077,121</u>	<u>(1,654,178)</u>	<u>3,422,943</u>	<u>366,421</u>
812,253	456,524	1,268,777	235,084
<u>14,142,877</u>	<u>14,651,473</u>	<u>28,794,350</u>	<u>(253,945)</u>
<u>\$ 14,955,130</u>	<u>\$ 15,107,997</u>	<u>\$ 30,063,127</u>	<u>\$ (18,861)</u>

**CITY OF LLANO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2021**

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 849,602	\$ 524	\$ 125,797	\$ 975,923
Investments	1,400,066	-	-	1,400,066
Receivables, net				
Property taxes	23,262	-	13,873	37,135
Accounts and other	37,853	-	-	37,853
Sales taxes	188,100	-	-	188,100
Hotel occupancy taxes	38,067	-	-	38,067
Due from other funds	13,666	-	2,558	16,224
Inventories	24,975	-	-	24,975
Restricted assets: debt service	-	-	274,579	274,579
Restricted assets: investments	-	698,566	-	698,566
Total assets	<u>\$ 2,575,591</u>	<u>\$ 699,090</u>	<u>\$ 416,807</u>	<u>\$ 3,691,488</u>
LIABILITIES				
Liabilities				
Accounts payable	\$ 364,272	\$ -	\$ 859	\$ 365,131
Retainage payable	-	213,681	-	213,681
Accrued payroll	25,879	-	-	25,879
Unearned revenue	19,051	-	11,320	30,371
Due to other funds	-	-	1,585	1,585
Due to other governments	41,327	-	-	41,327
Property tax payable to EDC	29,486	-	-	29,486
Customer deposits	19,481	-	-	19,481
Other accrued liabilities	43,546	-	-	43,546
Total liabilities	<u>543,042</u>	<u>213,681</u>	<u>13,764</u>	<u>770,487</u>
FUND BALANCES				
Fund Balances				
Nonspendable				
Inventories	24,975	-	-	24,975
Restricted for:				
Debt service	-	-	277,132	277,132
Capital projects	-	485,409	-	485,409
Assigned to:				
Other projects	-	-	125,911	125,911
Unassigned	2,007,574	-	-	2,007,574
Total fund balances	<u>2,032,549</u>	<u>485,409</u>	<u>403,043</u>	<u>2,921,001</u>
Total liabilities and fund balances	<u>\$ 2,575,591</u>	<u>\$ 699,090</u>	<u>\$ 416,807</u>	<u>\$ 3,691,488</u>

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

CITY OF LLANO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
For the Year Ended September 30, 2021

Total fund balances-governmental funds \$ 2,921,001

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

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

Land	\$	1,788,431	
Construction in progress		4,464,429	
Buildings and improvements		13,380,807	
Equipment		5,327,323	
Infrastructure		5,637,273	
Accumulated depreciation		<u>(12,164,479)</u>	
Total capital assets	\$	<u>18,433,784</u>	18,433,784

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

Deferred amounts of contributions - pension	\$	193,945	
Deferred amounts of contributions - OPEB		6,136	
Difference in projected and actual investment earnings		399	
Assumption change - pension		8,258	
Assumption change - OPEB		<u>23,313</u>	
	\$	<u>232,051</u>	232,051

Some revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year end. On the accrual basis, however, those revenues would be recognized, regardless of when they are collected. 30,371

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

Accrued interest on debt	\$	(6,054)	
Long-term debt, including premium/discount		(4,293,274)	
Notes payable		(857,198)	
Compensated absences		(55,128)	
Net pension liability		(1,010,412)	
Other post-employment benefits		<u>(168,285)</u>	
	\$	<u>(6,390,351)</u>	(6,390,351)

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

Difference in projected and actual investment earnings - pension	\$	(138,629)	
Difference in expected and actual experience		(119,140)	
Difference in expected and actual experience - OPEB		(13,837)	
Assumption change - pension		<u>(120)</u>	
	\$	<u>(271,726)</u>	<u>(271,726)</u>

Net position of governmental activities \$ 14,955,130

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

CITY OF LLANO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
For the Year Ended September 30, 2021

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 738,074	\$ -	\$ 523,634	\$ 1,261,708
Sales taxes	1,180,139	-	-	1,180,139
Other taxes	189,521	-	-	189,521
Franchise fees	101,137	-	-	101,137
Licenses, permits and fees	57,530	-	-	57,530
Charges for services	741,205	-	-	741,205
Fines	55,241	-	-	55,241
Interest and other	3,892	478	80,284	84,654
Rents and royalties	180,319	-	-	180,319
Grants	145,455	-	-	145,455
Miscellaneous	422,141	-	-	422,141
Total Revenues	<u>3,814,654</u>	<u>478</u>	<u>603,918</u>	<u>4,419,050</u>
EXPENDITURES				
Current:				
City Council	18,507	-	-	18,507
Administration	1,244,794	-	-	1,244,794
Main Street	140,167	-	19,430	159,597
Police	926,700	-	-	926,700
Municipal Court	103,542	-	-	103,542
Code Enforcement	85,970	-	-	85,970
Fire	85,165	-	-	85,165
Parks and Recreation	515,988	-	-	515,988
Lantex Theater	23,969	-	-	23,969
Golf Course	511,866	-	-	511,866
Street	228,374	-	-	228,374
Airport	390,196	-	-	390,196
Christmas Lighting	-	-	60,817	60,817
Depot Museum	27,786	-	-	27,786
JLK Arena	203,663	-	-	203,663
Debt service:				
Principal retirement	103,221	-	312,275	415,496
Interest and other charges	28,610	-	147,272	175,882
Capital outlay	840,352	17,948	6,758	865,058
Total expenditures	<u>5,478,870</u>	<u>17,948</u>	<u>546,552</u>	<u>6,043,370</u>
Excess (deficiency) of revenues over (under) expenditures	(1,664,216)	(17,470)	57,366	(1,624,320)
OTHER FINANCING SOURCES				
Issuance of debt	499,244	-	-	499,244
Transfers in	1,654,178	-	-	1,654,178
Total other financing sources	<u>2,153,422</u>	<u>-</u>	<u>-</u>	<u>2,153,422</u>
Net change in fund balances	489,206	(17,470)	57,366	529,102
Fund balances, beginning of year	1,543,343	502,879	345,677	2,391,899
Fund balances, end of year	<u>\$ 2,032,549</u>	<u>\$ 485,409</u>	<u>\$ 403,043</u>	<u>\$ 2,921,001</u>

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

**CITY OF LLANO, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2021**

Net change in fund balances - governmental funds \$ 529,102

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

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

Capital outlay	\$	959,963	
Depreciation expense		(829,542)	
Retirements		(3,276)	
		<u>127,145</u>	
	\$	<u>127,145</u>	127,145

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

Tax adjustment 3,339

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

Issuance of notes payable	\$	(499,244)	
Bond principal repayments		260,000	
Capital lease and note principal repayments		193,962	
Amortization of bond issuance premiums		22,591	
Net adjustment	\$	<u>(22,691)</u>	(22,691)

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

Decrease in compensated absences liability 30,840

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

(Continued)

**CITY OF LLANO, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2021**

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

Increase in deferred pension contributions	\$	132	
Differences in experience losses, net - Pension		(29,277)	
Differences in earnings projections, net - Pension		19,655	
Differences in assumption gains - Pension		(7,149)	
Increase in net pension liability		177,941	
Decrease in OPEB liability		(21,439)	
Change in assumptions		8,852	
Difference in expected and actual experience		(4,570)	
Change in deferred OPEB contributions		373	
	<u>\$</u>	<u>144,518</u>	<u>144,518</u>
 Change in net position of governmental activities			 <u>\$ 812,253</u>

