

LLANO COUNTY MUNICIPAL
UTILITY DISTRICT #1
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
SEPTEMBER 30, 2012

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Certified Public Accountants

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LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

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ANNUAL FILING AFFIDAVIT

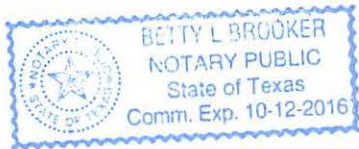
STATE OF TEXAS, COUNTY OF LLANO

I, WILLIAM STEVENS of the Llano County Municipal Utility District #1 hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the 26th day of FEB, 2013, its annual audit report for the fiscal year ended September 30, 2012, and that copies of the annual audit report have been filed in the District's office, located at 2900 Blue Lake Drive, Horseshoe Bay, Texas, 78657.

The filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code section 49.194.

Date: FEB 26, 2013
By: W.M. Stevens
Title: PRESIDENT

Sworn to and subscribed to before me this 26th day of FEB, 2013.



Betty Brooker

My Commission Expires On: 10-12, 2016
Notary Public in the State of Texas



SINGLETON, CLARK
& COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS

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Austin, Texas 78759 Phone (512) 310-5600 www.singletonclark.com

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, and each major fund of Llano County Municipal Utility District #1, (the "District") as of and for the year ended September 30, 2012, 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.

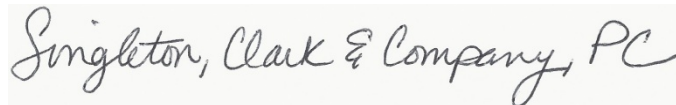
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the proprietary activities, and each major fund of Llano County Municipal Utility District #1, as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof 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 February 4, 2013 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 cursive script that reads "Singleton, Clark & Company, PC". The signature is written in black ink on a light-colored background.

Singleton, Clark & Company, PC
Austin, Texas

February 4, 2013

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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, 2012. 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, 2012, the fund balance of the General Fund experienced an increase of \$9,266 to end at \$125,640.
- 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 \$10,937, to end at \$256,159.
- The total cost of Llano County Municipal Utility District #1's governmental activities was \$314,980. 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, 2012

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 2012	Governmental Activities 2011	Change
ASSETS			
Current and other assets	\$ 261,927	\$ 312,254	\$ (50,327)
Capital assets	683,425	620,644	62,781
Total assets	<u>\$ 945,352</u>	<u>\$ 932,898</u>	<u>\$ 12,454</u>
LIABILITIES			
Current liabilities	\$ 7,110	\$ 46,519	\$ (39,409)
Noncurrent liabilities	171,000	173,000	(2,000)
Total liabilities	<u>178,110</u>	<u>219,519</u>	<u>(41,409)</u>
NET ASSETS			
Invested in capital assets, net of related debt	512,425	447,644	64,781
Restricted	130,519	150,722	(20,203)
Unrestricted	124,298	115,013	9,285
Total net assets	<u>\$ 767,242</u>	<u>\$ 713,379</u>	<u>\$ 53,863</u>

Net Assets - Proprietary Activities

	Business-Type Activities 2012	Business-Type Activities 2011	Change
ASSETS			
Current and other assets	\$ 425,552	\$ 447,418	\$ (21,866)
Capital assets	1,771,750	1,854,831	(83,081)
Total assets	<u>\$ 2,197,302</u>	<u>\$ 2,302,249</u>	<u>\$ (104,947)</u>
LIABILITIES			
Current liabilities	\$ 20,673	\$ 47,518	\$ (26,845)
Noncurrent liabilities	810,000	828,000	(18,000)
Total liabilities	<u>830,673</u>	<u>875,518</u>	<u>(44,845)</u>
NET ASSETS			
Invested in capital assets, net of related debt	961,751	1,026,831	(65,080)
Restricted	58,000	58,000	-
Unrestricted	346,878	341,900	4,978
Total net assets	<u>\$ 1,366,629</u>	<u>\$ 1,426,731</u>	<u>\$ (60,102)</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

