

LLANO COUNTY MUNICIPAL
UTILITY DISTRICT #1

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2011

Singleton, Clark & Company, PC
Certified Public Accountants

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ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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CERTIFIED PUBLIC ACCOUNTANTS

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UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED
SUPPLEMENTARY INFORMATION AND OTHER SUPPLEMENTARY INFORMATION

Independent Auditors' Report

Board of Directors
Llano County Municipal Utility District #1
2900 Blue Lake Drive
Horseshoe Bay, Texas 78657

Members of the Board of Directors:

We have audited the accompanying financial statements of the governmental activities, the proprietary activities, each major fund, and the aggregate remaining fund information of Llano County Municipal Utility District #1, (the "District") as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

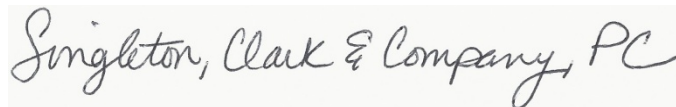
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the proprietary activities, each major fund, and the aggregate remaining fund information of Llano County Municipal Utility District #1, as of September 30, 2011 and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3-8 of this report is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The budgetary comparison information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information was subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2012 on our consideration of the District's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Llano County Municipal Utility District #1's basic financial statements. The Texas Supplementary Information on pages 30-36 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we express no opinion on it.

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

Singleton, Clark & Company, PC
Cedar Park, Texas

January 25, 2012

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

This discussion and analysis of the financial performance of Llano County Municipal Utility District #1 (the "District") is intended to provide an overview and analysis of the District's financial activities for the fiscal year ended September 30, 2011. It should be read in conjunction with the accompanying financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis section serves as an introduction to the District's basic financial statements. The basic financial statements are made up of the following components:

- The Statement of Net Assets and the Statement of Activities. These statements are considered *government-wide* financial statements and present the District on the full-accrual basis of accounting which is the accounting method used by traditional businesses.
- The Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance. These statements are known as the *fund basis statements* and present the District with the modified-accrual basis of accounting which is the standard governmental accounting method.
- The notes to the financial statements provide additional information that is essential to a full understanding of the data presented in the financial statements discussed above.

FINANCIAL HIGHLIGHTS

- For the year ended September 30, 2011, the fund balance of the General Fund experienced a decrease of \$43,827 to end at \$116,374.
- Total governmental-type funds (the General Fund, the Debt Service Fund, and the Streets & Lights Fund) of the District reported a combined fund balance decrease of \$282,794, to end at \$267,096. This decrease was primarily due to the road improvements made within the district during the year.
- The total cost of Llano County Municipal Utility District #1's governmental activities was \$238,826. This amount is inclusive of depreciation expense recorded on the capital assets of the District.

FINANCIAL ANALYSIS OF THE WATER DISTRICT AS A WHOLE

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

In accordance with full-accrual accounting, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as revenues received from water and wastewater services, and revenues derived from property tax levies. All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Our analysis here focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental and proprietary (business-type) activities.

Table I
Llano County Municipal Utility District #1

Net Assets - Governmental Activities			
	Governmental Activities 2011	Governmental Activities 2010	Change
ASSETS			
Current and other assets	\$ 312,254	\$ 556,112	\$ (243,858)
Capital assets	620,644	218,975	401,669
Total assets	<u>\$ 932,898</u>	<u>\$ 775,087</u>	<u>\$ 157,811</u>
LIABILITIES			
Current liabilities	\$ 46,519	\$ 7,612	\$ 38,907
Noncurrent liabilities	173,000	175,000	(2,000)
Total liabilities	<u>219,519</u>	<u>182,612</u>	<u>36,907</u>
NET ASSETS			
Invested in capital assets, net of related debt	447,644	43,975	403,669
Restricted	150,722	389,688	(238,966)
Unrestricted	115,013	158,812	(43,799)
Total net assets	<u>\$ 713,379</u>	<u>\$ 592,475</u>	<u>\$ 120,904</u>

Net Assets - Proprietary Activities			
	Business-Type Activities 2011	Business-Type Activities 2010	Change
ASSETS			
Current and other assets	\$ 447,418	\$ 529,167	\$ (81,749)
Capital assets	1,854,831	1,888,279	(33,448)
Total assets	<u>\$ 2,302,249</u>	<u>\$ 2,417,446</u>	<u>\$ (115,197)</u>
LIABILITIES			
Current liabilities	\$ 47,518	\$ 23,196	\$ 24,322
Noncurrent liabilities	828,000	845,000	(17,000)
Total liabilities	<u>875,518</u>	<u>868,196</u>	<u>7,322</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,026,831	1,043,279	(16,448)
Restricted	58,000	-	58,000
Unrestricted	341,900	505,971	(164,071)
Total net assets	<u>\$ 1,426,731</u>	<u>\$ 1,549,250</u>	<u>\$ (122,519)</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Table II
Llano County Municipal Utility District #1
Statement of Activities - Governmental Activities

	Governmental Activities 2011	Governmental Activities 2010	Change
REVENUES:			
General revenues:			
Property taxes	\$ 322,282	\$ 302,427	\$ 19,855
Other taxes & penalties and interest	19,262	20,624	(1,362)
Investment earnings	2,693	1,936	757
Miscellaneous revenue	15,493	8,555	6,938
Total revenue	359,730	333,542	26,188
EXPENSES:			
Financial administration	195,024	170,846	24,178
Highways and streets	34,928	18,357	16,571
Bond interest	8,238	8,367	(129)
Fiscal agent's fees	636	636	-
Total expenses	238,826	198,206	40,620
Change in net assets	120,904	135,336	(14,432)
Net assets at 10/1/10 and 10/1/09	592,475	457,139	135,336
Net assets at 9/30/11 and 9/30/10	\$ 713,379	\$ 592,475	\$ 120,904

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Table II, (continued)
Llano County Municipal Utility District #1
Statement of Activities - Business-Type Activities