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

CITY OF LLANO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended September 30, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 734,585	\$ 734,585	\$ 738,074	\$ 3,489
Sales taxes	950,000	1,090,000	1,180,139	90,139
Other taxes	106,000	106,000	189,521	83,521
Franchise fees	89,000	89,000	101,137	12,137
Licenses, permits and fees	27,600	37,600	57,530	19,930
Charges for services	686,250	764,750	741,205	(23,545)
Fines	65,000	65,000	55,241	(9,759)
Interest and other	12,000	12,000	3,892	(8,108)
Rents and royalties	185,930	185,930	180,319	(5,611)
Grants	12,000	132,000	145,455	13,455
Miscellaneous	107,400	448,321	422,141	(26,180)
Total Revenues	<u>2,975,765</u>	<u>3,665,186</u>	<u>3,814,654</u>	<u>149,468</u>
EXPENDITURES				
Current:				
City Council	28,158	28,158	18,507	9,651
Administration	1,189,079	1,189,079	1,244,794	(55,715)
Main Street	105,713	105,713	140,167	(34,454)
Police	954,497	954,497	926,700	27,797
Municipal Court	105,833	105,833	103,542	2,291
Code Enforcement	100,898	100,898	85,970	14,928
Fire	121,696	124,936	85,165	39,771
Parks and Recreation	467,638	551,638	515,988	35,650
Lantex Theater	26,425	26,425	23,969	2,456
Golf Course	453,441	499,441	511,866	(12,425)
Street	372,290	272,290	228,374	43,916
Airport	389,792	389,792	390,196	(404)
Depot Museum	4,100	12,100	27,786	(15,686)
JLK Arena	193,488	193,488	203,663	(10,175)
Debt service:				
Principal retirement	10,000	10,000	103,221	(93,221)
Interest and other charges	94,189	94,189	28,610	65,579
Capital outlay	-	1,044,103	840,352	203,751
Total Expenditures	<u>4,617,237</u>	<u>5,702,580</u>	<u>5,478,870</u>	<u>223,710</u>
Excess (deficiency) of revenues over (under) expenditures	(1,641,472)	(2,037,394)	(1,664,216)	373,178
OTHER FINANCING SOURCES				
Issuance of debt	-	549,244	499,244	(50,000)
Transfers in	1,650,259	1,650,259	1,654,178	3,919
Total other financing sources	<u>1,650,259</u>	<u>2,199,503</u>	<u>2,153,422</u>	<u>(46,081)</u>
Net change in fund balance	8,787	162,109	489,206	327,097
Fund balance, beginning of year	1,543,343	1,543,343	1,543,343	-
Fund balance, end of year	<u>\$ 1,552,130</u>	<u>\$ 1,705,452</u>	<u>\$ 2,032,549</u>	<u>\$ 327,097</u>

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

CITY OF LLANO, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
September 30, 2021

	Private Purpose Trust Fund	Pension Trust Fund
ASSETS		
Cash and cash equivalents	\$ 119	\$ 539
Investments	37,258	-
Total Assets	37,377	539
LIABILITIES		
Accounts payable	-	-
Total Liabilities	-	-
NET POSITION		
Fiduciary net position - held for pensions	-	539
Fiduciary net position - held for others	37,377	-
Total Net Fiduciary Positions	\$ 37,377	\$ 539

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

CITY OF LLANO, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended September 30, 2021

	Private Purpose Trust Fund	Pension Trust Fund
ADDITIONS		
Investment income	\$ 19	\$ -
Total Additions	19	-
Net change in net position	19	-
Net Position, beginning of year	37,358	539
Net Position, end of year	\$ 37,377	\$ 539

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

CITY OF LLANO, TEXAS
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
September 30, 2021

	Business-Type Activities - <u>Enterprise Funds</u> <u>Utility System Funds</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 609,014
Investments	2,940,635
Receivables, net	887,599
Inventory	230,631
Total current assets	<u>4,667,879</u>
Noncurrent assets:	
Restricted assets:	
Cash, cash equivalents and investments	1,948,154
Capital assets:	
Land	533,711
Equipment	3,492,997
Infrastructure	26,438,645
Construction in progress	4,508,546
Accumulated depreciation	(13,285,405)
Total noncurrent assets	<u>23,636,648</u>
Total assets	<u>28,304,527</u>
DEFERRED OUTFLOW OF RESOURCES	
Deferred amounts on refunding	84,254
Change in assumptions - OPEB	10,475
Contributions subsequent to measurement date - pension	87,135
Change in assumption - pension	3,710
Contributions subsequent to measurement date - OPEB	2,757
Total deferred outflows of resources	<u>188,331</u>

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

	Business-Type Activities - Enterprise Funds <u>Utility System Funds</u>
LIABILITIES	
Current liabilities:	
Accounts payable	1,275,842
Due to other funds	14,639
Retainage payable	197,865
Accrued expenses	14,659
Accrued payroll	47,087
Accrued interest	13,815
Customer deposits	182,721
Long-term debt - current portion	874,829
Total current liabilities	<u>2,621,457</u>
Noncurrent liabilities:	
Long-term debt - net of current portion	10,642,954
Total noncurrent liabilities	<u>10,642,954</u>
Total liabilities	<u>13,264,411</u>
DEFERRED INFLOW OF RESOURCES	
Difference in expected and actual experience - pension	51,951
Difference in expected and actual experience - OPEB	6,216
Difference between projected and actual investment earnings - pension	62,283
Total deferred inflows of resources	<u>120,450</u>
NET POSITION	
Net investment in capital assets	10,984,141
Restricted for:	
Debt service	317,745
Capital projects	642,632
Unrestricted	3,163,479
Total net position	<u>\$ 15,107,997</u>

CITY OF LLANO, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – PROPRIETARY FUNDS
For the Year Ended September 30, 2021

	Business-Type Activities - Enterprise Funds
	Utility System Funds
OPERATING REVENUES	
Charges for electricity	\$ 4,452,619
Charges for water service	1,467,878
Charges for sewer service	1,555,698
Charges for trash collection	877,373
Other	348,932
Total operating revenues	8,702,500
OPERATING EXPENSES	
Personnel services	1,142,584
Materials and supplies	155,957
Repairs and maintenance	379,451
Utilities	354,859
Electricity purchases	3,186,008
Trash collection	759,581
Other	174,057
Depreciation	756,840
Total operating expenses	6,909,337
Operating income	1,793,163
NONOPERATING REVENUES (EXPENSES)	
American Rescue Plan	433,254
Interest and investment revenue	4,984
Other nonoperating revenues	8,587
Interest and fiscal charges	(269,591)
Total nonoperating revenues (expenses)	177,234
Income before contributions and transfers	1,970,397
Capital contributions	140,305
Transfers to general fund	(1,654,178)
Change in net position	456,524
Net position - beginning	14,651,473
Net position - ending	\$ 15,107,997

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

**CITY OF LLANO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2021**

	Business-Type Activities - Enterprise Funds	Utility System Funds
Cash flows from operating activities:		
Receipts from customers	\$ 8,610,769	
Payments to suppliers	(5,336,017)	
Payments to employees	(497,651)	
Net cash provided by operating activities	2,777,101	
Cash flows from noncapital financing activities:		
Transfers to other funds, net	(1,654,178)	
Net cash used by noncapital financing activities	(1,654,178)	
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(2,461,646)	
Receipts of American Rescue Plan grant funds	433,255	
Principal payments on debt	(278,861)	
Interest and other discal charges	(143,580)	
Net cash used by capital and related financing activities	(2,450,832)	
Cash flows from investing activities:		
Investment and other income	13,572	
Net cash provided by investing activities	13,572	
Net decrease in cash and cash equivalents	(1,314,337)	
Cash and cash equivalents - beginning of the year	6,812,140	
Cash and cash equivalents - end of the year	\$ 5,497,803	

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

(Continued)

**CITY OF LLANO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2021**

	Activities - Enterprise Funds	Utility System Funds
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$	1,793,163
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		756,840
Changes in assets and liabilities:		
Receivables		(109,037)
Accounts payable		272,105
Retainage payable		106,017
Accrued payroll		(1,439)
Customer deposits		17,306
Net pension liability		(76,342)
OPEB liability		9,632
Deferred outflows - pension		(892)
Deferred inflows - pension		9,748
Net cash provided by operating activities	\$	2,777,101
Reconciliation of cash and cash equivalents from Statement of Cash Flows to Statement of Net Position:		
Cash	\$	609,014
Investments		2,940,635
Restricted cash		1,948,154
Total cash and cash equivalents	\$	5,497,803

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

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING MODEL AND ENTITY

Financial Reporting Entity

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

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

Discrete Component Unit

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

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

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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

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

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

B. BASIS OF PRESENTATION

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the activities of the primary government with most of the interfund activities removed. Governmental activities which are supported by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Interfund services provided to the Utility Fund and used are not eliminated in the process of consolidating for entity-wide reporting.

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

Separate financial statements are provided for governmental funds and proprietary funds. The City has two fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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

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

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

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

D. FUND ACCOUNTING

The government reports the following major governmental fund:

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

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

The government reports the following major proprietary funds:

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

Additionally, the City reports the following fund types:

Nonmajor Governmental Funds:

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

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

The government reports the following fiduciary funds:

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

Reconciliation of Government-wide and Fund Financial Statements

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

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

Cash, Cash Equivalents and Investments

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

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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

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

Receivables

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

General Fund	\$ 175,944
Utility Fund	\$ 322,000
Debt Service Fund	\$ 5,900

Interfund Transactions

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

Inventories and Prepaid Items

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

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

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

Restricted Assets

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

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

Capital Assets

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

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

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

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

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

Compensated Absences

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

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

Other Post-Employment Benefits

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

Long-Term Obligations

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

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

Connection Fees and Impact Fees

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

Deferred Outflows/Inflows of Resources

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

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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

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

Net Position

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

Fund Equity

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

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

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

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

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

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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

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

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

Minimum Fund Balance

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

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

Estimates

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

Pensions

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

New and Future Financial Reporting Requirements

The GASB has issued the following statement which became effective in fiscal year 2021.

