

LLANO COUNTY MUNICIPAL
UTILITY DISTRICT # 1

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2013

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

	Page
FINANCIAL SECTION	
Annual Filing Affidavit ·····	1
Independent Auditor’s Report ·····	2
Management’s Discussion and Analysis ·····	4
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position ·····	12
Statement of Activities ·····	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds ·····	14
Reconciliation of the Balance Sheet – Governmental Funds to the Government-wide Statement of Net Position ·····	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds ·····	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Government-wide Statement of Activities ·····	17
Statement of Net Position – Proprietary Funds ·····	18
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds ·····	19
Statement of Cash Flows – Proprietary Funds ·····	20
Notes to the Financial Statements ·····	21
Required Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund ·····	37
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Streets & Lights Fund ·····	38
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund ·····	39
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual – Revenue Fund ·····	40
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual – Operating Fund ·····	41
Texas Supplementary Information:	
Schedule of Services and Rates ·····	42
Schedule of General Fund Expenditures ·····	43
Schedule of Temporary Investments ·····	44
Schedule of Taxes Levied and Receivable ·····	45
Analysis of Changes in Long-Term Debt ·····	46
Schedule of Board Members, Key Personnel, and Consultants ·····	47

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS
(Continued)

OTHER SUPPLEMENTARY INFORMATION SECTION

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	48
Schedule of Findings and Questioned Costs	50

FINANCIAL SECTION

ANNUAL FILING AFFIDAVIT

STATE OF TEXAS, COUNTY OF LLANO

I, _____ 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 _____ day of _____, _____, its annual audit report for the fiscal year ended September 30, 2013, 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: _____, _____

By: _____

Title: _____

Sworn to and subscribed to before me this _____ day of _____, _____.

My Commission Expires On: _____, _____
Notary Public in the State of Texas



UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT

Members of the Board of Directors of
Llano County Municipal Utility District #1

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Llano County Municipal Utility District #1 (the "District") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund information of the District as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

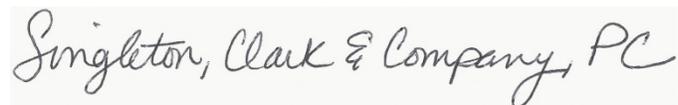
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The budgetary schedules and the Texas Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Singleton, Clark & Company, PC.
Austin, Texas

February 11, 2014

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

As management of Llano County Municipal Utility District #1, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2013.

Financial Highlights

- The assets of Llano County Municipal Utility District #1 exceeded its liabilities at the close of the most recent fiscal year by \$2,159,315 (*net position*). Of this amount, \$511,355 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- Llano County Municipal Utility District #1's total net position increased by \$25,444 primarily because property taxes exceeded expenditures.
- At the close of the current fiscal year Llano County Municipal Utility District #1's governmental funds reported combined fund balances of \$308,317, an increase of \$52,158 in comparison with the prior year. Approximately 41% of this amount, or \$127,220, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unrestricted fund balance (the total of the *committed*, *assigned*, and *unassigned* components of *fund balance*) for the general fund was \$127,220, or approximately 47.5% of total general fund expenditures.

Overview of the Financial Statements

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

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview Llano County Municipal Utility District #1's finances, in a manner similar to a private-sector business.

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

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

Both of the government-wide financial statements distinguish functions of Llano County Municipal Utility District #1 that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include general government, public safety, and highways and streets. The business-type activities of the District include a water/wastewater utility operation.

The government-wide financial statements include not only Llano County Municipal Utility District #1 itself (known as the *primary government*), but also a legally separate economic development corporation for which Llano County Municipal Utility District #1 is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 12-13 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Llano County Municipal Utility District #1, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Llano County Municipal Utility District #1 can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

Llano County Municipal Utility District #1 maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, streets and lights fund, and the debt service fund, which are considered to be major funds.

Llano County Municipal Utility District #1 adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

Proprietary Funds. Llano County Municipal Utility District #1 has the option of maintaining two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The District uses an enterprise fund to account for its water waste/water utility operation. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among a District's functions. The District is not currently utilizing an internal service fund. Because the services provided by internal service funds predominantly benefit governmental rather than business-type functions, they are usually included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the revenue and operating funds, both of which are considered to be major funds of Llano County Municipal Utility District #1. Conversely, when internal service funds are utilized, they are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are then provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

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

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

The notes to the financial statements can be found on pages 21-36 of this report.

Budgetary schedules can be found on pages 37-41 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of Llano County Municipal Utility District #1, assets exceeded liabilities by \$2,159,315 at the close of the most recent fiscal year.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

Llano County Municipal Utility District #1's Net Position

	Governmental Activities 2013	Governmental Activities 2012	Change	Business- Type Activities 2013	Business- Type Activities 2012	Change
Current & other assets	\$ 322,569	\$ 261,927	\$ 60,642	\$ 464,494	\$ 425,552	\$ 38,942
Capital assets	677,982	683,425	(5,443)	1,689,881	1,771,750	(81,869)
Total assets and deferred outflows	1,000,551	945,352	55,199	2,154,375	2,197,302	(42,927)
Current liabilities	15,570	7,110	8,460	21,041	20,673	368
Long-term liabilities	168,000	171,000	(3,000)	791,000	810,000	(19,000)
Total liabilities and deferred inflows	183,570	178,110	5,460	812,041	830,673	(18,632)
Net Position						
Net investment in capital assets	509,982	512,425	(2,443)	898,881	961,751	(62,870)
Restricted	181,097	130,519	50,578	58,000	58,000	-
Unrestricted	125,902	124,298	1,604	385,453	346,878	38,575
Total net position	\$ 816,981	\$ 767,242	\$ 49,739	\$ 1,342,334	\$ 1,366,629	\$ (24,295)

By far, the largest portion of Llano County Municipal Utility District #1's net position (65.2%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The District uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of Llano County Municipal Utility District #1's net position (11.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$511,355 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors. At the end of the current fiscal year, the District is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and proprietary activities. The same situation held true for the prior fiscal year.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

Llano County Municipal Utility District #1's overall net position increased by \$25,444 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and proprietary activities.