	Business-Type Activities 2011	Business-Type Activities 2010	Change
REVENUES:			
Program revenues:			
Charges for services	\$ 459,720	\$ 399,243	\$ 60,477
General revenues:			
Miscellaneous revenue	20	340	(320)
Investment earnings	2,126	3,077	(951)
Total revenue	<u>461,866</u>	<u>402,660</u>	<u>59,206</u>
EXPENSES:			
Administrative expense allocated	51,099	51,960	(861)
Depreciation	81,870	81,870	-
Water and garbage	108,875	113,765	(4,890)
Sewer	230,247	220,812	9,435
Interest	41,825	42,649	(824)
Other operating expenses	70,469	51,947	18,522
Total expenses	<u>584,385</u>	<u>563,003</u>	<u>21,382</u>
Change in net assets	(122,519)	(160,343)	37,824
Net assets at 10/1/10 and 10/1/09	<u>1,549,250</u>	<u>1,709,593</u>	<u>(160,343)</u>
Net assets at 9/30/11 and 9/30/10	<u><u>\$ 1,426,731</u></u>	<u><u>\$ 1,549,250</u></u>	<u><u>\$ (122,519)</u></u>

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS

The District maintains three governmental funds. The General Fund is the main operating fund of the District. The General Fund is presented in columnar format in the fund basis financial statements section of this report. Unlike the government-wide financial statements, the governmental funds utilize the modified-accrual basis of accounting. The modified accrual basis focuses on near-term inflow and outflow of unrestricted resources, as well as on balances of unrestricted resources available at the end of the fiscal year. For the year ended September 30, 2011, the fund balance of the General Fund decreased by \$43,827 from the prior year's fund balance to end at \$116,374.

The Streets & Lights Fund experienced a fund balance decrease of \$240,234 to end at \$119,741. This decrease was primarily the result of a road improvements project during the year. The Debt Service Fund experienced a fund balance increase of \$1,267 over the prior year to end at \$30,981.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

BUDGETARY HIGHLIGHTS

The District adopts an annual appropriated budget for the General Fund, Debt Service Fund, Streets & Lights Fund, as well as the Utility Funds. A budgetary comparison statement for all these funds is included in the required supplementary section of this report.

ANALYSIS OF CHANGES IN CAPITAL ASSETS

At September 30, 2011, the District had \$2,471,039, net of depreciation, invested in capital assets. A summary of capital asset activity is as follows:

Llano County Municipal Utility District #1			
Summary of Capital Assets			
	Governmental Activities 2011	Governmental Activities 2010	Change
Land	\$ 10,000	\$ 10,000	\$ -
Buildings and improvements	104,901	104,901	-
Machinery and equipment	9,179	9,179	-
Roads	610,887	185,147	425,740
Totals at historical cost	734,967	309,227	425,740
Less accumulated depreciation	(114,322)	(90,252)	(24,070)
Capital assets, net of depreciation	\$ 620,645	\$ 218,975	\$ 401,670
	Business-Type Activities 2011	Business-Type Activities 2010	Change
Land	\$ 16,330	\$ 16,330	\$ -
Water system	972,328	972,328	-
Sewer system	2,189,608	2,189,608	-
Construction in progress	43,985	-	43,985
Totals at historical cost	3,222,251	3,178,266	43,985
Less accumulated depreciation	(1,371,857)	(1,289,987)	(81,870)
Capital assets, net of depreciation	\$ 1,850,394	\$ 1,888,279	\$ (37,885)

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

LONG-TERM DEBT

At year end, the District's governmental and business-type activities had combined outstanding long-term debt of approximately \$1,001,000. A summary of long-term debt activity and ending balances is presented below.

Table IV
Llano County Municipal Utility District #1
Summary of Long-Term Debt

	Governmental Activities 2011	Governmental Activities 2010	Change
Water System Improvement Bond, Series 2000	\$ 173,000	\$ 175,000	\$ (2,000)
Totals	<u>\$ 173,000</u>	<u>\$ 175,000</u>	<u>\$ (2,000)</u>
	Business-Type Activities 2011	Business-Type Activities 2010	Change
Water System Improvement Bond, Series 1996	\$ 828,000	\$ 845,000	\$ (17,000)
Totals	<u>\$ 828,000</u>	<u>\$ 845,000</u>	<u>\$ (17,000)</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District has adopted budgets for the governmental funds totaling \$350,129 and budgets for the utility funds totaling \$507,053 for the 2011-2012 fiscal year. The District has adopted a total tax rate of \$.2950 per \$100 valuation for the 2011-2012 fiscal year to help fund these budgets.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers, residents, customers, and interested parties with a general overview of the District's finances and to show the District's accountability for the money it receives and disburses. If you have questions about this report or need additional financial information, please contact the District's General Manager at (830) 598-5460 or visit the Municipal Utility District office located at 2900 Blue Lake Drive, Horseshoe Bay, Texas 78657.

GOVERNMENT-WIDE STATEMENTS

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 220,070	\$ 125,645	\$ 345,715
Investments - Current	92,184	198,904	291,088
Receivables (net of allowance for uncollectibles)	-	38,485	38,485
Prepaid Items	-	84,384	84,384
Capital Assets:			
Land	10,000	6,044	16,044
Infrastructure, net	541,469	-	541,469
Buildings, net	69,175	-	69,175
Improvements other than Buildings	-	1,798,878	1,798,878
Machinery and Equipment, net	-	1,487	1,487
Construction in Progress	-	48,422	48,422
Total Assets	<u>\$ 932,898</u>	<u>\$ 2,302,249</u>	<u>\$ 3,235,147</u>
LIABILITIES			
Accounts Payable	\$ 40,607	\$ 39,404	\$ 80,011
Accrued Interest Payable	1,362	7,076	8,438
Other Current Liabilities	4,550	1,038	5,588
Non Current Liabilities:			
Due Within One Year	2,000	18,000	20,000
Due in More Than One Year	171,000	810,000	981,000
Total Liabilities	<u>219,519</u>	<u>875,518</u>	<u>1,095,037</u>
NET ASSETS			
Invested in Capital Assets (Net of Related Debt)	447,644	1,026,831	1,474,475
Restricted for:			
Restricted for Streets & Lights	119,741	-	119,741
Restricted for Debt Service	30,981	58,000	88,981
Unrestricted Net Assets	115,013	341,900	456,913
Total Net Assets	<u>\$ 713,379</u>	<u>\$ 1,426,731</u>	<u>\$ 2,140,110</u>