Statement No. 84, *Fiduciary Activities* - This statement establishes criteria for identifying fiduciary activities of governments and for identifying fiduciary component units and post employment benefit arrangements that are fiduciary activities.

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

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

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

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

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

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

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

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

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

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

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

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

	Original Budget	Amendments Increase (Decrease)	Final Budget
Revenues -			
Property taxes	\$ 734,585	\$ -	\$ 734,585
Sales taxes	950,000	140,000	1,090,000
Other taxes	106,000	-	106,000
Franchise fees	89,000	-	89,000
Licenses, permits and fees	686,250	78,500	764,750
Charges for services	27,600	10,000	37,600
Fines	65,000	-	65,000
Interest and other	12,000	-	12,000
Rents and royalties	185,930	-	185,930
Grants	12,000	120,000	132,000
Miscellaneous	107,400	340,921	448,321
Total revenues	<u>2,975,765</u>	<u>689,421</u>	<u>3,665,186</u>
Expenditures -			
Current -			
City Council	28,158	-	28,158
Administration	1,189,079	-	1,189,079
Main Street	105,713	-	105,713
Police	954,497	-	954,497
Municipal Court	105,833	-	105,833
Code Enforcement	100,898	-	100,898
Fire	121,696	3,240	124,936
Parks and Recreation	467,638	84,000	551,638
Lantex Theater	26,425	-	26,425
Golf Course	453,441	46,000	499,441
Street	372,290	(100,000)	272,290
Airport	389,792	-	389,792
Depot Museum	4,100	8,000	12,100
JLK Arena	193,488	-	193,488
Debt service:			
Principal retirement	10,000	-	10,000
Interest and other charges	94,189	-	94,189
Capital outlay	-	1,044,103	1,044,103
Total expenditures	<u>4,617,237</u>	<u>1,085,343</u>	<u>5,702,580</u>
Excess (deficiency) of revenues over expenditures	(1,641,472)	(395,922)	(2,037,394)
Other financing sources -			
Issuance of lease	-	549,244	549,244
Transfers in	1,650,259	-	1,650,259
Total other financing sources	<u>1,650,259</u>	<u>549,244</u>	<u>2,199,503</u>
Net change in fund balances	<u>\$ 8,787</u>	<u>\$ 153,322</u>	<u>\$ 162,109</u>

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

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

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

Deposits

As of September 30, 2021, the City's deposit balances were as follows:

	Primary Government	Llano EDC	Total Reporting Entity
Total Deposits	\$ 3,198,624	\$ 437,064	\$ 3,635,688
Carrying Amount	\$ 2,520,410	\$ 421,846	\$ 2,942,256
Petty Cash	\$ 6,160	\$ -	\$ 6,160

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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

Custodial Credit Risk - The City's policy is to be collateralized. The City was fully collateralized during the year for deposits. The policies of the Llano Economic Development Corporation, discretely presented component unit, also require full collateralization. As of September 30, 2021, the Llano Economic Development Corporation had a total of \$ 421,846 in deposits which was collateralized with securities held by pledging financial institution's agent in the entity's name.

Investments

The City evaluated all of its investment positions and determined that it had no investments subject to recurring fair value recognition or disclosures. As of September 30, 2021, the City had the following investments:

	Carrying Amount	Fair Value
Primary Government		
Investment pools - Texpool	\$ 5,164,146	\$ 5,164,146
Treasury obligation - TWDB escrow	1,141,221	1,141,221
Certificates of deposit	15,000	15,000
Total investments	\$ 6,320,367	\$ 6,320,367
Discretely Presented Component Unit		
Investment pools - Texpool	\$ 315,509	\$ 315,509
Total investments	\$ 315,509	\$ 315,509
Total Reporting Entity		
Total investments	\$ 6,635,876	\$ 6,635,876

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

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

Interest Rate Risk - In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to less than nine months. As of September 30, 2021, the weighted average maturity of the City's investment portfolio was 26 days.

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

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

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

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

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

	Primary Government	Llano EDC
Cash and investments (from above):		
Cash on hand	\$ 6,160	\$ -
Carrying amount of deposits	2,520,410	421,846
Carrying amount of investments	6,320,367	315,509
 Total cash and investments	 \$ 8,846,937	 \$ 737,355
 Statement of net position presentation:		
Cash and cash equivalents	\$ 1,584,937	\$ 421,846
Investments	4,340,701	315,509
Restricted assets -		
Cash and cash equivalents	2,921,299	-
 Total cash and cash equivalents and investments	 \$ 8,846,937	 \$ 737,355

CITY OF LLANO, TEXAS
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Fair Value Measurements

The City categorizes its fair value measurements within the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. As of September 30, 2021, the TexPool investments are measured at amortized cost and fair value in accordance with GASB Statement No. 72 and 79.

B. PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and business personal property located in the City. The assessed value at January 1, 2020, upon which the 2021 levy was based, was \$ 294,086,520.

The tax assessment of October 1, 2020 set a tax levy at \$ 0.65673 per \$ 100 of assessed valuation at 100 percent of assumed market value. Of this \$ 0.38400 was for maintenance and operations and \$ 0.27273 was for debt service. The City may levy a tax of up to \$ 2.50 per \$ 100 of assessed valuation.

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

Property taxes at the fund level are recorded as receivables and deferred revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue. At September 30, 2021 delinquent property taxes receivable were \$ 52,935.

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

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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C. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2021 was as follows:

	Balance October 1, 2020	Additions	Transfers/ Retirements	Balance September 30, 2021
Primary government:				
<i>Governmental Activities</i>				
Capital Assets not being depreciated:				
Land	\$ 1,788,431	\$ -	\$ -	\$ 1,788,431
Construction in Progress	4,746,270	-	(281,841)	4,464,429
Total Capital Assets not being depreciated	<u>6,534,701</u>	<u>-</u>	<u>(281,841)</u>	<u>6,252,860</u>
Capital Assets being depreciated:				
Buildings and improvements	12,794,019	598,488	(11,700)	13,380,807
Equipment	5,024,261	609,711	(306,649)	5,327,323
Infrastructure	5,603,668	33,605	-	5,637,273
Total Capital Assets being depreciated	<u>23,421,948</u>	<u>1,241,804</u>	<u>(318,349)</u>	<u>24,345,403</u>
Less Accumulated Depreciation for:				
Buildings and improvements	(4,790,300)	(413,112)	11,700	(5,191,712)
Equipment	(4,035,909)	(256,847)	303,373	(3,989,383)
Infrastructure	(2,823,801)	(159,583)	-	(2,983,384)
Total Accumulated Depreciation	<u>(11,650,010)</u>	<u>(829,542)</u>	<u>315,073</u>	<u>(12,164,479)</u>
Total Capital Assets being depreciated, net	<u>11,771,938</u>	<u>412,262</u>	<u>(3,276)</u>	<u>12,180,924</u>
Governmental Activities Capital Assets, net	<u>\$ 18,306,639</u>	<u>\$ 412,262</u>	<u>\$ (285,117)</u>	<u>\$ 18,433,784</u>
<i>Business-type Activities</i>				
Capital Assets not being depreciated:				
Land	\$ 533,711	\$ -	\$ -	\$ 533,711
Construction in Progress	2,295,104	2,213,442	-	4,508,546
Total Capital Assets not being depreciated	<u>2,828,815</u>	<u>2,213,442</u>	<u>-</u>	<u>5,042,257</u>
Capital Assets being depreciated:				
Equipment	4,019,897	153,994	(680,894)	3,492,997
Infrastructure	26,344,435	94,210	-	26,438,645
Total Capital Assets being depreciated	<u>30,364,332</u>	<u>248,204</u>	<u>(680,894)</u>	<u>29,931,642</u>
Less Accumulated Depreciation for:				
Equipment	(3,527,870)	(172,523)	680,894	(3,019,499)
Infrastructure	(9,681,589)	(584,317)	-	(10,265,906)
Total Accumulated Depreciation	<u>(13,209,459)</u>	<u>(756,840)</u>	<u>680,894</u>	<u>(13,285,405)</u>
Total Capital Assets being depreciated, net	<u>17,154,873</u>	<u>(508,636)</u>	<u>-</u>	<u>16,646,237</u>
Business-type Activities Capital Assets, net	<u>\$ 19,983,688</u>	<u>\$ 1,704,806</u>	<u>\$ -</u>	<u>\$ 21,688,494</u>

