

LLANO COUNTY MUNICIPAL
UTILITY DISTRICT # 1

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2015



SINGLETON, CLARK
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

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FINANCIAL SECTION

ANNUAL FILING AFFIDAVIT

STATE OF TEXAS, COUNTY OF LLANO

I, _____ of 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, 2015 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 AUDITOR'S 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 (the "District") as of and for the year ended September 30, 2015 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 audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund information of the District as of September 30, 2015 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, preceding the basic financial statements, and the budgetary comparison information following the notes to the financial statements, 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 this 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.

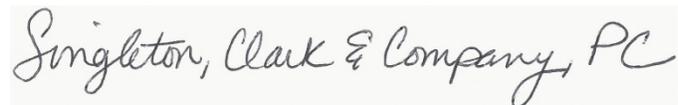
Texas Supplementary Information

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

The schedules within the Texas Supplementary Information section are the responsibility of management. These schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2016 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.
Cedar Park, Texas

January 22, 2016

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

As management of Llano County Municipal Utility District #1 (the "District"), 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, 2015.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,214,456 (*net position*). Of this amount, \$706,639 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The District's total government-wide net position decreased by \$79,528, primarily due to bond issue costs within the Streets Fund which were not capitalized and a planned reduction of fund balance within the Debt Service Fund.
- At the close of the current fiscal year the District's total governmental funds reported combined fund balances of \$2,681,140, an increase of \$2,554,036 in comparison with the prior year. Approximately 8% of this amount, or \$223,470, is available for spending at the District'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 \$226,570, or approximately 83.5% 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 required supplementary information and Texas supplementary information schedules intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District'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.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

Both of the government-wide financial statements distinguish functions of the District 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 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 the District 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 District'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 has 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 all reported as major funds.

Llano County Municipal Utility District #1 adopts an annual appropriated budget for all three of its governmental funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with the adopted budgets.

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, 2015

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 enterprise funds to account for its water waste/water utility operations.

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 business-type activities of the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer and Water funds, both of which are reported as major funds of the District. Conversely, if 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.

Llano County Municipal Utility District #1 adopts an annual appropriated budget for both of its proprietary funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with the adopted budgets.

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 District. 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 for all funds 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 the District's financial position. In the case of Llano County Municipal Utility District #1, assets exceeded liabilities by \$2,214,456 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, 2015

Llano County Municipal Utility District #1's Net Position

	Governmental Activities 2015	Governmental Activities 2014	Change	Business- Type Activities 2015	Business- Type Activities 2014	Change
Current & other assets	\$ 2,711,256	\$ 192,482	\$ 2,518,774	\$ 616,370	\$ 569,872	\$ 46,498
Capital assets (net)	1,121,801	951,974	169,827	1,533,446	1,608,011	(74,565)
Total assets	3,833,057	1,144,456	2,688,601	2,149,816	2,177,883	(28,067)
Current liabilities	41,394	66,720	(25,326)	25,023	25,635	(612)
Long-term liabilities	2,952,000	165,000	2,787,000	750,000	771,000	(21,000)
Total liabilities	2,993,394	231,720	2,761,674	775,023	796,635	(21,612)
Net Position						
Net investment in capital assets	545,334	786,974	(241,640)	783,446	837,011	(53,565)
Restricted	79,037	31,400	47,637	100,000	100,000	-
Unrestricted	215,292	94,362	120,930	491,347	444,237	47,110
Total net position	\$ 839,663	\$ 912,736	\$ (73,073)	\$ 1,374,793	\$ 1,381,248	\$ (6,455)

By far, the largest portion of Llano County Municipal Utility District #1's net position (60%) 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 the District's net position (7.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$706,639 is unrestricted and may be used to meet the District'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 District 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, 2015

Llano County Municipal Utility District #1's overall government-wide net position decreased by \$79,528 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for governmental activities and proprietary activities.

Governmental Activities. During the current fiscal year, net position for governmental activities decreased \$73,073 from the prior fiscal year for an ending balance of \$839,663. The decrease in the overall net position of governmental activities is due to bond issue costs for the issue of Unlimited Tax Street Repair Bonds Series 2015 and a planned reduction in the Debt Service Fund balance during the year.

