

REPORT OF EXAMINATION

**CITY OF
LLANO**

Llano, Texas

**For the Year Ended
September 30, 2022**

CITY OF LLANO, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2022

CITY OF LLANO
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2022

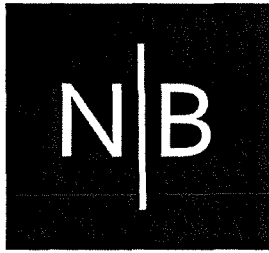
TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis.....	4
 <u>Basic Financial Statements</u>	
Government Wide Statements:	
A-1 Statement of Net Position	10
B-1 Statement of Activities	12
Governmental Fund Financial Statements:	
C-1 Balance Sheet.....	16
C-2 Reconciliation for C-1	18
C-3 Statement of Revenues, Expenditures and Changes in Fund Balance.....	19
C-4 Reconciliation for C-3	21
Proprietary Fund Financial Statements:	
D-1 Statement of Net Position	22
D-2 Statement of Revenues, Expenses and Changes in Fund Net Position	24
D-3 Statement of Cash Flows.....	25
Fiduciary Fund Financial Statements:	
E-1 Statement of Fiduciary Net Position	27
E-2 Statement of Changes in Fiduciary Net Position.....	28
Notes to the Financial Statements.....	29
 <u>Required Supplementary Information</u>	
G-1 Budgetary Comparison Schedule - General Fund	55
G-2 Schedule of Changes in Net Pension Liability and Related Ratios – .TMRS.....	57
G-3 Schedule of Employer Contributions – TMRS.....	59
Notes to the Schedule of Contributions – TMRS.....	61
G-4 Schedule of City's Proportionate Share of Net Pension Liability – TESRS.....	62
G-5 Schedule of Contributions – TESRS.....	64
Notes to Schedule of Contributions – TESRS.....	66
G-6 Schedule of Changes in the Total OPEB Liability and Related Ratios.....	67
Notes to the Schedule of Changes in the Total OPEB Liability and Related Ratios.....	69
 <u>Supplementary Information</u>	
H-1 Combining Balance Sheet - Nonmajor Governmental Funds.....	70
H-2 Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds.....	72

Report on Internal Control and Compliance

Report on Internal Control Over Financial Reporting and On Compliance and Other
Matters Based on An Audit of Financial Statements Performed in Accordance With

<i>Government Auditing Standards</i>	74
Schedule of Findings and Responses.....	76
Schedule of Status of Prior Year Findings/Corrective Action Plan.....	80



NEFFENDORF & BLOCKER, P.C.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

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, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City of Llano, Texas's basic financial statements as listed in the table of contents.

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, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Llano, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Llano, Texas's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Llano, Texas's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Llano, Texas's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Employer Contributions and the Schedule of Changes in the Total OPEB Liability and Related Ratios on pages 4-9 and 55-69 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Llano, Texas's basic financial statements. The accompanying 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. Such information is the responsibility of management and was derived from

and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2023, on our consideration of the City of Llano, Texas'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 of Llano, Texas'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 City of Llano, Texas's internal control over financial reporting and compliance.

Neffendorf & Blocker, P.C.

NEFFENDORF & BLOCKER, P.C.
Fredericksburg, Texas

March 24, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Llano, we offer readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the year ended September 30, 2022. Please read it in conjunction with the independent auditors' report on page 1, and City's Basic Financial Statements which begin on page 10.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$32,132,694 (net position). Of this amount, \$5,518,581 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position increased by \$2,050,627 as a result of this year's operations.
- At September 30, 2022, the City's governmental funds reported combined ending fund balances of \$3,347,439, an increase of \$426,438 in comparison with the prior year.
- At September 30, 2022, the City's Enterprise Funds reported unrestricted net position of \$3,935,969 an increase of \$772,490 in comparison with the prior year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 through 15). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (beginning on page 16) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 29) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (operating fund), the required supplementary schedules Texas Municipal Retirement System, the required supplementary schedules Texas Emergency Services Retirement System and the required supplementary schedule Texas Municipal Retirement System Other Post Employment Benefits are presented as required supplementary information on pages 55 through 69.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the City's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

The City has two kinds of funds:

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the City's governmental activities increased from \$14,949,076 to \$15,456,800. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was 1,582,612 at September 30, 2022. This increase in governmental net position was the result of five factors. First, the City's revenues exceeded the expenditures by \$426,438. Second, the City paid principal on long-term debt of \$447,189 and acquired capital assets in the amount of \$587,966. Third the City recorded depreciation in the amount of \$1,097,183 and fourth, a net increase of \$309,878 due to recognition of deferred inflows, outflows and pension liability related to GASB Statement No. 68 accounting and financial reporting for pensions. Fifth, a net decrease of \$12,775 due to required entries of GASB Statement No. 75 accounting and financial reporting for other post employment benefits.

Net position of the City's business-type activities increased from \$15,107,997 to \$16,675,894. Unrestricted net position was \$3,935,969 at September 30, 2022. This increase in business-type net position was the result of a net gain of \$1,567,897.

Table I
City of Llano

NET POSITION
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2022	2021	2022	2021	2022	2021
Current and Restricted Assets	\$ 3,987	\$ 3,675	\$ 6,704	\$ 6,616	\$ 10,691	\$ 10,291
Capital Assets	17,951	18,434	21,995	21,688	39,946	40,122
Total Assets	\$ 21,938	\$ 22,109	\$ 28,699	\$ 28,304	\$ 50,637	\$ 50,413
Deferred Outflow of Resources						
Deferred Charge for Refunding	\$	\$	\$ 78	\$ 84	\$ 78	\$ 84
Deferred Outflow Related to Pension Plan & OPEB	219	232	99	104	318	336
	\$ 219	\$ 232	\$ 177	\$ 188	\$ 396	\$ 420
Long-Term Liabilities	\$ 5,033	\$ 6,384	\$ 9,803	\$ 11,518	\$ 14,836	\$ 17,902
Other Liabilities	1,174	730	2,162	1,747	3,336	2,477
Total Liabilities	\$ 6,207	\$ 7,114	\$ 11,965	\$ 13,265	\$ 18,172	\$ 20,379
Deferred Inflow of Resources						
Unavailable Revenue - Property Taxes	\$	\$	\$	\$	\$ -	\$ -
Deferred Inflow Related to Pension Plan & OPEB	493	272	236	120	729	392
Total Deferred Inflows of Resources	\$ 493	\$ 272	\$ 236	\$ 120	\$ 729	\$ 392
Net Position:						
Net Investment						
in Capital Assets	\$ 13,283	\$ 13,769	\$ 12,089	\$ 10,984	\$ 25,372	\$ 24,753
Restricted	591	277	651	960	1,242	1,237
Unrestricted	1,583	909	3,936	3,164	5,519	4,073
Total Net Position	\$ 15,457	\$ 14,955	\$ 16,676	\$ 15,108	\$ 32,133	\$ 30,063

Table II
City of Llano

CHANGES IN NET POSITION
in thousands

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2022	2021	2022	2021	2022	2021
Revenues:						
Charges for Services	\$ 1,460	\$ 854	\$ 9,533	\$ 8,703	\$ 10,993	\$ 9,557
Property Tax Collections	1,091	1,265			1,091	1,265
Sales Tax	1,220	1,180			1,220	1,180
Franchise Tax		101			-	101
Operating Grants & Contributions	83			447	83	447
Capital Grants & Contributions	84	145	434	140	518	285
Investment Earnings	21	85	26		47	85
Other Taxes	156	190			156	190
Rents and royalties		180			-	180
Miscellaneous	19	422	234		253	422
Total Revenue	\$ 4,134	\$ 4,422	\$ 10,227	\$ 9,290	\$ 14,361	\$ 13,712
Expenses:						
City Council	\$ 21	\$ 18	\$	\$	\$ 21	\$ 18
General Administration	1,298	1,112			1,298	1,112
Community Development	151	155			151	155
Police	1,097	941			1,097	941
Code Enforcement	100	82			100	82
Fire	82	115			82	115
Recreation and Parks	510	614			510	614
Lantex Theater	36	21			36	21
Christmas Lighting	48	61			48	61
Municipal Court	126	99			126	99
Golf Course	631	546			631	546
Maintenance Department	284	455			284	455
Airport	519	494			519	494
Depot Museum	10	79			10	79
JLK Arena	228	319			228	319
Electricity, water, sewer and sanitation			7,029	7,179	7,029	7,179
Debt Service	122	153			122	153
Capital Outlay	18				18	
Total Expenses	\$ 5,281	\$ 5,264	\$ 7,029	\$ 7,179	\$ 12,310	\$ 12,443
Increase in Net Assets Before						
Transfers & Capital Contributions	\$ (1,147)	\$ (842)	\$ 3,198	\$ 2,111	\$ 2,051	\$ 1,269
Capital Contributions	\$ -	\$ -	\$	\$	\$ -	\$ -
Transfers	1,630	1,654	(1,630)	(1,654)	-	-
Total	\$ 1,630	\$ 1,654	\$ (1,630)	\$ (1,654)	\$ -	\$ -
Net Change	\$ 483	\$ 812	\$ 1,568	\$ 457	\$ 2,051	\$ 1,269
Net Position, Beginning	14,955	14,143	15,108	14,651	30,063	28,794
Prior Period Adjustment	19				19	-
Net Position, Ending	\$ 15,457	\$ 14,955	\$ 16,676	\$ 15,108	\$ 32,133	\$ 30,063

The cost of all governmental activities this year was \$5,280,792. However, as shown in the Statement of Activities on page 14 and 15, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$1,074,651 because the other costs were paid by sales tax (\$1,219,618), other tax (\$155,770), user charges (\$1,460,571), operating and capital grants (\$156,176), and other miscellaneous (\$18,790).

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$3,347,439, which is more than last year's total of \$2,921,001. Included in this year's total change in fund balance is an increase of \$639,786 in the City's General Fund. This increase in the General Fund balance was caused by the excess of revenues over expenditures.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2022, the City had the following amounts invested in capital assets, net of depreciation:

	CAPITAL ASSETS					
	in thousands					
	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2022	2021	2022	2021	2022	2021
Land	\$ 1,788	\$ 1,788	\$ 534	\$ 534	\$ 2,322	\$ 2,322
Construction in Progress	184	4,464	4,544	4,508	4,728	8,972
Distribution & Collection Systems			27,018	26,439	27,018	26,439
Buildings & Improvements	13,489	13,382			13,489	13,382
Equipment	5,532	5,327	3,770	3,492	9,302	8,819
Infrastructure	10,134	5,637			10,134	5,637
Right-to-Use Lease Assets	74				74	-
Total Capital Assets	\$ 31,201	\$ 30,598	\$ 35,866	\$ 34,973	\$ 67,067	\$ 65,571
Less: Accumulated Depreciation & Amortization	(13,203)	(12,164)	(13,871)	(13,285)	(27,074)	(25,449)
Capital Assets, Net	\$ 17,951	\$ 18,434	\$ 21,995	\$ 21,688	\$ 39,946	\$ 40,122

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

DEBT

At September 30, 2022, the City had the following outstanding debt:

OUTSTANDING DEBT
in thousands

	Governmental		Business-Type		TOTALS	
	Activities		Activities		Primary Government	
	2022	2021	2022	2021	2022	2021
Bonds Payable	\$ 3,966	\$ 4,283	\$ 9,719	\$ 10,278	\$ 13,685	\$ 14,561
Leases	24				24	-
Notes Payable	658	779	666	743	1,324	1,522
Net Pension Liability	447	937	211	421	658	1,358
Net OPEB Liability	176	168	91	76	267	244
Financing Purchase Agreement	246	88	-	-	246	88
Compensated Absences	61	56			61	56
Total Outstanding Debt	<u>\$ 5,578</u>	<u>\$ 6,311</u>	<u>\$ 10,687</u>	<u>\$ 11,518</u>	<u>\$ 16,265</u>	<u>\$ 17,829</u>

For governmental activities, the City paid \$447,189 in principal on the outstanding long-term debt and issued \$179,869 in financing purchase agreements.