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
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Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities:	
Administration	\$ 15,221
Police	62,585
Fire	28,599
Parks and recreation	114,388
JLK	122,569
Depot	50,814
Lantex Theater	10,423
Golf Course	89,328
Streets	228,763
Airport	106,852
Total depreciation expense - Governmental activities	<u>\$ 829,542</u>
Business-type activities:	
Water and sewer	<u>\$ 756,840</u>
Total depreciation expense - Business-type activities	<u>\$ 756,840</u>

D. INTERFUND RECEIVABLES AND PAYABLES

Individual interfund receivable and payable balances at September 30, 2021 were:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Major Funds:		
General Fund	\$ 13,666	\$ -
Utility Fund	-	14,639
Nonmajor Governmental Funds:		
Christmas Lighting Fund	2,558	-
Main Street Fund	-	1,585
Totals	<u>\$ 16,224</u>	<u>\$ 16,224</u>

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

E. DEFERRED AMOUNT ON REFUNDING

The amounts reported for deferred amount of refunding balances of the City for the year ended September 30, 2021:

	Balance October 1, 2020	Additions	Retirements	Balance September 30, 2021
<u>Business-Type Activities</u>				
General obligation bonds	\$ 96,290	\$ -	\$ (12,036)	\$ 84,254
Total business-type activities	<u>96,290</u>	<u>-</u>	<u>(12,036)</u>	<u>84,254</u>
Total primary government	<u>\$ 96,290</u>	<u>\$ -</u>	<u>\$ (12,036)</u>	<u>\$ 84,254</u>

F. LONG-TERM DEBT

The following is a summary of long-term debt transactions, including the current portion of the City for the year ended September 30, 2021:

	Balance October 1, 2020	Additions	Retirements	Balance September 30, 2021	Due within one year
<i>Governmental Activities</i>					
General Obligation Bonds	\$ 4,295,000	\$ -	\$ (260,000)	\$ 4,035,000	\$ 295,000
Limited Tax Notes	47,990	-	(38,214)	9,776	9,776
Contractual Obligations	513,702	499,244	(155,748)	857,198	199,102
Plus deferred amount:					
Issuance Premium	271,089	-	(22,591)	248,498	22,591
Compensated Absences	85,982	-	(30,854)	55,128	-
OPEB Obligation	146,846	21,439	-	168,285	-
Net Pension Liability - TMRS	1,106,718	-	(169,922)	936,796	-
Net Pension Liability - TESRS	81,635	-	(8,019)	73,616	-
Total governmental activities	<u>\$ 6,548,962</u>	<u>\$ 520,683</u>	<u>\$ (685,348)</u>	<u>\$ 6,384,297</u>	<u>\$ 526,469</u>
<i>Business-Type Activities</i>					
General Obligation Bonds	\$ 4,300,000	\$ -	\$ (230,000)	\$ 4,070,000	\$ 230,000
Certificates of Obligation	5,990,000	-	(295,000)	5,695,000	295,000
Contractual Obligations	497,427	551,188	(305,049)	743,566	315,771
Plus deferred amount:					
Issuance Premium	546,790	-	(34,058)	512,732	34,058
OPEB Obligation	65,975	9,632	-	75,607	-
Net Pension Liability - TMRS	497,220	-	(76,342)	420,878	-
Total business-type activities	<u>\$ 11,897,412</u>	<u>\$ 560,820</u>	<u>\$ (940,449)</u>	<u>\$ 11,517,783</u>	<u>\$ 874,829</u>
Total primary government	<u>\$ 18,446,374</u>	<u>\$ 1,081,503</u>	<u>\$ (1,625,797)</u>	<u>\$ 17,902,080</u>	<u>\$ 1,401,298</u>
<i>Component Unit</i>					
Contractual Obligations	\$ 988,892	\$ -	\$ (142,206)	\$ 846,686	\$ 147,244

CITY OF LLANO, TEXAS
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Compensated Absences –

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

Other Post-Employment Benefits Obligation –

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

Net Pension Liability –

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

Long-term debt at September 30, 2021 is comprised of the following:

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>
General Obligation Bonds:		
\$ 5,165,000 Series 2016 refunding bonds due in annual installments of \$ 130,000 to \$ 345,000 through September 15, 2036, interest at 2.00% to 4.00%.	\$ -	\$ 4,070,000
\$ 5,025,000 Series 2017 improvement bonds due in annual installments of \$ 245,000 to \$ 430,000 through September 15, 2032, interest at 2.00% to 4.00%.	<u>4,035,000</u>	<u>-</u>
	<u>4,035,000</u>	<u>4,070,000</u>
Certificates of Obligation:		
\$ 1,700,000 Series 2017 combination tax and revenue certificates of obligation due in annual installments of \$ 65,000 to \$ 110,000 through September 15, 2037, interest at 3.00% to 3.2%.	-	1,435,000
\$ 3,390,000 Series 2018A combination tax and surplus revenue certificates of obligation due in annual installments of \$ 140,000 to \$ 195,000 through September 15, 2038, interest at 0.19% to 1.70%.	-	2,940,000
\$ 890,000 Series 2018B combination tax and surplus revenue certificates of obligation due in annual installments of \$ 35,000 to \$ 50,000 through September 15, 2038, interest at 0.49% to 2.00%.	-	775,000
\$ 630,000 Series 2018C combination tax and surplus revenue certificates of obligation due in annual installments of \$ 25,000 to \$ 35,000 through September 15, 2038, interest at 0.19% to 1.70%.	<u>-</u>	<u>545,000</u>
	<u>-</u>	<u>5,695,000</u>

CITY OF LLANO, TEXAS
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	<u>Governmental Activities</u>	<u>Business - Type Activities</u>
Limited Tax Notes:		
\$ 240,000 Series 2014 limited tax notes due in monthly installments of \$ 3,275 through December 5, 2021, interest at 3.95%.	9,776	-
	<u>9,776</u>	<u>-</u>
Contractual Obligations:		
\$ 250,000 in a 2018 note payable due in monthly installments of \$ 1,745 through 2033, interest at 3.15%; construction of the golf course pro shop was funded with this note.	206,650	-
\$ 991,000 in a 2014 note payable due in monthly installments of \$ 9,569 through 2024, interest at 3.00%; automated meter reading system was acquired with this note.	-	293,544
\$ 210,161 in a 2017 note payable due in monthly installments of \$ 3,707 through 2022, interest at 2.25%; Vac-con and vacuum unit were acquired with this note.	-	18,312
\$ 90,000 in a 2017 note payable due in monthly installments of \$ 1,588 through 2022, interest at 2.25%; bucket truck was acquired with this note.	-	18,746
\$ 122,650 in a 2019 note payable due in monthly installments of \$ 2,682 through 2023, interest at 2.37%; John Deere 544K loader was acquired with this note.	47,403	-
\$ 173,088 in a 2018 capital lease due in monthly installments of \$ 2,106 through 2022 with a final payment of \$ 72,000, interest at 4.52%; golf carts were acquired under this capital lease.	88,296	-
\$ 100,000 in a 2019 note payable due in monthly installments of \$ 1,753 through 2025, interest at 2.00%; Caterpillar motor grader 140M3 was refinanced under this note.	80,727	-
\$ 499,244 in a 2020 note payable due in monthly installments of \$ 4,765 through 2030, interest at 2.75%; 2020 Spartan pump truck was acquired with this note.	434,122	-
\$ 551,188 in a 2021 note payable due in monthly installments of \$ 14,220 through 2024, interest at 2.00%; LCRA electric charges due to February 2021 winter storm are financed with this note.		412,964
	<u>857,198</u>	<u>743,566</u>
Issuance premium	248,498	512,732
Accrual for compensated absences	55,128	-
Accrual for OPEB liability	168,285	75,607
Accrual for net pension liability - TMRS	936,796	420,878
Accrual for net pension liability - TESRS	73,616	-
Total primary government debt	<u>\$ 6,384,297</u>	<u>\$ 11,517,783</u>

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

General Obligation Bonds

Year Ending September 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2022	\$ 295,000	\$ 137,500	\$ 230,000	\$ 155,700	\$ 818,200
2023	320,000	125,700	240,000	148,800	834,500
2024	330,000	112,900	240,000	141,600	824,500
2025	345,000	99,700	250,000	134,400	829,100
2026	355,000	85,900	255,000	124,400	820,300
2027-2031	1,960,000	244,350	1,410,000	461,600	4,075,950
2032-2036	430,000	12,900	1,445,000	159,800	2,047,700
Total	<u>\$ 4,035,000</u>	<u>\$ 818,950</u>	<u>\$ 4,070,000</u>	<u>\$ 1,326,300</u>	<u>\$ 10,250,250</u>