The notes to the Financial Statements are an integral part of this statement.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
STATEMENT OF ACTIVITIES
SEPTEMBER 30, 2011

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
			Primary Government		
	Expenses	Charges for Services	Govt Activities	Business-type Activities	Total
Primary Government					
GOVERNMENTAL ACTIVITIES:					
Financial Administration	\$ 195,024	\$ -	\$ (195,024)	\$ -	\$ (195,024)
Highways and Streets	34,928	-	(34,928)	-	(34,928)
Bond Interest	8,238	-	(8,238)	-	(8,238)
Fiscal Agent's Fees	636	-	(636)	-	(636)
Total Governmental Activities	238,826	-	(238,826)	-	(238,826)
BUSINESS-TYPE ACTIVITIES:					
Revenue Fund	352,695	260,998	-	(91,697)	(91,697)
Operating Fund	231,690	198,722	-	(32,968)	(32,968)
Total Business-Type Activities	584,385	459,720	-	(124,665)	(124,665)
TOTAL PRIMARY GOVERNMENT:	<u>\$ 823,211</u>	<u>\$ 459,720</u>	<u>(238,826)</u>	<u>(124,665)</u>	<u>(363,491)</u>
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes			322,282	-	322,282
Property Taxes, Levied for Debt Service			18,064	-	18,064
Penalty and Interest			1,198	-	1,198
Miscellaneous Revenues			15,492	20	15,512
Investment Earnings			2,693	2,126	4,819
Total General Revenues			359,729	2,146	361,875
Change in Net Assets			120,903	(122,519)	(1,616)
Net Assets - Beginning			592,476	1,549,250	2,141,726
Net Assets - Ending			<u>\$ 713,379</u>	<u>\$1,426,731</u>	<u>\$2,140,110</u>

The notes to the Financial Statements are an integral part of this statement.

FUND BASIS STATEMENTS

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General Fund	Streets & Lights Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 59,801	\$ 148,036	\$ 12,233	\$ 220,070
Investments - Current	58,342	15,094	18,748	92,184
Total Assets	<u>\$ 118,143</u>	<u>\$ 163,130</u>	<u>\$ 30,981</u>	<u>\$ 312,254</u>
LIABILITIES & FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	\$ 38,839	\$ -	\$ 38,839
Wages and Salaries Payable	1,769	-	-	1,769
Other Current Liabilities	-	4,550	-	4,550
Total Liabilities	<u>1,769</u>	<u>43,389</u>	<u>-</u>	<u>45,158</u>
Fund Balances:				
Restricted For:				
Debt Service	-	-	30,981	30,981
Streets & Lights	-	119,741	-	119,741
Unassigned Fund Balance	116,374	-	-	116,374
Total Fund Balances	<u>116,374</u>	<u>119,741</u>	<u>30,981</u>	<u>267,096</u>
Total Liabilities & Fund Balances	<u>\$ 118,143</u>	<u>\$ 163,130</u>	<u>\$ 30,981</u>	<u>\$ 312,254</u>

The notes to the Financial Statements are an integral part of this statement.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

Total Fund Balances - Governmental Funds	\$	267,096
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The net effect of recording the beginning of the year value of \$309,227 for capital assets and \$90,252 for accumulated depreciation to the Statement of Net Assets was an increase in net assets.		218,975
Capital outlay transactions are expenditures in governmental funds but are capitalized as assets on the Statement of Net Assets. The net effect of capitalizing current expenditures for capital outlays during the year was an increase in net assets.		425,740
Since capital assets are not reported in governmental funds, related depreciation expense is also not reported. The net effect of recording depreciation expense to the Statement of Net Assets is a decrease in net assets.		(24,071)
Long-term debt issued by governmental activities is not a current financial liability and therefore not reported in governmental funds. The net effect of recording the beginning of the year value for all long-term debt outstanding is a decrease in net assets.		(175,000)
Long-term debt payments are expenditures in the governmental funds but are treated as reductions of long-term debt on the Statement of Net Assets. The net effect of reducing long-term debt is an increase in net assets.		2,000
Other miscellaneous differences in accounting treatments between the governmental funds and the Statement of Net Assets or Statement of Activities resulted in an increase (decrease) in net assets.		(1,361)
Net Assets of Governmental Activities	\$	713,379

The notes to the Financial Statements are an integral part of this statement.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Streets & Lights Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
Taxes:				
Property Taxes	\$ 202,652	\$ 119,630	\$ 18,064	\$ 340,346
Penalty & Interest on Taxes	-	-	1,198	1,198
Licenses and Permits	-	8,000	-	8,000
Investment Earnings	197	2,441	54	2,692
Other Revenue	7,492	-	-	7,492
Total Revenues	<u>210,341</u>	<u>130,071</u>	<u>19,316</u>	<u>359,728</u>
EXPENDITURES				
Current:				
General Government:				
Financial Administration	184,168	-	7,148	191,316
Highways and Streets	-	440,305	-	440,305
Debt Service:				
Bond Principal	-	-	2,000	2,000
Bond Interest	-	-	8,265	8,265
Fiscal Agent's Fees	-	-	636	636
Total Expenditures	<u>184,168</u>	<u>440,305</u>	<u>18,049</u>	<u>642,522</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>26,173</u>	<u>(310,234)</u>	<u>1,267</u>	<u>(282,794)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	70,000	-	70,000
Transfers Out	(70,000)	-	-	(70,000)
Total Other Financing Sources (Uses)	<u>(70,000)</u>	<u>70,000</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(43,827)	(240,234)	1,267	(282,794)
Fund Balance-Oct 1(Beginning)	160,201	359,975	29,714	549,890
Fund Balance-Sept 30 (Ending)	<u>\$ 116,374</u>	<u>\$ 119,741</u>	<u>\$ 30,981</u>	<u>\$ 267,096</u>