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$49,739 from the prior fiscal year for an ending balance of \$816,981. While the current recession certainly had an impact on the Llano County Municipal Utility District #1, management was able to take various actions (e.g., increasing rates for certain revenue sources, delaying certain non-recurring expenses, reducing expenses related to non-essential ongoing programs in the culture and recreation function) that neutralized its effect on governmental activities. The increase in the overall net position of governmental activities is the result of expenses being less than revenues.

Llano County Municipal Utility District #1's Changes in Net Position

	Governmental Activities 2013	Governmental Activities 2012	Change	Business- Type Activities 2013	Business- Type Activities 2012	Change
Revenues:						
Program Revenues:						
Charges for services	\$ 3,800	\$ 11,418	\$ (7,618)	\$ 475,965	\$ 470,852	\$ 5,113
General Revenues:						
Property taxes	361,788	356,761	5,027	-	-	-
Investment earnings	665	664	1	602	1,738	(1,136)
Other	7,516	-	7,516	412	20	392
Total revenue	373,769	368,843	4,926	476,979	472,610	4,369
Expenses:						
General government	154,288	146,690	7,598	-	-	-
Public safety	140,174	115,849	24,325	-	-	-
Highways and streets	20,905	43,655	(22,750)	-	-	-
Interest on long-term debt	8,663	8,786	(123)	-	-	-
Revenue Fund	-	-	-	288,926	316,887	(27,961)
Operating Fund	-	-	-	212,348	215,825	(3,477)
Total expenses	324,030	314,980	9,050	501,274	532,712	(31,438)
Increase (decrease) in net position	49,739	53,863	(4,124)	(24,295)	(60,102)	35,807
Net position - beginning	767,242	713,379	53,863	1,366,629	1,426,731	(60,102)
Net position - ending	\$ 816,981	\$ 767,242	\$ 49,739	\$ 1,342,334	\$ 1,366,629	\$ (24,295)

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

Business-type Activities. For the Llano County Municipal Utility District #1's business-type activities, the results for the current fiscal year were positive in that overall net position decreased to reach an ending balance of \$1,342,334. The total decrease in net position for business-type activities (revenue and operating funds) was \$24,295 or 1.7% from the prior fiscal year. The decrease, in large part, is attributable to revenues being less than expenses for the fiscal year 2012-13 budget.

Financial Analysis of Governmental Funds

As noted earlier, the Llano County Municipal Utility District #1 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of Llano County Municipal Utility District #1's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Llano County Municipal Utility District #1's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Llano County Municipal Utility District #1 itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Llano County Municipal Utility District #1's Board.

At September 30, 2013, Llano County Municipal Utility District #1's governmental funds reported combined fund balances of \$308,317, an increase of \$52,158 in comparison with the prior year. Approximately 41.2% of this amount (\$127,220) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable, restricted, committed, or assigned* to indicate that it is 1) not in spendable form (\$0), 2) legally required to be maintained intact (\$0), 3) restricted for particular purposes (\$181,097), 4) committed for particular purposes (\$0), or 5) assigned for particular purposes (\$0).

The general fund is the chief operating fund of Llano County Municipal Utility District #1. At the end of the current fiscal year, unassigned fund balance of the general fund was \$127,220, while total fund balance increased to \$127,220. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 47.5 percent of total general fund expenditures, while total fund balance represents approximately 100 percent of that same amount.

The fund balance of Llano County Municipal Utility District #1's general fund increased by \$1,580 during the current fiscal year. As discussed earlier in connection with governmental activities, the increase was due to a expenditures being less than revenues.

The streets and lights fund, a major fund, had a \$51,054 increase in fund balance during the current fiscal year which put the overall fund balance for the amount of \$150,115. The fund reports a restricted fund balance \$150,115 for the current fiscal year.

The large decrease in fund balance was caused mainly by the spending of resources obtained through the issuance of long-term debt in the prior period on capital acquisition and construction in the current period. That is, the fund balance that resulted from the previous long-term debt issuance was spent down during the current period as the related capital projects progressed.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

The debt service fund, the remaining major governmental fund, had a decrease in fund balance during the current year of \$476 to bring the year end fund balance to \$30,982. The decrease essentially results from the property tax revenue being slightly less than the debt expenditures.

Proprietary Funds. Llano County Municipal Utility District #1 proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Revenue Fund at the end of the year was \$790,524 and for the Operating Fund was \$551,810. The total decrease in net position for both funds was \$11,388 and \$12,907 respectively. As noted earlier in the discussion of business-type activities, the decrease is due to expenses being higher than revenues.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was no need for any significant amendments to increase either the original estimated revenues or original budgeted appropriations. Generally, the movement of the appropriations between departments was *not* significant.

Capital Assets and Debt Administration

Capital assets. Llano County Municipal Utility District #1's investment in capital assets for its governmental and business-type activities as of September 30, 2013, amounts to \$2,332,312 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, and the water treatment plant. The total decrease in capital assets for the current fiscal year was approximately 3.6%.

Llano County Municipal Utility District #1's Capital Assets

	Governmental Activities 2013	Governmental Activities 2012	Change	Business-Type Activities 2013	Business-Type Activities 2012	Change
Land	\$ 10,000	\$ 10,000	\$ -	\$ 6,044	\$ 6,044	\$ -
Buildings and Improvements	104,901	104,901	-	3,219,157	3,219,157	-
Machinery, Equipment, and Vehicles	9,179	9,179	-	1,487	1,487	-
Infrastructure	698,617	698,617	-	-	-	-
Construction in Progress	19,507	-	19,507	-	-	-
Total	842,204	822,697	19,507	3,226,688	3,226,688	-
Less Accumulated Depreciation	(164,222)	(139,272)	(24,950)	(1,536,807)	(1,454,938)	(81,869)
Capital assets, net of depreciation	<u>\$ 677,982</u>	<u>\$ 683,425</u>	<u>\$ (5,443)</u>	<u>\$ 1,689,881</u>	<u>\$ 1,771,750</u>	<u>\$ (81,869)</u>

Additional information on Llano County Municipal Utility District #1's capital assets can be found in Note IV.D on pages 31-32 of this report.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

Long-term Debt. At the end of the current fiscal year, Llano County Municipal Utility District #1 had total bonded debt outstanding of \$959,000. Of this amount, \$791,000 is debt backed by the full faith and credit of the government and \$168,000 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment.

