

LLANO COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2016



SINGLETON, CLARK
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

LLANO COUNTY, TEXAS
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 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Honorable County Judge, Members of the Commissioners Court and Citizens of
Llano County, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Llano County, Texas (the "County") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County as of September 30, 2016, and the respective changes in financial position and, the respective budgetary comparisons of the General Fund, Road & Bridge Fund and the Debt Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis section (preceding the basic financial statements), the pension related schedules (following the notes to the financial statements) and the budgetary schedules be presented to supplement the basic financials. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

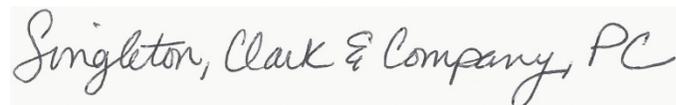
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund financial statements and supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual 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 January 20, 2017 on our consideration of the County'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.



Singleton, Clark & Company, P.C.
Cedar Park, Texas

January 20, 2017

LLANO COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

As management of Llano County, Texas (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended September 30, 2016. Please read it in conjunction with the independent auditor's report on page 1 and the County's basic financial statements which follow this section.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$14,720,497 (net position). Of this amount, \$5,289,096 represents unrestricted net position, which may be used to meet the County's ongoing obligations to citizens and creditors. The County's total net position decreased by \$237,605 as a result of current year activities.
- At the close of the current fiscal year, the County's governmental funds reported combined fund balances of \$6,807,898, a decrease of \$327,264 in comparison with the prior year. Approximately 35% of this amount or \$2,325,760 is available for spending at the County's discretion (unassigned fund balance).
- At the end of the current fiscal year, unrestricted fund balance (the total of the assigned and unassigned components of fund balance) for the General Fund was \$4,825,760, or approximately 50% of total General Fund current year expenditures before transfers.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

The *statement of net position* presents financial information on all of the County's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial health of the County is improving or deteriorating.

The *statement of activities* presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

LLANO COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, judicial, highways and streets, public facilities, health and welfare, culture and recreation, and conservation and development. The county does not have any business-type activities.

The government-wide financial statements can be found on pages 11-12 of this report.

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

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

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

The County maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Capital Projects Fund, and the Debt Service Fund, which are considered to be major funds. Data from the other eight governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The County adopts an annual appropriated budget for its General Fund, Road & Bridge Fund and the Debt Service Fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 13-18 of this report.

LLANO COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Proprietary Funds. The County has the option of maintaining two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County does not currently utilize an enterprise fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among a County's functions. Because the services provided by internal service funds predominantly benefit governmental rather than business-type functions, they are usually included within *governmental activities* in the government-wide financial statements. The County is not currently utilizing an internal service fund.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds *are* not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The County maintains two different types of fiduciary funds. The *private-purpose trust fund* is used to report resources held in trust for Llano County School Land. The *agency fund* reports resources held by the County in a custodial capacity for individuals, private organizations and other governments.

The fiduciary fund financial statements can be found on pages 21-22 of this report.

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

The notes to the financial statements can be found on pages 23-45 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the County's participation in a pension program for its employees. Required supplementary information can be found on page 46-47 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions.

Combining and individual fund statements and schedules can be found on pages 48-51 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial health. In the case of the County, assets exceeded liabilities by \$14,720,497 at the close of the most recent fiscal year.

LLANO COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Llano County, Texas's Net Position

	Governmental Activities 2016	Governmental Activities 2015	Change
Current & other assets	\$ 8,707,149	\$ 8,365,559	\$ 341,590
Capital assets	8,650,190	9,029,850	(379,660)
Deferred outflows	1,696,718	527,385	1,169,333
Total assets	19,054,057	17,922,794	1,131,263
Current liabilities	1,197,204	501,795	695,409
Long-term liabilities	2,941,811	2,326,635	615,176
Deferred inflows	194,545	94,289	100,256
Total liabilities	4,333,560	2,922,719	1,410,841
Net Position			
Net investment in capital assets	7,419,559	7,346,482	73,077
Restricted	2,011,842	2,629,158	(617,316)
Unrestricted	5,289,096	5,024,435	264,661
Total net position	\$ 14,720,497	\$ 15,000,075	\$ (279,578)

By far, the largest portion of the County's net position approximately 50% reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The County uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net position approximately 15% represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$5,289,096 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors. At the end of the current fiscal year, the County is able to report positive balances in all reported categories of net position, both for the County as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The County's overall net position did decrease by \$237,605 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. During the current fiscal year, net position for governmental activities decreased by \$237,605 from the prior fiscal year for an ending balance of \$14,720,497. The decrease in the overall net position of governmental activities is primarily the result of spending in the County's Limited Access Fund and Debt Service Fund.

LLANO COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Llano County, Texas's Changes in Net Position

	Governmental Activities 2016	Governmental Activities 2015	Change
Revenues:			
Program Revenues:			
Charges for services	\$ 2,047,219	\$ 1,947,407	\$ 99,812
Operating grants & contributions	30,256	171,244	(140,988)
General Revenues:			
Property taxes	11,131,211	11,012,139	119,072
Other taxes	341,613	206,246	135,367
Other	416,985	530,288	(113,303)
Total revenue	<u>13,967,284</u>	<u>13,867,324</u>	<u>99,960</u>
Expenses:			
General government	4,948,714	4,148,856	799,858
Public safety	4,006,479	3,817,964	188,515
Judicial	1,354,677	1,382,110	(27,433)
Highways and streets	2,139,581	2,055,080	84,501
Public facilities	788,839	876,964	(88,125)
Health and welfare	84,413	54,764	29,649
Culture and recreation	509,455	501,618	7,837
Conservation and development	328,400	253,983	74,417
Interest on long-term debt	44,331	60,735	(16,404)
Total expenses	<u>14,204,889</u>	<u>13,152,074</u>	<u>1,052,815</u>
Increase (decrease) in net position	<u>(237,605)</u>	<u>715,250</u>	<u>(952,855)</u>
Net position - beginning	<u>14,958,102</u>	<u>14,461,687</u>	<u>496,415</u>
Prior period adjustment	-	(176,856)	176,856
Net position - ending	<u>\$ 14,720,497</u>	<u>\$ 15,000,081</u>	<u>\$ (279,584)</u>

Financial Analysis of Governmental Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a County's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the County itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Commissioners Court.

LLANO COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

At September 30, 2016, the County's governmental funds reported combined fund balances of \$6,807,898, a decrease of \$327,264 in comparison with the prior year. Approximately 35% of this amount, or \$2,325,760; constitutes *unassigned fund balance*, which is available for spending at the County's discretion. The remainder of the fund balance is either *nonspendable, restricted, committed, or assigned* to indicate that it is 1) not in spendable form (\$0), 2) legally required to be maintained intact (\$0), 3) restricted for particular purposes (\$1,867,345), 4) committed for particular purposes (\$0), or 5) assigned for particular purposes (\$2,500,00).