The notes to the Financial Statements are an integral part of this statement.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

Total Net Change in Fund Balances - Governmental Funds	\$ (282,794)
Capital outlay transactions are expenditures in governmental funds but are capitalized as assets on the Statement of Net Assets. The net effect of capitalizing current expenditures for capital outlays during the year was an increase in the change in net assets.	425,740
Since capital assets are not reported in governmental funds, related depreciation expense is also not reported. The net effect of recording depreciation expense to the Statement of Net Assets is a decrease in the change in net assets.	(24,071)
Long-term debt payments are expenditures in the governmental funds but are treated as reductions of long-term debt on the Statement of Net Assets. The net effect of reducing long-term debt is an increase in the change in net assets.	2,000
Other miscellaneous differences in accounting treatments between the governmental funds and the Statement of Net Assets or Statement of Activities resulted in an increase (decrease) in the change in net assets.	28
Change in Net Assets of Governmental Activities	\$ 120,903

The notes to the Financial Statements are an integral part of this statement.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	Business-Type Activities - Enterprise Funds		
	Revenue Fund	Operating Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 115,595	\$ 10,050	\$ 125,645
Investments - Current	120,320	78,584	198,904
Accounts Receivable - Net of Uncollectible Allowance	23,089	15,396	38,485
Due from Other Funds	-	18,990	18,990
Prepaid Items	84,354	30	84,384
Total Current Assets	<u>343,358</u>	<u>123,050</u>	<u>466,408</u>
Noncurrent Assets:			
Capital Assets:			
Land Purchase and Improvements	6,044	-	6,044
Improvements other than Buildings	2,198,407	972,328	3,170,735
Machinery and Equipment	1,487	-	1,487
Construction in Progress	-	48,422	48,422
Less Accumulated Depreciation	(821,484)	(550,373)	(1,371,857)
Total Noncurrent Assets	<u>1,384,454</u>	<u>470,377</u>	<u>1,854,831</u>
Total Assets	<u>\$ 1,727,812</u>	<u>\$ 593,427</u>	<u>\$ 2,321,239</u>
LIABILITIES & FUND BALANCES			
Current Liabilities:			
Accounts Payable	\$ 25,786	\$ 13,618	\$ 39,404
Due to Other Funds	18,990	-	18,990
Accrued Interest Payable	7,076	-	7,076
Notes Payable - Current	18,000	-	18,000
Other Current Liabilities	150	888	1,038
Total Current Liabilities	<u>70,002</u>	<u>14,506</u>	<u>84,508</u>
NonCurrent Liabilities:			
Bonds Payable - Noncurrent	810,000	-	810,000
Total Noncurrent Liabilities	<u>810,000</u>	<u>-</u>	<u>810,000</u>
Total Liabilities	<u>880,002</u>	<u>14,506</u>	<u>894,508</u>
NET ASSETS			
Investments in Capital Assets, Net of Debt Restricted for Debt Service	556,454	470,377	1,026,831
Unrestricted Net Assets	58,000	-	58,000
	233,356	108,544	341,900
Total Net Assets	<u>\$ 847,810</u>	<u>\$ 578,921</u>	<u>\$ 1,426,731</u>

The notes to the Financial Statements are an integral part of this statement.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Business-Type Activities - Enterprise Funds		
	Revenue Fund	Operating Fund	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Water Service	\$ -	\$ 146,782	\$ 146,782
Charges for Sewer Service	260,998	-	260,998
Charges for Sanitation Service	-	51,940	51,940
Other Revenue	-	20	20
Total Operating Revenues	<u>260,998</u>	<u>198,742</u>	<u>459,740</u>
OPERATING EXPENSES:			
Administrative Expenses	25,734	25,365	51,099
Regular Maintenance	230,247	108,875	339,122
Other Operating Expenses	186	46,747	46,933
Supplies	-	23,536	23,536
Depreciation	54,703	27,167	81,870
Total Operating Expenses	<u>310,870</u>	<u>231,690</u>	<u>542,560</u>
Operating Income (Loss)	<u>(49,872)</u>	<u>(32,948)</u>	<u>(82,820)</u>
NON-OPERATING REVENUES (EXPENSES):			
Investment Earnings	1,965	161	2,126
Interest Expense - Non-Operating	(41,825)	-	(41,825)
Total Non-Operating Revenue/Expenses	<u>(39,860)</u>	<u>161</u>	<u>(39,699)</u>
Change in Net Assets	(89,732)	(32,787)	(122,519)
Total Net Assets - Oct 1 (Beginning)	<u>937,542</u>	<u>611,708</u>	<u>1,549,250</u>
Total Net Assets - Sept 30 (Ending)	<u>\$ 847,810</u>	<u>\$ 578,921</u>	<u>\$ 1,426,731</u>