Certificates of Obligation

Year Ending September 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2022	\$ -	\$ -	\$ 295,000	\$ 104,366	\$ 399,366
2023	-	-	305,000	100,596	405,596
2024	-	-	305,000	96,224	401,224
2025	-	-	310,000	91,624	401,624
2026	-	-	320,000	86,620	406,620
2027-2031	-	-	1,655,000	349,016	2,004,016
2032-2036	-	-	1,840,000	183,746	2,023,746
2037-2038	-	-	665,000	18,168	683,168
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,695,000</u>	<u>\$ 1,030,360</u>	<u>\$ 6,725,360</u>

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

Limited Tax Notes

Year Ending September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2022	\$ 9,776	\$ 14	\$ -	\$ -	\$ 9,790
Total	\$ 9,776	\$ 14	\$ -	\$ -	\$ 9,790

Contractual Obligations

Year Ending September 30,	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2022	\$ 199,102	\$ 23,701	\$ 315,771	\$ 14,665	\$ 553,239
2023	94,803	17,749	280,888	7,350	400,790
2024	83,629	15,520	146,907	1,102	247,158
2025	85,891	13,257	-	-	99,148
2026	66,964	11,152	-	-	78,116
2027-2031	289,564	26,236	-	-	315,800
2032-2036	37,245	1,135	-	-	38,380
Total	\$ 857,198	\$ 108,750	\$ 743,566	\$ 23,117	\$ 1,732,631

Component Unit

Year Ending September 30,	Principal	Interest	Total
2022	\$ 147,244	\$ 33,687	\$ 180,931
2023	152,921	27,329	180,250
2024	160,235	20,696	180,931
2025	167,155	13,777	180,932
2026	174,373	6,558	180,931
2027-2031	44,758	476	45,234
Total	\$ 846,686	\$ 102,523	\$ 949,209

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

General Obligation Bonds and Certificates of Obligation

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

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

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

Debt Issuance

2021 Notes Payable

In fiscal year 2021, the City entered into a note payable in the amount of \$ 499,244 in which a fire truck was purchased. Interest rate is 2.75% and matures in 2030. The City also entered into a note payable in the amount of \$ 551,188 which financed additional electric utility fees incurred by the City after the February 2021 winter storm. Interest rate is 2.00% and matures in 2024.

G. INTERFUND TRANSFERS

Interfund transfers during the year ended September 30, 2021 were as follows:

	Transfers In	Transfers Out
Major Funds:		
General	\$ 1,654,178	\$ -
Utility System	-	1,654,178
Total	\$ 1,654,178	\$ 1,654,178

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

IV. OTHER INFORMATION

A. COMMITMENTS AND CONTINGENCIES

Litigation

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

Grants

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

Employee Health, Dental and Life Insurance Benefits

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

B. RISK MANAGEMENT

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

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

C. EMPLOYEE BENEFIT PLANS

(1) Retirement Plans

The City participates in two retirement plans. The Texas Municipal Retirement System covered 49 employees as of December 31, 2020. The Texas Emergency Services Retirement System covered 26 volunteers as of August 31, 2020.

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

The Texas Municipal Retirement System

Plan Description

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

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

Benefits Provided

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

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

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

Employee deposit rate	7.00%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to retirees)	0% of CPI

**CITY OF LLANO, TEXAS
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SEPTEMBER 30, 2021**

Employees covered by benefit terms:

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	42
Inactive employees entitled to but not yet receiving benefits	32
Active employees	49
Total	123

Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. For fiscal year 2021, the City made contributions of 15% for the months in both calendar year 2020 and calendar year 2021. The City's contributions to TMRS for the year ended September 30, 2021, were \$ 373,508, and exceeded the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2020 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, 2020 actuarial valuation was determined using the following actuarial assumptions:

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2021 are summarized in the following table:

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

Discount Rate

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2019	\$ 8,812,393	\$ 7,208,455	\$ 1,603,938
Changes for the year:			
Service cost	350,456	-	350,456
Interest	593,415	-	593,415
Changes of benefit terms	-	-	-
Difference between expected and and actual experience	(128,765)	-	(128,765)
Changes of assumptions	-	-	-
Contributions - employer	-	350,892	(350,892)
Contributions - employee	-	166,998	(166,998)
Net investment income	-	547,158	(547,158)
Benefit payments, including refunds of employee contributions	(392,590)	(392,590)	-
Administrative expense	-	(3,540)	3,540
Other	-	(138)	138
Net changes	422,516	668,780	(246,264)
Balance at December 31, 2020	\$ 9,234,909	\$ 7,877,235	\$ 1,357,674

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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 Discount Rate (6.75%)	1% Increase (7.75%)
City's net pension liability	\$ 2,530,497	\$ 1,357,674	\$ 378,168

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2021, the City recognized pension expense of \$ 140,135.

At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 167,585
Change in actuarial assumptions	11,968	-
Difference between projected and actual investment earnings	-	200,912
Total as of December 31, 2020 measurement date	11,968	368,497
Contributions subsequent to the measurement date	281,080	-
Total	\$ 293,048	\$ 368,497

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$ 281,080 will be recognized as a reduction of the net pension liability for the measurement year ending September 30, 2021.

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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

Measurement Year ended December 31	Net deferred outflows (inflows) of resources
2021	\$ (182,745)
2022	(41,188)
2023	(120,477)
2024	(12,119)
2025	-
Thereafter	-
Total	\$ (356,529)

The Texas Emergency Services Retirement System

Plan Description

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

Covered by Benefit Terms

At August 31, 2020, there were 187 member fire or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department. At August 31, 2020, TESRS membership consisted of:

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

Pension Plan Fiduciary Net Position

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

Benefits Provided

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

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

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

Funding Policy

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

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

The board rule defining contributions was amended in 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the August 31, 2020 actuarial valuation, the Part Two contributions are not required for an adequate contribution arrangement.

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

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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

Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by Board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2020, total contributions (dues, prior service, and interest on prior service financing) of \$ 17,386 were paid by the City. The State appropriated \$ 1,329,224 for the fiscal year ending August 31, 2020 to TESRS as a whole.

Actuarial Assumptions

The total pension liability in the August 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date	August 31, 2020
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar, Open
Amortization Period	30 years
Asset Valuation	Method Market value smoothed by a 5-year deferred recognition method with an 80%/120% corridor on market value
Actuarial Assumptions:	
Investment Rate of Return *	7.50%, net of pension plan investment expense, including inflation
Projected Salary Increases	N/A
Cost of Living Adjustments	None

* Includes Inflation at 3.00%

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

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Net Real Rate of Return</u>
Equities		
Large cap domestic	20%	5.83%
Small cap domestic	10%	5.94%
Developed international	15%	6.15%
Emerging markets	5%	7.25%
Global infrastructure	5%	6.41%
Real estate	10%	4.48%
Multi-Asset Investments	5%	3.84%
Fixed income	30%	1.99%
Total	<u>100.0%</u>	
Weighted Average		4.60%

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. No projection of cash flows was used to determine the discount rate because the August 31, 2020 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's net pension liability	\$ 141,833	\$ 73,616	\$ 26,219

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

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

At August 31, 2020, the City reported a liability of \$ 73,616 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	\$ 73,616
State’s proportionate share that is associated with the City*	20,986
Total	\$ 94,602

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

TESRS’s net pension liability was measured as of August 31, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s portion of the net pension liability was based on the City’s contributions to the pension plan relative to the contribution of all entities to the plan for the period September 1, 2018 through August 31, 2020.

For the year ended August 31, 2020, the City recognized pension expense of \$ 19,479. The City recognized on-behalf revenues of \$ 3,881 calculated by taking the State’s total contributions to TESRS multiplied by the City’s proportionate share.

At September 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 3,506
Change in actuarial assumptions	-	120
Difference between projected and actual investment earnings	399	-
Total as of August 31, 2020 measurement date	399	3,626
Contributions subsequent to the measurement date	-	-
Total	\$ 399	\$ 3,626

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date in the amount of \$ 0 will be recognized as a reduction to the net position liability for the year ended September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

Year ended September 30	Net deferred outflows (inflows) of resources
2021	\$ (3,132)
2022	(643)
2023	2,531
2024	(1,983)
2025	-
Thereafter	-
Total	\$ (3,227)

D. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

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

Benefits Provided

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

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

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

Employees Covered by Benefit Terms -

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	33
Inactive employees entitled to but not yet receiving benefits	5
Active employees	49
Total	87

Total OPEB Liability - SDBF

The City's total OPEB liability for SDBF of \$ 243,892 was measured as of December 31, 2020, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions -

The total OPEB liability for SDBF in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50% per year
Salary increases	3.50% to 11.50% including inflation
Discount rate*	2.00%
Retirees' share of benefit-related costs	\$ 0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements for GASB Statement No. 68.
Mortality rates - service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year setforward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

**CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021**

Discount Rate -

*The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.