	Governmental Activities 2012	Governmental Activities 2011	Change
REVENUES:			
Program revenues:			
Charges for services	\$ 11,418	\$ -	\$ 11,418
General revenues:			
Property taxes	342,240	322,282	19,958
Other taxes & penalties and interest	14,521	19,262	(4,741)
Investment earnings	664	2,693	(2,029)
Miscellaneous revenue	-	15,493	(15,493)
Total revenue	<u>368,843</u>	<u>359,730</u>	<u>9,113</u>
EXPENSES:			
Financial administration	146,690	86,476	60,214
Fire Protection	115,849	108,548	7,301
Highways and streets	43,655	34,928	8,727
Bond interest	8,150	8,238	(88)
Fiscal agent's fees	636	636	-
Total expenses	<u>314,980</u>	<u>238,826</u>	<u>76,154</u>
Change in net assets	53,863	120,904	(67,041)
Net assets at 10/1/11 and 10/1/10	<u>713,379</u>	<u>592,475</u>	<u>120,904</u>
Net assets at 9/30/12 and 9/30/11	<u><u>\$ 767,242</u></u>	<u><u>\$ 713,379</u></u>	<u><u>\$ 53,863</u></u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

	Business-Type Activities 2012	Business-Type Activities 2011	Change
REVENUES:			
Program revenues:			
Charges for services	\$ 470,852	\$ 459,720	\$ 11,132
General revenues:			
Miscellaneous revenue	20	20	-
Investment earnings	1,738	2,126	(388)
Total revenue	<u>472,610</u>	<u>461,866</u>	<u>10,744</u>
EXPENSES:			
Administrative expense allocated	888	51,099	(50,211)
Depreciation	83,081	81,870	1,211
Water and garbage	121,110	108,875	12,235
Sewer	220,547	230,247	(9,700)
Interest	40,950	41,825	(875)
Other operating expenses	66,136	70,469	(4,333)
Total expenses	<u>532,712</u>	<u>584,385</u>	<u>(51,673)</u>
Change in net assets	(60,102)	(122,519)	62,417
Net assets at 10/1/11 and 10/1/10	<u>1,426,731</u>	<u>1,549,250</u>	<u>(122,519)</u>
Net assets at 9/30/12 and 9/30/11	<u><u>\$ 1,366,629</u></u>	<u><u>\$ 1,426,731</u></u>	<u><u>\$ (60,102)</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, 2012, the fund balance of the General Fund increased by \$9,266 from the prior year's fund balance to end at \$125,640.

The Streets & Lights Fund experienced a fund balance decrease of \$20,680 to end at \$99,061. The Debt Service Fund experienced a fund balance increase of \$477 over the prior year to end at \$31,458.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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, 2012, the District had \$2,455,371, 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 2012	Governmental Activities 2011	Change
Land	\$ 10,000	\$ 10,000	\$ -
Buildings and improvements	104,901	104,901	-
Machinery and equipment	9,179	9,179	-
Roads	698,617	610,887	87,730
Totals at historical cost	822,697	734,967	87,730
Less accumulated depreciation	(139,272)	(114,322)	(24,950)
Capital assets, net of depreciation	\$ 683,425	\$ 620,645	\$ 62,780
	Business-Type Activities 2012	Business-Type Activities 2011	Change
Land	\$ 6,044	\$ 6,044	\$ -
Improvements other than buildings	3,219,157	3,170,735	48,422
Machinery and equipment	1,487	1,487	-
Construction in progress	-	48,422	(48,422)
Totals at historical cost	3,226,688	3,226,688	-
Less accumulated depreciation	(1,454,938)	(1,371,857)	(83,081)
Capital assets, net of depreciation	\$ 1,771,750	\$ 1,854,831	\$ (83,081)

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

LONG-TERM DEBT

At year end, the District's governmental and business-type activities had combined outstanding long-term debt of approximately \$981,000. 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 2012	Governmental Activities 2011	Change
Water System Improvement Bond, Series 2000	\$ 171,000	\$ 173,000	\$ (2,000)
Totals	<u>\$ 171,000</u>	<u>\$ 173,000</u>	<u>\$ (2,000)</u>
	Business-Type Activities 2012	Business-Type Activities 2011	Change
Water System Improvement Bond, Series 1996	\$ 810,000	\$ 828,000	\$ (18,000)
Totals	<u>\$ 810,000</u>	<u>\$ 828,000</u>	<u>\$ (18,000)</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District has adopted budgets for the governmental funds totaling \$302,900 and budgets for the utility funds totaling \$518,145 for the 2012-2013 fiscal year. The District has adopted a total tax rate of \$.2950 per \$100 valuation for the 2012-2013 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, 2012