Llano County Municipal Utility District #1's Outstanding Debt

	Governmental Activities 2013	Governmental Activities 2012	Change	Business-Type Activities 2013	Business-Type Activities 2012	Change
Water System Ultl. Tax Bonds	\$ 168,000	\$ 171,000	\$ (3,000)	\$ -	\$ -	\$ -
Water System Revenue Bonds	-	-	-	791,000	810,000	(19,000)
Total	\$ 168,000	\$ 171,000	\$ (3,000)	\$ 791,000	\$ 810,000	\$ (19,000)

Llano County Municipal Utility District #1's total debt decreased by \$22,000, (2.2 percent) during the current fiscal year. The reason for the decrease was payments made on the existing debt.

Additional information on Llano County Municipal Utility District #1's long-term debt can be found in Note IV.H on pages 33-35 of this report.

Economic Factors and Next Year's Budgets and Rates

The following economic factors currently affect the Llano County Municipal Utility District #1 and were considered in developing the 2013-2014 fiscal year budget.

- A property tax rate decrease of 2.4% to fund decreases in recurring expenditure obligations.
- Increase in the taxable assessed value as a percentage of estimated actual value and resulting increases in property assessments will continue to affect the Llano County Municipal Utility District #1 real property tax base.
- Increases in housing prices and sales are expected to continue throughout the fiscal year, further increasing mortgage tax revenues and assessed values.
- Interest rates are expected to remain at record low levels throughout fiscal year 2013-14.
- During the current fiscal year, the unassigned fund balance in the general fund was \$127,220. Llano County Municipal Utility District #1 has appropriated \$2,001 of this amount for spending in the 2013-14 fiscal year budget. This action was taken as an additional measure to mitigate the impact of the recession on the 2013-14 fiscal year budget.

Requests for Information

This financial report is designed to provide a general overview of Llano County Municipal Utility District #1 finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District's General Manager, 2900 Blue Lake Drive Horseshoe Bay, Texas 78657.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 230,192	\$ 287,007	\$ 517,199
Investments - current	92,377	77,561	169,938
Accounts receivable, net	-	37,021	37,021
Prepaid items	-	62,905	62,905
Capital assets, not being depreciated:			
Land	10,000	6,044	16,044
Construction in progress	19,507	-	19,507
Capital assets, being depreciated:			
Buildings and improvements	104,901	3,219,157	3,324,058
Machinery, equipment, and vehicles	9,179	1,487	10,666
Infrastructure	698,617	-	698,617
Accumulated depreciation	(164,222)	(1,536,807)	(1,701,029)
Total Assets	<u>1,000,551</u>	<u>2,154,375</u>	<u>3,154,926</u>
LIABILITIES			
Accounts payable	7,375	12,883	20,258
Accrued salaries and benefits	2,077	-	2,077
Accrued interest payable	1,318	6,508	7,826
Other current liabilities	-	1,650	1,650
Customer deposits	4,800	-	4,800
Noncurrent liabilities:			
Due within one year	3,000	20,000	23,000
Due in more than one year	165,000	771,000	936,000
Total Liabilities	<u>183,570</u>	<u>812,041</u>	<u>995,611</u>
NET POSITION			
Net investment in capital assets	509,982	898,881	1,408,863
Restricted for streets and lights	150,115	58,000	208,115
Restricted for debt service	30,982	-	30,982
Unrestricted	125,902	385,453	511,355
Total Net Position	<u>\$ 816,981</u>	<u>\$ 1,342,334</u>	<u>\$ 2,159,315</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, 2013

Functions/Programs:	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Position		
			Primary Government		
			Governmental Activities	Business-Type Activities	Total
Primary Government:					
Governmental activities:					
General government	\$ 154,288	\$ -	\$ (154,288)	\$ -	\$ (154,288)
Public safety	140,174	-	(140,174)	-	(140,174)
Highways and streets	20,905	3,800	(17,105)	-	(17,105)
Interest	8,663	-	(8,663)	-	(8,663)
Total Governmental Activities:	<u>324,030</u>	<u>3,800</u>	<u>(320,230)</u>	<u>-</u>	<u>(320,230)</u>
Business-type activities:					
Revenue Fund	288,926	277,060	-	(11,866)	(11,866)
Operating Fund	212,348	198,905	-	(13,443)	(13,443)
Total Business-Type Activities:	<u>501,274</u>	<u>475,965</u>	<u>-</u>	<u>(25,309)</u>	<u>(25,309)</u>
Total primary government	<u>\$ 825,304</u>	<u>\$ 479,765</u>	<u>(320,230)</u>	<u>(25,309)</u>	<u>(345,539)</u>
General Revenues:					
Property taxes			361,788	-	361,788
Investment earnings			665	602	1,267
Miscellaneous			7,516	412	7,928
Total general revenues			<u>369,969</u>	<u>1,014</u>	<u>370,983</u>
Change in Net Position			49,739	(24,295)	25,444
Net Position -- Beginning			767,242	1,366,629	2,133,871
Net Position -- Ending			<u>\$ 816,981</u>	<u>\$ 1,342,334</u>	<u>\$ 2,159,315</u>

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

FUND BASIS FINANCIAL STATEMENTS

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General Fund	Streets and Lights	Debt Service	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 71,919	\$ 146,078	\$ 12,195	\$ 230,192
Investments - current	58,464	15,126	18,787	92,377
Total Assets	<u>\$ 130,383</u>	<u>\$ 161,204</u>	<u>\$ 30,982</u>	<u>\$ 322,569</u>
LIABILITIES				
Accounts payable	\$ 1,086	\$ 6,289	-	\$ 7,375
Accrued salaries and benefits	2,077	-	-	2,077
Customer deposits	-	4,800	-	4,800
Total Liabilities	<u>3,163</u>	<u>11,089</u>	<u>-</u>	<u>14,252</u>
FUND BALANCES (DEFICITS)				
Restricted:				
Fund balance - restricted for streets and lights	-	150,115	-	150,115
Fund balance - restricted for debt service	-	-	30,982	30,982
Unassigned	127,220	-	-	127,220
Total Fund Balances	<u>127,220</u>	<u>150,115</u>	<u>30,982</u>	<u>308,317</u>
Total liabilities and fund balances	<u>\$ 130,383</u>	<u>\$ 161,204</u>	<u>\$ 30,982</u>	<u>\$ 322,569</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 POSITION
 SEPTEMBER 30, 2013