For business-type activities, the City paid \$898,539 in principal on the outstanding long-term debt and issued a total of \$296,220 in notes payable.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2023 budget and tax rates. The major factors are the assessed property valuation and population growth. These indicators were taken into account when adopting the General Fund budget for 2023. Amounts available for appropriation in the General Fund budget are \$4,775,763 (including transfers in \$1,523,437) and expenditures are estimated to be \$5,340,437.

If these estimates are realized, the City's budgetary General fund balance is expected to decrease by the close of 2023.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC
FINANCIAL STATEMENTS

CITY OF LLANO, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Llano Economic Development
ASSETS				
Cash and Cash Equivalents	\$ 1,500,372	\$ 869,604	\$ 2,369,976	\$ 553,834
Investments - Current	1,394,813	2,961,328	4,356,141	317,729
Taxes Receivable, Net	20,577	-	20,577	-
Accounts Receivable, Net	336,896	1,217,947	1,554,843	67,943
Due from Other Funds	3,906	(3,906)	-	-
Inventories	24,975	230,631	255,606	-
Prepaid Items	2,250	-	2,250	-
Restricted Asset- Construction	703,483	778,220	1,481,703	-
Restricted Asset- Debt Service	-	650,713	650,713	-
Capital Assets:				
Land Purchase and Improvements	1,788,431	533,711	2,322,142	-
Infrastructure, Net	6,766,282	13,524,296	20,290,578	-
Buildings, Net	7,871,509	-	7,871,509	-
Machinery and Equipment, Net	1,314,747	3,393,313	4,708,060	-
Right-to-Use Lease Assets	26,182	-	26,182	-
Construction in Progress	183,598	4,544,139	4,727,737	-
Total Assets	<u>21,938,021</u>	<u>28,699,996</u>	<u>50,638,017</u>	<u>939,506</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Charge for Refunding	-	78,235	78,235	-
Deferred Outflow Related to Pension Plan-TMRS	172,193	88,706	260,899	-
Deferred Outflow Related to OPEB	19,369	9,978	29,347	-
Deferred Outflow Related to Pension Plan- TESRS	27,667	-	27,667	-
Total Deferred Outflows of Resources	<u>219,229</u>	<u>176,919</u>	<u>396,148</u>	<u>-</u>
LIABILITIES				
Accounts Payable	257,791	434,070	691,861	-
Wages and Salaries Payable	45,778	22,789	68,567	-
Compensated Absences Payable	60,952	45,329	106,281	-
Retainage Payable	213,682	197,865	411,547	-
Intergovernmental Payable	654	12,942	13,596	-
Due to Others	13,068	207,864	220,932	-
Accrued Interest Payable	5,209	10,335	15,544	-
Notes Payable - Current	98,213	339,152	437,365	-
Bonds Payable - Current	320,000	545,000	320,000	-
Right-to-Use Leases Payable - Current	6,486	-	6,486	-
Other Current Liabilities	93,146	347,087	440,233	-
Noncurrent Liabilities:				
Due Within One Year	59,278	-	604,278	153,647
Due in More than One Year:				
Bonds Payable - Noncurrent	3,420,000	8,695,000	12,115,000	-
Loans Payable - Noncurrent	559,852	327,095	886,947	545,920
Financing Leases Payable - Noncurrent	186,146	-	186,146	-
Unamortized Premium (Discounts) on Bonds	225,907	478,674	704,581	-
Right-to-Use Lease Liabilities - Noncurrent	17,831	-	17,831	-
Net Pension Liability-TMRS	410,593	211,518	622,111	-
Net Pension Liability- TESRS	36,642	-	36,642	-
Net OPEB Liability	175,872	90,600	266,472	-
Total Liabilities	<u>6,207,100</u>	<u>11,965,320</u>	<u>18,172,420</u>	<u>699,567</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflow Related to Pension Plan-TMRS	448,593	231,093	679,686	-
Deferred Inflow Related to OPEB	8,945	4,608	13,553	-
Deferred Inflow Related to Pension Plan- TESRS	35,812	-	35,812	-
Total Deferred Inflows of Resources	<u>493,350</u>	<u>235,701</u>	<u>729,051</u>	<u>-</u>
NET POSITION				
Net Investment in Capital Assets & Lease Assets	13,282,943	12,089,212	25,372,155	-

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

CITY OF LLANO, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business - Type Activities	Total	Llano Economic Development
Restricted for Tourism	33,428	-	33,428	-
Restricted for Capital Acquisition	426,256	-	426,256	-
Restricted for Debt Service	131,561	650,713	782,274	-
Unrestricted	1,582,612	3,935,969	5,518,581	239,939
Total Net Position	\$ 15,456,800	\$ 16,675,894	\$ 32,132,694	\$ 239,939

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

CITY OF LLANO, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES;				
City Council	21,135	-	-	-
Administration	1,297,679	252,161	-	-
Community Development	151,091	20,427	-	-
Police	1,097,136	84,318	-	-
Municipal Court	126,010	-	-	-
Code Enforcement	100,285	-	-	-
Fire Department	82,139	-	-	-
Parks and Recreation	385,260	4,260	-	-
Swimming Pool	59,568	22,722	-	-
Badu RV Park	9,825	14,460	-	-
Robinson RV Park	55,238	101,521	-	-
Depot Museum	10,202	-	-	-
JLK Arena	227,996	151,104	-	-
Lantex Theater	35,937	-	-	-
Cemetery	142	15,235	-	-
Golf Course	630,969	392,171	-	-
Airport	518,430	386,140	45,999	84,001
Christmas Lighting	47,749	16,052	-	-
Maintenance Department	284,314	-	26,176	-
Interest on Debt	122,013	-	-	-
Capital Outlay	17,674	-	-	-
Total Governmental Activities	<u>5,280,792</u>	<u>1,460,571</u>	<u>72,175</u>	<u>84,001</u>
BUSINESS-TYPE ACTIVITIES;				
Utility System Fund	<u>7,028,983</u>	<u>9,533,008</u>	<u>-</u>	<u>434,110</u>
Total Business-Type Activities	<u>7,028,983</u>	<u>9,533,008</u>	<u>-</u>	<u>434,110</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 12,309,775</u>	<u>\$ 10,993,579</u>	<u>\$ 72,175</u>	<u>\$ 518,111</u>
Component Unit:				
Llano Economic Development Corporation	<u>\$ 151,561</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL COMPONENT UNITS	<u>\$ 151,561</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

EXHIBIT B-1

Net(Expense)Revenue and Changes in Net Position			Component Unit
Primary Government			Llano Economic Development
Governmental Activities	Business-Type Activities	Total	
(21,135)	-	(21,135)	-
(1,045,518)	-	(1,045,518)	-
(130,664)	-	(130,664)	-
(1,012,818)	-	(1,012,818)	-
(126,010)	-	(126,010)	-
(100,285)	-	(100,285)	-
(82,139)	-	(82,139)	-
(381,000)	-	(381,000)	-
(36,846)	-	(36,846)	-
4,635	-	4,635	-
46,283	-	46,283	-
(10,202)	-	(10,202)	-
(76,892)	-	(76,892)	-
(35,937)	-	(35,937)	-
15,093	-	15,093	-
(238,798)	-	(238,798)	-
(2,290)	-	(2,290)	-
(31,697)	-	(31,697)	-
(258,138)	-	(258,138)	-
(122,013)	-	(122,013)	-
(17,674)	-	(17,674)	-
<u>(3,664,045)</u>	<u>-</u>	<u>(3,664,045)</u>	<u>-</u>
-	2,938,135	2,938,135	-
-	2,938,135	2,938,135	-
<u>(3,664,045)</u>	<u>2,938,135</u>	<u>(725,910)</u>	<u>-</u>
-	-	-	(151,561)
-	-	-	(151,561)

CITY OF LLANO, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Program Revenues		
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Taxes:			
Property Taxes, Levied for General Purposes			
Property Taxes, Levied for Debt Service			
General Sales and Use Taxes			
Other Taxes			
Penalty and Interest on Taxes			
Grants and Contributions			
Miscellaneous Revenue			
Investment Earnings			
Transfers In (Out)			
Total General Revenues and Transfers			
Change in Net assets			
Net Position - Beginning			
Prior Period Adjustment			
Net Position - Ending			

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

EXHIBIT B-1

Net(Expense)Revenue and Changes in Net Position			Component Unit
Primary Government			Llano Economic Development
Governmental Activities	Business-Type Activities	Total	
770,517	-	770,517	-
304,134	-	304,134	-
1,219,618	-	1,219,618	405,271
155,770	-	155,770	-
16,255	-	16,255	-
10,703	-	10,703	-
18,790	233,773	252,563	1,715
20,884	26,093	46,977	3,375
1,630,104	(1,630,104)	-	-
<u>4,146,775</u>	<u>(1,370,238)</u>	<u>2,776,537</u>	<u>410,361</u>
482,730	1,567,897	2,050,627	258,800
14,955,130	15,107,997	30,063,127	(18,861)
18,940	-	18,940	-
<u>\$ 15,456,800</u>	<u>\$ 16,675,894</u>	<u>\$ 32,132,694</u>	<u>\$ 239,939</u>

CITY OF LLANO, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2022

	General Fund	Debt Service Fund	Capital Projects
ASSETS			
Cash and Cash Equivalents	\$ 1,252,538	\$ 129,009	\$ -
Investments - Current	1,394,813	-	-
Taxes Receivable	32,036	14,714	-
Allowance for Uncollectible Taxes (credit)	(17,287)	(8,886)	-
Accounts Receivable, Net	336,896	-	-
Due from Other Funds	49,929	-	-
Inventories	24,975	-	-
Prepaid Items	2,250	-	-
Restricted Asset- Construction	-	-	703,483
Total Assets	\$ 3,076,150	\$ 134,837	\$ 703,483
LIABILITIES			
Accounts Payable	\$ 216,329	\$ -	\$ 17,676
Wages and Salaries Payable	45,125	-	-
Retainage Payable	-	-	213,682
Intergovernmental Payable	-	-	-
Due to Other Funds	23,709	-	45,869
Due to Others	13,068	-	-
Other Current Liabilities	93,146	-	-
Total Liabilities	391,377	-	277,227
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	12,438	3,276	-
Total Deferred Inflows of Resources	12,438	3,276	-
FUND BALANCES			
Nonspendable Fund Balance:			
Inventories	24,975	-	-
Restricted Fund Balance:			
Restricted for Tourism	33,428	-	-
Capital Acquisition and Contractual Obligation	-	-	426,256
Retirement of Long-Term Debt	-	131,561	-
Assigned Fund Balance:			
Other Assigned Fund Balance	-	-	-
Unassigned Fund Balance	2,613,932	-	-
Total Fund Balances	2,672,335	131,561	426,256
Total Liabilities, Deferred Inflows & Fund Balances	\$ 3,076,150	\$ 134,837	\$ 703,483