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

	Governmental Activities 2015	Governmental Activities 2014	Change	Business- Type Activities 2015	Business- Type Activities 2014	Change
Revenues:						
Program Revenues:						
Charges for services	\$ 14,264	\$ 8,900	\$ 5,364	\$ 488,799	\$ 492,497	\$ (3,698)
General Revenues:						
Property taxes	405,864	409,685	(3,821)	-	-	-
Investment earnings	442	468	(26)	597	415	182
Other	30	10,197	(10,167)	63	118	(55)
Total revenue	420,600	429,250	(8,650)	489,459	493,030	(3,571)
Expenses:						
General government	149,337	160,004	(10,667)	-	-	-
Public safety	138,097	138,107	(10)	-	-	-
Highways and streets	33,096	26,815	6,281	-	-	-
Interest & fees on long-term debt	18,497	8,569	9,928	-	-	-
Debt issuance cost	154,646	-	154,646	-	-	-
Sewer Fund	-	-	-	308,653	275,707	32,946
Water Fund	-	-	-	187,261	178,409	8,852
Total expenses	493,673	333,495	160,178	495,914	454,116	41,798
Increase (decrease) in net position	(73,073)	95,755	(168,828)	(6,455)	38,914	(45,369)
Net position - beginning	912,736	767,242	145,494	1,381,248	1,342,334	38,914
Net position - ending	\$ 839,663	\$ 862,997	\$ (23,334)	\$ 1,374,793	\$ 1,381,248	\$ (6,455)

Business-type Activities. For Llano County Municipal Utility District #1's business-type activities, the results for the current fiscal year decreased the overall net position slightly to end at a balance of \$1,374,793. The total decrease in net position for business-type activities (sewer and water funds) was \$6,455 or -0.47% from the prior fiscal year.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

Financial Analysis of Governmental Funds

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

Governmental Funds. The focus of the District'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 District'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 District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes.

At September 30, 2015, Llano County Municipal Utility District #1's governmental funds reported combined fund balances of \$2,681,140, an increase of \$2,554,036 in comparison with the prior year. Approximately 8.3% of this amount (\$223,470) constitutes *unassigned fund balance*, which is available for spending at the District'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 (\$2,454,570), 4) committed for particular purposes (\$3,100), 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 \$223,470, which represented 98.6% of the fund balance of the General Fund. 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 82.4 percent of total General Fund expenditures.

The fund balance of Llano County Municipal Utility District #1's General Fund increased by \$133,278 during the current fiscal year. The increase for the District's General Fund was due to transfer of \$129,000 from Street & Lights Fund during the year to the General Fund. The fund reports a committed fund balance \$3,100 for the current fiscal year.

The Streets and Lights Fund, a major fund, had a \$2,433,873 increase in fund balance during the current fiscal year which put the overall fund balance at \$2,436,285 as of year end. The increase in the fund balance is attributed to the issue of Unlimited Tax Bonds amounting to \$2,790,000 for road projects.

The Debt Service Fund, the remaining major governmental fund, had a decrease in fund balance during the current year of \$13,115 to bring the year end fund balance to \$18,285. The decrease essentially results from the payment of principal and interest on long term debt and non allocation of property tax revenue to Debt Service Fund due to a planned reduction in fund balance.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

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

Unrestricted net position of the Sewer Fund at the end of the year was \$275,888 and for the Water Fund was \$215,459. The total decrease in net position for Sewer fund was \$12,981 and a total increase in the net position in the Water Fund was \$6,526

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, 2015 amounted to \$2,655,247 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, roads, wastewater treatment plant and the water treatment plant. The total increase in capital assets for the current fiscal year was approximately 0.4%.

Llano County Municipal Utility District #1's Capital Assets

	Governmental Activities 2015	Governmental Activities 2014	Change	Business- Activities 2015	Business- Activities 2014	Change
Land	\$ 10,000	\$ 10,000	\$ -	\$ 6,044	\$ 6,044	\$ -
Buildings and Improvements	104,901	104,901	-	3,227,866	3,219,157	8,709
Machinery, Equipment, and Vehicles	9,179	9,179	-	1,487	1,487	-
Infrastructure	1,017,066	1,017,066	-	-	-	-
Construction in Progress	206,855	-	206,855	-	-	-
Total	1,348,001	1,141,146	206,855	3,235,397	3,226,688	8,709
Less Accumulated Depreciation	(226,200)	(189,172)	(37,028)	(1,701,951)	(1,618,677)	(83,274)
Capital assets, net of depreciation	\$ 1,121,801	\$ 951,974	\$ 169,827	\$ 1,533,446	\$ 1,608,011	\$ (74,565)

Additional information on Llano County Municipal Utility District #1's capital assets can be found in Note IV.E on pages 32-33 of this report.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015

Long-term Debt. At the end of the current fiscal year, Llano County Municipal Utility District #1 had total bonded debt outstanding of \$3,702,000. Of this amount, \$2,952,000 is debt backed by the full faith and credit of the District.