The actuarial assumptions used in the December 31, 2020 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

Changes in the Total OPEB Liability - SDBF

	Increase (Decrease) Total OPEB Liability
Balance at December 31, 2019	\$ 212,821
Changes for the year:	
Service cost	15,268
Interest	6,026
Changes of benefit terms	-
Difference between expected and and actual experience	(14,792)
Changes of assumptions	27,193
Contributions - employer	-
Contributions - employee	-
Net investment income	-
Benefit payments, including refunds of employee contributions *	(2,624)
Administrative expense	-
Other changes	-
Net changes	31,071
Balance at December 31, 2020	\$ 243,892

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.00%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.00%) or 1-percentage-point higher (3.00%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	(1.00%)	(2.00%)	(3.00%)
City's total OPEB liability	\$ 288,190	\$ 243,892	\$ 208,654

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

For the year ended September 30, 2021, the City recognized OPEB expense of \$ 27,489.

At September 30, 2021, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 20,053
Change in actuarial assumptions	33,788	-
Difference between projected and actual investment earnings	-	-
	\$ 33,788	\$ 20,053
Contributions subsequent to the measurement date	8,893	-
Total	\$ 42,681	\$ 20,053

Deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date of \$ 8,893 will be recognized as a reduction of the total OPEB liability for the measurement year ending December 31, 2020 (i.e. recognized in the City's financial statements September 30, 2021).

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

Measurement Year ended December 31	Net deferred outflows (inflows) of resources
2021	\$ 4,562
2022	5,404
2023	3,769
2024	-
2025	-
Thereafter	-
Total	\$ 13,735

E. RELATED PARTIES

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

F. SUBSEQUENT EVENTS

Management has reviewed and evaluated events and transactions through June 17, 2022, the date of the independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LLANO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2021**

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

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

Notes to Schedule:

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

	2017	2018	2019	2020
\$	338,920	\$ 347,028	\$ 345,603	\$ 350,456
	505,219	545,370	575,162	593,415
	-	-	-	-
	163,185	50,699	(248,886)	(128,765)
	-	-	33,338	-
	(312,916)	(520,167)	(481,881)	(392,590)
	694,408	422,930	223,336	422,516
	7,471,719	8,166,127	8,589,057	8,812,393
\$	<u>8,166,127</u>	<u>\$ 8,589,057</u>	<u>\$ 8,812,393</u>	<u>\$ 9,234,909</u>

\$	333,444	\$ 343,760	\$ 347,490	\$ 350,892
	158,692	163,362	165,247	166,998
	761,145	(192,612)	961,741	547,158
	(312,916)	(520,167)	(481,881)	(392,590)
	(3,947)	(3,723)	(5,435)	(3,540)
	(200)	(195)	(163)	(138)
	936,218	(209,575)	986,999	668,780
	5,494,813	6,431,031	6,221,456	7,208,455
	6,431,031	6,221,456	7,208,455	7,877,235
\$	<u>1,735,096</u>	<u>\$ 2,367,601</u>	<u>\$ 1,603,938</u>	<u>\$ 1,357,674</u>

78.75%	72.43%	81.80%	85.30%
2,267,026	2,333,747	2,360,674	2,385,680

76.54%	101.45%	67.94%	56.91%
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**CITY OF LLANO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2021**

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

	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
Actuarially determined contribution	\$ 173,413	\$ 264,599	\$ 329,760	\$ 337,755	\$ 344,888	\$ 360,560	\$ 336,691
Contribution in relation of the actuarially determined contribution	(173,413)	(264,599)	(329,760)	(337,755)	(344,888)	(360,560)	(336,691)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	1,717,307	1,991,733	2,251,891	2,293,812	2,363,866	2,471,280	2,503,282
Contributions as a percentage of covered payroll	10.10%	13.28%	14.64%	14.72%	14.59%	14.59%	13.45%

Notes to Schedule:

Valuation Date:

Actuarial determined contribution rates are calculated as of December 31st each year 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	26 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other Information	There were no benefit changes during the year.

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

**CITY OF LLANO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2021**

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

Measurement period ending August 31,	2014	2015	2016	2017	2018	2019	2020
City's proportion of the net pension liability	0.269%	0.272%	0.272%	0.273%	0.281%	0.288%	0.292%
City's proportionate share of the net pension liability	\$ 48,882	\$ 86,082	\$ 79,228	\$ 65,525	\$ 60,838	\$ 79,651	\$ 73,616
State's proportionate share of the net pension liability	4,117	25,167	27,390	21,458	16,885	16,885	20,986
Total	<u>\$ 52,999</u>	<u>\$ 111,249</u>	<u>\$ 106,618</u>	<u>\$ 86,983</u>	<u>\$ 77,723</u>	<u>\$ 96,536</u>	<u>\$ 94,602</u>
Plan fiduciary net position as a percentage of the total pension liability	83.5%	76.9%	76.3%	81.4%	83.4%	83.4%	77.8%

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

	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
Contractually determined contribution	\$ 12,177	\$ 12,833	\$ 12,464	\$ 11,913	\$ 19,952	\$ 15,500	\$ 7,941	\$ 17,386
Contribution in relation of the contractually determined contribution	(12,177)	(12,833)	(12,464)	(11,913)	(19,952)	(15,500)	(7,941)	(17,386)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Notes to Schedule:

Valuation Date: August 31, 2020

Methods and Assumptions Used to Determine Contribution Rates:

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

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

There are no changes in methods.

**CITY OF LLANO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2021**

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

	Measurement Year 2017*	Measurement Year 2018*	Measurement Year 2019*	Measurement Year 2020*
Total OPEB Liability - SDBF:				
Changes for the year:				
Service cost	\$ 6,121	\$ 7,235	\$ 6,610	\$ 15,268
Interest	6,408	6,380	6,981	6,026
Changes of benefit terms	-	-	-	-
Difference between expected and and actual experience	-	(4,202)	(14,564)	(14,792)
Changes of assumptions	12,447	(11,203)	30,221	27,193
Benefit payments, including refunds of employee contributions *	(2,267)	(2,334)	(2,597)	(2,624)
Net changes	22,709	(4,124)	26,651	31,071
Total OPEB liability - beginning	167,585	190,294	186,170	212,821
Total OPEB liability - ending	<u>\$ 190,294</u>	<u>\$ 186,170</u>	<u>\$ 212,821</u>	<u>\$ 243,892</u>
Covered employee payroll	\$ 2,267,026	\$ 2,333,747	\$ 2,333,747	\$ 2,385,680
Total OPEB liability as a percentage of covered payroll	8.39%	7.98%	9.12%	10.22%

* As of December 31

**CITY OF LLANO, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2021**

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

	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021
Actuarially determined contribution	\$ 6,652	\$ 6,855	\$ 6,846	\$ 10,974
Contribution in relation of the actuarially determined contribution	(6,652)	(6,855)	(6,846)	(10,974)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	2,293,812	2,363,866	2,360,674	2,385,680
Contributions as a percentage of covered payroll	0.29%	0.29%	0.29%	0.46%