The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,325,760. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. Unassigned general fund balance represents approximately 25% of total General Fund expenditures.

The fund balance of the County's General Fund did increase by \$298,578 during the current fiscal year. The increase was due primarily to conservative spending and positive budget variances for the year.

The Road & Bridge Fund, a major governmental fund, had an \$86,990 increase in fund balance during the current fiscal year which put the overall fund balance at the amount of \$757,905. The increase in fund balance relates to the positive budget variance related to expenditures for the year.

The Limited Access Fund, a major governmental fund, had a decrease in fund balance during the current year of \$498,978 to bring the year end fund balance to \$608,302. The increase was attributable to an increase in spending in the current year

General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was no need for any significant amendments to increase either the original estimated revenues or original budgeted appropriations. However, there was a need to make an amendment to reallocate appropriations among departments when it became clearer which departments would actually be charged for certain employee benefits such as pensions and other postemployment benefits. Generally, the movement of the appropriations between departments was *not* significant.

LLANO COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Capital Assets and Debt Administration

Capital assets. The County's investment in capital assets for its governmental as of September 30, 2016, amounts to \$8,650,190 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, and vehicles. Additional information on the County's capital assets can be found in Note IV.D on page 34 of this report.

	Governmental Activities 2016	Governmental Activities 2015	Change
Land	\$ 162,378	\$ 162,378	\$ -
Buildings	14,344,609	14,222,338	122,271
Furniture and Equipment	7,902,447	7,506,663	395,784
Total	<u>22,409,434</u>	<u>21,891,379</u>	<u>518,055</u>
Less Accumulated Depreciation	<u>(13,759,244)</u>	<u>(12,861,529)</u>	<u>(897,715)</u>
Capital assets, net of depreciation	<u>\$ 8,650,190</u>	<u>\$ 9,029,850</u>	<u>\$ (379,660)</u>

Long-term Debt. At the end of the current fiscal year, the County had total bonded debt outstanding of \$420,000. The remainder of the County long-term obligations comprises compensated absences, capital leases and net pension liability.

Llano County, Texas's Outstanding Debt

	Governmental Activities 2016	Governmental Activities 2015	Change
Tax Notes	420,000	825,000	(405,000)
Capital Leases Payable	810,631	858,368	(47,737)
Compensated Absences	264,901	239,474	25,427
Net Pension Liability	1,446,279	403,793	1,042,486
Total	<u>\$ 2,941,811</u>	<u>\$ 2,326,635</u>	<u>\$ 615,176</u>

The County's total debt increased overall by \$615,176 during the current fiscal year. The reason for the increase relates to an increase in the County's net pension liability as of year end. Additional information on the County's long-term debt can be found in Note IV.I on pages 42-43 of this report.

LLANO COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

Economic Factors and Next Year's Budgets and Rates

The adopted budget for fiscal year 2016-2017 for the County's General Fund is \$11.4 million which is an approximately \$600 thousand increase from the fiscal year 2015-2016 General Fund adopted budget. The combined tax rate for fiscal year 2016-2017 is \$.30459.

Requests for Information

This financial report is designed to provide a general overview of the County finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Auditor's Office, 1447 E. State Highway 71, Suite B, Llano, Texas 78643 or by calling (325) 247-3783.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

	Primary Government Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 2,613,185
Investments	5,219,689
Taxes receivable - delinquent	207,154
Allowance for uncollectible taxes	(51,788)
Accounts receivable, net	689,596
Intergovernmental receivable	29,313
Capital assets, not being depreciated:	
Land	162,378
Capital assets, being depreciated:	
Buildings and improvements	14,344,609
Furniture and equipment	7,902,447
Accumulated depreciation	(13,759,244)
Total assets	17,357,339
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension	1,696,718
Total Deferred Outflows of Resources	1,696,718
LIABILITIES	
Accounts payable	688,285
Accrued liabilities	152,883
Intergovernmental payable	144,180
Accrued interest payable	22,871
Unearned revenue	47,582
Other current liabilities	141,403
Noncurrent liabilities:	
Net pension liability	1,446,279
Due within one year	469,527
Due in more than one year	1,026,005
Total liabilities	4,139,015
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension	194,545
Total Deferred Inflows of Resources	194,545
NET POSITION	
Net investment in capital assets	7,419,559
Restricted for debt service	124,007
Restricted for capital projects	778,395
Restricted for specific purposes	1,109,440
Unrestricted	5,289,096
Total net position	\$ 14,720,497

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

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

Functions/Programs:	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Primary Governmental Activities
Primary Government:				
Governmental activities:				
General government	\$ 4,948,714	\$ 872,925	\$ 23,679	\$ (4,052,110)
Public safety	4,006,479	427,909	6,577	(3,571,993)
Judicial	1,354,677	89,228	-	(1,265,449)
Highway and streets	2,139,581	648,399	-	(1,491,182)
Public facilities	788,839	-	-	(788,839)
Health and welfare	84,413	-	-	(84,413)
Culture and recreation	509,455	8,758	-	(500,697)
Conservation and development	328,400	-	-	(328,400)
Interest	44,331	-	-	(44,331)
Total governmental activities:	<u>\$ 14,204,889</u>	<u>\$ 2,047,219</u>	<u>\$ 30,256</u>	<u>(12,127,414)</u>
General Revenues:				
				11,131,211
Property taxes				341,613
General and selective use taxes				85,332
Contributions and donations from private sources				43,883
Investment earnings				30,598
Gain on sale of capital assets				257,172
Miscellaneous				<u>11,889,809</u>
Total general revenues				
Change in net position				(237,605)
Net position -- beginning				14,958,102
Net position-- ending				<u>\$ 14,720,497</u>

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

FUND BASIS FINANCIAL STATEMENTS

LLANO COUNTY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	General Fund	Road & Bridge Fund	Lited Access Fund
ASSETS			
Cash and cash equivalents	\$ 1,015,474	\$ 124,958	\$ 849,033
Investments	4,266,976	878,076	-
Taxes receivable - delinquent	167,548	27,320	-
Allowance for uncollectible delinquent taxes	(41,887)	(6,830)	-
Accounts receivable	98,733	4,766	15,169
Intergovernmental receivable	-	29,313	-
Due from other funds	-	-	52,510
Total sssets	<u>\$ 5,506,844</u>	<u>\$ 1,057,603</u>	<u>\$ 916,712</u>
LIABILITIES			
Accounts payable	\$ 217,330	\$ 126,325	\$ 308,410
Accrued liabilities	-	152,883	-
Intergovernmental payable	144,180	-	-
Due to other funds	52,510	-	-
Unearned revenue	-	-	-
Other current liabilities	141,403	-	-
Total liabilities	<u>555,423</u>	<u>279,208</u>	<u>308,410</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue- property tax	125,661	20,490	-
Total deferred inflows of resources	<u>125,661</u>	<u>20,490</u>	<u>-</u>
FUND BALANCES (DEFICITS)			
Restricted for:			
Debt service	-	-	-
Capital projects	-	757,905	-
Specific purposes	-	-	608,302
Assigned:			
Stabilization funds	2,500,000	-	-
Unassigned	2,325,760	-	-
Total fund balances	<u>4,825,760</u>	<u>757,905</u>	<u>608,302</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 5,506,844</u>	<u>\$ 1,057,603</u>	<u>\$ 916,712</u>