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

Other Funds	Total Governmental Funds
\$ 118,825	\$ 1,500,372
-	1,394,813
-	46,750
-	(26,173)
-	336,896
23,709	73,638
-	24,975
-	2,250
-	703,483
<u>\$ 142,534</u>	<u>\$ 4,057,004</u>
\$ 23,786	\$ 257,791
653	45,778
-	213,682
654	654
154	69,732
-	13,068
-	93,146
<u>25,247</u>	<u>693,851</u>
-	15,714
-	15,714
-	24,975
-	33,428
-	426,256
-	131,561
117,287	117,287
-	2,613,932
<u>117,287</u>	<u>3,347,439</u>
<u>\$ 142,534</u>	<u>\$ 4,057,004</u>

CITY OF LLANO, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2022

Total Fund Balances - Governmental Funds	\$	3,347,439
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		13,247,124
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2022 capital outlays and debt principal payments is to increase net position.		1,035,156
The City is required under GASB Statement No. 68 to report their net pension liability/asset in the Government Wide Statement of Net Position. The items reported as a result of this requirement included a Deferred Resource Outflow of \$172,193, a Net Pension Liability in the amount of \$447,235 and a Deferred Resource Inflow of \$484,405. The net effect of these was to decrease net position.		(731,780)
The City is required under GASB Statement No. 75 to report their OPEB benefit plan through TMRS. The requirement resulted in an OPEB liability of \$175,872, a Deferred Resource Outflow of \$19,369 and a Deferred Resource Inflow of \$8,945. The net effect of these was to decrease net position.		(165,448)
The 2022 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. Please note this includes the amortization on the right-to-use leased assets.		(1,123,094)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of finance purchases as an increase in finance purchases payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(152,597)
Net Position of Governmental Activities	\$	15,456,800

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

CITY OF LLANO, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	General Fund	Debt Service Fund	Capital Projects
REVENUES:			
Taxes:			
Property Taxes	\$ 780,969	\$ 311,965	\$ -
General Sales and Use Taxes	1,219,618	-	-
Other Taxes	155,770	-	-
Penalty and Interest on Taxes	11,026	5,229	-
Licenses and Permits	58,552	-	-
Intergovernmental Revenue and Grants	26,176	-	-
Charges for Services	506,015	-	-
Fines	84,318	-	-
Special Assessments	157,246	-	-
Investment Earnings	14,748	914	4,917
Rents and Royalties	231,820	-	-
Contributions & Donations from Private Sources	1,438	-	-
Other Revenue	14,057	-	-
Total Revenues	<u>3,261,753</u>	<u>318,108</u>	<u>4,917</u>
EXPENDITURES:			
Current:			
City Council	17,155	-	-
Administration	1,077,543	-	-
Community Development	115,045	-	-
Police	970,636	-	-
Municipal Court	110,303	-	-
Code Enforcement	88,865	-	-
Fire Department	129,319	-	-
Parks and Recreation	341,079	-	-
Swimming Pool	48,351	-	-
Badu RV Park	12,039	-	-
Robinson RV Park	44,836	-	-
Depot Museum	27,680	-	-
JLK Arena	201,790	-	-
Lantex Theater	34,397	-	-
Cemetery	142	-	-
Golf Course	560,929	-	-
Airport	-	-	-
Christmas Lighting	-	-	-
Streets	301,277	-	-
Debt Service:			
Principal on Debt	8,836	319,457	-
Interest on Debt	1,227	144,222	-
Capital Outlay:			
Capital Outlay	293,496	-	63,545
Total Expenditures	<u>4,384,945</u>	<u>463,679</u>	<u>63,545</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,123,192)</u>	<u>(145,571)</u>	<u>(58,628)</u>
OTHER FINANCING SOURCES (USES):			
Sale of Real and Personal Property	4,733	-	-
Proceeds from Right-to-Use Leases	179,869	-	-
Transfers In	1,630,629	-	-
Transfers Out	(52,253)	-	(525)
Total Other Financing Sources (Uses)	<u>1,762,978</u>	<u>-</u>	<u>(525)</u>
Net Change in Fund Balances	639,786	(145,571)	(59,153)
Fund Balance - October 1 (Beginning)	<u>2,032,549</u>	<u>277,132</u>	<u>485,409</u>
Fund Balance - September 30 (Ending)	<u>\$ 2,672,335</u>	<u>\$ 131,561</u>	<u>\$ 426,256</u>

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

Other Funds	Total Governmental Funds
\$ -	\$ 1,092,934
-	1,219,618
-	155,770
-	16,255
-	58,552
130,000	156,176
353,855	859,870
-	84,318
-	157,246
305	20,884
68,765	300,585
9,265	10,703
-	14,057
562,190	4,146,968
-	17,155
-	1,077,543
15,918	130,963
-	970,636
-	110,303
-	88,865
-	129,319
-	341,079
-	48,351
-	12,039
-	44,836
-	27,680
-	201,790
-	34,397
-	142
-	560,929
568,393	568,393
38,756	38,756
-	301,277
-	328,293
-	145,449
-	357,041
623,067	5,535,236
(60,877)	(1,388,268)
-	4,733
-	179,869
52,253	1,682,882
-	(52,778)
52,253	1,814,706
(8,624)	426,438
125,911	2,921,001
\$ 117,287	\$ 3,347,439

CITY OF LLANO, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

Total Net Change in Fund Balances - Governmental Funds	\$	426,438
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2022 capital outlays and debt principal payments is to increase the change in net position.		1,035,156
The entries required by GASB Statement No. 68 did require that some expenses on Exhibit B-1 be adjusted. The net effect on Exhibit B-1 is an increase in the change in net position.		337,545
The entries required by GASB Statement No. 75 did require that some expenses on Exhibit B-1 be adjusted. The net effect on Exhibit B-1 is a decrease in the change in net position.		(12,775)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(1,123,094)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of finance purchases, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease the change in net position.		(180,540)
Change in Net Position of Governmental Activities	<u>\$</u>	<u>482,730</u>

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

CITY OF LLANO, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2022

	Business Type Activities
	Utility System Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 869,604
Investments - Current	2,961,328
Restricted Assets - Current:	
Restricted Asset-Construction	778,220
Restricted Asset- Debt Service	650,713
Accounts Receivable, Net	1,217,947
Inventories	230,631
Total Current Assets	<u>6,708,443</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	533,711
Infrastructure	27,018,589
Accumulated Depreciation - Infrastructure	(13,494,293)
Furniture and Equipment	3,769,656
Accumulated Depreciation - Machinery & Equipment	(376,343)
Construction in Progress	4,544,139
Total Noncurrent Assets	<u>21,995,459</u>
Total Assets	<u>28,703,902</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Charge for Refunding	78,235
Deferred Outflow Related to Pension Plan	88,706
Deferred Outflow Related to OPEB	9,978
Total Deferred Outflows of Resources	<u>176,919</u>

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

CITY OF LLANO, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2022

	Business Type Activities
	Utility System Fund
LIABILITIES	
Current Liabilities:	
Accounts Payable	434,069
Wages and Salaries Payable	22,789
Compensated Absences Payable	45,329
Retainage Payable	197,865
Intergovernmental Payable	12,942
Due to Other Funds	3,906
Due to Others	207,864
Accrued Interest Payable	10,335
Notes Payable - Current	339,152
Bonds Payable - Current	545,000
Other Current Liabilities	347,087
Total Current Liabilities	<u>2,166,338</u>
Noncurrent Liabilities:	
Bonds Payable - Noncurrent	8,695,000
Loans Payable - Noncurrent	327,095
Unamortized Premiums (Discounts) on Bonds	478,675
Net Pension Liability	211,518
Net OPEB Liability	90,600
Total Noncurrent Liabilities	<u>9,802,888</u>
Total Liabilities	<u>11,969,226</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow Related to Pension Plan	231,093
Deferred Inflow Related to OPEB	4,608
Total Deferred Inflows of Resources	<u>235,701</u>
NET POSITION	
Net Investment in Capital Assets & Lease Assets	12,089,212
Restricted for Debt Service	650,713
Unrestricted	3,935,969
Total Net Position	<u>\$ 16,675,894</u>

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

CITY OF LLANO, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

EXHIBIT D-2

	Business-Type Activities
	Utility System Fund
<hr/>	
OPERATING REVENUES:	
Charges for Services	\$ 9,533,008
Other Revenue	233,773
Total Operating Revenues	9,766,781
OPERATING EXPENSES:	
Personnel Services - Salaries and Wages	788,955
Personnel Services - Employee Benefits	311,615
Purchased Professional & Technical Services	81,517
Other Operating Costs	4,756,078
Supplies	22,294
Depreciation	795,392
Total Operating Expenses	6,755,851
Operating Income	3,010,930
NONOPERATING REVENUES (EXPENSES):	
Investment Earnings	26,093
Interest Expense - Nonoperating	(273,132)
Total NonOperating Revenue (Expenses)	(247,039)
Income Before Contributions & Transfers	2,763,891
Capital Contributions	434,110
Transfers Out	(1,630,104)
Change in Net Position	1,567,897
Total Net Position - October 1 (Beginning)	15,107,997
Total Net Position - September 30 (Ending)	\$ 16,675,894

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

CITY OF LLANO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

EXHIBIT D-3 (Cont'd)

	Business-Type Activities
	Utility System Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 9,202,740
Cash Received from Assessments - Other Funds	233,773
Cash Payments to Employees for Services	(1,153,262)
Cash Payments for Suppliers	(22,294)
Cash Payments for Other Operating Expenses	(5,319,668)
Net Cash Provided by Operating Activities	2,941,289
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer Out	(1,630,104)
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	(1,102,358)
Grant Receipts	434,110
Increase in Restricted Assets	519,221
Bond Payments	(525,000)
Loan Payments	(77,319)
Debt Interest	(304,649)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(1,055,995)
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	26,093
Net Increase in Cash and Cash Equivalents	281,283
Cash and Cash Equivalents at Beginning of Year	3,549,649
Cash and Cash Equivalents at End of Year	\$ 3,830,932

CITY OF LLANO, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2022

EXHIBIT D-3

		Business-Type Activities
		Utility System Fund
<u>Reconciliation of Operating Income to Net Cash</u>		
<u>Provided by Operating Activities:</u>		
Operating Income	\$	3,010,930
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		795,392
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (Increase) in Receivables		(330,348)
Increase (Decrease) in Due to Other Funds		(10,733)
Increase (Decrease) in Accounts Payable		(648,568)
Increase (Decrease) in Payroll Deductions		(24,298)
Increase (Decrease) in Compensated Absences		45,329
Increase (Decrease) in Other Current Liabilities		164,366
Increase (Decrease) in Intergovernmental Payable		12,942
Increase (Decrease) in Pension & OPEB Liability		(73,723)
Net Cash Provided by Operating Activities	\$	2,941,289

CITY OF LLANO, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
SEPTEMBER 30, 2022

	Private Purpose Trust Funds	Total Pension Trust Fund
ASSETS		
Cash and Cash Equivalents	\$ 119	\$ 539
Investments - Current	37,520	-
Total Assets	<u>37,639</u>	<u>539</u>
NET POSITION		
Restricted for Pension Benefits	-	539
Restricted for Other Purposes	37,639	-
Total Net Position	<u>\$ 37,639</u>	<u>\$ 539</u>

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

CITY OF LLANO, TEXAS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

EXHIBIT E-2

	Private Purpose Trust Funds	Total Pension Trust Fund
ADDITIONS:		
Investment Earnings	\$ 262	\$ -
Total Additions	<u>262</u>	<u>-</u>
Net Change in Fiduciary Net Position	262	-
Total Net Position - October 1 (Beginning)	<u>37,377</u>	<u>539</u>
Total Net Position - September 30 (Ending)	<u>\$ 37,639</u>	<u>\$ 539</u>

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

CITY OF LLANO, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Llano Economic Development Corporation - The Llano Economic Development Corporation (the Corporation) was established in 1994 under the Development Corporation Act of 1979, Article 5190.6, Tex. Rev. Civ. Stat. Ann., as amended. Directors of the Corporation are removable by the City Council of the City of Llano at will, the overall economic development plan of the corporation must be approved by the City Council of the City of Llano, and the budget for each forthcoming fiscal year must be approved by the City Council of the City of Llano. Since the Corporation is financially accountable to the City, it is treated as a discretely presented component unit of the City and is reported as part of the overall financial reporting entity of the City.