The notes to the Financial Statements are an integral part of this statement.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	Revenue Fund	Operating Fund	Total Enterprise Fund
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 257,919	\$ 200,833	\$ 458,752
Cash Received from Other Revenue	-	20	20
Cash Payments to Employees for Services	(25,734)	(25,365)	(51,099)
Cash Payments for Regular Maintenance	(230,247)	(108,875)	(339,122)
Cash Payments for Suppliers	23,202	(22,579)	623
Cash Payments for Other Operating Expenses	10,047	(46,584)	(36,537)
Net Cash Provided by Operating Activities	<u>35,187</u>	<u>(2,550)</u>	<u>32,637</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Purchases of Capital Assets	-	(48,422)	(48,422)
Increase (decrease) in Short-term Loans	(17,000)	-	(17,000)
Interest Payments	(41,825)	-	(41,825)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(58,825)</u>	<u>(48,422)</u>	<u>(107,247)</u>
<u>Cash Flows from Investing Activities:</u>			
Investment Maturities (Purchases)	48,404	49,858	98,262
Interest and Dividends on Investments	1,964	161	2,125
Net Cash Provided by (Used for) Investing Activities	<u>50,368</u>	<u>50,019</u>	<u>100,387</u>
Net Increase in Cash and Cash Equivalents	26,730	(953)	25,777
Cash & Cash Equivalent/Beginning of Year	88,864	11,004	99,868
Cash & Cash Equivalent/End of the Year	<u>\$ 115,594</u>	<u>\$ 10,051</u>	<u>\$ 125,645</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</u>			
Operating Income	\$ (49,872)	\$ (32,948)	\$ (82,820)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	54,703	27,167	81,870
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	(3,079)	2,111	(968)
Decrease (increase) in Prepaid Expenses	10,233	-	10,233
Increase (decrease) in Accounts Payable	23,202	957	24,159
Increase (decrease) in Due to Other Funds	-	-	-
Increase (decrease) in Other Liabilities	-	163	163
Net Cash Provided by Operating Activities	<u>\$ 35,187</u>	<u>\$ (2,550)</u>	<u>\$ 32,637</u>

The notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Llano County Municipal Utility District #1 (the "District") conform to accounting principles generally accepted in the United States of America applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and reporting principles.

A. CREATION OF DISTRICT

The Llano County Fresh Water Supply District #1 was created by an election held on January 9, 1971, and approved by the Commissioners Court of Llano County on February 8, 1971. The water distribution lines were purchased from Blue Lake Properties, Inc., on August 7, 1971. On September 7, 1971, an election was held to authorize the sale of \$150,000 in bonds. Bonds in the amount of \$110,000 were subsequently sold on February 1, 1972 for the purpose of improving the water system.

On October 23, 1979, the Texas Water Commission met and approved a resolution converting the District from a water district into a municipal utility district, called Llano County Municipal Utility District #1. The new district complied with all bond resolutions of the old district, and operated under the provision of Chapter 54 of the Texas Water Code. The remaining bonds at that time scheduled to mature on July 1, 1999 of \$30,000 were redeemed on that date.

B. REPORTING ENTITY

In defining the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP (Generally Accepted Accounting Principles). The basic criterion for including a potential component unit within the reporting entity is the District's ability to exercise oversight responsibility. The criteria for this responsibility are financial interdependency, the selection of the governing board, the designation of management, the ability to significantly influence operations and accountability for fiscal matters, and the existence of special financial relationships, regardless of whether the District is able to exercise oversight responsibilities.

C. BASIS OF PRESENTATION

The basic financial statements consist of a Statement of Net Assets and a Governmental Funds Balance Sheet, and a Statement of Activities and a Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance. The Statement of Net Assets and Statement of Activities report financial information on all activities of the District. Basically, the effect of any inter-fund activity has been eliminated from these financial statements. The governmental funds financial statements present information about the District's funds, with each fund shown in a separate column with a combined governmental funds total.

D. BASIS OF ACCOUNTING

The Statement of Net Assets and the Statement of Activities 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 the related cash flows. Grant revenues are recognized as soon as the eligibility requirements have been met.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

The governmental funds financial statements are reported using the current financial resources measurement and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Revenues are considered to be available when they are collectible in the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty days after year end.

E. CASH AND CASH EQUIVALENTS

The District considers checking accounts, money market accounts, and certificates of deposit to be Cash and Cash Equivalents on the Balance Sheets of the financial statements.

F. PROPERTY TAXES

Property taxes are levied on October 1st on assessed values as of January 1st for all real and personal property located in the District. Property taxes are due by January 31st of the following year and become delinquent on February 1st. A property tax lien attaches to property with unpaid taxes on February 1st.

G. CAPITAL ASSETS

Capital assets, which include property, plant, and equipment, are reported on the Statement of Net Assets as capital assets and on the governmental Statement of Revenues, Expenditures, and Changes in Fund Balance as expenditures in the year purchased. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at fair market value on the date donated. Repairs and maintenance to capital assets that do not extend the estimated useful life of the asset are recorded as expenses.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Capital Assets	Years
Office Buildings and Improvements	20-40
Sewer System Collections and Treatment Plant	40
Water Treatment Plant	40
Office Equipment	5-7
Roads	30

H. PENSION PLAN

The District Employees do not participate in a public retirement system, but are covered by social security. The District elected to have its employees covered under social security pursuant to the requirements of the Omnibus Reconciliation Act of 1990. In addition, effective February 5, 1998 the District established a Deferred Compensation Plan for its employees. Under the terms of the plan, depending on the length of service, the District contributes seven and one half percent (7 ½%) or five percent (5%) of the employees' compensation. Employees' contributions are voluntary up to prescribed limits. District contributions to the plan amounted to \$4,044 in fiscal 2011. There were no other required employee benefit accruals as of September 30, 2011.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

I. BUDGETARY DATA

Budgeted amounts are presented on the modified-accrual basis of accounting. The budget for the year ended September 30, 2011 was adopted by the Board of Directors on September 28, 2010. The budget is presented in the Budgetary Comparison Schedule as part of the basic financial statements. All appropriations lapse at year-end.

J. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management's use of estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

II. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

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

At September 30, 2011, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$636,803 and the bank balance was \$847,346.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchased agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies as of September 30, 2011.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

Investments at September 30, 2011 include the following:

	Reported Amount	Fair Value
Investments		
TexPool	\$ 189,579	\$ 189,579
First State Bank Central Texas - CD	101,508	101,508
Total Investments	\$ 291,088	\$ 291,088

Local government investment pools operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

TexPool is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Governmental Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Texas Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. The Comptroller has contracted with Federated Investors to manage the daily operations of the pool.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the District’s deposits may not be returned to it. The District was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2011 were covered by depository insurance or by pledged collateral held by the District’s agent bank in the District’s name.

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

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, TexPool’s investment policy allows the portfolio’s investment manager to only invest in obligations of the U.S. Government, its agencies, repurchase agreements, and no load AAAM money market mutual funds registered with the SEC. As of September 30, 2011, TexPool’s investments credit quality rating was AAAM (Standard & Poor’s).