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

Total Nonmajor Funds		Total Governmental Funds	
\$	623,720	\$	2,613,185
	74,637		5,219,689
	12,286		207,154
	(3,071)		(51,788)
	1,377		120,045
	-		29,313
	-		52,510
<u>\$</u>	<u>708,949</u>	<u>\$</u>	<u>8,190,108</u>
\$	36,222	\$	688,287
	-		152,883
	-		144,180
	-		52,510
	47,582		47,582
	-		141,403
<u></u>	<u>83,804</u>	<u></u>	<u>1,226,845</u>
	9,214		155,365
<u></u>	<u>9,214</u>	<u></u>	<u>155,365</u>
	114,793		114,793
	-		757,905
	501,138		1,109,440
	-		2,500,000
	-		2,325,760
<u></u>	<u>615,931</u>	<u></u>	<u>6,807,898</u>
<u>\$</u>	<u>708,949</u>	<u>\$</u>	<u>8,190,108</u>

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

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

Total fund balances - governmental funds	\$ 6,807,898
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,650,190
The net effect of various transactions related to the net pension liability is to increase net position.	55,896
Other long-term assets, such as uncollected property taxes, are not available to pay for and, therefore, are reported as unavailable revenue in the funds.	724,916
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(1,518,403)
Net position of governmental activities	\$ 14,720,497

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

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

	General Fund	Road & Bridge Fund	Limited Access Fund
REVENUES			
Property taxes	\$ 9,149,079	\$ 1,614,831	\$ -
Mixed beverage tax	109,674	-	-
Selective sales and use taxes	-	45,001	-
Penalties and interest on taxes	72,564	12,450	-
Licenses and permits	69,026	579,373	-
Intergovernmental revenues	77,867	78,263	183,509
Charges for services	694,490	760	84,198
Fines	282,056	-	-
Investment earnings	36,204	6,260	-
Contributions and donations, private sources	-	2,000	15,126
Miscellaneous revenue	161,947	5,056	34,432
Total revenues	10,652,907	2,343,994	317,265
EXPENDITURES			
Current:			
General government	3,728,956	-	868,753
Public safety	3,722,385	-	-
Judicial	1,249,720	-	-
Highways and streets	-	1,987,743	-
Public facilities	732,818	-	-
Health and welfare	-	-	-
Culture and recreation	-	-	-
Conservation and development	135,547	-	-
Debt service:			
Bond principal	47,737	-	-
Interest and fees	32,131	-	-
Capital outlay	324,299	295,134	-
Total expenditures	9,973,593	2,282,877	868,753
Excess (deficiency) of rev. over expenditures	679,314	61,117	(551,488)
OTHER FINANCING SOURCES (USES)			
Transfers in	4,854	-	52,510
Transfers out	(444,266)	-	-
Sale of general capital assets	4,725	25,873	-
Insurance recoveries	53,951	-	-
Total other financing sources (uses)	(380,736)	25,873	52,510
Net change in fund balance	298,578	86,990	(498,978)
Fund balance - beginning	4,527,182	670,915	1,107,280
Fund balance - ending	\$ 4,825,760	\$ 757,905	\$ 608,302

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

Total Nonmajor Funds	Total Governmental Funds
\$ 267,685	\$ 11,031,595
-	109,674
186,938	231,939
2,984	87,998
-	648,399
9,781	349,420
18,152	797,600
-	282,056
1,419	43,883
68,206	85,332
1,786	203,221
<u>556,951</u>	<u>13,871,117</u>
-	4,597,709
-	3,722,385
8,860	1,258,580
-	1,987,743
-	732,818
78,418	78,418
473,275	473,275
169,531	305,078
405,000	452,737
15,998	48,129
6,625	626,058
<u>1,157,707</u>	<u>14,282,930</u>
<u>(600,756)</u>	<u>(411,813)</u>
391,756	449,120
(4,854)	(449,120)
-	30,598
-	53,951
<u>386,902</u>	<u>84,549</u>
<u>(213,854)</u>	<u>(327,264)</u>
829,785	7,135,162
<u>\$ 615,931</u>	<u>\$ 6,807,898</u>

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

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

Net change in fund balances - total governmental funds	\$ (327,264)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	(379,660)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	11,618
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	431,108
The net effect of various transactions related to the net pension liability is to increase the change in net position.	26,593
Change in net position- governmental activities	<hr style="border: 0.5px solid black;"/> <u>\$ (237,605)</u>

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

LLANO COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 8,970,829	\$ 8,970,829	\$ 9,149,079	\$ 178,250
Mixed beverage tax	109,674	109,674	109,674	-
Licenses and permits	66,874	66,874	69,026	2,152
Intergovernmental revenues	133,739	133,739	77,867	(55,872)
Charges for services	631,282	631,282	694,490	63,208
Fines	245,297	245,297	282,056	36,759
Investment earnings	8,682	8,682	36,204	27,522
Miscellaneous revenue	46,874	142,891	161,947	19,056
Total revenues	<u>10,213,251</u>	<u>10,309,268</u>	<u>10,652,907</u>	<u>343,639</u>
EXPENDITURES				
Current:				
General government	4,168,416	4,170,202	3,728,956	441,246
Public safety	3,983,461	4,009,182	3,722,385	286,797
Judicial	1,274,131	1,300,671	1,249,720	50,951
Public facilities	842,793	842,793	732,818	109,975
Conservation and development	147,601	147,601	135,547	12,054
Debt service:				
Bond principal	47,737	47,737	47,737	-
Interest - bonds	32,188	32,188	32,131	57
Capital outlay	305,749	380,081	324,299	55,782
Total expenditures	<u>10,802,076</u>	<u>10,930,455</u>	<u>9,973,593</u>	<u>956,862</u>
Excess (deficiency) of revenues over expenditures	<u>(588,825)</u>	<u>(621,187)</u>	<u>679,314</u>	<u>1,300,501</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	11,610	4,854	(6,756)
Transfers out	(387,625)	(445,528)	(444,266)	1,262
Sale of general capital assets	90,000	90,000	4,725	(85,275)
Insurance recoveries	-	-	53,951	53,951
Total other financing sources (uses)	<u>(297,625)</u>	<u>(343,918)</u>	<u>(380,736)</u>	<u>(36,818)</u>
Net change in fnd balances	(886,450)	(965,105)	298,578	1,263,683
Fund balance - beginning	4,527,182	4,527,182	4,527,182	-
Fund balance - ending	<u>\$ 3,640,732</u>	<u>\$ 3,562,077</u>	<u>\$ 4,825,760</u>	<u>\$ 1,263,683</u>