- B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

D. Fund Accounting

The City reports the following major governmental funds:

1. **The General Fund** - The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **The Debt Service Fund** – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
3. **The Capital Projects Fund** – To account for financial resources to be used for the acquisition and construction of major capital facilities.

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

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

Proprietary Fund:

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

Fiduciary Funds:

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

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

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

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

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

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

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

<u>Assets</u>	<u>Years</u>
Infrastructure	30-50
Distribution & Collection	40-50
Buildings	20-50
Improvements	10-40
Equipment	5-10
Vehicles	5

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

4. Full-time employees earn vacation leave time at a rate based 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. Excess of the 192 hours is lost each December 31st. 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.

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

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

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

7. Implementation of GASB Accounting Standard:

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

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

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

10. Pensions. For purposes of measuring the net pension liability or asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and the Texas Emergency Services Retirement System (TESRS) and additions to/deductions from TMRS's and TESRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS and TESRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
11. Other Post-Employment Benefits. GASB 75 requires recognition of the Total OPEB Liability (TOL), deferred (inflows)/outflows of resources, and total OPEB expense on the face of the employer's financial statements. The TOL is calculated by the System's actuary in accordance with the provisions of GASB 75. The OPEB expense and deferred (inflows)/outflows of resources related to OPEB, which are required to be reported by an employer, primarily result from changes in the components of the TOL. Most changes in the TOL will be included in OPEB expense in the period of the change. The City participates in the Texas Municipal Retirement System Supplemental Death Benefit fund.
12. Implementation of GASB Statement No. 87. As of October 1, 2021, the City adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.
13. The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

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

At September 30, 2022, the carrying amount of the City's deposits was \$2,369,976 and the bank balance was \$3,024,077. The carrying amount of the Llano Economic Development Corporation's deposit was \$553,834 and the bank balance was \$554,056. The City's cash deposits held at Bancorp South and Llano National Bank at September 30, 2022 and during the year ended September 30, 2022 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

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

As of September 30, 2022, City of Llano, Texas had the following investments:

Governmental Activities

<u>Investments</u>	<u>Amount</u>	<u>Weighted Average Maturity (in Days)</u>
TexPool	\$ 2,135,816	24
Total	<u>2,135,816</u>	

Business-Type Activities

<u>Investments</u>	<u>Amount</u>	<u>Weighted Average Maturity (in Days)</u>
TexPool	\$ 3,102,190	24
BOK Financial	<u>778,220</u>	
Total	<u>\$ 3,880,410</u>	

Component Unit

<u>Investments</u>	<u>Amount</u>	<u>Weighted Average Maturity (in Days)</u>
TexPool	\$ <u>317,729</u>	24

Local government investment pools use amortized cost rather than market value to report net position to compute share prices. Accordingly, the market value of the position in these pools is the same as the value of the shares in each pool, which approximates the carrying amount. The investment pools are organized 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. Also, investments in government investment pools are not required to disclose custodial credit risk, concentration of credit risk and interest rate risk in accordance with GASB Statement #40.

Policies Governing Deposits and Investments

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

Custodial Credit Risk - Deposits: This is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2022 was covered by depository insurance or by pledged collateral held by the City's agent bank in the City's name.

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

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

B. Property Taxes

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

The City contracted with the Llano County Appraisal District for the appraisal and with Llano County for the collection of taxes. For the 2021 tax roll, the assessed valuation was \$225,304,205 and the tax rate was \$.52100 per \$100 valuation (\$.373440 for maintenance and operations and \$.14756 for interest and sinking).

C. Restricted Assets

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

D. Land, Structures and Equipment-Proprietary Fund

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

	Balance 10/01/21	Additions	Deletions	Balance 09/30/22
Land and Land Rights	\$ 533,711	\$	\$	\$ 533,711
Distribution and Collection Systems	26,438,645	579,944		27,018,589
Equipment	3,492,997	486,820	(210,161)	3,769,656
Construction Work In Progress	4,508,546	35,593		4,544,139
Totals	\$ 34,973,899	\$ 1,102,357	\$ (210,161)	\$ 35,866,095
Accumulated Depreciation	(13,285,405)	(795,392)	210,161	(13,870,636)
Fixed Assets, Net	\$ 21,688,494	\$ 306,965	\$ -	\$ 21,995,459

E. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2022, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 1,788,431	\$	\$	\$ 1,788,431
Buildings and Improvements	13,380,807	107,846		13,488,653
Equipment	5,327,323	263,249	58,751	5,531,821
Infrastructure	5,637,273	4,497,702		10,134,975
Construction Work In Progress	4,464,429	216,870	4,497,702	183,597
Totals at Historic Cost	\$ 30,598,263	\$ 5,085,668	\$ 4,556,453	\$ 31,127,477
Less Accumulated				
Depreciation for:				
Buildings and Improvements	(5,191,712)	(425,432)		(5,617,144)
Equipment	(3,989,383)	(286,442)	58,751	(4,217,074)
Infrastructure	(2,983,384)	(385,309)		(3,368,693)
Total Accumulated Depreciation	\$ (12,164,479)	\$ (1,097,183)	\$ 58,751	\$ (13,202,911)
Governmental Activities				
Capital Assets, Net	\$ 18,433,784	\$ 3,988,485	\$ 4,497,702	\$ 17,924,567
Right-to-Use Lease Assets Being Amortized				
Equipment	\$ 73,746	\$	\$	\$ 73,746
Total Right-to-Use Leased Assets	73,746	-	-	73,746
Less accumulated amortization				
Equipment	\$ (21,653)	\$ (25,911)	\$	\$ (47,564)
Total Accumulated Amortization	(21,653)	(25,911)	-	(47,564)
Total Right-to-Use Assets				
Being Amortized, Net	\$ 52,093	\$ (25,911)	\$ -	\$ 26,182
Governmental Activities				
Capital Assets, Net	\$ 18,485,877	\$ 3,962,574	\$ 4,497,702	\$ 17,950,749

Depreciation expense was charged to governmental functions as follows:

City Council	\$ 3,980
Administration	249,987
Community Development	30,383
Police	225,185
Municipal Court	25,590
Code Enforcement	20,616
Fire Department	30,002
Parks and Recreation	79,129
Swimming Pool	11,217
Badu RV Park	2,793
Robinson RV Park	10,402
Depot Museum	6,422
JLK Arena	47,419
Lantex Theater	7,980
Golf Course	131,034
Airport	136,156
Christmas Lighting	8,993
Maintenance Department	69,895
Total Depreciation Expense	\$ 1,097,183

Amortization expense was charged to the City's functions as follows:

Administration	\$	22,467
Police		<u>3,444</u>
Total Amortization Expense	\$	<u><u>25,911</u></u>

F. Changes in Long-Term Liabilities

A summary of changes in long-term debt for the year ended September 30, 2022 follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities:					
General Obligation Bonds, Series 2017	\$ 4,035,000		295,000	\$ 3,740,000	\$ 320,000
Premium on Bonds	248,499		22,591	225,908	
Leases	33,152		8,835	24,317	6,485
Net Pension Liability	936,796	228,703	718,264	447,235	
Net OPEB Liability	168,285	23,565	15,978	175,872	
Notes Payable -					
Llano National Bank	688,175	-	91,212	596,963	78,185
Arrowhead Bank	80,727		19,625	61,102	20,028
Limited Tax Notes,- Series 2014	9,776		9,776	-	
Financing Purchase Agreements					
Yamaha	88,296		22,741	65,555	
Government Capital	-	179,869	-	179,869	59,278
	<u>\$ 6,288,706</u>	<u>\$ 432,137</u>	<u>\$ 1,204,022</u>	<u>\$ 5,516,821</u>	<u>\$ 483,976</u>
Compensated Absences	55,128	5,824		60,952	
Governmental Activity Long-Term Debt	<u>\$ 6,343,834</u>	<u>\$ 437,961</u>	<u>\$ 1,204,022</u>	<u>\$ 5,577,773</u>	<u>\$ 483,976</u>
	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Business-Type Activities					
Bonds Payable					
General Obl Refunding -					
Series 2016	\$ 4,070,000	-	\$ 230,000	\$ 3,840,000	\$ 240,000
Combination Tax & Revenue CO Series 2017	1,435,000		70,000	1,365,000	75,000
Combination Tax & Revenue CO Series 2018A	2,940,000		155,000	2,785,000	160,000
Combination Tax & Revenue CO Series 2018B	775,000		40,000	735,000	40,000
Combination Tax & Revenue CO Series 2018C	545,000		30,000	515,000	30,000
Subtotal	<u>\$ 9,765,000</u>	<u>\$ -</u>	<u>\$ 525,000</u>	<u>\$ 9,240,000</u>	<u>\$ 545,000</u>
Premium on Bonds	512,732		34,058	478,674	
Net Pension Liability	420,878	98,941	308,301	211,518	
Net OPEB Liability	75,607	19,456	4,463	90,600	
Notes Payable					
Arrowhead Bank	18,312	296,220	60,809	253,723	57,761
BancorpSouth Bank	293,544		107,482	186,062	110,751
Llano National Bank	18,746		18,746	-	-
LCRA	412,964		186,502	226,462	170,640
Business Type Activity Long-Term Debt	<u>\$ 11,517,783</u>	<u>\$ 414,617</u>	<u>\$ 1,245,361</u>	<u>\$ 10,687,039</u>	<u>\$ 884,152</u>

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

The City issued \$3,390,000 Combination Tax & Surplus Revenue Certificates of Obligation, Series 2018A for the purpose of paying contractual obligations incurred in connection with constructing improvements and extensions to the City's wastewater system. The Certificates were issued at an interest rate of .190% to 1.70%. The Certificates are payable from and secured by an ad valorem tax levied on all taxable property in the City limits allowed by law and from a limited pledge of the City's surplus water and sewer system revenues.