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 169,638	\$ 232,603	\$ 402,241
Investments - Current	92,289	77,488	169,777
Receivables (net of allowance for uncollectibles)	-	41,370	41,370
Prepaid Items	-	74,091	74,091
Capital Assets:			
Land	10,000	6,044	16,044
Infrastructure, net	607,375	-	607,375
Buildings, net	66,050	-	66,050
Improvements other than Buildings, net	-	1,765,706	1,765,706
Total Assets	<u>\$ 945,352</u>	<u>\$ 2,197,302</u>	<u>\$ 3,142,654</u>
LIABILITIES			
Accounts Payable	\$ 1,768	\$ 12,722	\$ 14,490
Accrued Interest Payable	1,342	7,076	8,418
Other Current Liabilities	4,000	875	4,875
Non Current Liabilities:			
Due Within One Year	3,000	19,000	22,000
Due in More Than One Year	168,000	791,000	959,000
Total Liabilities	<u>178,110</u>	<u>830,673</u>	<u>1,008,783</u>
NET ASSETS			
Invested in Capital Assets (Net of Related Debt)	512,425	961,751	1,474,176
Restricted for:			
Restricted for Streets & Lights	99,061	-	99,061
Restricted for Debt Service	31,458	58,000	89,458
Unrestricted Net Assets	124,298	346,878	471,176
Total Net Assets	<u>\$ 767,242</u>	<u>\$ 1,366,629</u>	<u>\$ 2,133,871</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, 2012

	Program Revenues	Net (Expense) Revenue and Changes in Net Assets			
		Primary Government			
	Charges for	Govt	Business-type	Total	
	Expenses	Activities	Activities		
Primary Government					
GOVERNMENTAL ACTIVITIES:					
Financial Administration	\$ 146,690	\$ 4,090	\$ (142,600)	\$ -	\$ (142,600)
Fire Protection	115,849	-	(115,849)	-	(115,849)
Highways and Streets	43,655	7,328	(36,327)	-	(36,327)
Bond Interest	8,150	-	(8,150)	-	(8,150)
Fiscal Agent's Fees	636	-	(636)	-	(636)
Total Governmental Activities	<u>314,980</u>	<u>11,418</u>	<u>(303,562)</u>	<u>-</u>	<u>(303,562)</u>
BUSINESS-TYPE ACTIVITIES:					
Revenue Fund	316,887	269,356	-	(47,531)	(47,531)
Operating Fund	215,825	201,496	-	(14,329)	(14,329)
Total Business-Type Activities	<u>532,712</u>	<u>470,852</u>	<u>-</u>	<u>(61,860)</u>	<u>(61,860)</u>
TOTAL PRIMARY GOVERNMENT:	<u>\$ 847,692</u>	<u>\$ 482,270</u>	<u>(303,562)</u>	<u>(61,860)</u>	<u>(365,422)</u>
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes			342,240	-	342,240
Property Taxes, Levied for Debt Service			14,008	-	14,008
Penalty and Interest			513	-	513
Miscellaneous Revenues			-	20	20
Investment Earnings			664	1,738	2,402
Total General Revenues			<u>357,425</u>	<u>1,758</u>	<u>359,183</u>
Change in Net Assets			53,863	(60,102)	(6,239)
Net Assets - Beginning			713,379	1,426,731	2,140,110
Net Assets - Ending			<u>\$ 767,242</u>	<u>\$1,366,629</u>	<u>\$2,133,871</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, 2012

	General Fund	Streets & Lights Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 68,999	\$ 87,950	\$ 12,689	\$ 169,638
Investments - Current	58,409	15,111	18,769	92,289
Taxes Receivable	-	-	-	-
Total Assets	<u>\$ 127,408</u>	<u>\$ 103,061</u>	<u>\$ 31,458</u>	<u>\$ 261,927</u>
LIABILITIES & FUND BALANCES				
Liabilities:				
Wages and Salaries Payable	\$ 1,768	\$ -	\$ -	\$ 1,768
Other Current Liabilities	-	4,000	-	4,000
Total Liabilities	<u>1,768</u>	<u>4,000</u>	<u>-</u>	<u>5,768</u>
Fund Balances:				
Restricted For:				
Debt Service	-	-	31,458	31,458
Streets & Lights	-	99,061	-	99,061
Unassigned Fund Balance	125,640	-	-	125,640
Total Fund Balances	<u>125,640</u>	<u>99,061</u>	<u>31,458</u>	<u>256,159</u>
Total Liabilities & Fund Balances	<u>\$ 127,408</u>	<u>\$ 103,061</u>	<u>\$ 31,458</u>	<u>\$ 261,927</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, 2012

Total Fund Balances - Governmental Funds	\$ 256,159
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 \$734,967 for capital assets and \$114,322 for accumulated depreciation to the Statement of Net Assets was an increase in net assets.	620,645
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.	87,730
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.	(24,950)
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.	(173,000)
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.	(1,342)
Net Assets of Governmental Activities	\$ 767,242