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

LLANO COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – ROAD AND BRIDGE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 1,626,495	\$ 1,626,495	\$ 1,614,831	\$ (11,664)
Selective sales and use taxes	-	-	45,001	45,001
Licenses and permits	633,371	633,371	579,373	(53,998)
Intergovernmental revenues	42,319	42,319	78,263	35,944
Charges for services	150	150	760	610
Investment earnings	650	650	6,260	5,610
Contributions and donations, private sources	-	-	2,000	2,000
Miscellaneous revenue	27,034	27,034	5,056	(21,978)
Total revenues	<u>2,342,469</u>	<u>2,342,469</u>	<u>2,343,994</u>	<u>1,525</u>
EXPENDITURES				
Current:				
Highway and streets	2,159,059	2,076,472	1,987,743	88,729
Capital outlay	192,000	295,600	295,134	466
Total expenditures	<u>2,351,059</u>	<u>2,372,072</u>	<u>2,282,877</u>	<u>89,195</u>
Excess (deficiency) of revenues over expenditures	<u>(8,590)</u>	<u>(29,603)</u>	<u>61,117</u>	<u>90,720</u>
OTHER FINANCING SOURCES (USES)				
Sale of general capital assets	30,000	30,000	25,873	(4,127)
Total other financing sources (uses)	<u>30,000</u>	<u>30,000</u>	<u>25,873</u>	<u>(4,127)</u>
Net change in fund balances	21,410	397	86,990	86,593
Fund balance - beginning	670,915	670,915	670,915	-
Fund balance - ending	<u>\$ 692,325</u>	<u>\$ 671,312</u>	<u>\$ 757,905</u>	<u>\$ 86,593</u>

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

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

	Trust Fund	
	Llano County School Land	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 189,403	\$ 710,748
Investments	52,763	-
Total assets	242,166	710,748
LIABILITIES		
Due to Others	-	710,748
Total liabilities	-	\$ 710,748
NET POSITION		
Net position held in trust	\$ 242,166	

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

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

	Trust Fund
	Llano County School Land
ADDITIONS	
Contributions:	
Rents and royalties	\$ 139,543
Total contributions	139,543
Investment earnings:	
Interest	707
Total investment earnings	707
Less investment expense	
Net investment earnings	707
Total additions	140,250
DEDUCTIONS	
Other operating expenses	21,528
Refunds of contributions	215,066
Total deductions	236,594
Change in net position	(96,344)
Net position - beginning	338,510
Net position - ending	\$ 242,166

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

NOTES TO THE FINANCIAL STATEMENTS

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

I. Summary of significant accounting policies

A. Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting entity

Llano County, Texas (the “County”) is a public corporation governed by an elected county judge and four-member governing court (the “Court”). The accompanying financial statements present the County and its component units, entities for which the County is considered to be financially accountable. Blended component units are, in substance, part of the primary government’s operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County. Based on these criteria, no component units have been included within the financial statements of Llano County.

C. Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the County’s enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of presentation – fund financial statements

The fund financial statements provide information about the County’s funds, including its fiduciary funds and blended component units. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The County reports the following major governmental funds:

The General Fund is the County’s primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

The Road & Bridge Fund is the County's special revenue fund that is used to account for resources used by the County in connection with providing transportation services to its citizens. This fund met the criteria to be considered a major fund this year.

The Limited Access Fund is the County's special revenue fund that is used to account for the fees collected from defendants in cases that the uses are restricted. This fund met the criteria to be considered a major fund this year.

Additionally, the County reports the following fund types:

Special revenue funds account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted or committed to expenditures for specified purposes.

The Capital Projects Fund accounts for the acquisition and construction of the County's major capital facilities.

The Debt Service Fund is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The private-purpose Trust Fund accounts for contributions that both the principal and the income maybe used for specific non-County related purposes in a private purpose trust fund.

The Agency Funds account for employee payroll tax withholdings, towing and storing charges for impounded vehicles collected on behalf of private vendors (i.e., towing companies), good faith deposits for the use of the County's entertainment facilities, and utility charges collected by the County on behalf of other governments.

During the course of operations the County has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds or advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

The government-wide financial statements are reported using 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 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.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the County.

Agency funds have no measurement focus but utilize the *accrual basis of accounting* for reporting its assets and liabilities.

F. Budgetary information

1. Budgetary basis of accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, road and bridge fund, and debt service fund. Other special revenue funds and the permanent fund do not have appropriated budgets since other means control the use of these resources (e.g., grant awards and endowment requirements) and sometimes span a period of more than one fiscal year.

The appropriated budget is prepared by fund and department. The County's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Commissioners Court. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

2. Excess of expenditures over appropriations

For the year ended September 30, 2016 no budgetary overages were noted.

G. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. Cash and cash equivalents

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Investments for the County are reported at fair value (generally based on quoted market prices) except for positions in Local Government Investment Pools (TexPool and Logic) when applicable. In accordance with state law, these investment pools operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pools qualify as 2a7-like pools and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. The pools are subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

3. Inventories and prepaid items

The County does not report inventories of supplies for consumable items due to the unused amount of these items being on hand any given time being deemed immaterial. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one year.

As the County constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

LLANO COUNTY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Buildings	10-20
Machinery and equipment	3-15
Vehicles	7

5. *Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The County currently does not have any financial transactions that qualify for reporting in this category. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The County currently has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. *Net position flow assumption*

Sometimes the County will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the County’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

7. Fund balance flow assumptions

Sometimes the County will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the County's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

8. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The County itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the County's highest level of decision-making authority. Commissioners Court is the highest level of decision-making authority for the County that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. Amounts in the assigned fund balance classification are intended to be used by the County for specific purposes but do not meet the criteria to be classified as committed. The court has by resolution authorized the County Judge to assign fund balance. The Commissioners Court may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

H. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

2. Property taxes

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The County levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll of January 1, 2015, upon which the levy for the 2015-2016 fiscal year was based, was \$3,515,890,804. Taxes are delinquent if not paid by February 1st of the following calendar year. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended September 30, 2016, to finance General Fund, Road & Bridge Fund, and Debt Service Fund operations were \$0.2611, \$0.0475 and \$0.0076, respectively, for a total tax rate of \$0.31619 per \$100 valuation. The total tax levy for the General Fund, Road & Bridge Fund, and Debt Service Fund for the 2015-2016 fiscal year was \$11,068,429. Tax collections, including collections of prior year delinquent balances, for the year ended September 30, 2016, were approximately 99% of the year end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates for the year of the levy. Allowances for uncollectible taxes within the General, Road & Bridge and Debt Service Funds are based on historical experience in collecting taxes.