**COMBINING FINANCIAL STATEMENTS
NONMAJOR GOVERNMENTAL FUNDS**

Special Revenue Funds

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

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

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

Debt Service Fund

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

**CITY OF LLANO, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2021**

	Special Revenue Funds				Debt Service	Total Nonmajor Governmental Funds
	Christmas Lighting	Main Street	Cemetery	Total Special Revenue		
ASSETS						
Cash and cash equivalents	\$ 77,441	\$ 29,965	\$ 18,391	\$ 125,797	\$ -	\$ 125,797
Receivables, net						
Property taxes	-	-	-	-	13,873	13,873
Restricted cash - debt service	-	-	-	-	274,579	274,579
Due from other funds	2,558	-	-	2,558	-	2,558
	<u>79,999</u>	<u>29,965</u>	<u>18,391</u>	<u>128,355</u>	<u>288,452</u>	<u>416,807</u>
Total Assets	<u>\$ 79,999</u>	<u>\$ 29,965</u>	<u>\$ 18,391</u>	<u>\$ 128,355</u>	<u>\$ 288,452</u>	<u>\$ 416,807</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 296	\$ 563	\$ -	\$ 859	\$ -	\$ 859
Unearned revenue	-	-	-	-	11,320	11,320
Due to other funds	-	1,585	-	1,585	-	1,585
	<u>296</u>	<u>2,148</u>	<u>-</u>	<u>2,444</u>	<u>11,320</u>	<u>13,764</u>
Total Liabilities	<u>296</u>	<u>2,148</u>	<u>-</u>	<u>2,444</u>	<u>11,320</u>	<u>13,764</u>
Fund Balances						
Restricted for:						
Debt service	-	-	-	-	277,132	277,132
Assigned to:						
Other purposes	79,703	27,817	18,391	125,911	-	125,911
Total Fund Balances	<u>79,703</u>	<u>27,817</u>	<u>18,391</u>	<u>125,911</u>	<u>277,132</u>	<u>403,043</u>
Total Liabilities and Fund Balances	<u>\$ 79,999</u>	<u>\$ 29,965</u>	<u>\$ 18,391</u>	<u>\$ 128,355</u>	<u>\$ 288,452</u>	<u>\$ 416,807</u>

CITY OF LLANO, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2021

	Special Revenue Funds				Debt Service	Total Nonmajor Governmental Funds
	Christmas Lighting	Main Street	Cemetery	Total Special Revenue		
REVENUES						
Property tax	\$ -	\$ -	\$ -	\$ -	\$ 523,634	\$ 523,634
Interest and other	55,287	15,770	55	71,112	9,172	80,284
Total revenues	<u>55,287</u>	<u>15,770</u>	<u>55</u>	<u>71,112</u>	<u>532,806</u>	<u>603,918</u>
EXPENDITURES						
Current:						
Christmas Lighting operations	60,817	-	-	60,817	-	60,817
Main Street operations	-	19,430	-	19,430	-	19,430
Debt service:						
Principal retirement	-	-	-	-	312,275	312,275
Interest and other charges	-	-	-	-	147,272	147,272
Capital outlay	-	-	-	-	6,758	6,758
Total expenditures	<u>60,817</u>	<u>19,430</u>	<u>-</u>	<u>80,247</u>	<u>466,305</u>	<u>546,552</u>
Excess of revenues over expenditures	<u>(5,530)</u>	<u>(3,660)</u>	<u>55</u>	<u>(9,135)</u>	<u>66,501</u>	<u>57,366</u>
Net change in fund balance	(5,530)	(3,660)	55	(9,135)	66,501	57,366
Fund balances - beginning	<u>85,233</u>	<u>31,477</u>	<u>18,336</u>	<u>135,046</u>	<u>210,631</u>	<u>345,677</u>
Fund balances - ending	<u>\$ 79,703</u>	<u>\$ 27,817</u>	<u>\$ 18,391</u>	<u>\$ 125,911</u>	<u>\$ 277,132</u>	<u>\$ 403,043</u>

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COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Llano, Texas (the City), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 17, 2022.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2021-005 and 2021-011 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs as items 2021-006, 2021-007, 2021-008, and 2021-009 to be significant deficiencies.

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

Compliance and Other Matters

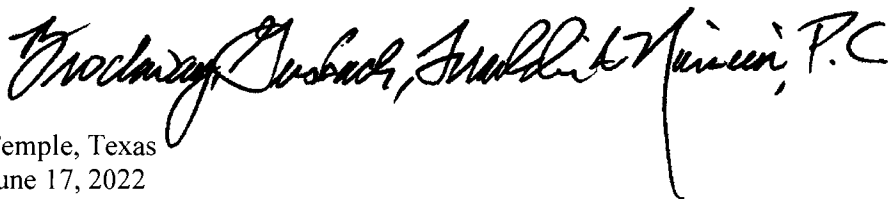
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2021-008 and 2021-009.

City's Response to Findings

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

Purpose of this Report

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



Temple, Texas
June 17, 2022



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Llano, Texas’s (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended September 30, 2021. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2021-009. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control over Compliance

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

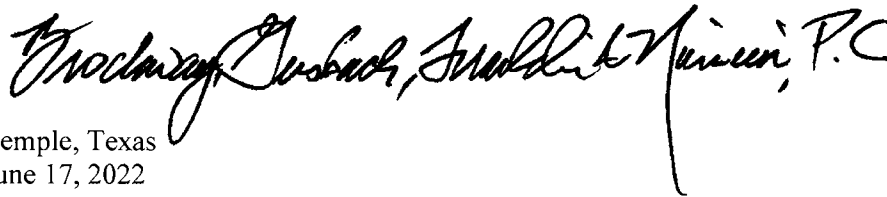
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questions costs as items 2021-009 that we consider to be significant deficiencies.

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

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

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



Temple, Texas
June 17, 2022

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**CITY OF LLANO, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2021**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified:	Yes
Significant deficiencies identified:	Yes
Noncompliance material to financial statements noted:	No

Federal Awards

Internal control over major programs:	
Material weakness identified:	No
Significant deficiencies identified:	Yes

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

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

Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
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Auditee qualified as low-risk auditee?	No
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CITY OF LLANO, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2021

Section II – Financial Statement Findings:

Finding 2021-001:

Condition:

Payroll procedures and policies are not uniformly applied to all departments. Treatment of deductions, such as clothing and phone allowances, are not prepared consistently across departments. Timekeeping records vary by department and the calculations for the time worked are done manually for some departments. Some instances were noted where hours reported on timesheets did not agree to the hours paid per the payroll registers.

Criteria:

Payroll recordkeeping and calculations should be consistent across all departments.

Cause of Condition:

There are a variety of methods used to process payroll deductions and hours tracked on timesheets. Issues include manual calculations of hours on timesheets and other errors in paycheck calculations.

Effect of Condition:

City employees may not be appropriately compensated.

Recommendation:

Design and implement policies and controls to ensure all payroll deductions and timekeeping records are processed uniformly. Implement a uniform timekeeping system for all departments, such as an electronic timekeeping system which integrates review and approval processes, and conduct annual training with all personnel who have the authority to process payroll.

Corrective Action Plan:

The Payroll Process begins with the City Secretary/HR Director. She has recently been given the responsibility for changes made to the employee's record that include adding i.e., clothing and phone allowances, base rate changes, etc. Once changes are processed, Finance is notified of the change, and will attached documentation to the timesheet. The process regarding timesheets is approved by the Supervisor and/or Director and then given to the Finance personnel for processing. All timesheets are reviewed for proper authority and the hours are calculated with regards to FLSA requirements including the 7K law enforcement provision. The Finance department has draft procedures explaining this process.

CITY OF LLANO, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2021

Finding 2021-002:

Condition:

Several instances were noted where invoices or other supporting documentation were not available.

Criteria:

Supporting documentation must be maintained for all financial transactions.

Cause of Condition:

Invoices or other supporting documentation was not obtained or retained for the City's records.

Effect of Condition:

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

Recommendation:

Design and implement policies and controls to ensure all transactions are properly processed and the appropriate supporting documentation retained. Conduct annual training with all personnel who have the authority to make city purchases to ensure documentation is not missing or misplaced.

Corrective Action Plan:

All invoices that are recorded in the City's financial records should match both the accounts payable records and the banking records. We are currently going thru every bank account and searching out any entries that do not have invoices and inquiring to the vendor for copies to be sent to Finance via email. If directors sign an agreement with a vendor for ACH Debit, then Finance must be notified for set up. Vendors are paid via invoices and each invoice is scanned electronically when received. Statements are reviewed and reconciled each month. All checks and supporting documentation is no longer filed by check number, but by vendor name each week and AP check registers are reviewed and approved by the Finance Director for compliance prior to releasing checks. The Finance department has draft accounts payable procedures.

CITY OF LLANO, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2021

Finding 2021-003:

Condition:

At least one utility customer appears to be receiving utility services that were not included on their utility bill.

Criteria:

Customer accounts should reflect all services received.

Cause of Condition:

Changes to customer properties, such as new or additional wastewater connections, may not be clearly tracked and communicated to utility billing staff for appropriate updates in the billing system.

Effect of Condition:

The City is not appropriately compensated for services provided to customers.

Recommendation:

Design and implement policies and controls to ensure all accounts reflect all services received by the customer, including transferred accounts, new residents, and remodeled properties. Conduct annual training with all utility department personnel.

Corrective Action Plan:

Many of the current utility procedures have been handed down from previous supervisors. Staff is becoming more familiar with Incode Service reporting and has been trained on using these reports to determine if customers are being charged for the proper services for each address. These reports are to be run each month and a listing given to the department director to look for discrepancies.