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, 2012

	General Fund	Streets & Lights Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
Taxes:				
Property Taxes	\$ 257,706	\$ 84,534	\$ 14,008	\$ 356,248
Penalty & Interest on Taxes	-	-	513	513
Licenses and Permits	-	4,000	-	4,000
Investment Earnings	266	346	51	663
Other Revenue	7,418	-	-	7,418
Total Revenues	<u>265,390</u>	<u>88,880</u>	<u>14,572</u>	<u>368,842</u>
EXPENDITURES				
Current:				
General Government:				
Financial Administration	140,275	-	3,289	143,564
Fire Protection	115,849	-	-	115,849
Highways and Streets	-	109,560	-	109,560
Debt Service:				
Bond Principal	-	-	2,000	2,000
Bond Interest	-	-	8,170	8,170
Fiscal Agent's Fees	-	-	636	636
Total Expenditures	<u>256,124</u>	<u>109,560</u>	<u>14,095</u>	<u>379,779</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>9,266</u>	<u>(20,680)</u>	<u>477</u>	<u>(10,937)</u>
Net Change in Fund Balance	9,266	(20,680)	477	(10,937)
Fund Balance-Oct 1(Beginning)	116,374	119,741	30,981	267,096
Fund Balance-Sept 30 (Ending)	<u>\$ 125,640</u>	<u>\$ 99,061</u>	<u>\$ 31,458</u>	<u>\$ 256,159</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, 2012

Total Net Change in Fund Balances - Governmental Funds	\$ (10,937)
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.	87,730
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.	(24,950)
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.	20
Change in Net Assets of Governmental Activities	\$ 53,863

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, 2012

	Business-Type Activities - Enterprise Funds		
	Revenue Fund	Operating Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 174,037	\$ 58,566	\$ 232,603
Investments - Current	18,833	58,655	77,488
Accounts Receivable - Net of Uncollectible Allowance	25,415	15,955	41,370
Prepaid Items	74,060	30	74,090
Total Current Assets	<u>292,345</u>	<u>133,206</u>	<u>425,551</u>
Noncurrent Assets:			
Capital Assets:			
Land Purchase and Improvements	6,044	-	6,044
Improvements other than Buildings	2,198,406	1,020,752	3,219,158
Machinery and Equipment	1,487	-	1,487
Less Accumulated Depreciation	(876,187)	(578,751)	(1,454,938)
Total Noncurrent Assets	<u>1,329,750</u>	<u>442,001</u>	<u>1,771,751</u>
Total Assets	<u>\$ 1,622,095</u>	<u>\$ 575,207</u>	<u>\$ 2,197,302</u>
LIABILITIES & FUND BALANCES			
Current Liabilities:			
Accounts Payable	\$ 2,807	\$ 9,915	\$ 12,722
Accrued Interest Payable	7,076	-	7,076
Notes Payable - Current	19,000	-	19,000
Other Current Liabilities	300	575	875
Total Current Liabilities	<u>29,183</u>	<u>10,490</u>	<u>39,673</u>
NonCurrent Liabilities:			
Bonds Payable - Noncurrent	791,000	-	791,000
Total Noncurrent Liabilities	<u>791,000</u>	<u>-</u>	<u>791,000</u>
Total Liabilities	<u>820,183</u>	<u>10,490</u>	<u>830,673</u>
NET ASSETS			
Investments in Capital Assets, Net of Debt Restricted for Debt Service	519,750	442,001	961,751
Unrestricted Net Assets	58,000	-	58,000
Total Net Assets	<u>\$ 801,912</u>	<u>\$ 564,717</u>	<u>\$ 1,366,629</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, 2012

	Business-Type Activities - Enterprise Funds		
	Revenue Fund	Operating Fund	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Water Service	\$ -	\$ 147,122	\$ 147,122
Charges for Sewer Service	269,356	-	269,356
Charges for Sanitation Service	-	54,374	54,374
Other Revenue	-	20	20
Total Operating Revenues	<u>269,356</u>	<u>201,516</u>	<u>470,872</u>
OPERATING EXPENSES:			
Administrative Expenses	687	201	888
Regular Maintenance	220,547	121,110	341,657
Other Operating Expenses	-	47,583	47,583
Supplies	-	18,553	18,553
Depreciation	54,703	28,378	83,081
Total Operating Expenses	<u>275,937</u>	<u>215,825</u>	<u>491,762</u>
Operating Income (Loss)	<u>(6,581)</u>	<u>(14,309)</u>	<u>(20,890)</u>
NON-OPERATING REVENUES (EXPENSES):			
Investment Earnings	1,633	105	1,738
Interest Expense - Non-Operating	(40,950)	-	(40,950)
Total Non-Operating Revenue/Expenses	<u>(39,317)</u>	<u>105</u>	<u>(39,212)</u>
Change in Net Assets	(45,898)	(14,204)	(60,102)
Total Net Assets - Oct 1 (Beginning)	<u>847,810</u>	<u>578,921</u>	<u>1,426,731</u>
Total Net Assets - Sept 30 (Ending)	<u>\$ 801,912</u>	<u>\$ 564,717</u>	<u>\$ 1,366,629</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, 2012