3. Compensated absences

Vacation

The County's policy permits employees to accumulate earned, but unused, vacation benefits which are eligible for payment upon separation from County service. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

Sick Leave

The County's policy permits employees to accumulate sick leave which is eligible for payment upon separation from County service (subject to the following: maximum of 120 hours of sick leave provided a minimum of 10 years of employee service to the County). The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

4. Pensions

For purposes of measuring the net pension liability, the economic resources measurement focus and full accrual basis of accounting have been used. This includes deferred inflows and outflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deductions from the net position of the pension plan. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. Items shown in summary form on that reconciliation are provided in detail below.

One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of this amount are as follows:

Detail of Capital Asset Reconciling Items:

Capital assets not being depreciated:	
Land	\$ 162,378
Capital assets, being depreciated	
Buildings and improvements	14,344,609
Machinery, equipment, and vehicles	7,902,447
Accumulated depreciation	(13,759,244)
	(13,759,244)
<i>Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities</i>	<u><u>\$ 8,650,190</u></u>

Another element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this amount are as follows:

Detail of Long-Term Debt Reconciling Items:

Bonds payable	\$ 420,000
Capital leases	810,631
Compensated absences	264,901
Accrued interest payable	22,871
	22,871
<i>Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities</i>	<u><u>\$ 1,518,403</u></u>

Another element of that reconciliation explains that “other long-term assets, such as uncollected property taxes and court fines that are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.” The details of this amount are as follows:

Other Summarized Items:

Property Taxes	\$ 155,365
Court fines	569,551
	569,551
<i>Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities</i>	<u><u>\$ 724,916</u></u>

LLANO COUNTY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. Items shown in summary form on that reconciliation are provided in detail below.

One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.” The details of this amount are as follows:

Detail of Capital Outlay and Depreciation Expense Items:

Capital outlay	\$ 626,058
Depreciation expense	(1,005,718)
	(379,660)
<i>Net adjustment to increase net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities</i>	<u>\$ (379,660)</u>

Another element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this amount are as follows:

Detail of Long-Term Debt Revenue/Expense Items:

Principal repayments:	
General obligation debt	\$ 452,737
Payment to escrow agent for refunding	
	(25,427)
Change in compensated absences	3,798
Change in accrued interest on long-term debt	(3,798)
	431,108
<i>Net adjustment to increase changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities</i>	<u>\$ 431,108</u>

III. Stewardship, compliance and accountability

A. Violations of legal or contractual provisions

For the year ended September 30, 2016, there were no violations.

B. Deficit fund equity

For the year ended September 30, 2016, there were no funds reported with deficit fund equity.

LLANO COUNTY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds

A. Cash deposits with financial institutions

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the County’s deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of September 30, 2016, the County’s bank balance was \$6,045,698 was covered by the Federal Deposit Insurance Corporation (FDIC) and pledged securities.

B. Investments

The state treasurer’s investment pool (the “Pool”) operates in accordance with state law, which requires it to meet all of the requirements of Rule 2a-7 of the Securities and Exchange Commission. See note I.G.2, *Investments*, for a discussion of how the shares in the Pool are valued. Local government investment pools in this rating category meet the highest standards for credit quality, conservative investment policies, and safety of principal. The Pool invests in a high quality portfolio of debt securities investments legally permissible for municipalities and school districts in the state. The County utilizes a pooled investment concept for all its funds to maximize its investment program. Investment income from this internal pooling is allocated to the respective funds based upon the sources of funds invested. State statutes authorize the County to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the state treasurer’s investment pool.

As of September 30, 2016, the County had the following investments:

Investment Type	Maturity Time in Years				Recording Fund
	Less than 1	1-5	6-10	More Than 10	
Certificates of Deposit	\$ 2,672,686	\$ -	\$ -	\$ -	General Fund
TexPool Investment Pool	1,350,695	-	-	-	General Fund, Road & Bridges Fund, Debt Service Fund.
Logic Investment Pool	1,249,071	-	-	-	Hotel Occupancy Fund, General Fund, Road & Bridges Fund, Lateral Road Fund, Debt Service Fund, School Land Trust Fund.
Total Investments	<u><u>\$ 5,272,452</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

Interest rate risk. In accordance with its investment policy, the County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than ten months.

Credit risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the County's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of September 30, 2016, the County's investment in TexPool Investment Pool and Logic Investment Pool were rated AAAM by Standard & Poor's.

Concentration of credit risk. The County's investment policy does not allow for an investment in any one issuer that is in excess of 5 percent of the County's total investments. This restriction however does not apply to government investment pools due to the low risk nature of this type of investment.

Custodial credit risk-investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

C. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is a detail of receivables for the major and nonmajor funds of both the governmental and proprietary funds of the County, including the applicable allowances for uncollectible accounts:

Governmental Funds:

Receivables	General Fund	Road & Bridge Fund	Limited Access Fund	Nonmajor Governmental Funds	Total Governmental Funds
Property taxes	\$ 167,548	\$ 27,320	\$ -	\$ 12,286	\$ 207,154
Accounts receivable	98,733	4,766	15,169	1,377	120,045
Intergovernmental receivable	-	29,313	-	-	29,313
Gross receivables	266,281	61,399	15,169	13,663	356,512
Less: Allowance for uncollectibles	(41,887)	(6,830)	-	(3,071)	(51,788)
Net receivables	\$ 224,394	\$ 54,569	\$ 15,169	\$ 10,592	\$ 304,724

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

D. Capital Assets

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

Governmental Activities:

	Balance 10/1/15	Increases	Decreases	Adjustments	Balance 9/30/16
Capital assets, not being depreciated:					
Land	\$ 162,378	\$ -		\$ -	\$ 162,378
Construction-in-progress			-		-
Total capital assets, not being depreciated	162,378	-	-	-	162,378
Capital assets, being depreciated:					
Buildings and improvements	14,222,338	122,271	-		14,344,609
Furniture and equipment	7,506,663	503,787	(108,003)	-	7,902,447
Total capital assets, being depreciated	21,729,001	626,058	(108,003)	-	22,247,056
Less accumulated depreciation for:					
Buildings and improvements	(6,796,198)	(606,003)	-	-	(7,402,201)
Furniture and equipment	(6,065,331)	(399,715)	108,003	-	(6,357,043)
Total accumulated depreciation	(12,861,529)	(1,005,718)	108,003	-	(13,759,244)
Total capital assets being depreciated, net	8,867,472	(379,660)	-	-	8,487,812
Governmental activities capital assets, net	\$ 9,029,850	\$ (379,660)	\$ -	\$ -	\$ 8,650,190

Depreciation expense was charged to the functions/programs of the governmental activities of the primary government as follows:

Governmental activities:

General government	\$ 351,473
Public safety	284,560
Judicial	96,213
Highways and streets	151,954
Public facilities	56,021
Health and welfare	5,995
Culture and recreation	36,180
Conservation and development	23,322
Total depreciation expense - governmental activities	<u>\$ 1,005,718</u>

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

E. Pension Obligations

Texas County & District Retirement System (TCDRS)

Plan Description

The County provides pension, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit plan in the state-wide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for administration of the statewide agent multiple-employer public employee retirement system consisting of 677 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis.