Finding 2021-004:

Condition:

Some instances of management override occurred during the processing of bank drafts for utility billing.

Criteria:

Payments taken from customer accounts should be an amount approved by management in both the utility department and finance department. Once approval is received from both departments, there should be no additional changes.

CITY OF LLANO, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2021

Cause of Condition:

Following utility billing management approval of changes for the billing cycle, finance department management would make additional changes to the approved bank draft without additional review or oversight of the changes.

Effect of Condition:

Unauthorized edits to bank drafts that are processed after approvals are received from utility billing management can lead to incorrect payment amounts collected or errors on customer accounts.

Recommendation:

Design and implement policies and controls to ensure personnel with authority to process bank drafts are not editing the draft after submission, and ensure that draft packet documentation corresponds to the bank statement data.

Corrective Action Plan:

At this time, no changes to bank drafts are allowed unless the customer agrees to be dropped from the bank draft process. Finance director must approve any changes to bank processing prior to sending to the bank and posting to general ledger as determined in the draft utility procedures.

Finding 2021-005:

Condition:

Year- end closing procedures are not in place.

Criteria:

Year-end closing procedures should be in place to ensure trial balance is complete and agrees to the audited financial statements.

Cause of Condition:

Management failed to accurately post prior year audit adjusting entries.

Effect of Condition:

Opening balances do not agree to audited financial statements.

Recommendation:

Design and implement closing policies and controls to ensure the trial balance is complete and agrees to the audited financial statements.

CITY OF LLANO, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2021

Corrective Action Plan:

Draft financial closing procedures are to be updated each year to include entering the auditor's adjusting entries, running the trial balance and sending the trial balance back to auditor for a comparison to auditors' final trial balance. If discrepancies occur, these should be remedied prior to the end of the fiscal year so the balance forwards are correct.

Finding 2021-006:

Condition:

Accounting records for capital outlay items, capital asset additions and retirements, and related depreciation are incomplete. Multiple instances noted of failure to identify capital outlay or asset transactions, along with failure to properly record asset sales. Management did not budget for or record depreciation.

Criteria:

Procedures should be in place to ensure capitalization policies are uniformly applied. The City's annual budget should include depreciation expense.

Cause of Condition:

Capitalization policy was not uniformly implemented. The City budgets for cash basis transactions, which excluded depreciation.

Effect of Condition:

Net effect resulted in an overstatement of assets and understatement of expenses in the financial statements. Materially over budget expenses due to lack of budgeted depreciation.

Recommendation:

Implement capitalization policies to ensure asset records are complete. Include depreciation in the City's budget.

Corrective Action Plan:

The City has implemented capitalization policies provided in the Accounting Policies approved in May 2022. The City should hire an inventory and asset consultant i.e., RCI to record all assets and their location and be prepared to purchase the Fixed Asset module of Incode for the accounting of assets and depreciation. This would help current Finance personnel to properly record capital asset additions and retirements and unify depreciation documentation. Also, a line item in each department recording the depreciation expense will be included in the 2023 budget document.

CITY OF LLANO, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2021

Finding 2021-007:

Condition:

Inventory balance improperly stated without existence of underlying assets.

Criteria:

Inventory balances should reflect valuation of underlying assets. Inventory balances should be tracked as purchases and usage occurs. Physical inventory should be taken at year end, and valuation should be adjusted accordingly.

Cause of Condition:

Finance department improperly reported utility supplies as inventory. Supplies were added annually to the inventory balance, however, usage of such supplies was not recorded. Finance did not perform physical inventory observation nor consult with the Utility Director regarding which items should be classified as supplies versus inventory items.

Effect of Condition:

Overstatement of assets in the financial statements.

Recommendation:

Implement procedures to properly identify and value inventory with the assistance of the Utility Director. Perform physical inventory observation annually, and adjust valuations accordingly.

Corrective Action Plan:

After a physical inventory is completed by an outside consultant, then a plan of action can be determined if needed. Management agrees that an overstatement had occurred previously.

Finding 2021-010:

Condition:

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

Criteria:

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

CITY OF LLANO, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2021

Cause of Condition:

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

Effect of Condition:

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

Recommendation:

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

Corrective Action Plan/Status:

A correction to Pooled Cash accounts in April 2022 balanced part of the accounts payable problem from 2013. The remaining entry was a prior year entry that was never reversed and will be finalized at the end of May so that the pooled cash report is completely in balance. All pooled accounts have been edited as “protected” accounts now and cannot be altered. No journal entries can be made to these accounts so that out of balances do not occur. Each month end a pooled cash report should be included in the bank reconciliation for Consolidated Cash and available for review by City Manager and Council. If an out of balance occurs, the software company will be contacted for a full disclosure.

Finding 2021-011:

Condition:

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

Criteria:

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

Cause of Condition:

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

Effect of Condition:

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

CITY OF LLANO, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2021

Recommendation:

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

Corrective Action Plan/Status:

We are following the recommendation determined by the auditor. Currently, the Finance Director is responsible for the bank reconciliation that is reviewed by the City Manager and a member of City Council.

Section III – Federal Award Findings and Questioned Costs:

Finding 2021-008:

Federal Agency: United States Environmental Protection Agency
Federal Program Title: Capitalization Grants for Clean Water State Revolving Funds
ALN: 66.458
Grant Period: Year ended September 30, 2021

Condition:

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

Criteria:

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

Cause of Condition:

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

Effect of Condition:

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

Repeat Finding: Yes

Recommendation:

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

CITY OF LLANO, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2021

Corrective Action Plan/Status:

Management agrees with the above recommendation and all invoices shall be scrutinized as to when the work was completed. Invoice dates and work in progress dates are to be reviewed during the payment approval process for accuracy and especially at month and year end.

Responsible Person: Erica Berry, City Manager

Finding 2021-009:

Federal Agency: United States Environmental Protection Agency
Federal Program Title: Capitalization Grants for Clean Water State Revolving Funds
ALN: 66.458
Grant Period: Year ended September 30, 2021

Condition:

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

Criteria:

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

Cause of Condition:

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

Effect of Condition:

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

Repeat Finding: Yes

Recommendation:

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

Corrective Action Plan/Status:

Management agrees with this finding and is currently working toward a Grant Policy and Procedure Manual to be used for existing grants and training personnel.

Responsible Person: Erica Berry, City Manager

CITY OF LLANO, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2021

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
<u>U.S. Environmental Protection Agency</u>				
United States Environmental Protection Agency Programs				
Capitalization Grants for Clean Water State Revolving Funds	66.458	73779, 73780	\$ -	\$ 1,857,177
<i>Total Clean Water State Revolving Fund Cluster</i>			-	1,857,177
Capitalization Grants for Drinking Water State Revolving Funds	66.468	62766	-	290,009
<i>Total Drinking Water State Revolving Fund Cluster</i>			-	290,009
<u>U.S. Department of Transportation</u>				
Highway Planning and Construction	20.205		-	40,674
<i>Total Department of Transportation</i>			-	40,674
<u>U.S. Department of Homeland Security</u>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		-	12,833
<i>Total Department of Homeland Security</i>			-	12,833
<i>Total Expenditures of Federal Awards</i>			\$ -	\$ 2,200,693

CITY OF LLANO, TEXAS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2021

Basis of Presentation

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

Summary of Significant Accounting Policies

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

Indirect Cost Rate

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

CITY OF LLANO, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2021

Finding 2020-001:

Condition:

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

Criteria:

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

Cause of Condition:

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

Effect of Condition:

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

Recommendation:

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

Corrective Action Plan:

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

Status:

Beginning March 2022 invoices are being reviewed by the Finance Director during the payment process for accuracy as to when the work was completed

Finding 2020-002:

Condition:

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

Criteria:

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

Cause of Condition:

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

Effect of Condition:

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

CITY OF LLANO, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2021

Recommendation:

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

Corrective Action Plan:

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

Status:

Pooled cash report was reconciled in April 2022 and entry to clean it up was processed in May 2022. The pooled cash accounts were edited as "protected" to stop anyone from coding to these accounts and additionally the pooled cash report will be added to the May 2022 bank reconciliations.

Finding 2020-003:

Condition:

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

Criteria:

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

Cause of Condition:

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

Effect of Condition:

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

Recommendation:

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

Corrective Action Plan:

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

Status:

Beginning in April 2022, City Manager reviewed bank statements as they are completed by the Finance Director and discussed any discrepancies. The Finance Director does not handle any cash or banking transactions at this time.

CITY OF LLANO, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2021

Finding 2020-004:

Condition:

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

Criteria:

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

Cause of Condition:

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

Effect of Condition:

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

Recommendation:

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

Corrective Action Plan:

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

Status:

This is a work in progress until June 2022.