	Revenue Fund	Operating Fund	Total Enterprise Fund
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 267,029	\$ 200,937	\$ 467,966
Cash Received from Other Revenue	-	20	20
Cash Payments to Employees for Services	(687)	(361)	(1,048)
Cash Payments for Regular Maintenance	(220,547)	(98,548)	(319,095)
Cash Payments for Suppliers	(22,979)	(22,256)	(45,235)
Cash Payments for Other Operating Expenses	(8,544)	(51,309)	(59,853)
Net Cash Provided by Operating Activities	<u>14,272</u>	<u>28,483</u>	<u>42,755</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Purchases of Capital Assets	-	-	-
Increase (decrease) in Short-term Loans	(18,000)	-	(18,000)
Interest Payments	(40,950)	-	(40,950)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(58,950)</u>	<u>-</u>	<u>(58,950)</u>
<u>Cash Flows from Investing Activities:</u>			
Investment Maturities (Purchases)	101,487	19,929	121,416
Interest and Dividends on Investments	1,633	104	1,737
Net Cash Provided by (Used for) Investing Activities	<u>103,120</u>	<u>20,033</u>	<u>123,153</u>
Net Increase in Cash and Cash Equivalents Cash & Cash Equivalent/Beginning of Year	58,442	48,516	106,958
Cash & Cash Equivalent/End of the Year	<u>\$ 174,037</u>	<u>\$ 58,566</u>	<u>\$ 232,603</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</u>			
Operating Income	\$ (6,582)	\$ (14,310)	\$ (20,892)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	54,703	28,378	83,081
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	(2,326)	(559)	(2,885)
Decrease (increase) in Prepaid Expenses	10,295	-	10,295
Increase (decrease) in Accounts Payable	(22,979)	(3,703)	(26,682)
Increase (decrease) in Due to Other Funds	(18,990)	18,990	-
Increase (decrease) in Other Liabilities	151	(313)	(162)
Net Cash Provided by Operating Activities	<u>\$ 14,272</u>	<u>\$ 28,483</u>	<u>\$ 42,755</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, 2012

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, 2012

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. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. 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 \$5,177 in fiscal 2012. There were no other required employee benefit accruals as of September 30, 2012.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

I. BUDGETARY DATA

Budgeted amounts are presented on the modified-accrual basis of accounting. The budget for the year ended September 30, 2012 was adopted by the Board of Directors on September 28, 2011. 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, 2012, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$572,017 and the bank balance was \$636,670.

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, 2012.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Investments at September 30, 2012 include the following:

	Reported Amount	Fair Value
Investments		
TexPool	\$ 169,776	\$ 169,776
Total Investments	\$ 169,776	\$ 169,776

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, 2012 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, 2012, 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, 2012

B. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012 was as follows:

<u>Description</u>	<u>Balance</u> 10/01/11	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> 9/30/12
Primary Government:				
Land & Easements	\$ 10,000	\$ -	\$ -	\$ 10,000
Office & Grounds	104,901	-	-	104,901
Office Equipment	9,179	-	-	9,179
Roads	610,887	87,730	-	698,617
Total Primary Government	734,967	87,730	-	822,697
Less Accumulated Depreciation:	(114,322)	(24,950)	-	(139,272)
Total Net Primary Government	\$ 620,645	\$ 62,780	\$ -	\$ 683,425
Business Type Activities:				
Land & Easements	\$ 6,044	\$ -	\$ -	\$ 6,044
Water System	3,170,735	48,422	-	3,219,157
Sewer System	1,487	-	-	1,487
Construction in Progress	48,422	-	(48,422)	-
Total Business-Type Activities	3,226,688	48,422	(48,422)	3,226,688
Less Accumulated Depreciation	(1,371,857)	(83,081)	-	(1,454,938)
Total Net Business-Type Activities	1,854,831	(34,659)	(48,422)	1,771,750
Grand Total Net Capital Assets	\$ 2,475,476	\$ 28,121	\$ (48,422)	\$ 2,455,175

Depreciation expense was charged to the governmental functions as follows:

<u>Department</u>	<u>Allocated Depreciation Amount</u>
Financial Administration	\$ 3,125
Highways & Streets	21,825
Total	<u>\$ 24,950</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

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 2011 tax roll (FY2012) was \$0.1134.