Llano County Municipal Utility District #1's Outstanding Debt

	Government Activities 2015	Government Activities 2014	Change	Business- Activities 2015	Business- Activities 2014	Change
Water System Ultd. Tax Bonds	\$ 162,000	\$ 165,000	\$ (3,000)	\$ -	\$ -	\$ -
Ultd Tax Street Repair Bonds	2,790,000	-	2,790,000	-	-	-
WasteWater System Revenue Bonds	-	-	-	750,000	771,000	(21,000)
Total	<u>\$2,952,000</u>	<u>\$ 165,000</u>	<u>\$2,787,000</u>	<u>\$ 750,000</u>	<u>\$ 771,000</u>	<u>\$ (21,000)</u>

Llano County Municipal Utility District #1's total debt increased by \$2,766,000 during the current fiscal year. The reason for the increase was the issue of Unlimited Tax Street Repairs Bonds Series 2015 amounting to \$2,790,000 for road projects during the year.

Additional information on Llano County Municipal Utility District #1's long-term debt can be found in Note IV.H on pages 34-36 of this report.

Economic Factors and Next Year's Budgets and Rates

The following economic factors currently affect Llano County Municipal Utility District #1 and were considered in developing the 2015-2016 fiscal year budget.

- For the 2015-2016 budget year, the District increased its maintenance and operations tax rate to \$0.0965 per hundred of taxable value. The district adopted a debt service tax of \$0.1106 for the 2015-2016 budget year in order to fund required debt payments in the coming year. It held the fire service rate constant at \$0.10 per hundred of taxable value. The road maintenance rate was reduced to \$0.0063 per hundred of taxable value for the 2015-2016 budget year. The combined tax rate of the District for the 2015-2016 budget year is \$0.3134 per hundred of taxable value which is .0297 higher than the current year.
- Increases in housing prices and sales are expected to continue throughout the fiscal year, further increasing assessed values.
- Interest rates are expected to remain at low levels throughout fiscal year 2015-16.

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 District'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, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 278,603	\$ 418,602	\$ 697,205
Investments - current	2,432,653	116,786	2,549,439
Accounts receivable, net	-	40,202	40,202
Prepaid items	-	40,780	40,780
Capital assets, not being depreciated:			
Land	10,000	6,044	16,044
Construction in progress	206,855	-	206,855
Capital assets, being depreciated:			
Buildings and improvements	104,901	3,227,866	3,332,767
Machinery, equipment, and vehicles	9,179	1,487	10,666
Infrastructure	1,017,066	-	1,017,066
Accumulated depreciation	(226,200)	(1,701,951)	(1,928,151)
Total Assets	<u>3,833,057</u>	<u>2,149,816</u>	<u>5,982,873</u>
LIABILITIES			
Accounts payable	13,849	17,523	31,372
Accrued salaries and benefits	1,742	-	1,742
Accrued interest payable	18,228	6,250	24,478
Other current liabilities	-	1,100	1,100
Customer deposits	7,575	150	7,725
Noncurrent liabilities:			
Due within one year	53,000	22,000	75,000
Due in more than one year	2,899,000	728,000	3,627,000
Total Liabilities	<u>2,993,394</u>	<u>775,023</u>	<u>3,768,417</u>
NET POSITION			
Net investment in capital assets	545,334	783,446	1,328,780
Restricted for streets and lights	60,752	-	60,752
Restricted for debt service	18,285	100,000	118,285
Unrestricted	215,292	491,347	706,639
Total Net Position	<u>\$ 839,663</u>	<u>\$ 1,374,793</u>	<u>\$ 2,214,456</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, 2015

Functions/Programs:	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Position		
			Primary Government		Total
			Governmental Activities	Business-Type Activities	
Primary Government:					
Governmental activities:					
General government	\$ 149,337	\$ 11,464	\$ (137,873)	\$ -	\$ (137,873)
Public safety	138,097	-	(138,097)	-	(138,097)
Streets	33,096	2,800	(30,296)	-	(30,296)
Interest	18,497	-	(18,497)	-	(18,497)
Debt issuance costs	154,646	-	(154,646)	-	(154,646)
Total Governmental Activities:	493,673	14,264	(479,409)	-	(479,409)
Business-type activities:					
Sewer Fund	308,653	295,209	-	(13,444)	(13,444)
Water Fund	187,261	193,590	-	6,329	6,329
Total Business-Type Activities:	495,914	488,799	-	(7,115)	(7,115)
Total primary government	\$ 989,587	\$ 503,063	(479,409)	(7,115)	(486,524)
General Revenues:					
Property taxes			405,864	-	405,864
Investment earnings			442	597	1,039
Miscellaneous			30	63	93
Total general revenues			406,336	660	406,996
Change in Net Position			(73,073)	(6,455)	(79,528)
Net Position -- Beginning			912,736	1,381,248	2,293,984
Net Position -- Ending			\$ 839,663	\$ 1,374,793	\$ 2,214,456