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

Total fund balances - governmental funds	\$	308,317
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		677,982
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(169,318)
		(169,318)
Net position of governmental activities	\$	816,981

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, 2013

	General Fund	Streets and Lights	Debt Service	Total Governmental Funds
REVENUES				
Property taxes	\$ 261,288	\$ 85,583	\$ 14,188	\$ 361,059
Penalties and interest on taxes	-	-	729	729
Licenses and permits	-	3,800	-	3,800
Investment earnings	189	429	47	665
Miscellaneous revenue	7,516	-	-	7,516
Total revenues	<u>268,993</u>	<u>89,812</u>	<u>14,964</u>	<u>373,769</u>
EXPENDITURES				
Current:				
General government:				
Elections	1,555	-	-	1,555
Financial administration	136,774	-	3,753	140,527
Public safety:				
Fire	129,084	-	-	129,084
Highways and streets	-	19,251	-	19,251
Debt service:				
Bond principal	-	-	3,000	3,000
Interest - bonds	-	-	8,051	8,051
Interest - other debt	-	-	636	636
Capital outlay	-	19,507	-	19,507
Total expenditures	<u>267,413</u>	<u>38,758</u>	<u>15,440</u>	<u>321,611</u>
Excess (deficiency) of rev. over expenditures	<u>1,580</u>	<u>51,054</u>	<u>(476)</u>	<u>52,158</u>
Net Change in Fund Balance	1,580	51,054	(476)	52,158
Fund Balance - Beginning	125,640	99,061	31,458	256,159
Fund Balance - Ending	<u>\$ 127,220</u>	<u>\$ 150,115</u>	<u>\$ 30,982</u>	<u>\$ 308,317</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 BALANCE TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

Net change in fund balances - total governmental funds	\$	52,158
--	----	--------

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay expense in the current period.		(5,443)
---	--	---------

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		3,000
--	--	-------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		24
	\$	49,739

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2013

	Business-Type Activities		
	Revenue Fund	Operating Fund	Total Business-Type Funds
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 217,001	\$ 70,006	\$ 287,007
Investments - current	18,851	58,710	77,561
Accounts receivable, net	21,382	15,639	37,021
Prepaid items	62,875	30	62,905
Total current assets	<u>320,109</u>	<u>144,385</u>	<u>464,494</u>
Noncurrent Assets:			
Land	6,044	-	6,044
Improvements other than buildings	2,198,406	1,020,751	3,219,157
Furnishings and equipment	1,487	-	1,487
Accumulated depreciation	(930,889)	(605,918)	(1,536,807)
Total noncurrent assets	<u>1,275,048</u>	<u>414,833</u>	<u>1,689,881</u>
Total assets	<u>1,595,157</u>	<u>559,218</u>	<u>2,154,375</u>
LIABILITIES			
Current liabilities:			
Accounts payable	6,525	6,358	12,883
Accrued interest payable	6,508	-	6,508
Bonds and notes payable - current	20,000	-	20,000
Other current liabilities	600	1,050	1,650
Total current liabilities	<u>33,633</u>	<u>7,408</u>	<u>41,041</u>
Noncurrent Liabilities:			
Notes payable	771,000	-	771,000
Total noncurrent liabilities	<u>771,000</u>	<u>-</u>	<u>771,000</u>
Total liabilities	<u>804,633</u>	<u>7,408</u>	<u>812,041</u>
NET POSITION			
Net investment in capital assets	484,048	414,833	898,881
Restricted for debt service	58,000	-	58,000
Unrestricted	248,476	136,977	385,453
Total net position	<u>\$ 790,524</u>	<u>\$ 551,810</u>	<u>\$ 1,342,334</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 NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-Type Activities		
	Revenue Fund	Operating Fund	Total Business-Type Funds
Operating revenues:			
Charges for services:			
Water sales	\$ -	\$ 143,498	\$ 143,498
Sewerage service	277,060	-	277,060
Other charges for services	-	55,407	55,407
Miscellaneous revenue	-	412	412
Total operating revenues	<u>277,060</u>	<u>199,317</u>	<u>476,377</u>
Operating expenses:			
Purchased prof. and technical services	-	46,323	46,323
Other operating expenses	194,766	138,858	333,624
Depreciation	54,703	27,167	81,870
Total operating expenses	<u>249,469</u>	<u>212,348</u>	<u>461,817</u>
Operating income (loss)	27,591	(13,031)	14,560
Nonoperating revenues (expenses)			
Investment earnings	478	124	602
Interest expense	(39,457)	-	(39,457)
Total nonoper. revenues (expenses)	<u>(38,979)</u>	<u>124</u>	<u>(38,855)</u>
Change in net position	(11,388)	(12,907)	(24,295)
Net position-beginning	801,912	564,717	1,366,629
Net position-ending	<u>\$ 790,524</u>	<u>\$ 551,810</u>	<u>\$ 1,342,334</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
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-Type Activities		
	Revenue Fund	Operating Fund	Total Business-Type Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 281,093	\$ 199,632	\$ 480,725
Payments to suppliers and service providers	(179,564)	(188,262)	(367,826)
Net cash provided by (used for) operating activities	<u>101,529</u>	<u>11,370</u>	<u>112,899</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on capital debt	(19,000)	-	(19,000)
Interest paid on capital debt	(40,025)	-	(40,025)
Net cash provided by (used for) capital and related financing activities	<u>(59,025)</u>	<u>-</u>	<u>(59,025)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	(18)	(54)	(72)
Interest on investments	478	124	602
Net cash provided by investing activities	<u>460</u>	<u>70</u>	<u>530</u>
Net increase (decrease) in cash and cash equivalents	42,964	11,440	54,404
Cash and cash equivalents-beginning	<u>174,037</u>	<u>58,566</u>	<u>232,603</u>
Cash and cash equivalents-ending	<u>\$ 217,001</u>	<u>\$ 70,006</u>	<u>\$ 287,007</u>
Reconciliation of operating income (loss) to net cash provided (used for) operating activities:			
Operating income (loss)	\$ 27,591	\$ (13,031)	\$ 14,560
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	54,703	27,167	81,870
(Increase) decrease in accounts receivable	4,033	316	4,349
(Increase) decrease in prepaid items	11,184	-	11,184
(Decrease) increase in accounts payable	3,718	(3,557)	161
(Decrease) increase in other liabilities	300	475	775
Total adjustments	<u>73,938</u>	<u>24,401</u>	<u>98,339</u>
Net cash provided by (used for) operating activities	<u>\$ 101,529</u>	<u>\$ 11,370</u>	<u>\$ 112,899</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 THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

I. Summary of significant accounting policies

A. Description of government-wide financial statements

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

B. 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 Commissioner's 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.