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 2011 tax roll (FY2012) was \$0.0700.

On October 25, 2011 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 \$0.1000 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, 2011 to October 31, 2012.

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, 2012, 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
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	3,000	7,481	10,481
2018-2022	19,000	34,889	53,889
2023-2027	25,000	29,759	54,759
2028-2032	34,000	22,800	56,800
2033-2037	44,000	13,538	57,538
2038-2040	34,000	2,470	36,470
	<u>\$ 171,000</u>	<u>\$ 142,286</u>	<u>\$ 313,286</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

As of September 30, 2012, 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
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	24,000	35,800	59,800
2018-2022	138,000	159,400	297,400
2023-2027	176,000	120,300	296,300
2028-2032	227,000	70,275	297,275
2033-2035	163,000	12,475	175,475
	\$ 810,000	\$ 552,300	\$ 1,362,300

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, 2012

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts (GAAP Basis)	
REVENUES				
Taxes:				
Property Taxes	\$ 257,862	\$ 257,706	\$ 257,706	\$ -
Investment Earnings	198	176	266	90
Other Revenue	7,591	7,418	7,418	-
Total Revenues	<u>265,651</u>	<u>265,300</u>	<u>265,390</u>	<u>90</u>
EXPENDITURES				
Current:				
General Government:				
Financial Administration	149,386	140,275	140,275	-
Fire Protection	115,849	115,849	115,849	-
Total Expenditures	<u>265,235</u>	<u>256,124</u>	<u>256,124</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>416</u>	<u>9,176</u>	<u>9,266</u>	<u>90</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	416	9,176	9,266	90
Fund Balance-Oct 1 (Beginning)	116,374	116,374	116,374	-
Fund Balance-Sept 30 (Ending)	<u>\$ 116,790</u>	<u>\$ 125,550</u>	<u>\$ 125,640</u>	<u>\$ 90</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, 2012

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts (GAAP Basis)	
REVENUES				
Taxes:				
Property Taxes	\$ 84,534	\$ 84,534	\$ 84,534	\$ -
Licenses and Permits	8,320	4,000	4,000	-
Investment Earnings	2,485	347	346	(1)
Other Revenue	-	-	-	-
Total Revenues	<u>95,339</u>	<u>88,881</u>	<u>88,880</u>	<u>(1)</u>
EXPENDITURES				
Current:				
Highways and Streets	74,648	109,560	109,560	-
Capital Outlay:				
Capital Outlay	-	-	-	-
Depreciation	-	-	-	-
Total Expenditures	<u>74,648</u>	<u>109,560</u>	<u>109,560</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>20,691</u>	<u>(20,679)</u>	<u>(20,680)</u>	<u>(1)</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance	20,691	(20,679)	(20,680)	(1)
Fund Balance - Oct 1 (Beginning)	119,741	119,741	119,741	-
Fund Balance - Sept 30 (Ending)	<u>\$ 140,432</u>	<u>\$ 99,062</u>	<u>\$ 99,061</u>	<u>\$ (1)</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, 2012

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts (GAAP Basis)	
REVENUES				
Taxes:				
Property Taxes	\$ 14,008	\$ 14,008	\$ 14,008	\$ -
Penalty and Interest on Taxes	-	513	513	-
Investment Earnings	30	51	51	-
Total Revenues	<u>14,061</u>	<u>14,572</u>	<u>14,572</u>	<u>-</u>
EXPENDITURES				
Current:				
General Government:				
Financial Administration	3,290	3,289	3,289	-
Debt Service:				
Bond Principal	2,000	2,000	2,000	-
Bond Interest	8,170	8,170	8,170	-
Fiscal Agent's Fees	636	636	636	-
Total Expenditures	<u>14,096</u>	<u>14,095</u>	<u>14,095</u>	<u>-</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	(35)	477	477	-
Fund Balance - Oct 1 (Beginning)	30,981	30,981	30,981	-
Fund Balance - Sept 30 (Ending)	<u>\$ 30,946</u>	<u>\$ 31,458</u>	<u>\$ 31,458</u>	<u>\$ -</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, 2012