The City issued \$890,000 Combination Tax & Surplus Revenue Certificates of Obligation, Series 2018B for the purpose of paying contractual obligations incurred in connection with constructing improvements and extensions to the City's water system. The Certificates were issued at an interest rate of .490% to 2.00%. The Certificates are payable from and secured by an ad valorem tax levied on all taxable property in the City limits allowed by law and from a limited pledge of the City's surplus water and sewer system revenues.

The City issued \$630,000 Combination Tax & Surplus Revenue Certificates of Obligation, Series 2018C for the purpose of paying contractual obligations incurred in connection with constructing improvements and extensions to the City's wastewater system. The Certificates were issued at an interest rate of .190% to 1.70%. The Certificates are payable from and secured by an ad valorem tax levied on all taxable property in the City limits allowed by law and from a limited pledge of the City's surplus water and sewer system revenues. The financial assistance from the Texas Water Development Board consisted of a loan in the amount of \$738,000 and a loan forgiveness funds in the amount of \$108,000.

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

The City issued \$1,700,000 Combination Tax & Revenue Certificates of Obligation, Series 2017 for the purpose of providing funds for paying contractual obligations incurred for constructing, improving, repairing, replacing and extending the City's water and waste water system. The Certificates were issued at an interest rate of 3.0% to 3.25%. The Certificates are payable from and secured by an ad valorem tax levied on all taxable property in the City limits allowed by law and from a limited pledge of the City's surplus water and sewer system revenues not to exceed \$1,000.

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

Debt service requirements are as follows:

General Obligation Bonds

<u>September 30.</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
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	370,000	71,700	265,000	114,200	820,900
2028-2032	2,020,000	185,550	1,455,000	405,200	4,065,750
2033-2037			1,135,000	102,000	1,237,000
Totals	\$ 3,740,000	\$ 681,450	\$ 3,840,000	\$ 1,170,600	\$ 9,432,050

Certificates of Obligation

<u>September 30.</u>	<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
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	320,000	81,302	401,302
2028-2032	1,685,000	318,904	2,003,904
2033-2037	1,875,000	145,814	2,020,814
2038-2042	\$ 280,000	4,912	284,912
Totals	\$ 5,400,000	\$ 925,996	\$ 6,325,996

H. Notes and Installments Payable

The following is a summary of notes and installments payable:

	<u>Balance at</u> <u>09/30/2022</u>
Governmental Activities	
Long-term note payable to Llano National Bank - Payable from the general fund for construction of a Pro Shop Building original principal \$250,000; due in monthly installments of \$1,745 through July 2033, interest at 3.15%	\$ 191,969
Long-term note payable to Llano National Bank - Payable from the general fund for purchase of John Deere Loader. Original principal \$122,650; due in monthly installments of \$2,682 through February 2023, interest at 2.37%.	15,998
Long-term note payable to Arrowhead Bank - Payable from the general fund for purchase of a Caterpillar Motor Grader original principal \$100,000; due in monthly installments of \$1,753 through August 2025, interest at 2.00%	61,102

	<u>Balance at 09/30/2022</u>
Long-term note payable to Llano National Bank - Payable from the general fund for the purchase of a Spartan pump truck original principal \$499,244, due in monthly installments of \$4,765 through April of 2030, interest at 2.75%	388,996
Total General Long-Term Debt	<u>\$ 658,065</u>

UTILITY FUNDS

Long-term note payable to First State Bank of Central Texas - for the purchase of an Automated Meter Reading System; original principal 991,000 due in monthly installments of \$9,569.16 through 05/13/2024 interest at 3.0%.	186,062
Long-term note payable to Arrowhead Bank - for the purchase of a Vac-Con Vacuum Unit; original principal \$296,220 due in monthly installments of \$5,192 through December 2026 interest at 2.0%.	253,723
Long-term note payable to LCRA - for electric charges due to February 2021 winter storm; original principal \$551,188 due in monthly installments of \$14,220 through January 2024 interest at 2.0%.	226,462
Total Utilities Fund	<u>\$ 666,247</u>
Total Notes Payable	<u>\$ 1,324,312</u>

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

<u>Notes Payable</u> September 30.	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2023	\$ 98,213	\$ 16,941	\$ 339,152	\$ 11,589	\$ 465,895
2024	84,413	14,743	190,059	4,464	293,679
2025	86,468	12,485	60,116	2,190	161,259
2026	67,725	10,395	61,329	977	140,426
2027	69,680	8,440	15,591	52	93,763
2028-2032	234,396	15,546			249,942
2033-2037	17,170	247			17,417
Totals	<u>\$ 658,065</u>	<u>\$ 78,797</u>	<u>\$ 666,247</u>	<u>\$ 19,272</u>	<u>\$ 1,422,381</u>

I. Finance Purchase Agreements

In June 2018 the City signed a finance purchase agreement with Yamaha Motor Finance Corporation in the amount of \$153,039 for the purchase of (36) golf carts. The purchase is due in monthly installments of \$2,106 (including 4.52% interest) for a period of 48 months.

In April 2022 the City signed a finance purchase agreement with Government Capital Corporation in the amount of \$180,619 for the purchase of police department vehicles and equipment. The purchase is due in annual installments of \$63,500 (including 3.094% interest) for a period of 3 years.

A schedule of changes in finance purchase agreements payable is as follows:

	Interest Rate	Beginning			Ending		Due Within One Year
		Balance	Additions	Retirements	Balance		
Yamaha	4.52%	\$ 88,296	\$	\$ 22,741	\$ 65,555	\$	
Government Capital	3.094%		179,869		179,869		59,278
Total		\$ 88,296	\$ 179,869	\$ 22,741	\$ 245,424	\$	59,278

Finance purchase agreement payable requirements are as follows:

September 30.	Governmental Activities		Total
	Principal	Interest	Requirements
2023	\$ 124,833	\$ 4,222	\$ 129,055
2024	59,746	3,754	63,500
2025	60,845	1,906	62,751
Totals	\$ 245,424	\$ 9,882	\$ 255,306

J. Changes in Long-Term Liabilities – Component Unit

	Beginning			Ending		Due Within One Year
	Balance	Additions	Retirements	Balance		
Component Unit Activities:						
Notes Payable -						
BancorpSouth Bank	\$ 846,686	\$ -	\$ 147,119	\$ 699,567	\$	153,647
Component Unit Activity						
Long-Term Debt	\$ 846,686	\$ -	\$ 147,119	\$ 699,567	\$	153,647

On December 12, 2011 the Llano Economic Development Corporation acquired a loan from BancorpSouth Bank in the amount of \$2,000,000 for the Community Facilities Project. The loan is payable in quarterly payments of \$45,232 (including interest at 4.250%) beginning March 10, 2012 and ending December 10, 2026. The balance of the loan at September 30, 2022 was \$1,378,239.

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

September 30.	Principal	Interest	Total
2023	\$ 153,647	27,329	\$ 180,976
2024	160,235	20,696	180,931
2025	167,155	13,777	180,932
2026	174,373	6,558	180,931
2027	44,157	476	44,633
Totals	\$ 699,567	\$ 68,836	\$ 768,403

K. Leases

The City entered into a right-to-use asset lease with Wells Fargo Financial Leasing, Inc. for a copier. The lease term began September 2017 and continues through September 2022 (60 months). The monthly lease payments are \$111 and include interest at 4.2%.

The City entered into a right-to-use asset lease with Pitney Bowes for a digital mailing system. The lease term began November 2017 and continues through November 2022 (60 months). The monthly lease payments are \$149 and include interest at 4.2%.

The City entered into a right-to-use asset lease with Xerox Financial Services, LLC for a copier. The lease term began June 2021 and continues through June 2026 (60 months). The monthly lease payments are \$590 and include interest at 4.2%.

Schedule of changes in leases payable is as follows:

<u>Leases:</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:						
Wells Fargo	4.20%	\$ 1,307	\$	\$ 1,307	-	\$
Pitney Bowes	4.20%	1,889		1,593	296	296
Xerox Financial	4.20%	29,956		5,935	24,021	6,189
		<u>\$ 33,152</u>	<u>\$ -</u>	<u>\$ 8,835</u>	<u>\$ 24,317</u>	<u>\$ 6,485</u>

Remaining obligations associated with leases are as follows:

<u>September 30,</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2023	\$ 6,485	\$ 892	\$ 7,377
2024	6,454	626	7,080
2025	6,731	349	7,080
2026	4,647	73	4,720
	<u>\$ 24,317</u>	<u>\$ 1,940</u>	<u>\$ 26,257</u>

L. Deferred Outflows and Inflows of Resources

The financial statements report separate sections for deferred outflows and inflows of resources. Deferred outflows represent an acquisition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred inflows represent an acquisition of fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Deferred outflows on the Statement of Net Position consist of the TMRS pension deferred outflow of \$260,899(see note M), the TESRS pension deferred outflow of \$27,667(see note N) and the TMRS OPEB outflow of \$29,347(see note O).

Deferred inflows on the Statement of Net Position consist of the TMRS pension deferred inflow of \$562,827(see note M), the TESRS pension deferred inflow of \$35,812(see note N) and the TMRS OPEB deferred inflow of \$130,412(see note O).

Deferred inflows on the Balance Sheet – Governmental Funds consist of:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Total</u>
Delinquent Property Tax	\$ 12,438	\$ 3,276	\$ 15,714
Deferred Inflows - Exhibit C-1	<u>12,438</u>	<u>3,276</u>	<u>15,714</u>

M. Retirement Plans

Texas Municipal Retirement System (TMRS)

Plan Description

The City of Llano, Texas participates as one of 901 plans in the defined benefit cash-balance 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, Governor-appointed Board of Trustees; however, TMRS does not receive any funding from the State of Texas. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest, and their age at retirement and other actuarial factors. The retiring member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the total member contributions and interest.

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

	Plan Year 2021	Plan Year 2022
Deposit Rate:	7%	7%
Matching Ratio (City to Employee):	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of serve)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms.

At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	44
Inactive employees entitled to but not yet receiving benefits	42
Active employees	46
	132

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 city's contribution rate is based on the liabilities created from the benefit plan options selected by the city and any changes in benefits or actual experience over time.

Employees for the City of Llano, Texas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Llano, Texas were 13.45% and 14.73% in calendar years 2021 and 2022, respectively. The city's contributions to TMRS for the year ended September 30, 2022, were \$340,590, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2021, 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, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members 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 rate for actives, health 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 are used with a 4-year set forward for males and 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, 2019 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class in 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.0%	7.55%
Core Fixed Income	6.0%	2.00%
Non-Core Fixed Income	20.0%	5.68%
Other Public and Private Markets	12.0%	7.22%
Real Estate	12.0%	6.85%
Hedge Funds	5.0%	5.35%
Private Equity	10.0%	10.00%
Total	100.0%	

Discount Rate

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

	Increase/(Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a)-(b)
Balances as of December 31, 2020	\$ 9,234,909	\$ 7,877,235	\$ 1,357,674
Changes for the year:			
Service cost	369,774		369,774
Interest	622,528		622,528
Changes of Benefit Terms	-		-
Difference between Expected and Actual Experience	(168,986)		(168,986)
Changes in Assumptions	-		-
Contributions - Employer		362,054	(362,054)
Contributions - Employee		174,304	(174,304)
Net investment income		1,027,240	(1,027,240)
Benefit Payments, Including Refunds of Employee Contributions	(394,307)	(394,307)	-
Administrative Expense		(4,751)	4,751
Other Changes		33	(33)
	-		-
Net Changes	429,009	1,164,572	(735,564)
Balances as of December 31, 2021	\$ 9,663,918	\$ 9,041,807	\$ 622,111

Sensitivity of the net pension liability to changes in the discount rate

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

1% Decrease 5.75%	Current Single Discount Rate Assumption 6.75%	1% Increase 7.75%
\$ 1,842,411	\$ 622,111	\$ (394,700)

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2022, the City recognized pension income of \$51,635.