C. Reporting entity

The Llano County Municipal Utility District #1 (government) is a municipal utility district governed by an elected five member Board. The accompanying financial statements present the government, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

D. Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

E. Basis of presentation – fund financial statements

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

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The *streets and lights fund* accounts for all activity on the roads and street lights for which property taxes fund.

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

The government reports the following major enterprise funds:

The *revenue fund* accounts for all sewer related activities for Blue Lake, Deerhaven, Sandy Harbor, and the Trails.

The *operating fund* accounts for the water and garbage activity for the District.

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

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

F. Measurement focus and basis of accounting

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

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

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

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

Proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

G. Budgetary information

1. Budgetary basis of accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, streets and lights fund, debt service fund, revenue fund, and operating fund.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

2. Excess of expenditures over appropriations

For the year ended September 30, 2013, expenditures exceeded appropriations in the capital outlay line item (the legal level of budgetary control) of the streets and lights fund by \$5,627 and by \$19 in the financial administration line item of the general fund.

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

1. Cash and cash equivalents

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

2. Investments

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

3. Inventories and prepaid items

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life of more than one year.

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

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

Capital asset classes	Lives
Buildings and improvements	10-40
Machinery and equipment	5-10
Sewer System Collections and Treatment Plant	40
Infrastructure	30
Water Treatment Plant	10-40

5. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government currently does not have any financial transactions that qualify for reporting in this category. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government currently does not have any financial transactions that qualify for reporting in this category.

6. Net position flow assumption

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

7. Fund balance flow assumptions

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

8. Fund balance policies

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

I. Revenues and expenditures/expenses

1. Program revenues

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

2. *Property taxes*

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll of January 1, 2012, upon which the levy for the 2012-2013 fiscal year was based, was \$122,726,366. Taxes are delinquent if not paid by February 1st of the following calendar year. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended September 30, 2013 to finance General Fund, Streets and Lights Fund, and Debt Service Fund operations were \$0.2134, \$.0700 and \$.0116, respectively, for a total tax rate of \$.2950 per \$100 valuation. The total tax levy for the General Fund, Streets and Lights Fund and Debt Service Fund for the 2012-2013 fiscal year was \$362,043. Tax collections, including collections of prior year delinquent balances, for the year ended September 30, 2013, were 100% of the year end adjusted tax levy. Delinquent taxes are prorated between maintenance, streets and lights, and debt service based on rates for the year of the levy. Allowances for uncollectible taxes within the General, Streets and Lights, and Debt Service Funds are based on historical experience in collecting taxes.

3. *Compensated absences*

Vacation

The government's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment upon separation from government service. The liability for this is immaterial and is not recorded at year end.

Sick Leave

Accumulated sick leave lapses when employees leave the employment of the government and, upon separation from service, no monetary obligation exists.

4. *Proprietary funds operating and nonoperating revenues and expenses*

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

II. Reconciliation of government-wide and fund financial statements

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

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

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

Capital assets not being depreciated:		
Land	\$	10,000
Construction in progress		19,507
Capital assets, being depreciated		
Buildings and improvements		104,901
Machinery, equipment, and vehicles		9,179
Infrastructure		698,617
Accumulated depreciation		(164,222)
		677,982
<i>Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities</i>	<i>\$</i>	<i>677,982</i>

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

Bonds payable	\$	168,000
Accrued interest payable		1,318
		169,318
<i>Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities</i>	<i>\$</i>	<i>169,318</i>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

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

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

Capital outlay	\$ 19,507
Depreciation expense	(24,950)

<i>Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities</i>	<u><u>\$ (5,443)</u></u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statements of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this amount are as follows:

Principal repayments:	
General obligation debt	\$ 3,000

<i>Net adjustment to increase changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities</i>	<u><u>\$ 3,000</u></u>

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

Change in accrued interest on long-term debt	\$ 24

	<u><u>\$ 24</u></u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

III. Stewardship, compliance and accountability

A. Violations of legal or contractual provisions

Note I.F.2, on the *Excess of expenditures over appropriations*, describes a budgetary violation that occurred for the year ended September 30, 2013, for the Streets and Lights Fund for capital outlay in the amount of \$5,627 and the General Fund for financial administration in the amount of \$19.

B. Deficit fund equity

For the year ended September 30, 2013 there were no funds reported with deficit fund equity.

IV. Detailed notes on all activities and funds

A. Cash deposits with financial institutions

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of September 30, 2013, the government's bank balance was \$530,611 and \$280,611 of that amount was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging or financial institution's trust department or agent, but not in the government's name.

B. Investments

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

As of September 30, 2013, the government had the following investments:

Investment Type	Maturity Time in Years			
	Less than 1	1-5	6-10	More Than 10
Investment Pools	\$ 169,938	\$ -	\$ -	\$ -
Total Investments	\$ 169,938	\$ -	\$ -	\$ -

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

Credit risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the government's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of September 30, 2013, the government's investment in TexPool investment pool was rated AAAM by Standard & Poor's.