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

B. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011 was as follows:

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Depreciation expense was charged to the governmental functions as follows:

<u>Department</u>	<u>Allocated Depreciation Amount</u>
Financial Administration	\$ 3,708
Highways & Streets	20,362
Total	<u>\$ 24,070</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

C. WATER SYSTEM MAINTENANCE, ROAD IMPROVEMENTS AND FIRE SERVICE TAX ASSESSMENTS

On August 11, 1984, the District received authorization to levy a water system maintenance tax not to exceed \$0.20 per \$100 assessed valuation. The maintenance tax levied on the 2010 tax roll (FY2011) was \$0.0734.

In May of 1987 the Texas Legislature passed Senate Bill 746. This bill allows the District to provide for the construction and maintenance of roads. The District may borrow and spend money, issue bonds, bond anticipation notes, tax anticipation notes, and levy and collect maintenance taxes. To date, no related indebtedness had been incurred. The road maintenance tax assessed in the 2010 tax roll (FY2011) was \$0.100.

On October 27, 2010 the Board renewed the contract with the Lake Lyndon B. Johnson Municipal Utility District (LBJ MUD), now the City of Horseshoe Bay, to perform Fire Fighting for the District. The District agreed to assess a \$0.093 cent tax levy per \$100 of assessed valuation and remit this to the City of Horseshoe Bay. The contract was effective for the period November 1, 2010 to October 31, 2011.

D. GENERAL AND PROPRIETARY FUND LONG-TERM DEBT

By election on May 1, 1999, District voters approved the issuance of \$191,000 in Water System Improvement Bond, Series 2000. Under contract with the U.S. Department of Agriculture, Rural Utilities Service (RUS), the bonds were issued to the RUS in increments as required for construction payments. Construction costs in excess of \$191,000 were funded by a grant of \$100,000 from R.U.S. Interest accrues from the date of issue at the rate of 4.75% per annum. The bonds and interest thereon are payable by an ad valorem tax assessed for this purpose. At September 30, 2006, bonds in the amount of \$191,000 had been issued, and will mature in increments from February 1, 2001 to February 1, 2040. The completed cost of the water system improvements, together with the original cost of the Water System, is being accounted from in the Proprietary Utility Fund – Operating.

As of September 30, 2011, the debt service requirements through maturity on the governmental activities bonds outstanding is as follows:

Year Ended September 30,	Governmental Activities		
	Bonds Payable		
	Principal	Interest	Total
2012	\$ 2,000	\$ 8,170	\$ 10,170
2013	3,000	8,051	11,051
2014	3,000	7,909	10,909
2015	3,000	7,766	10,766
2016	3,000	7,624	10,624
2017-2021	18,000	35,768	53,768
2022-2026	23,000	30,899	53,899
2027-2031	32,000	24,368	56,368
2032-2036	42,000	15,580	57,580
2037-2040	44,000	4,323	48,323
	\$ 173,000	\$ 150,456	\$ 323,456

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

As of September 30, 2011, the debt service requirements through maturity on the proprietary activities bonds outstanding is as follows:

Year Ended September 30,	Proprietary Activities Bonds Payable		
	Principal	Interest	Total
2012	\$ 18,000	\$ 40,950	\$ 58,950
2013	19,000	40,025	59,025
2014	20,000	39,050	59,050
2015	21,000	38,025	59,025
2016	22,000	36,950	58,950
2017-2021	132,000	166,150	298,150
2022-2026	167,000	128,875	295,875
2027-2031	216,000	81,350	297,350
2032-2035	213,000	21,875	234,875
	\$ 828,000	\$ 593,250	\$ 1,421,250

REQUIRED SUPPLEMENTARY INFORMATION

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts (GAAP Basis)	
REVENUES				
Taxes:				
Property Taxes	\$ 202,812	\$ 202,652	\$ 202,652	\$ -
Investment Earnings	157	197	197	-
Other Revenue	7,360	7,482	7,492	10
Total Revenues	<u>210,329</u>	<u>210,331</u>	<u>210,341</u>	<u>10</u>
EXPENDITURES				
Current:				
General Government:				
Financial Administration	192,182	184,168	184,168	-
Total Expenditures	<u>192,182</u>	<u>184,168</u>	<u>184,168</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>18,147</u>	<u>26,164</u>	<u>26,173</u>	<u>9</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Transfers Out	-	(70,000)	(70,000)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(70,000)</u>	<u>(70,000)</u>	<u>-</u>
Net Change in Fund Balances	18,147	(43,836)	(43,827)	9
Fund Balance-Oct 1 (Beginning)	160,201	160,201	160,201	-
Fund Balance-Sept 30 (Ending)	<u>\$ 178,348</u>	<u>\$ 116,365</u>	<u>\$ 116,374</u>	<u>\$ 9</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – STREETS & LIGHTS FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts (GAAP Basis)	
REVENUES				
Taxes:				
Property Taxes	\$ 119,724	\$ 119,630	\$ 119,630	\$ -
Licenses and Permits	13,000	8,000	8,000	-
Investment Earnings	967	2,502	2,441	(61)
Other Revenue	-	-	-	-
Total Revenues	<u>133,691</u>	<u>130,132</u>	<u>130,071</u>	<u>(61)</u>
EXPENDITURES				
Current:				
Highways and Streets	77,050	440,306	440,305	1
Capital Outlay:				
Capital Outlay	-	-	-	-
Depreciation	-	-	-	-
Total Expenditures	<u>77,050</u>	<u>440,306</u>	<u>440,305</u>	<u>1</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>56,641</u>	<u>(310,174)</u>	<u>(310,234)</u>	<u>(60)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	70,000	70,000	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>70,000</u>	<u>70,000</u>	<u>-</u>
Change in Fund Balance	56,641	(240,174)	(240,234)	(60)
Fund Balance - Oct 1 (Beginning)	359,975	359,975	359,975	-
Fund Balance - Sept 30 (Ending)	<u>\$ 416,616</u>	<u>\$ 119,801</u>	<u>\$ 119,741</u>	<u>\$ (60)</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts (GAAP Basis)	
REVENUES				
Taxes:				
Property Taxes	\$ 18,078	\$ 18,064	\$ 18,064	\$ -
Penalty and Interest on Taxes	852	1,198	1,198	-
Investment Earnings	40	59	54	(5)
Total Revenues	<u>18,970</u>	<u>19,320</u>	<u>19,316</u>	<u>(4)</u>
EXPENDITURES				
Current:				
General Government:				
Financial Administration	7,969	7,149	7,148	1
Debt Service:				
Bond Principal	2,000	2,000	2,000	-
Bond Interest	8,265	8,265	8,265	-
Fiscal Agent's Fees	636	636	636	-
Total Expenditures	<u>18,870</u>	<u>18,050</u>	<u>18,049</u>	<u>1</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	100	1,270	1,267	3
Fund Balance - Oct 1 (Beginning)	29,714	29,714	29,714	-
Fund Balance - Sept 30 (Ending)	<u>\$ 29,814</u>	<u>\$ 30,984</u>	<u>\$ 30,981</u>	<u>\$ (3)</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL – REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts (GAAP Basis)	
OPERATING REVENUES:				
Sanitation Charges for Services	\$ 245,131	\$ 248,274	\$ 260,998	\$ 12,724
Investment Earnings	2,046	1,187	1,965	778
Total Operating Revenues	247,177	249,460	262,963	13,503
OPERATING EXPENSES:				
Administrative Expenses	25,132	25,132	25,734	(602)
Regular Maintenance	219,785	217,756	230,247	(12,491)
Other Operating Expenses	673	604	186	418
Supplies	-	-	-	-
Depreciation	54,703	54,703	54,703	-
Interest Expense	41,825	41,825	41,825	-
Total Operating Expenses	342,118	340,020	352,695	(12,675)
Operating Income (Loss)	(94,941)	(90,559)	(89,732)	827
Net Assets - Oct 1 (Beginning)	937,542	937,542	937,542	-
Net Assets - Sept 30 (Ending)	\$ 842,601	\$ 846,983	\$ 847,810	\$ 827