At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 155,537	\$ -
Changes of assumptions	-	1,283
Net difference between projected and actual earnings	524,149	-
Contributions made subsequent to measurement date	-	259,616
	<u>\$ 679,686</u>	<u>\$ 260,899</u>

\$259,616 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:

2022	\$(201,081)
2023	(266,995)
2024	(111,225)
2025	(99,102)
2026	-
Thereafter	-
Total	<u>\$(678,403)</u>

N. Texas Emergency Services Retirement System

Plan Description

The City participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by the Texas Emergency Services Retirement System (TESRS) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2021 there were 239 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2021, the pension system membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	12
Terminated Members Entitled to Benefits but Not Yet Receiving Them	2
Active Participants (Vested and Nonvested)	<u>26</u>
	40

Pension Plan Fiduciary Net Position

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

Benefits Provided

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees Authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 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 percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

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

Funding Policy

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

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

The Board rule defining contributions was amended effective 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 near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2020, 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 ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

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

Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2017, total contributions (dues, prior service, and interest on prior service financing) of \$16,398 were paid by the City. The State appropriated \$1,329,224 for the fiscal year ending August 31, 2021 to the plan as a whole.

Actuarial Assumptions

The total pension liability in the August 31, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Valuation Date	8/31/2021
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar, Open
Amortization Period	30 years
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value
Actuarial Assumptions:	
Investment Rate of Return*	7.75%
Projected Salary Increases	N/A
*Includes Inflation At	3.00%
Cost of Living Adjustments	None

Mortality rates were based on the PubS-2021 (public safety) below-median income mortality tables for employees and for retirees, projected for mortality improvement generationally using projection scale MP-2019.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (currently 4.6%) and by adding expected inflation (3.00%). In addition, the final 7.5% assumption was selected by rounding down. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities		
Large cap domestic	20%	5.83%
Small/mid 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 income	5	3.84
Fixed income	30	1.99
Cash	0	0
Total	100%	
Weighted average		4.60%

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 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 and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity Analysis

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

1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
\$ 117,761	\$ 36,642	\$ (18,844)

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

At August 31, 2021, the City reported a liability of \$36,642 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	\$ 36,642
State's proportionate share that is associated with the City *	10,144
Total	<u>46,786</u>

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

At August 31, 2021 the employer's proportion of the collective net pension liability was 0.342%.

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

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

For the measurement period August 31, 2021, the City recognized pension expense of \$43 and revenue of \$4,546 for support provided by the State.

At August 31, 2021, the City reported its proportionate share of TESRS's deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 1,450	\$ -
Changes of assumptions	50	-
Difference between projected and actual investment earnings	34,312	-
Contributions made subsequent to measurement date	-	27,667
	\$ 35,812	\$ 27,667

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

Year ended September 30:	
2022	\$ (9,677)
2023	(5,961)
2024	(11,247)
2025	(8,925)
Total	\$ (35,810)

O. Defined Other Post-Employment Benefit Plan

Benefit Plan Description. Texas Municipal Retirement System ("TMRS") administers an optional death benefit group-term 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. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

The member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. 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. As such, contributions fund the covered active member and retiree deaths on a pay-as-you-go basis.

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

The City's contributions to the TMRS SDBF for the year ended 2022 were \$11,329 respectively, which equaled the required contributions each year.

Employees covered by benefit terms.

At the December 31, 2021 valuation and measurement date, the following employees were covered by benefit terms:

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

Total OPEB Liability

The City's Total OPEB Liability (TOL) was measured as of December 31, 2021 and was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The TOL in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Salary Increases	3.50% to 11.5% including inflation
Discount rate*	1.84%
Retirees' share of benefit-related cost	\$0
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68
Mortality rates- service retirees	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 set-forward 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.

* The discount rate was based on the Fidelity Index's "20- Year Municipal GO AA Index" rate as of December 31, 2021.

These 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, 2019 actuarial valuation.

Discount Rate

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

Covered Payroll	\$ 2,490,058
Total OPEB Liability- beginning of year	243,892
Changes for the year	
Service Cost	20,667
Interest on Total OPEB Liability	5,005
Changes of benefit terms	-
Differences between expected and actual experience	(2,239)
Changes in assumptions or other inputs	7,115
Benefit Payments **	(7,968)
Net Changes	<u>22,580</u>
Total OPEB Liability- end of year	\$ 266,472
Total OPEB Liability as a Percentage of Covered Payroll	10.70%

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

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

The following presents the Total OPEB Liability of the City, calculated using the discount rate of 1.84%, 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 (0.84%) or 1-percentage-point higher (2.84%) than the current rate:

1% Decrease (0.84%)	Current Discount Rate (1.84%)	1% Increase (2.84%)
317,745	266,472	226,342

OPEB Expense and Deferred Outflows of Resources

For the year ended September 30, 2022, the City recognized OPEB expense of \$31,471.

At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred (Inflows) of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 13,553	\$ -
Changes in assumptions and other inputs	-	26,366
Contributions made subsequent to measurement date	N/A	2,981
Total (excluding contributions made subsequent to measurement date)	\$ 13,553	\$ 29,347

\$2,981 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Total OPEB liability for the year ending September 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31:	
2022	\$ 6,641
2023	5,007
2024	1,165
2025	-
2026	-
Thereafter	-
Total	\$ 12,813

P. Employee Health, Dental and Life Insurance Benefits

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

Q. Contingent Liabilities and Commitments

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

The City is a party in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's management that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

R. Interfund Receivable and Payables

Interfund balances at September 30, 2022, consisted of the following:

	<u>Receivable</u>	<u>Payable</u>
<u>General Fund</u>		
Special Revenue Funds	\$ 154	\$ 23,709
Utility Fund	16,448	
Capital Projects Fund	33,327	
<u>Special Revenue Funds</u>		
General Fund	23,709	154
<u>Capital Projects Fund</u>		
General Fund		33,327
Utility Fund		12,542
<u>Utility Fund</u>		
General Fund		16,448
Capital Projects Fund	12,542	
Totals	<u>\$ 86,180</u>	<u>\$ 86,180</u>

During the year ended September 30, 2022, the City's transfers between funds consisted of:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	1,630,629	52,253
Capital Projects Fund		525
Special Revenue Funds	52,253	
Enterprise Funds-		
Utility Fund	40,782	1,670,886
Totals	<u>1,723,664</u>	<u>1,723,664</u>

S. Cash Flows Statement - Supplemental Disclosures

Since the City is tax exempt no income tax was paid in 2022 and 2021. The City paid interest in the amount of \$304,649 in 2022 and \$143,580 in 2021.

T. Risk Management

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

U. 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.

V. Prior Period Adjustment

During fiscal year 2022, the City adopted GASB Statement No. 87 *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

Beginning net position for the governmental activities was restated to retroactively adopt the provisions of GASB Statement No. 87 as follows:

	<u>Governmental Activities</u>
Net position October 1, 2021 as previously reported	\$ 14,949,076
Right-to-Use asset, net of amortization under GASB Statement No. 87 at October 21, 2021	52,093
Lease liability under GASB Statement No. 87 at October 1, 2021	<u>(33,153)</u>
Net position at October 1, 2021, as restated	<u>\$ 14,968,016</u>

W. Subsequent Events

The City has evaluated subsequent events through March 24, 2023, the date which the financial statements were available to be issued. Subsequent to year end \$4,750,000 Combination Tax & Revenue Certificates of Obligation, Series 2022 was issued for capital improvement projects and acquisition of equipment and vehicles. The City is not aware of any other subsequent events that would materially impact the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LLANO, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 785,675	\$ 785,675	\$ 780,969	\$ (4,706)
General Sales and Use Taxes	1,130,000	1,190,000	1,219,618	29,618
Other Taxes	151,500	167,500	155,770	(11,730)
Penalty and Interest on Taxes	-	-	11,026	11,026
Licenses and Permits	39,700	55,595	58,552	2,957
Intergovernmental Revenue and Grants	903,000	26,177	26,176	(1)
Charges for Services	721,010	492,410	506,015	13,605
Fines	56,500	77,950	84,318	6,368
Special Assessments	115,950	136,350	157,246	20,896
Investment Earnings	3,000	3,000	14,748	11,748
Rents and Royalties	292,500	214,220	231,820	17,600
Contributions & Donations from Private Sources	10,000	10,000	1,438	(8,562)
Other Revenue	42,250	45,443	14,057	(31,386)
Total Revenues	4,251,085	3,204,320	3,261,753	57,433
EXPENDITURES:				
Current:				
City Council	21,758	21,758	17,155	4,603
Administration	1,245,515	1,237,915	1,077,543	160,372
Community Development	100,999	110,999	115,045	(4,046)
Police	1,036,264	1,037,561	970,636	66,925
Municipal Court	111,190	111,190	110,303	887
Code Enforcement	105,829	105,829	88,865	16,964
Fire Department	136,060	136,060	129,319	6,741
Parks and Recreation	387,228	365,248	341,079	24,169
Swimming Pool	43,243	51,453	48,351	3,102
Badu RV Park	4,700	7,700	12,039	(4,339)
Robinson RV Park	42,818	47,825	44,836	2,989
Depot Museum	5,100	28,035	27,680	355
JLK Arena	234,396	230,721	201,790	28,931
Lantex Theater	29,050	38,470	34,397	4,073
Cemetery	-	-	142	(142)
Golf Course	546,344	554,348	560,929	(6,581)
Airport	386,646	-	-	-
Streets	404,127	381,526	301,277	80,249
Debt Service:				
Principal on Debt	-	-	8,836	(8,836)
Interest on Debt	-	-	1,227	(1,227)
Capital Outlay:				
Capital Outlay	1,152,000	552,962	293,496	259,466
Total Expenditures	5,993,267	5,019,600	4,384,945	634,655
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,742,182)	(1,815,280)	(1,123,192)	692,088
OTHER FINANCING SOURCES (USES):				
Sale of Real and Personal Property	-	16,660	4,733	(11,927)
Proceeds from Right-to-Use Leases	182,000	179,687	179,869	182
Transfers In	1,581,820	1,581,820	1,630,629	48,809
Transfers Out	-	-	(52,253)	(52,253)
Total Other Financing Sources (Uses)	1,763,820	1,778,167	1,762,978	(15,189)