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts (GAAP Basis)	
OPERATING REVENUES:				
Sanitation Charges for Services	\$ 266,210	\$ 266,221	\$ 269,356	\$ 3,135
Investment Earnings	452	1,633	1,633	-
Total Operating Revenues	266,662	267,854	270,989	3,135
OPERATING EXPENSES:				
Administrative Expenses	-	687	687	-
Regular Maintenance	204,163	214,729	220,547	(5,818)
Other Operating Expenses	614	-	-	-
Supplies	-	-	-	-
Depreciation	54,703	54,703	54,703	-
Interest Expense	41,400	40,950	40,950	-
Total Operating Expenses	300,880	311,069	316,887	(5,818)
Operating Income (Loss)	(34,218)	(43,215)	(45,898)	(2,683)
Net Assets - Oct 1 (Beginning)	847,810	847,810	847,810	-
Net Assets - Sept 30 (Ending)	\$ 813,592	\$ 804,595	\$ 801,912	\$ (2,683)

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, 2012

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts (GAAP Basis)	
OPERATING REVENUES:				
Charges for Water Services	\$ 154,796	\$ 146,152	\$ 146,152	\$ -
Charges for Sanitation Service	54,036	54,374	54,374	-
Fines	1,010	970	970	-
Investment Earnings	160	105	105	-
Other Revenue	520	20	20	-
Total Operating Revenues	210,522	201,621	201,621	-
OPERATING EXPENSES:				
Administrative Expenses	240	201	201	-
Regular Maintenance	123,097	121,110	121,110	-
Other Operating Expenses	45,669	47,583	47,583	-
Supplies	10,000	18,553	18,553	-
Depreciation	27,167	27,167	28,378	(1,211)
Total Operating Expenses	206,173	214,614	215,825	(1,211)
Operating Income (Loss)	4,349	(12,993)	(14,204)	(1,211)
Net Assets-Oct 1 (Beginning)	578,921	578,921	578,921	-
Net Assets-Sept 30 (Ending)	\$ 583,270	\$ 565,928	\$ 564,717	\$ (1,211)

TEXAS SUPPLEMENTARY INFORMATION

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 SCHEDULE OF SERVICES AND RATES
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

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)

<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	\$ 37.13	3,000	N	3,001-10,000	\$ 3.00
Wastewater	55.64	n/a	Y	10,001-20,000	3.10
Out of District	56.59	n/a	Y	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"	253	247	247
1"	8	8	8
Total Water	261	255	255
Total Wastewater	401	394	394

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

		<u>Water Accountability Ratio</u>
Gallons Pumped into System	20,263,000	
Gallons Billed to Customers	18,697,980	
Difference	<u>1,565,020</u>	92.28%

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 SCHEDULE OF GENERAL FUND EXPENDITURES
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

Personnel Expenditures (Including Benefits)	\$ 102,676
Professional Fees:	
Auditing	9,482
Legal	2,110
Insurance and Bonds	118,426
Tax Appraisal and Collection	135
Contracted Services:	
Appraisal District	-
Other Contracted Services	-
Utilities	5,310
Repairs and Maintenance	5,211
Administrative Expenditures:	
Office Supplies	3,751
Other Administrative Expenditures	9,023
Total Expenditures	\$ 256,124

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, 2012

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
General Fund-TexPool	1501100005	Var	Daily	\$ 58,409
Debt Service-TexPool	1501100004	Var	Daily	18,769
Special Revenue-TexPool	1501100006	Var	Daily	15,111
Utility Fund-TexPool	1501100003	Var	Daily	58,655
Interest & Sinking	1501100002	Var	Daily	16,779
Sewer Reserve-Texpool	1501100001	Var	Daily	2,055
Total - TexPool				<u>169,777</u>
Total Temporary Investments				<u><u>\$ 169,777</u></u>