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL – OPERATING FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts (GAAP Basis)	
OPERATING REVENUES:				
Charges for Water Services	\$ 129,463	\$ 146,782	\$ 146,782	\$ -
Charges for Sanitation Service	52,122	51,940	51,940	1
Fines	-	-	-	-
Investment Earnings	181	161	161	-
Other Revenue	340	20	20	-
Total Operating Revenues	182,106	198,903	198,903	-
OPERATING EXPENSES:				
Administrative Expenses	25,132	25,365	25,365	-
Regular Maintenance	96,025	156,801	108,875	47,926
Other Operating Expenses	48,150	46,747	46,747	-
Supplies	13,930	23,536	23,536	-
Depreciation	25,416	27,167	27,167	-
Total Operating Expenses	208,653	279,616	231,690	47,926
Operating Income (Loss)	(26,547)	(80,713)	(32,787)	47,926
Net Assets-Oct 1 (Beginning)	611,708	611,708	611,708	-
Net Assets-Sept 30 (Ending)	\$ 585,161	\$ 530,995	\$ 578,921	\$ 47,926

TEXAS SUPPLEMENTARY INFORMATION

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 SCHEDULE OF SERVICES AND RATES
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

Services Provided by the District During the Fiscal Year:

- Retail Water
- Retail Wastewater
- Solid Waste/Garbage
- Fire Protection
- Drainage
- Roads

Retail Service Providers

Retail Rates for a 3/4" Meter (or Equivalent) - Effective 12/1/2010

<u>Providers</u>	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate Per 1,000 Gallons Over Minimum Use</u>	
Water	\$ 33.75	3,000	Y	3,001-10,000	\$ 3.00
Wastewater	51.04	n/a	Y	10,001-20,000	3.10
Out of District	51.92			20,001-30,000	3.20
				30,001-40,000	3.30
				40,001 & over	3.40

District Employs Winter Averaging for Wastewater Usage? No

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>Active ESFCs</u>
Unmetered	-	-	-
3/4"	254	248	248
1"	7	7	7
Total Water	<u>261</u>	<u>255</u>	<u>255</u>
Total Wastewater	<u>400</u>	<u>391</u>	<u>391</u>

Total Water Consumption During the Fiscal Year (rounded to the nearest thousand)

Gallons Pumped into System	22,945,300	<u>Water Accountability Ratio</u>
Gallons Billed to Customers	<u>21,451,370</u>	
Difference	<u><u>1,493,930</u></u>	93.49%

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 SCHEDULE OF GENERAL FUND EXPENDITURES
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

Personnel Expenditures (Including Benefits)	\$ 98,852
Professional Fees:	
Auditing	7,281
Legal	874
Insurance and Bonds	111,145
Tax Appraisal and Collection	1,199
Contracted Services:	
Appraisal District	-
Other Contracted Services	-
Utilities	5,361
Repairs and Maintenance	148
Administrative Expenditures:	
Office Supplies	8,446
Allocation of Administrative Expense	(58,174)
Other Administrative Expenditures	9,036
Total Expenditures	\$ 184,168

Number of Persons Employed by the District: 2 Full-Time; 0 Part-Time.