This CAFR is available online at <https://www.tcdrs.org/TCDRS%20Publications/2015CAFR.pdf>.

The plan provisions are adopted by the governing body of the County, within the options available in the Texas state statutes governing TCDRS. Members can retire at age 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amount contributed by their employer.

Benefits Provided

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

LLANO COUNTY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

E. Pension Obligations (continued)

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	116
Inactive employees entitled to but not yet receiving benefits	123
Active employees	155
	394
	394

Funding Policy

As an agent, multiple-employer plan, each participating employer in TCDRS funds its plan independently. A combination of three elements funds each employer’s plan as described below.

1. Employee Deposits

The governing body of the employers has the option of adopting a deposit rate in the plan for employees of 4%, 5%, 6%, or 7% of compensation. Llano County had an adopted deposit rate for employees of 7% in effect for the years ended September 30, 2015 and 2016.

2. Employer Contributions

Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer’s plan. Employer contribution rates are determined annually and approved by the TCDRS Board of Trustees. Llano County had required employer deposit rates in effect for the years ended September 30, 2016 and 2015 of 9.08% and 9.10%, respectively.

3. Investment Income

Income on invested employee and employer contributions funds a large part of the benefits that employees earn.

Pursuant to state law, employers participating in the system must pay 100% of their actuarially determined required contributions on an annual basis.

Net Pension Liability

The County’s Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

LLANO COUNTY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

E. Pension Obligations (continued)

Actuarial assumptions

The TPL in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Assumptions

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age Normal
Amortization Method	
Recognition of economic/demographic gains or losses	Straight-Line amortization over Expected Working Life
Recognition of assumptions changes or inputs	Straight-Line amortization over Expected Working Life
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	3.0%
Salary Increases	3.5%
Investment Rate of Return	8.10%
Cost-of-Living Adjustments	Cost-of-Living Adjustments for Llano County are not considered to be substantively automatic under GASB-68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Llano County specific table
Turnover	Llano County specific table
Mortality	Llano County specific table

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

E. Pension Obligations (continued)

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 are summarized in the following table:

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	14.5%	5.45%
Private Equity	14.0%	8.45%
Global Equities	1.5%	5.75%
International Equities-Developed	10.0%	5.45%
International Equities-Emerging	8.0%	6.45%
Investment-Grade Bonds	3.0%	1.00%
High-Yield Bonds	3.0%	5.10%
Opportunistic Credit	2.0%	5.09%
Direct Lending	5.0%	6.40%
Distressed Debt	3.0%	8.10%
REIT Equities	3.0%	4.00%
Master Limited Partnerships (MLPs)	3.0%	6.80%
Private Real Estate Partnerships	5.0%	6.90%
Hedge Funds	25.0%	5.25%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 8.1%. 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.

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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

The following presents the net pension liability of the County, calculated using the discount rate of 8.1%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-point higher (9.1%) than the current rate:

	1% Decrease in Discount Rate (7.1%)	Discount Rate (8.1%)	1% Increase in Discount Rate (9.1%)
Net pension liability (asset)	\$ 3,673,100	\$ 1,446,279	\$ (426,855)

Pension Plan Fiduciary Net Position

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

A detail of the changes in the Net Pension Liability/(Asset) of the County is as follows:

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a)-(b)
Balances as of December 31, 2014	\$ 18,376,580	\$ 17,972,787	\$ 403,793
Changes for the year:			
Service cost	630,281		630,281
Interest on total pension liability	1,477,841		1,477,841
Effect of plan changes	(73,061)		(73,061)
Effect of economic/demographic gains/losses	(221,100)		(221,100)
Effect of assumptions changes or inputs	217,696		217,696
Refund of contributions	(143,662)	(143,662)	-
Benefit payments	(899,739)	(899,739)	-
Administrative expenses		(12,905)	12,905
Member contributions		370,013	(370,013)
Net investment income		122,838	(122,838)
Employer contributions		481,016	(481,016)
Other	-	28,210	(28,210)
Balances as of December 31, 2015	<u>\$ 19,364,836</u>	<u>\$ 17,918,560</u>	<u>\$ 1,446,279</u>

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

For the year ended September 30, 2016, the County recognized pension expense of \$448,153.

LLANO COUNTY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

E. Pension Obligations (continued)

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

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 194,545	\$ -
Changes of assumptions	-	145,130
Net difference between projected and actual investment earnings	-	1,192,839
Contributions subsequent to the measurement date	-	358,749
Total	\$ 194,545	\$ 1,696,718

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

Year Ended December 31,	Pension Expense Amount
2016	\$ 260,078
2017	307,223
2018	308,358
2019	267,766
2020	-
Thereafter	-

F. Accrued liabilities

Accrued liabilities reported by governmental and proprietary funds at September 30, 2016, were as follows:

Governmental Funds:

	General Fund	Road & Bridge Fund	Limited Access Fund	Nonmajor Governmental Funds	Total Governmental Funds
Accounts payable	\$ 217,330	\$ 126,325	\$ 308,410	\$ 36,222	\$ 688,287
Accrued liabilities	-	152,883	-	-	152,883
Intergovernmental payable	144,180	-	-	-	144,180
Other current liabilities	141,403	-	-	-	141,403
Total accrued liabilities	\$ 502,913	\$ 279,208	\$ 308,410	\$ 36,222	\$ 1,126,753

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

G. Risk management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. To reduce its risk exposure in these areas the County is a member of the Texas Association of Counties Risk Pool (the "Risk Pool") for liability, property, and workers' compensation. The Risk Pool is a public entity risk pool and was created based on the general objectives of formulation, developing and administering a program of self-insurance for the membership and obtaining lower costs for coverage. The Risk Pool has the power to establish fees, contributions and methods for establishing rates. Under contract with the Risk Pool, the Association provides for such services as claims administration and management, underwriting, loss control services and training, and financial reporting as its members.

The Pool is governed by a Board of Directors made up of employees or officials of counties, which are members of the Pool. Member counties make contributions to the Pool, and the Pool provides insurance coverage and applicable reinsurance or stop loss coverage. The insurance policies carry various deductibles and aggregate maximum loss totals. The by-laws of the Pool are detailed in a separate document, which can be obtained from the Texas Association of Counties, 1210 San Antonio Street, Austin 78701. The County's workers' compensation claim expense for the year ended September 30, 2016 was \$81,881.

Health Insurance

During the year ended September 30, 2016, employees of Llano County, Texas were covered by a health insurance plan (the Plan) through the Texas Association of Counties. The County paid premiums of \$706 per month per employee for health insurance. In addition, the County paid \$22 for dental and \$2 for life insurance premiums per month per employee. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The total cost to the County for employee health insurance during the year ended September 30, 2016 was \$1,121,598.