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

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

C. Receivables

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

Proprietary Funds:

Receivables	Revenue Fund	Operating Fund	Total Business-Type Funds
Accounts receivable	\$ 21,382	\$ 15,639	\$ 37,021
Net receivables	\$ 21,382	\$ 15,639	\$ 37,021

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

D. Capital Assets

Capital assets activity for the year ended September 30, 2013, was as follows:

Governmental Activities:

	Balance 10/1/12	Increases	Decreases	Balance 9/30/13
Capital assets, not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Construction-in-progress	-	19,507	-	19,507
Total capital assets, not being depreciated	<u>10,000</u>	<u>19,507</u>	<u>-</u>	<u>29,507</u>
Capital assets, being depreciated:				
Buildings and improvements	104,901	-	-	104,901
Machinery, equipment, and vehicles	9,179	-	-	9,179
Infrastructure	698,617	-	-	698,617
Total capital assets, being depreciated	<u>812,697</u>	<u>-</u>	<u>-</u>	<u>812,697</u>
Less accumulated depreciation for:				
Buildings and improvements	(38,851)	(3,125)	-	(41,976)
Machinery, equipment, and vehicles	(9,179)	-	-	(9,179)
Infrastructure	(91,242)	(21,825)	-	(113,067)
Total accumulated depreciation	<u>(139,272)</u>	<u>(24,950)</u>	<u>-</u>	<u>(164,222)</u>
Total capital assets being depreciated, net	<u>673,425</u>	<u>(24,950)</u>	<u>-</u>	<u>648,475</u>
Governmental activities capital assets, net	<u>\$ 683,425</u>	<u>\$ (5,443)</u>	<u>\$ -</u>	<u>\$ 677,982</u>

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

Governmental activities:

General government	\$ 12,206
Public safety	11,090
Highways and streets	1,654
Total depreciation expense - governmental activities	<u>\$ 24,950</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

Business-Type Activities:

	Balance 10/1/12	Increases	Decreases	Balance 9/30/13
Capital assets, not being depreciated:				
Land	\$ 6,044	\$ -	\$ -	\$ 6,044
Total capital assets, not being depreciated	6,044	-	-	6,044
Capital assets, being depreciated:				
Buildings and improvements	3,219,157	-	-	3,219,157
Machinery, equipment, and vehicles	1,487	-	-	1,487
Total capital assets, being depreciated	3,220,644	-	-	3,220,644
Less accumulated depreciation for:				
Buildings and improvements	(1,453,451)	(81,869)	-	(1,535,320)
Machinery, equipment, and vehicles	(1,487)	-	-	(1,487)
Total accumulated depreciation	(1,454,938)	(81,869)	-	(1,536,807)
Total capital assets being depreciated, net	1,765,706	(81,869)	-	1,683,837
Business-type activities capital assets, net	\$ 1,771,750	\$ (81,869)	\$ -	\$ 1,689,881

E. Accrued liabilities

Accrued liabilities reported by governmental and proprietary funds at September 30, 2013, were as follows:

Governmental Funds:

	General Fund
Salaries and benefits	\$ 2,077
Total accrued liabilities	\$ 2,077

F. Water System Maintenance, Road Improvements, and Fire Service Tax Assessments

On August 11, 1984, the District received authorizations to levy a water system maintenance tax not to exceed \$.20 per \$100 assessed valuation. The maintenance tax levied on the 2012 tax roll (FY 2013) 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 2012 tax roll (FY 2013) was \$0.0700.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

On October 25, 2011, the Board renewed the contract with Lake Lyndon B. Johnson Municipal Utility District (LBJ MUD), now the City of Horseshoe Bay, to perform Fire Fighting services for the District. The District agreed to assess a \$0.1000 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, 2012 to October 31, 2013.

G. Long-Term Liabilities

General and Proprietary 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 RUS. 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. In addition, on September 30, 1996, bonds in the amount of \$997,000 were issued, and will mature in increments until February 1, 2040. The completed cost of the water system improvements, together with the original cost of the Water System, is being accounted for in the Proprietary Operating Fund.

Details of long-term debt obligations outstanding at September 30, 2013 are as follows:

Governmental Activities:

Type	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/13
Bonds Payable					
Water System Unlimited Tax Bond Series 2000	1999	191,000	4.75%	2040	\$ 168,000
Total Bonds Payable					<u>\$ 168,000</u>

Business-type Activities:

Type	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/13
General Obligation Bonds:					
Water System Revenue Bond Series 1996	1996	997,000	5.00%	2035	\$ 791,000
Total General Obligation Bonds					<u>\$ 791,000</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

Changes in long-term liabilities

Changes in the government's long-term liabilities for the year ended September 30, 2013 are as follows:

Governmental Activities:

Description	Balance 10/1/12	Additions	Deletions	Balance 9/30/13	Due in One Year
Bonds Payable					
Water System Unlimited Tax Bond Series 2000	\$ 171,000	\$ -	\$ (3,000)	\$ 168,000	\$ 3,000
Total bonds payable	171,000	-	(3,000)	168,000	3,000
Governmental activities long-term liabilities	<u>\$ 171,000</u>	<u>\$ -</u>	<u>\$ (3,000)</u>	<u>\$ 168,000</u>	<u>\$ 3,000</u>

Business-type Activities:

Description	Balance 10/1/12	Additions	Deletions	Balance 9/30/13	Due in One Year
Bonds Payable					
Water System Revenue Bond Series 1996	\$ 810,000	\$ -	\$ (19,000)	\$ 791,000	\$ 20,000
Total bonds payable	810,000	-	(19,000)	791,000	20,000
Business-type activities long-term liabilities	<u>\$ 810,000</u>	<u>\$ -</u>	<u>\$ (19,000)</u>	<u>\$ 791,000</u>	<u>\$ 20,000</u>

The debt service requirements for the government's bonds, loans, and notes are as follows:

Governmental Activities:

Year Ended September 30,	<u>Governmental Activities</u>	
	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 3,000	\$ 7,909
2015	3,000	7,766
2016	3,000	7,624
2017	3,000	7,481
2018	3,000	7,339
2019-2023	20,000	33,962
2024-2028	27,000	28,524
2029-2033	36,000	21,138
2034-2038	47,000	11,376
2039-2043	23,000	1,116
Totals	<u>\$ 168,000</u>	<u>\$ 134,235</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

Business-type Activities:

Year Ended September 30,	Business-Type Activities	
	Bonds Payable	
	Principal	Interest
2014	\$ 20,000	\$ 39,050
2015	21,000	38,025
2016	22,000	36,950
2017	24,000	35,800
2018	25,000	34,575
2019-2023	145,000	152,325
2024-2028	185,000	111,275
2029-2033	238,000	58,650
2034-2038	111,000	5,625
Totals	\$ 791,000	\$ 512,275

H. Subsequent events

There were no subsequent events that occurred after year end meeting the requirements for disclosure.

I. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2013, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 262,657	\$ 261,288	\$ 261,288	\$ -
Investment earnings	182	189	189	-
Miscellaneous revenue	7,532	7,515	7,516	1
Total revenues	<u>270,371</u>	<u>268,992</u>	<u>268,993</u>	<u>1</u>
EXPENDITURES				
General government				
Elections	2,500	1,555	1,555	-
Financial administration	140,466	136,755	136,774	(19)
Public safety				
Fire	123,082	129,084	129,084	-
Total Expenditures	<u>266,048</u>	<u>267,394</u>	<u>267,413</u>	<u>(19)</u>
Excess (deficiency) of revenues over expenditures	<u>4,323</u>	<u>1,598</u>	<u>1,580</u>	<u>(18)</u>
Net Change in Fund Balances	4,323	1,598	1,580	(18)
Fund balance - beginning	125,640	125,640	125,640	-
Fund balance - ending	<u>\$ 129,963</u>	<u>\$ 127,238</u>	<u>\$ 127,220</u>	<u>\$ (18)</u>

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 –
BUDGET AND ACTUAL – STREETS AND LIGHTS FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 86,158	\$ 85,583	\$ 85,583	\$ -
Licenses and permits	4,000	3,800	3,800	-
Investment earnings	349	429	429	-
Total revenues	<u>90,507</u>	<u>89,812</u>	<u>89,812</u>	<u>-</u>
EXPENDITURES				
Highways and streets	19,335	19,251	19,251	-
Capital outlay	-	13,880	19,507	(5,627)
Total Expenditures	<u>19,335</u>	<u>33,131</u>	<u>38,758</u>	<u>(5,627)</u>
Excess (deficiency) of revenues over expenditures	<u>71,172</u>	<u>56,681</u>	<u>51,054</u>	<u>(5,627)</u>
Net Change in Fund Balances	71,172	56,681	51,054	(5,627)
Fund balance - beginning	99,061	99,061	99,061	-
Fund balance - ending	<u>\$ 170,233</u>	<u>\$ 155,742</u>	<u>\$ 150,115</u>	<u>\$ (5,627)</u>

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 –
BUDGET AND ACTUAL – DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 14,277	\$ 14,188	\$ 14,188	\$ -
Penalties and interest on taxes	764	729	729	-
Investment earnings	52	47	47	-
Total revenues	<u>15,093</u>	<u>14,964</u>	<u>14,964</u>	<u>-</u>
EXPENDITURES				
General government				
Financial administration	3,406	3,753	3,753	-
Debt service:				
Bond principal	3,000	3,000	3,000	-
Interest - bonds	8,051	8,051	8,051	-
Interest - other debt	636	636	636	-
Total Expenditures	<u>15,093</u>	<u>15,440</u>	<u>15,440</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(476)</u>	<u>(476)</u>	<u>-</u>
Net Change in Fund Balances	-	(476)	(476)	-
Fund balance - beginning	31,458	31,458	31,458	-
Fund balance - ending	<u>\$ 31,458</u>	<u>\$ 30,982</u>	<u>\$ 30,982</u>	<u>\$ -</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 NET POSITION –
 BUDGET AND ACTUAL - REVENUE FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
OPERATING REVENUES				
Sewer service	\$ 273,198	\$ 277,060	\$ 277,060	\$ -
Total operating revenues	<u>273,198</u>	<u>277,060</u>	<u>277,060</u>	<u>-</u>
OPERATING EXPENSES				
Other operating expense	218,724	209,668	194,766	14,902
Depreciation	54,703	54,703	54,703	-
Total Expenditures	<u>273,427</u>	<u>264,371</u>	<u>249,469</u>	<u>14,902</u>
Operating income (loss)	<u>(229)</u>	<u>12,689</u>	<u>27,591</u>	<u>14,902</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	368	478	478	-
Interest expense	(40,025)	(40,025)	(39,457)	568
Total Nonoperating revenues (expenses)	<u>(39,657)</u>	<u>(39,547)</u>	<u>(38,979)</u>	<u>568</u>
Net Change in Net Position	(39,886)	(26,858)	(11,388)	15,470
Net position - beginning	801,912	801,912	801,912	-
Net position - ending	<u>\$ 762,026</u>	<u>\$ 775,054</u>	<u>\$ 790,524</u>	<u>\$ 15,470</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 NET POSITION –
BUDGET AND ACTUAL - OPERATING FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
OPERATING REVENUES				
Water sales	\$ 152,107	\$ 143,498	\$ 143,498	\$ -
Other charges for services	55,209	55,407	55,407	-
Miscellaneous revenue	220	412	412	-
Total operating revenues	<u>207,536</u>	<u>199,317</u>	<u>199,317</u>	<u>-</u>
OPERATING EXPENSES				
Purchased professional and technical services	48,700	46,323	46,323	-
Other operating expense	131,885	138,858	138,858	-
Depreciation	27,167	27,167	27,167	-
Total Expenditures	<u>207,752</u>	<u>212,348</u>	<u>212,348</u>	<u>-</u>
Operating income (loss)	<u>(216)</u>	<u>(13,031)</u>	<u>(13,031)</u>	<u>-</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	104	124	124	-
Total Nonoperating revenues (expenses)	<u>104</u>	<u>124</u>	<u>124</u>	<u>-</u>
Net Change in Net Position	(112)	(12,907)	(12,907)	-
Net Position - beginning	564,717	564,717	564,717	-
Net Position - ending	<u>\$ 564,605</u>	<u>\$ 551,810</u>	<u>\$ 551,810</u>	<u>\$ -</u>

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

TEXAS SUPPLEMENTARY INFORMATION

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 SCHEDULE OF SERVICE AND RATES
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

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>	
				3,001-10,000	\$ 3.00
Water	\$ 37.13	3,000	N	10,100-20,000	3.10
Wastewater	55.64	n/a	Y	20,001-30,000	3.20
Out of District	56.59	n/a	Y	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 ESFC's</u>
Unmetered	-	-	-
3/4"	253	247	247
1"	8	8	8
Total Water	<u>261</u>	<u>254</u>	<u>254</u>
Wastewater	<u>401</u>	<u>394</u>	<u>394</u>

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

		Water Accountability Ratio
Gallons Pumped into System	18,234,000	
Gallons Billed to Customers	<u>16,064,900</u>	
Difference	2,169,100	88.10%

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 SCHEDULE OF GENERAL FUND EXPENDITURES
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