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

CITY OF LLANO, TEXAS
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
Net Change in Fund Balances	21,638	(37,113)	639,786	676,899
Fund Balance - October 1 (Beginning)	2,032,549	2,032,549	2,032,549	-
Fund Balance - September 30 (Ending)	\$ 2,054,187	\$ 1,995,436	\$ 2,672,335	\$ 676,899

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

CITY OF LLANO, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019
A. Total Pension Liability			
Service Cost	\$ 369,774	\$ 350,456	\$ 345,603
Interest (on the Total Pension Liability)	622,528	593,415	575,162
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(168,986)	(128,765)	(248,886)
Changes of Assumptions	-	-	33,338
Benefit Payments, Including Refunds of Employee Contributions	(394,307)	(392,590)	(481,881)
Net Change in Total Pension Liability	\$ 429,009	\$ 422,516	\$ 223,336
Total Pension Liability - Beginning	9,234,909	8,812,393	8,589,057
Total Pension Liability - Ending	\$ 9,663,918	\$ 9,234,909	\$ 8,812,393
B. Total Fiduciary Net Position			
Contributions - Employer	\$ 362,054	\$ 350,892	\$ 347,490
Contributions - Employee	174,304	166,998	165,247
Net Investment Income	1,027,240	547,158	961,741
Benefit Payments, Including Refunds of Employee Contributions	(394,307)	(392,590)	(481,881)
Administrative Expense	(4,751)	(3,540)	(5,435)
Other	32	(138)	(163)
Net Change in Plan Fiduciary Net Position	\$ 1,164,572	\$ 668,780	\$ 986,999
Plan Fiduciary Net Position - Beginning	7,877,235	7,208,455	6,221,456
Plan Fiduciary Net Position - Ending	\$ 9,041,807	\$ 7,877,235	\$ 7,208,455
C. Net Pension Liability	\$ 622,111	\$ 1,357,674	\$ 1,603,938
D. Plan Fiduciary Net Position as a Percentage of Total Pension Liability	93.56%	85.30%	81.80%
E. Covered Payroll	\$ 2,490,058	\$ 2,385,680	\$ 2,360,674
F. Net Pension Liability as a Percentage of Covered Payroll	24.98%	56.91%	67.94%

Note: GASB Codification, Vol. 2, P20.146 requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

As required by GASB 68, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

FY 2019 Plan Year 2018	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
\$ 347,028	\$ 338,920	\$ 315,794	\$ 216,328	\$ 208,031
545,370	505,219	465,907	452,805	403,095
-	-	-	596,175	-
50,699	163,185	91,027	(107,658)	(173,667)
-	-	-	136,174	-
(520,167)	(312,916)	(290,887)	(336,489)	(318,787)
\$ 422,930	\$ 694,408	\$ 581,841	\$ 957,335	\$ 118,672
8,166,127	7,471,719	6,889,878	5,932,543	5,813,871
\$ 8,589,057	\$ 8,166,127	\$ 7,471,719	\$ 6,889,878	\$ 5,932,543
\$ 343,760	\$ 333,444	\$ 293,523	\$ 175,995	\$ 162,462
163,362	158,692	145,336	124,122	120,611
(192,612)	761,145	338,705	7,445	275,131
(520,167)	(312,916)	(290,887)	(336,489)	(318,787)
(3,723)	(3,947)	(3,826)	(4,535)	(2,873)
(195)	(200)	(206)	(224)	(236)
\$ (209,575)	\$ 936,218	\$ 482,645	\$ (33,686)	\$ 236,308
6,431,031	5,494,813	5,012,168	5,045,854	4,809,546
\$ 6,221,456	\$ 6,431,031	\$ 5,494,813	\$ 5,012,168	\$ 5,045,854
\$ 2,367,601	\$ 1,735,096	\$ 1,976,906	\$ 1,877,710	\$ 886,689
72.43%	78.75%	73.54%	72.75%	85.05%
\$ 2,333,747	\$ 2,267,026	\$ 2,076,229	\$ 1,773,177	\$ 1,723,017
101.45%	76.54%	95.22%	105.90%	51.46%

CITY OF LLANO, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE FISCAL YEAR 2022

	2022	2021	2020
Actuarially Determined Contribution	\$ 340,590	\$ 336,691	\$ 360,560
Contributions in Relation to the Actuarially Determined Contributions	(340,590)	(336,691)	(360,560)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered Payroll	\$ 2,346,125	\$ 2,503,282	\$ 2,471,280
Contributions as a Percentage of Covered Payroll	14.52%	13.45%	14.59%

Note: GASB Codification, Vol. 2, P20.146 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31 for the respective fiscal years.

As required by GASB 68, this schedule will be built prospectively as the information becomes available until 10 years of information is presented.

	2019	2018	2017	2016	2015
\$	344,888	\$ 337,755	\$ 329,760	\$ 264,599	\$ 173,413
	(344,888)	(337,755)	(329,760)	(264,599)	(173,413)
\$	-	\$ -	\$ -	\$ -	\$ -
\$	2,363,866	\$ 2,293,812	\$ 2,251,891	\$ 1,991,733	\$ 1,717,307
	14.59%	14.72%	14.64%	13.28%	10.10%

CITY OF LLANO, TEXAS
 NOTES TO THE SCHEDULE OF TMRS CONTRIBUTIONS
 SEPTEMBER 30, 2022

Valuation Date:

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

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method Remaining Amortization Period	Level Percentage of Payroll, Closed 23 years
Asset Valuation Method Inflation	10 Year smoothed market; 12% soft corridor 2.5%
Salary Increases	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based tables of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	<p>Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.</p> <p>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.</p>

Other Information:

Notes There were no benefit changes during this year.

CITY OF LLANO, TEXAS
SCHEDULE OF THE CITY'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)
For the Year Ended September 30, 2022

	Measurement	
	2021	2020
City's proportion of the net pension liability	0.342%	0.292%
City's proportionate share of the net pension liability	\$ 36,642	\$ 73,616
State's proportionate share of the net pension liability	10,144	20,986
Total	\$ 46,786	\$ 94,602
Plan fiduciary net position as a percentage of the total pension liability	78.30%	77.8%

EXHIBIT G-4

<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
0.288%	0.281%	0.273%	0.272%	0.272%	0.269%
\$ 79,651	\$ 60,838	\$ 65,525	\$ 79,228	\$ 86,082	\$ 48,882
<u>16,885</u>	<u>16,885</u>	<u>21,458</u>	<u>27,390</u>	<u>25,167</u>	<u>4,117</u>
<u>\$ 96,536</u>	<u>\$ 77,723</u>	<u>\$ 86,983</u>	<u>\$ 106,618</u>	<u>\$ 111,249</u>	<u>\$ 52,999</u>
83.4%	83.4%	81.4%	76.3%	76.9%	83.5%

CITY OF LLANO, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)
For the Year Ended September 30, 2022

	<u>2022</u>	<u>Fiscal Year</u> <u>2021</u>	<u>2020</u>
Contractually required contribution	\$ 18,367	\$ 17,386	\$ 7,941
Contributions in relation to the contractually required contribution	<u>18,367</u>	<u>17,386</u>	<u>7,941</u>
Contribution deficiency(excess)	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

EXHIBIT G-5

<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 15,500	\$ 19,952	\$ 11,913	\$ 12,464	\$ 12,833	\$ 12,177
<u>15,500</u>	<u>19,952</u>	<u>11,913</u>	<u>12,464</u>	<u>12,833</u>	<u>12,177</u>
\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

CITY OF LLANO, TEXAS
NOTES TO THE SCHEDULE OF TESRS CONTRIBUTIONS
SEPTEMBER 30, 2022

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%
Salary Increases	N/A
Investment Rate of Return	7.5%, 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
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019
Total OPEB Liability			
Service Cost	\$ 20,667	\$ 15,268	\$ 6,610
Interest on the Total OPEB Liability	5,005	6,026	6,981
Changes of Benefit Terms	-	-	-
Difference between Expected and Actual Experience	(2,239)	(14,792)	(14,564)
Changes of Assumptions	7,115	27,193	30,221
Benefit Payments*	(7,968)	(2,624)	(2,597)
Net Change in Total OPEB Liability	22,580	31,071	26,651
Total OPEB Liability - Beginning	243,892	212,821	186,170
Total OPEB Liability - Ending	\$ 266,472	\$ 243,892	\$ 212,821
Covered Payroll	\$ 2,490,058	\$ 2,385,680	\$ 2,333,747
Total OPEB Liability as a Percentage of Covered Payroll	10.70%	10.22%	9.12%

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

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

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

<u>FY 2019</u>		<u>FY 2018</u>	
<u>Plan Year 2018</u>		<u>Plan Year 2017</u>	
\$	7,235	\$	6,121
	6,380		6,408
	-		-
	(4,202)		-
	(11,203)		12,447
	(2,334)		(2,267)
	<u>(4,124)</u>		<u>22,709</u>
	190,294		167,585
\$	<u>186,170</u>	\$	<u>190,294</u>
\$	2,333,747	\$	2,267,026
	7.98%		8.39%

CITY OF LLANO, TEXAS
 NOTES TO THE SCHEDULE OF CHANGES IN THE
 TOTAL OPEB LIABILITY AND RELATED RATIOS
 SEPTEMBER 30, 2022

Valuation Date:

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

Methods and assumptions used to determine contribution rates:

Inflation	2.5%
Salary increases	Salary increases are assumed to occur once a year, on January 1. Therefore, the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. Salaries are assumed to increase by 3.50% to 10.5% including inflation
Actuarial Cost Method:	Entry Age Normal
Valuation of Assets:	For purposes of calculating the Total OPEB Liability, The plan is considered to be unfunded and therefore no assets are accumulated for OPEB.
Retirees' share of benefit-related costs	\$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	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 set-forward 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.
Discount Rate	Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of the measurement date. Discount rate is 1.84%.
Supplemental Death Benefit	The contribution rate for the Supplemental Death Benefit (SDB) is equal to the expected benefit payments during the upcoming year divided by the annualized pay of current active members and is calculated separately for actives and retirees. Due to the significant reserve in the Supplemental Death Fund, the SDB rate for retiree coverage is currently only one-third of the total term cost. Beginning January 2021, the SDB rate for retirees will be based on the full term cost.

Other Information:

Notes There were no benefit changes during the year.