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

H. Lease obligations

1. Capital lease

The County has a Capital lease for financing the acquisition of HVAC equipment. The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2016 were as follows:

Year Ending September 30,	Governmental Activities
2017	79,925
2018	79,925
2019	79,925
2020	79,925
2021	79,925
2022-2026	399,624
2027-2029	239,775
Total minimum lease payments	1,039,024
Less: amount representing interest	(228,393)
Present value of minimum lease payments	\$ 810,631

I. Long-Term Liabilities

The County issued \$1,000,000 in Texas Tax Notes, Series 2010, during the year ended September 30, 2011 to finance the construction of a new Precinct #2 annex building. Principal is due on the notes serially each February 1st through fiscal year 2017. Interest on the notes is due semi-annually each February 1st and August 1st at 2.57%.

Details of long-term debt obligations outstanding at September 30, 2016 are as follows:

Governmental Activities:

Type	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/16
Bonds Payable					
Tax Notes, Series 2010	2010	1,000,000	2.57	2017	420,000
Total Bonds Payable					\$ 420,000

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

Changes in long-term liabilities

Changes in the County's long-term liabilities for the year ended September 30, 2016 are as follows:

Description	Balance 10/1/15	Additions	Deletions	Balance 9/30/16	Due in One Year
Bonds Payable					
Tax Notes	\$ 825,000	\$ -	\$ (405,000)	\$ 420,000	\$ 420,000
Total bonds payable	825,000	-	(405,000)	420,000	420,000
Capital leases	858,368	-	(47,737)	810,631	49,527
Compensated absences	239,474	25,427	-	264,901	-
Net Pension Liability	403,793	1,042,486	-	1,446,279	-
Governmental activities long-term liabilities	<u>\$2,326,635</u>	<u>\$1,067,913</u>	<u>\$ (452,737)</u>	<u>\$2,941,811</u>	<u>\$ 469,527</u>

Accumulated unpaid annual leave is not accrued in governmental funds using the modified accrual basis of accounting, but are reflected in the government-wide Statement of Net Position. At September 30, 2016, accrued employee benefits recorded as long-term liability were for annual vacation pay, holiday pay, and comp. pay and amounted to \$239,474.

The debt service requirements for the County's bonds and notes are as follows:

Year Ended September 30,	Governmental Activities Bonds Payable	
	Principal	Interest
2017	420,000	5,397
Totals	<u>\$ 420,000</u>	<u>\$ 5,397</u>

LLANO COUNTY, TEXAS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

J. Fund balance

Minimum fund balance policy. It is the policy of this County to maintain at all times an overall Unrestricted Fund Balance (Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance) of not less than three months of regular General Fund operating expenditures, measured based on the most recently completed fiscal year. If it is determined that the County is below this minimum established fund balance level, the governing body will be informed of this condition and take necessary budgetary steps to bring the fund balance level into compliance with this policy through budgetary actions.

K. Interfund receivables and payables

The composition of interfund balances as of September 30, 2016 is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Limited Access Fund	52,510
Total		\$ 52,510

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. These amounts also include balances of working capital loans made to several nonmajor governmental funds which the general fund expects to collect in the subsequent year.

L. Interfund transfers

The composition of interfund transfers for the year ended September 30, 2016 is as follows:

	Transfer in to:			Total
	Governmental Funds			
	General Fund	Limited Access fund	Nonmajor gov. funds	
Transfer out from:				
General fund	\$ -	\$ 52,510	\$ 391,756	\$ 444,266
Nonmajor prop. Funds	4,854			4,854
Total	\$ 4,854	\$ 52,510	\$ 391,756	\$ 449,120

During the year, recurring transfers are used to 1) move revenues from a fund with collection authority to another fund with related expenditure requirements, and 2) move general fund resources to provide subsidies to other funds as needs arise.

LLANO COUNTY, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

IV. Detailed notes on all activities and funds (continued)

M. Contingencies

The County participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the County's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County anticipates such amounts, if any, will be immaterial.

N. Subsequent events

The County has evaluated subsequent events through January 20, 2017, the date of the audit report. The County is not aware of any subsequent events that materially affect the financial statements as of that date.

REQUIRED SUPPLEMENTARY INFORMATION

LLANO COUNTY, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 628,372	\$ 630,281
Interest on total pension liability	1,397,673	1,477,841
Effect of plan changes	-	(73,061)
Effect of assumption changes or inputs	-	217,696
Effect of economic/demographic (gains) or losses	(141,434)	(221,100)
Benefit payments/refunds of contributions	(892,978)	(1,043,401)
Net change in total pension liability	<u>991,633</u>	<u>988,256</u>
Total pension liability, beginning	<u>17,384,947</u>	<u>18,376,580</u>
Total pension liability, ending (a)	<u>\$ 18,376,580</u>	<u>\$ 19,364,836</u>
Fiduciary Net Position		
Employer contributions	\$ 446,428	\$ 481,016
Member contributions	357,552	370,013
Investment income net of investment expenses	1,179,023	122,838
Benefit payments/refunds of contributions	(892,978)	(1,043,401)
Administrative expenses	(13,462)	(12,905)
Other	(96,701)	28,210
Net change in fiduciary net position	<u>979,862</u>	<u>(54,230)</u>
Fiduciary net position, beginning	<u>16,992,923</u>	<u>17,972,787</u>
Fiduciary net position, ending (b)	<u>\$ 17,972,787</u>	<u>\$ 17,918,557</u>
Net pension liability / (asset), ending = (a) - (b)	<u>\$ 403,793</u>	<u>\$ 1,446,279</u>
Fiduciary net position as a % of total pension liability	97.80%	92.53%
Pension covered payroll	\$ 5,107,891	\$ 5,285,900
Net pension liability as a % of covered payroll	7.91%	27.36%

LLANO COUNTY, TEXAS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

<u>Year Ending December 31,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Employer Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2006	\$ 280,456	\$ 280,456	\$ -	\$ 3,815,722	7.4%
2007	322,126	322,126	-	4,272,230	7.5%
2008	323,391	323,391	-	4,580,607	7.1%
2009	350,613	350,613	-	4,856,131	7.2%
2010	416,718	416,718	-	5,235,155	8.0%
2011	442,563	442,563	-	5,637,738	7.9%
2012	455,776	455,776	-	5,640,812	8.1%
2013	448,574	448,574	-	5,411,034	8.3%
2014	446,428	446,428	-	5,107,891	8.7%
2015	481,016	481,016	-	5,285,900	9.1%

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenue sources that are restricted, committed, or assigned to expenditures for particular purposes.

Hotel Occupancy Fund- to account for the hotel tax revenue used to promote tourism.

LCSO Seizure Fund- to account for the LCSO activities.

Library Fund- to account for the fees collected for the operations of the library.

Law Library- to account for the fees collected pursuant to Local Government Code 323.023 for the operations of the law library.

Indigent Health Fund- to account for the revenue and expenditures of indigent services.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

Capital Projects Funds

The Capital Projects Fund is used to account for the acquisition and construction of the County's major capital facilities.