LLANO COUNTY MUNICIPAL DISTRICT #1
 SCHEDULE OF TEMPORARY INVESTMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
General Fund-TexPool	1501100005	Var	Daily	\$ 58,342
Debt Service-TexPool	1501100004	Var	Daily	18,748
Special Revenue-TexPool	1501100006	Var	Daily	15,094
Utility Fund-TexPool	1501100003	Var	Daily	78,584
Interest & Sinking	1501100002	Var	Daily	16,760
Sewer Reserve-Texpool	1501100001	Var	Daily	2,052
Total - TexPool				<u>189,580</u>
Revenue Fund - CD	100140109	1.25%		<u>101,508</u>
Total - First State Bank Central Texas				<u>101,508</u>
Total Temporary Investments				<u><u>\$ 291,088</u></u>

LLANO COUNTY MUNICIPAL DISTRICT #1
SCHEDULE OF TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Maintenance Taxes	Debt Service Taxes	Road Maintenance	Fire	Total
Taxes Receivable October 1, 2010	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes Assessed, 2010 Roll	87,808	18,064	119,630	114,845	340,347
Tax Collections:					
Current Year	87,808	18,064	119,630	114,845	340,347
Prior Years	-	-	-	-	-
Total Collections	<u>\$ 87,808</u>	<u>\$ 18,064</u>	<u>\$ 119,630</u>	<u>\$ 114,845</u>	<u>\$ 340,347</u>
Taxes Receivable September 30, 2011	\$ -	\$ -	\$ -	\$ -	\$ -
Assessed Valuation:	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	<u>\$ 119,630,086</u>	<u>\$ 105,925,041</u>	<u>\$ 100,448,411</u>	<u>\$ 84,569,583</u>	<u>\$ 73,921,076</u>
Debt Service Rate	0.0151	0.0170	0.0207	0.0207	0.0243
Maintenance Rate	0.0734	0.0692	0.0583	0.1120	0.1120
Road Rate	0.1000	0.1275	0.1500	0.1000	0.1000
Firefighting Service Tax	0.0960	0.0888	0.0808	0.0877	0.0865
Tax Rates/\$100 Valuation	<u>0.2845</u>	<u>0.3025</u>	<u>0.3098</u>	<u>0.3204</u>	<u>0.3228</u>
Original Tax Levy	\$ 340,348	\$ 320,423	\$ 311,189	\$ 270,961	\$ 238,617
Percentage of Taxes Collected of Taxes Levied	100%	100%	100%	100%	100%

LLANO COUNTY MUNICIPAL DISTRICT #1
ANALYSIS OF CHANGES IN LONG-TERM DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 10/1/2010	Additions	Deletions	Amounts Outstanding 9/30/2011
Governmental Activities:						
Bonds Payable						
Water System Improvement						
Bond Series 2000	4.75%	\$ 191,000	\$ 175,000	\$ -	\$ 2,000	\$ 173,000
Total Bonds Payable			<u>\$ 175,000</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ 173,000</u>

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 10/1/2010	Additions	Deletions	Amounts Outstanding 9/30/2011
Proprietary Activities:						
Bonds Payable						
Water System Revenue						
Bonds Series 1996	5.00%	\$ 997,000	\$ 845,000	\$ -	\$ 17,000	\$ 828,000
Total Bonds Payable			<u>\$ 845,000</u>	<u>\$ -</u>	<u>\$ 17,000</u>	<u>\$ 828,000</u>

Paying Agent's Name & Address: Series 1996 & 2000:

United States Department of Agriculture
Rural Development
505 West University Drive, Suite G
Georgetown, Texas 78626

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 SCHEDULE OF BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

Complete Mailing Address: 2900 Blue Lake Drive, Horseshoe Bay, Texas 78657
 Business Telephone Number: (830) 598-5460
 Submission Date of the Most Recent District Registration Form: 6/03/2010
 Limit on Fees of Office that a Director May Receive During Fiscal Year: \$7,200

Names and Addresses:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid FYE 9/30/11	Expense Reimbursements FYE 9/30/11	Title at Year End
Board Members:				
William Stevens 3402 Packsaddle Drive Horseshoe Bay, TX 78657	Elected 5/2008 5/2012	\$ -	\$ 585	President
Bruce Lomax 203 Beaver Circle Horseshoe Bay, TX 78657	Elected 5/2010 5/2014	-	585	Vice President
Gary A Simons 201 W. Bluebonnet Road Horseshoe Bay, TX 78657	Elected 5/2010 5/2014	-	585	Secretary-Treasurer
Warner Tweed 3105 Golf Course Drive Horseshoe Bay, TX 78657	Elected 05/2010 05/2014	-	630	Board Member
Jeff Pruett 1527 Vista Del Monte San Antonio, TX 78216	Elected 5/2008 5/2012	-	360	Board Member
Key Administrative Personnel:				
Betty Brooker P.O. Box 921 Kingsland, TX 78639	7/1996	50,356	540	General Manager

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 SCHEDULE OF BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

(continued)

Names and Addresses:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid FYE 9/30/11	Fees FYE 9/30/11	Title at Year End
Consultants:				
McGinnis, Lochridge & Kilgore, LLP 600 Congress Avenue, Suite 2100 Austin, TX 78701			\$ 874	Election General Counsel
Llano County Appraisal District 103 East Sandstone Llano, TX 78643			3,096	Appraisal District
Singleton, Clark & Company, PC 930 South Bell Blvd. Ste. 105 Cedar Park, TX 78613			7,281	District Auditor
Lawrence H. Meyers 3411 Blue Lake Drive Horsehoe Bay, TX 78657			540	MUD Inspector
Willis Environmental & Engineering 310 Main Street Marble Falls, TX 78654			43,985	Engineer

OTHER INFORMATION REQUIRED BY GAO



SINGLETON, CLARK
& COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS

930 S. Bell Blvd., Suite 105 Cedar Park, Texas 78613
Phone (512) 310-5600 Fax (512) 310-5689

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*

Board of Directors
Llano County Municipal Utility District #1
2900 Blue Lake Drive
Horseshoe Bay, Texas 78657

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Llano County Municipal Utility District #1 (the "District") as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements and we have issued our report thereon dated January 25, 2012.

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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

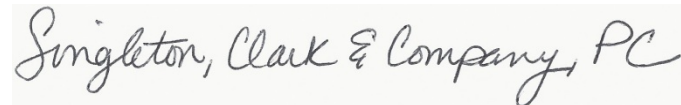
A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the District's board of directors and the administration and is not intended to be used and should not be used by anyone other than these specified parties.

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

Singleton, Clark & Company, PC
Cedar Park, Texas

January 25, 2012