SUPPLEMENTARY INFORMATION

CITY OF LLANO, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2022

	Christmas Lighting Fund	Cemetery Fund	Airport Fund	Main Street Fund
ASSETS				
Cash and Cash Equivalents	\$ 66,117	\$ 18,437	\$ -	\$ 34,271
Due from Other Funds	-	-	23,709	-
Total Assets	<u>\$ 66,117</u>	<u>\$ 18,437</u>	<u>\$ 23,709</u>	<u>\$ 34,271</u>
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ 23,056	\$ 730
Wages and Salaries Payable	-	-	653	-
Intergovernmental Payable	-	-	-	654
Due to Other Funds	-	-	-	154
Total Liabilities	<u>-</u>	<u>-</u>	<u>23,709</u>	<u>1,538</u>
FUND BALANCES				
Assigned Fund Balance:				
Other Assigned Fund Balance	66,117	18,437	-	32,733
Total Fund Balances	<u>66,117</u>	<u>18,437</u>	<u>-</u>	<u>32,733</u>
Total Liabilities and Fund Balances	<u>\$ 66,117</u>	<u>\$ 18,437</u>	<u>\$ 23,709</u>	<u>\$ 34,271</u>

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

Total Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
\$ 118,825	\$ 118,825
23,709	23,709
<u>\$ 142,534</u>	<u>\$ 142,534</u>
\$ 23,786	\$ 23,786
653	653
654	654
154	154
<u>25,247</u>	<u>25,247</u>
<u>117,287</u>	<u>117,287</u>
<u>117,287</u>	<u>117,287</u>
<u>\$ 142,534</u>	<u>\$ 142,534</u>

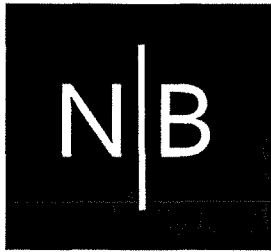
CITY OF LLANO, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2022

	Christmas Lighting Fund	Cemetery Fund	Airport Fund	Main Street Fund
REVENUES:				
Intergovernmental Revenue and Grants	\$ -	\$ -	\$ 130,000	\$ -
Charges for Services	15,877	-	317,550	20,428
Investment Earnings	181	46	-	78
Rents and Royalties	175	-	68,590	-
Contributions & Donations from Private Sources	8,937	-	-	328
Total Revenues	<u>25,170</u>	<u>46</u>	<u>516,140</u>	<u>20,834</u>
EXPENDITURES:				
Administration:				
Community Development	-	-	-	15,918
Parks and Recreation:				
Airport	-	-	568,393	-
Christmas Lighting	38,756	-	-	-
Total Expenditures	<u>38,756</u>	<u>-</u>	<u>568,393</u>	<u>15,918</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(13,586)</u>	<u>46</u>	<u>(52,253)</u>	<u>4,916</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	52,253	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>52,253</u>	<u>-</u>
Net Change in Fund Balance	(13,586)	46	-	4,916
Fund Balance - October 1 (Beginning)	<u>79,703</u>	<u>18,391</u>	<u>-</u>	<u>27,817</u>
Fund Balance - September 30 (Ending)	<u>\$ 66,117</u>	<u>\$ 18,437</u>	<u>\$ -</u>	<u>\$ 32,733</u>

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

Nonmajor Special Revenue Funds	Total Nonmajor Governmental Funds
\$ 130,000	\$ 130,000
353,855	353,855
305	305
68,765	68,765
9,265	9,265
<u>562,190</u>	<u>562,190</u>
15,918	15,918
568,393	568,393
38,756	38,756
<u>623,067</u>	<u>623,067</u>
<u>(60,877)</u>	<u>(60,877)</u>
52,253	52,253
<u>52,253</u>	<u>52,253</u>
(8,624)	(8,624)
<u>125,911</u>	<u>125,911</u>
<u>\$ 117,287</u>	<u>\$ 117,287</u>

REPORT ON INTERNAL CONTROL



NEFFENDORF & BLOCKER, P.C.

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*

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

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 City of Llano, Texas, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise City of Llano, Texas's basic financial statements and have issued our report thereon dated March 24, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Llano, Texas's internal control over financial reporting (internal control) as a basis for designing 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 City of Llano, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Llano, Texas'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 were not identified. However, as described in the accompanying schedule of findings and responses, we identified 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 deficiency described in the accompanying schedule of findings and responses as item 2022-002, 2022-004 and 2022-006 to be a material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2022-003 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Llano, Texas'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not

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express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Llano, Texas's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Llano, Texas's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City of Llano, Texas's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Neffendorf + Blocker, P.C.
Neffendorf + Blocker, P.C.

NEFFENDORF & BLOCKER, P.C.

Fredericksburg, Texas
March 24, 2023

CITY OF LLANO, TEXAS

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED SEPTEMBER 30, 2022

A. Section I - Summary of Auditor's Results

1 Financial Statements

Type of auditor's report issued	<u>Unmodified</u>	
Internal control over financial reporting		
Material weakness(es) identified	<u> X </u> yes	<u> </u> no
Significant deficiencies identified that are not considered to be material weaknesses	<u> X </u> yes	<u> </u> no
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

B. Section II - Findings Related to the Financial Statements

2022-001

Type of Finding: Control Deficiency

Criteria: Monthly bank reconciliations should be performed timely to comply with the accuracy of financial information assertion and the completeness assertion.

Condition: Monthly bank reconciliations were not performed timely.

Cause: The City experienced turnover in the Finance Director position. The position was vacant for a period of time. The consolidated bank statements were not reconciled from December 2021 to June 2022 until July 2022.

Effect: The monthly financial reports submitted to the City Council could be incomplete and incorrect.

Questioned Costs: None

Recommendation: Monthly bank reconciliations should be prepared timely and reviewed by a supervisor.

Views of responsible officials and planned corrective action: This information is in the attached responses.

2022-002

Type of Finding: Material Weakness

Criteria: The City was required to adopt and implement GASB Statement No. 87 *Leases* for the fiscal year ended September 30, 2022. The statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor

is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the governments' leasing activities.

- Condition:** The City did not evaluate the City's leases for the requirement to implement GASB Statement No. 87 *Leases*. The City did not adopt and implement GASB Statement 87 *Leases*. The City was not in compliance with Governmental Accounting Standards.
- Cause:** The City did not evaluate the leases of the City to determine materiality.
- Effect:** Audit procedures were performed with regard to the City's lease assets that met the definition of the Standard. The results of the procedures determined the Right-to-Use lease asset and liability was material to the financial statements.
- Questioned Cost:** None
- Recommendation:** The City should review, obtain the necessary education and implement the requirements of GASB Statement No. 87 *Leases* as well as any new GASB Statements that apply to the City.
- Views of responsible officials and planned corrective action:** This information is in the attached responses.

2022-003

- Type of Finding:** Significant Deficiency
- Criteria:** Procedures should be in place to ensure capitalization policies are uniformly applied to comply with the accuracy and completeness assertion.
- Condition:** Accounting records for capital outlay items, capital asset additions and related depreciation are incomplete. Several instances noted of failure to identify capital outlay or asset transactions.
- Cause:** Capitalization policy was not uniformly implemented.
- Effect:** Net effect resulted in an understatement of assets and an overstatement of expenses in the government wide financial statements.
- Questioned Cost:** None
- Recommendation:** Comply with capitalization policy and apply the policy uniformly.
- Views of responsible officials and planned corrective action:** This information is in the attached responses.

2022-004

- Type of Finding:** Material Weakness
- Criteria:** To comply with the valuation assertion, classification assertion, the accuracy assertion and the completeness assertion inventory balances should be traced as purchases and usage occur and be recorded in the financial statement accounts. Physical inventory should be taken at year end and the valuation of the physical inventory should be reconciled to the financial statement accounts.
- Condition:** Inventory balances improperly stated and no documentation of underlying assets (repeat finding)

Cause: The City is required to comply with GASB Statement No. 62 regarding a change in accounting principle. The statement requires a government should not change an accounting principle unless the government justifies the use of an alternative acceptable accounting principle on the basis that is preferable. The statement also requires the governing body must approve a change in accounting principle. No evidence of the previous statements was noted in the audit test. The Finance department improperly recorded an adjustment to remove inventory balances and no physical inventory count was prepared at year end.

Effect: The assets were understated and the expenses were overstated in the financial statements.

Questioned Cost: None

Recommendation: Compliance with GASB Statement No. 62 with regard to a change in accounting principle or perform a physical inventory count at year end and reconcile the count and valuation to the financial statement accounts.

Views of responsible officials and planned corrective action: This information is in the attached responses.

2022-005

Type of Finding: Control Deficiency

Criteria: To comply with the existence, cutoff and completeness assertions bank reconciliations should be reviewed and approved by personnel other than the employee preparing the reconciliation.

Condition: Bank reconciliations are not reviewed and approved by anyone. (repeat finding)

Cause: Adopted internal control procedures related to bank reconciliation review and approval were not implemented due to the employee turnover in the Finance department.

Effect: The possibility exists errors or improprieties could be recorded in the accounting system and go undetected.

Questioned Cost: None

Recommendation: Bank reconciliation review and approval should be performed monthly by the City Manager if the reconciliation is prepared by the Finance Director or by the Finance Director if the reconciliation is prepared by Finance department personnel.

Views of responsible officials and planned corrective action: This information is in the attached responses.

2022-006

Type of Finding: Material Weakness

Criteria: To comply with the completeness assertion all assets belonging to the local government be recorded by the local government in the financial statements.

Condition: Assets in the amount of \$84,001 contributed by TxDOT for the Airport Lighting project were not recorded in the financial statement accounts.

Cause: The Finance department failed to perform due diligence to assure the assets contributed by TxDOT were included in the financial statement accounts.

Effect: The assets for the Government Wide Financial Statements were understated and the expenditures for the Airport Fund statements were understated.

Questioned Cost: None

Recommendation: Due diligence should be performed on all projects to assure assets and expenditures contributed by another government are recorded properly.

Views of responsible officials and planned corrective action: This information is in the attached responses.

**CITY OF LLANO, TEXAS
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS/
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2022**

Current Year's Findings/Noncompliance and Corrective Action Plan:

2022-001

Response: Monthly bank reconciliations are completed in a timely manner by the Finance Director and are reviewed by the City Administrator.

2022-002

Response: Staff will review each lease type to ensure they are recorded properly as required by GASB 87.

2022-003

Response: The City has purchased the Incode Fixed Assets module for the accounting of assets and depreciation. This will help staff to properly record capital asset additions and retirements. Part of this finding was due to the paving project that was still recorded as CIP due to the ongoing litigation and the information that was given to staff that the project was not complete. The City budgets the Enterprise Fund on a cash basis with entries made at year end to reclass fixed assets, debt payments and to record depreciation.

2022-004

Response: The City does not currently keep inventory in a manner that is appropriate to be tracked on a monthly basis. The City will present a policy to council to change the way inventory is recorded by having items expensed as they are purchased instead of keeping inventory on the balance sheet.

2022-005

Response: The City Administrator currently reviews and signs the bank reconciliations which are completed and submitted to him by Finance Director.

2022-006

Response: Staff was not aware that TXDOT had already begun paying invoices for the project. The TXDOT grant for the Runway Lights will be checked weekly to record any payments that have been made by TXDOT. This is grant money we do not receive, it is held/paid out by TXDOT with no actual funds going through the City's bank accounts.

Prior Year Findings/Noncompliance and Status:

All prior year findings with the exception of the current year findings noted as repeat findings were corrected.



NEFFENDORF & BLOCKER, P.C.

March 24, 2023

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Llano, Texas for the year ended September 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 27, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Llano, Texas are described in Note 1 to the financial statements. GASB Statement No. 87 *Leases* was required to be adopted and implemented. The City failed to implement the Statement and audit adjustments were necessary for the adoption and implementation. The application of existing policies was not changed during the year ended September 30, 2022. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management: (1) recording capital assets contributed by TxDOT in the Airport fund in the amount of \$84,001 (2) reversing the journal entry to re-record the inventory in the Enterprise Fund in the amount of \$230,631 (3) reversing the journal entry to re-record the inventory in the General Fund and the Airport fund in the amount of \$24,975

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Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 24, 2023.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

Very truly yours,



Neffendorf & Blocker, P.C.

NEFFENDORF & BLOCKER, P.C.

Fredericksburg, Texas