LLANO COUNTY MUNICIPAL DISTRICT #1
SCHEDULE OF TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Maintenance Taxes	Debt Service Taxes	Road Maintenance	Fire	Total
Taxes Receivable October 1, 2011	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes Assessed, 2011 Roll	136,944	14,008	84,534	120,762	356,248
Tax Collections:					
Current Year	136,944	14,008	84,534	120,762	356,248
Prior Years	-	-	-	-	-
Total Collections	<u>\$ 136,944</u>	<u>\$ 14,008</u>	<u>\$ 84,534</u>	<u>\$ 120,762</u>	<u>\$ 356,248</u>
Taxes Receivable September 30, 2012	\$ -	\$ -	\$ -	\$ -	\$ -
Assessed Valuation:	2011	2010	2009	2008	2007
	<u>\$ 120,762,034</u>	<u>\$ 119,630,086</u>	<u>\$ 105,925,041</u>	<u>\$ 100,448,411</u>	<u>\$ 84,569,583</u>
Debt Service Rate	0.0116	0.0151	0.0170	0.0207	0.0207
Maintenance Rate	0.1134	0.0734	0.0692	0.0583	0.1120
Road Rate	0.0700	0.1000	0.1275	0.1500	0.1000
Firefighting Service Tax	0.1000	0.0960	0.0888	0.0808	0.0877
Tax Rates/\$100 Valuation	<u>0.2950</u>	<u>0.2845</u>	<u>0.3025</u>	<u>0.3098</u>	<u>0.3204</u>
Original Tax Levy	\$ 356,248	\$ 340,348	\$ 320,423	\$ 311,189	\$ 270,961
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, 2012

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 10/1/2011	Additions	Deletions	Amounts Outstanding 9/30/2012
Governmental Activities:						
Bonds Payable						
Water System Improvement						
Bond Series 2000	4.75%	\$ 191,000	\$ 173,000	\$ -	\$ 2,000	\$ 171,000
Total Bonds Payable			<u>\$ 173,000</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ 171,000</u>

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 10/1/2011	Additions	Deletions	Amounts Outstanding 9/30/2012
Proprietary Activities:						
Bonds Payable						
Water System Revenue						
Bonds Series 1996	5.00%	\$ 997,000	\$ 828,000	\$ -	\$ 18,000	\$ 810,000
Total Bonds Payable			<u>\$ 828,000</u>	<u>\$ -</u>	<u>\$ 18,000</u>	<u>\$ 810,000</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, 2012

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: 6/03/2011

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 9/30/12	Expense Reimbursements FYE 9/30/12	Title at Year End
Board Members:				
William Stevens 3402 Packsaddle Drive Horseshoe Bay, TX 78657	Elected 5/2012 5/2016	\$ -	\$ 630	President
Bruce Lomax 203 Beaver Circle Horseshoe Bay, TX 78657	Elected 5/2010 5/2014	-	540	Vice President
Gary A Simons 201 W. Bluebonnet Road Horseshoe Bay, TX 78657	Elected 5/2010 5/2014	-	495	Secretary-Treasurer
Warner Tweed 3105 Golf Course Drive Horseshoe Bay, TX 78657	Elected 05/2010 05/2014	-	585	Board Member
Jeff Pruett 1527 Vista Del Monte San Antonio, TX 78216	Elected 5/2008 5/2012	-	225	Board Member
L.D. Stewart 2910 Blue Lake Drive Horseshoe Bay, TX 78657	Elected 5/2012 5/2016	-	225	Board Member
Key Administrative Personnel:				
Betty Brooker P.O. Box 921 Kingsland, TX 78639	7/1996	51,133	495	General Manager

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 SCHEDULE OF BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

(continued)

Names and Addresses:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid FYE 9/30/12	Fees FYE 9/30/12	Title at Year End
Consultants:				
McGinnis, Lochridge & Kilgore, LLP 600 Congress Avenue, Suite 2100 Austin, TX 78701			\$ 2,110	Election General Counsel
Llano County Appraisal District 103 East Sandstone Llano, TX 78643			3,189	Appraisal District
Singleton, Clark & Company, PC 9442 Capital of Texas Hwy. North Plaza One, Suite 500 Austin, Texas 78759			9,481	District Auditor
Willis Environmental & Engineering 310 Main Street Marble Falls, TX 78654			6,553	Engineer

OTHER INFORMATION REQUIRED BY GAO



SINGLETON, CLARK
& COMPANY, PC
CERTIFIED PUBLIC ACCOUNTANTS

9442 Capital of Texas Highway North – Arboretum Plaza One, Suite 500
Austin, Texas 78759 Phone (512) 310-5600 www.singletonclark.com

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 proprietary activities, and each major fund of Llano County Municipal Utility District #1 (the “District”) as of and for the year ended September 30, 2012, which collectively comprise the District’s basic financial statements and we have issued our report thereon dated.

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.

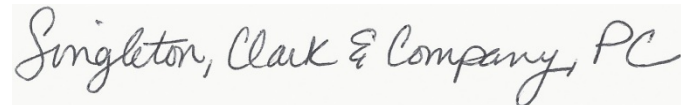
A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

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
Austin, Texas

February 4, 2013