LLANO COUNTY, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Special Revenue Funds		
	Hotel		
	Occupancy Fund	LCSO Seizure Fund	Library Fund
ASSETS			
Cash and cash equivalents	\$ 108,060	\$ 16,782	\$ 55,151
Investments	67,086	-	-
Taxes receivable - delinquent	-	-	-
Allowance for uncollectible taxes	-	-	-
Accounts receivable	-	-	363
Total assets and Deferred Outflows	<u>\$ 175,146</u>	<u>\$ 16,782</u>	<u>\$ 55,514</u>
LIABILITIES			
Accounts payable	\$ 4,970	\$ -	\$ 7,932
Unearned revenue	-	-	47,582
Total liabilities	<u>4,970</u>	<u>-</u>	<u>55,514</u>
DEF. INFLOWS OF RESOURCES			
Unavailable revenue- property tax	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES (DEFICITS)			
Restricted for:			
Debt service	-	-	-
Specific purposes	170,176	16,782	-
Total fund balances	<u>170,176</u>	<u>16,782</u>	<u>-</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 175,146</u>	<u>\$ 16,782</u>	<u>\$ 55,514</u>

Special Revenue Funds		Debt Service Fund	Capital Projects Fund	Total Non-Major Governmental Funds
Indigent Health Fund	Law Library	Debt Service Fund	Capital Projects Fund	
\$ 333,032	\$ 3,662	\$ 107,033	\$ -	\$ 623,720
-	-	7,551	-	74,637
-	-	12,286	-	12,286
-	-	(3,071)	-	(3,071)
-	806	208	-	1,377
<u>\$ 333,032</u>	<u>\$ 4,468</u>	<u>\$ 124,007</u>	<u>\$ -</u>	<u>\$ 708,949</u>
\$ 22,631	\$ 689	\$ -	\$ -	\$ 36,222
-	-	-	-	47,582
<u>22,631</u>	<u>689</u>	<u>-</u>	<u>-</u>	<u>83,804</u>
-	-	9,214	-	9,214
-	-	9,214	-	9,214
-	-	114,793	-	114,793
310,401	3,779	-	-	501,138
<u>310,401</u>	<u>3,779</u>	<u>114,793</u>	<u>-</u>	<u>615,931</u>
<u>\$ 333,032</u>	<u>\$ 4,468</u>	<u>\$ 124,007</u>	<u>\$ -</u>	<u>\$ 708,949</u>

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

	Special Revenue Funds		
	Hotel		
	Occupancy Fund	LCSO Seizure Fund	Library Fund
REVENUES			
Property taxes	\$ -	\$ -	\$ -
Selective sales and use taxes	186,938	-	-
Penalties and interest on taxes	-	-	-
Intergovernmental revenues	-	-	-
Charges for services	-	-	18,152
Investment earnings	806	-	-
Contributions from private sources	-	-	68,206
Miscellaneous revenue	-	-	1,786
Total revenues	187,744	-	88,144
EXPENDITURES			
Judicial	-	-	-
Health and welfare	-	-	-
Culture and recreation	-	-	473,275
Conservation and development	169,531	-	-
Debt service:			
Bond principal	-	-	-
Interest and fees	-	-	-
Capital outlay	-	-	6,625
Total expenditures	169,531	-	479,900
Excess (deficiency) of revenues over expenditures	18,213	-	(391,756)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	391,756
Transfers out	-	-	-
Total other financing sources (uses)	-	-	391,756
Net change in fund balance	18,213	-	-
Fund balance - beginning	151,963	16,782	-
Fund balance - ending	\$ 170,176	\$ 16,782	\$ -

Special Revenue Funds		Debt Service Fund	Capital Projects Fund	Non-Major Governmental Funds	
Indigent Health Fund	Law Library	Debt Service Fund	Capital Projects Fund		
\$ -	\$ -	\$ 267,685	\$ -	\$ 267,685	
-	-	-	-	186,938	
-	-	2,984	-	2,984	
-	9,781	-	-	9,781	
-	-	-	-	18,152	
-	-	604	9	1,419	
-	-	-	-	68,206	
-	-	-	-	1,786	
-	9,781	271,273	9	556,951	
-	8,860	-	-	8,860	
78,418	-	-	-	78,418	
-	-	-	-	473,275	
-	-	-	-	169,531	
-	-	405,000	-	405,000	
-	-	15,998	-	15,998	
-	-	-	-	6,625	
78,418	8,860	420,998	-	1,157,707	
(78,418)	921	(149,725)	9	(600,756)	
-	-	-	-	391,756	
-	-	-	(4,854)	(4,854)	
-	-	-	(4,854)	386,902	
(78,418)	921	(149,725)	(4,845)	(213,854)	
388,819	2,858	264,518	4,845	829,785	
\$ 310,401	\$ 3,779	\$ 114,793	\$ -	\$ 615,931	

LLANO COUNTY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 263,636	\$ 263,636	\$ 267,685	\$ 4,049
Penalties and interest on taxes	-	-	2,984	2,984
Investment earnings	60	60	606	546
Total revenues	<u>263,696</u>	<u>263,696</u>	<u>271,275</u>	<u>7,579</u>
EXPENDITURES				
Debt service:				
Bond principal	406,503	406,503	405,000	1,503
Interest and fees	15,996	15,996	15,996	-
Total expenditures	<u>422,499</u>	<u>422,499</u>	<u>420,996</u>	<u>1,503</u>
Net change in fund balances	(158,803)	(158,803)	(149,721)	9,082
Fund balance - beginning	<u>264,518</u>	<u>264,518</u>	<u>264,518</u>	<u>-</u>
Fund balance - ending	<u>\$ 105,715</u>	<u>\$ 105,715</u>	<u>\$ 114,797</u>	<u>\$ 9,082</u>

OTHER SUPPLEMENTARY INFORMATION SECTION



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 County Judge, Members of the Commissioners Court and Citizens of
Llano County, Texas:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Llano County, Texas (the "County"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 20, 2017.

Internal Control Over Financial Reporting

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

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 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. A *significant deficiency* is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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.

A handwritten signature in cursive script that reads "Singleton, Clark & Company, PC". The signature is written in black ink on a light gray rectangular background.

Singleton, Clark & Company, PC.
Cedar Park, Texas

January 20, 2017

LLANO COUNTY, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Under the guidelines of the federal Uniform Guidance, a Single Audit was not required for the year ended September 30, 2016 due to expenditures of federal awards being less than \$750,000.

SECTION II – FINANCIAL STATEMENT FINDINGS

Findings Related to Financial Statements Which are Required to be Reported in Accordance with Government Auditing Standards:

No findings or questioned costs required to be reported in accordance with *Government Auditing Standards* for the years ended September 30, 2016 and 2015.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Findings Related to Federal Awards Which are Required to be Reported in Accordance with federal Uniform Guidance:

Not applicable.