Personnel Expenditures (Including Benefits)	\$ 106,446
Professional Fees:	
Auditing	7,730
Legal	-
Insurance and Bonds	132,167
Tax Appraisal and Collection	135
Contracted Services:	
Appraisal District	-
Other Contracted Services	-
Utilities	5,169
Repairs and Maintenance	5,533
Administrative Expenditures:	
Office Supplies	5,500
Other Administrative Expenditures	4,733
Total Expenditures	\$ 267,413

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
SCHEDULE OF TEMPORARY INVESTMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
General Fund-TexPool	1501100005	Var	Daily	\$ 58,464
Debt Service-TexPool	1501100004	Var	Daily	18,786
Special Revenue-TexPool	1501100006	Var	Daily	15,126
Utility Fund-TexPool	1501100003	Var	Daily	58,710
Interest & Sinking	1501100002	Var	Daily	16,795
Sewer Reserve-Texpool	1501100001	Var	Daily	2,056
Total - TexPool				<u>169,937</u>
Revenue Fund - CD	36000922	1.25%		30,886
Total - First State Bank Central Texas				<u>30,886</u>
Total Temporary Investments				<u><u>\$ 200,823</u></u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
SCHEDULE OF TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Maintenance Taxes	Debt Service Taxes	Road Maintenance	Fire	Total
Taxes Receivable October 1, 2012	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes Assessed, 2012 Roll	139,172	14,236	85,908	122,726	362,042
Tax Collections:					
Current Year	139,172	14,236	85,908	122,726	362,042
Prior Years	-	-	-	-	-
Total Collections	<u>\$ 139,172</u>	<u>\$ 14,236</u>	<u>\$ 85,908</u>	<u>\$ 122,726</u>	<u>\$ 362,042</u>
Taxes Receivable September 30, 2013	\$ -	\$ -	\$ -	\$ -	\$ -
Assessed Valuation:	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>\$ 122,726,366</u>	<u>\$ 120,762,034</u>	<u>\$ 119,630,086</u>	<u>\$ 105,925,041</u>	<u>\$ 100,448,411</u>
Debt Service Rate	0.0116	0.0116	0.0151	0.0170	0.0207
Maintenance Rate	0.1134	0.1134	0.0734	0.0692	0.0583
Road Rate	0.0700	0.0700	0.1000	0.1275	0.1500
Firefighting Service Tax	0.1000	0.1000	0.0960	0.0888	0.0808
Tax Rates/\$100 Valuation	<u>0.2950</u>	<u>0.2950</u>	<u>0.2845</u>	<u>0.3025</u>	<u>0.3098</u>
Original Tax Levy	\$ 362,043	\$ 356,248	\$ 340,348	\$ 320,423	\$ 311,189
Percentage of Taxes Collected of Taxes Levied	100%	100%	100%	100%	100%

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 SCHEDULE OF BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

<u>Names and Addresses:</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees of Office Paid FYE 9/30/13</u>	<u>Expense Reimbursements FYE 9/30/13</u>	<u>Title at Year End</u>
Board Members:				
William Stevens 3402 Packsaddle Drive Horseshoe Bay, TX 78657	Elected 5/2012 5/2016	\$ -	\$ 540	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	-	540	Secretary-Treasurer
Warner Tweed 3105 Golf Course Drive Horseshoe Bay, TX 78657	Elected 05/2010 05/2014	-	540	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	-	540	Board Member
Key Administrative Personnel:				
Betty Brooker P.O. Box 921 Kingsland, TX 78639	7/1996	51,133	585	General Manager

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 SCHEDULE OF BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

<u>Names and Addresses:</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees of Office Paid FY 9/30/13</u>	<u>Fees FY 9/30/13</u>	<u>Title at Year End</u>
Consultants:				
McGinnis, Lochridge & Kilgore, LLP 600 Congress Avenue, Suite 2100 Austin, TX 78701			\$ -	Election General Counsel
Llano County Appraisal District 103 East Sandstone Llano, TX 78643			3,304	Appraisal District
Singleton, Clark & Company, PC 9442 Capital of Texas Hwy. North Plaza One, Suite 500 Austin, Texas 78759			7,730	District Auditor
Willis Environmental & Engineering 310 Main Street Marble Falls, TX 78654			6,553	Engineer
Lawrence H. Meyers 3411 Blue Lake Drive Horseshoe Bay, Tx 78657			180	MUD Inspector

OTHER SUPPLEMENTARY INFORMATION SECTION



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

To the Board of Directors of
Llano County Municipal Utility District #1:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, proprietary activities, and each major fund information of Llano County Municipal Utility District #1, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise Llano County Municipal Utility District #1's basic financial statements, and have issued our report thereon dated February 11, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Llano County Municipal Utility District #1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Llano County Municipal Utility District #1's internal control. Accordingly, we do not express an opinion on the effectiveness of Llano County Municipal Utility District #1's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Llano County Municipal Utility District #1's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do

not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2013-1.

Purpose of this Report

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

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

Singleton, Clark & Company, P.C.
Austin, Texas

February 11, 2014

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Under the guidelines of OMB Circular A-133, a Single Audit was not required due to expenditures of federal awards being below \$500,000.

SECTION II – FINANCIAL STATEMENT FINDINGS

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

2013-1 Budgetary Overages

Criteria: Each year the District’s Board of Directors adopts an appropriations budget which limits expenditure amounts within specific line items that can be made by management.

Condition Found: As of year end, actual expenditures amounts in capital outlay line item in the Streets and Lights Fund exceeded final amended budget by \$5,627.

Cause: The District did not amend the budget for expenditure overages at year end for this line item.

Effect: The effect of this condition is a technical noncompliance with the legally adopted appropriations budget.

Recommendation: We recommend the District closely monitor expenditures and amend the appropriations budget as required.

Management Views/
 Corrective Action Planned: The Board of Directors and Business Manager will closely monitor expenditures and amend the appropriations budget during the year.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

No findings or questioned costs required to be reported in accordance with *Government Auditing Standards* for the year ended September 30, 2012.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Findings Related to Federal Awards Which are Required to be Reported in Accordance with Section 510(c) of OMB Circular A-133:

No findings or questioned costs required to be reported in accordance with Section 510(c) of OMB Circular A-133 for the years ended September 30, 2013 and 2012.