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, 2015

	General Fund	Streets and Lights	Debt Service	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 171,623	\$ 81,745	\$ 25,235	\$ 278,603
Investments - current	58,516	2,374,137	-	2,432,653
Due from other funds	508	1,396	-	1,904
Total assets	<u>\$ 230,647</u>	<u>\$ 2,457,278</u>	<u>\$ 25,235</u>	<u>\$ 2,713,160</u>
LIABILITIES				
Accounts payable	\$ 939	\$ 12,910	\$ -	\$ 13,849
Accrued salaries and benefits	1,742	-	-	1,742
Due to other funds	1,396	508	-	1,904
Accrued interest payable	-	-	6,950	6,950
Customer deposits	-	7,575	-	7,575
Total liabilities	<u>4,077</u>	<u>20,993</u>	<u>6,950</u>	<u>32,020</u>
FUND BALANCES (DEFICITS)				
Restricted:				
Fund balance - restricted for debt service	-	-	18,285	18,285
Fund balance - restricted for streets and lights	-	2,436,285	-	2,436,285
Committed:				
Fund balance - committed for special purposes	3,100	-	-	3,100
Unassigned	223,470	-	-	223,470
Total fund balances	<u>226,570</u>	<u>2,436,285</u>	<u>18,285</u>	<u>2,681,140</u>
Total liabilities and fund balances	<u>\$ 230,647</u>	<u>\$ 2,457,278</u>	<u>\$ 25,235</u>	<u>\$ 2,713,160</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, 2015

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

Total fund balances - governmental funds	\$	2,681,140
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,121,801
Accrued interest on long-term debt is not recorded within the funds.		(11,278)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(2,952,000)
Net position of governmental activities	\$	839,663

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, 2015

	General Fund	Streets and Lights	Debt Service	Total Governmental Funds
REVENUES				
Property taxes	\$ 263,689	\$ 142,175	\$ -	\$ 405,864
Licenses and permits	-	2,800	-	2,800
Investment earnings	154	278	10	442
Miscellaneous revenue	11,494	-	-	11,494
Total revenues	<u>275,337</u>	<u>145,253</u>	<u>10</u>	<u>420,600</u>
EXPENDITURES				
Current:				
General government:				
Elections	1,246	-	-	1,246
Financial administration	131,716	-	1,564	133,280
Public safety:				
Fire	138,097	-	-	138,097
Streets	-	10,879	-	10,879
Debt service:				
Bond principal	-	-	3,000	3,000
Interest - bonds	-	-	8,561	8,561
Debt issuance costs	-	154,646	-	154,646
Capital outlay	-	206,855	-	206,855
Total expenditures	<u>271,059</u>	<u>372,380</u>	<u>13,125</u>	<u>656,564</u>
Excess (deficiency) of rev. over expenditures	<u>4,278</u>	<u>(227,127)</u>	<u>(13,115)</u>	<u>(235,964)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	129,000	-	-	129,000
Transfers out	-	(129,000)	-	(129,000)
General obligation bonds issued	-	2,790,000	-	2,790,000
Total Other Financing Sources (Uses)	<u>129,000</u>	<u>2,661,000</u>	<u>-</u>	<u>2,790,000</u>
Net Change in Fund Balance	133,278	2,433,873	(13,115)	2,554,036
Fund Balance - Beginning	93,292	2,412	31,400	127,104
Fund Balance - Ending	<u>\$ 226,570</u>	<u>\$ 2,436,285</u>	<u>\$ 18,285</u>	<u>\$ 2,681,140</u>

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, 2015

	Business-Type Activities		
	Sewer Fund	Water Fund	Total Business-Type Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 268,742	\$ 149,860	\$ 418,602
Investments - current	58,025	58,761	116,786
Accounts receivable, net	22,365	17,837	40,202
Prepaid items	40,750	30	40,780
Total current assets	<u>389,882</u>	<u>226,488</u>	<u>616,370</u>
Noncurrent assets:			
Land	6,044	-	6,044
Improvements other than buildings	2,207,115	1,020,751	3,227,866
Machinery and equipment	1,487	-	1,487
Accumulated depreciation	(1,040,876)	(661,075)	(1,701,951)
Total noncurrent assets	<u>1,173,770</u>	<u>359,676</u>	<u>1,533,446</u>
Total assets	<u>1,563,652</u>	<u>586,164</u>	<u>2,149,816</u>
LIABILITIES			
Current liabilities:			
Accounts payable	6,844	10,679	17,523
Accrued interest payable	6,250	-	6,250
Bonds and notes payable - current	22,000	-	22,000
Other current liabilities	750	350	1,100
Customer deposits	150	-	150
Total current liabilities	<u>35,994</u>	<u>11,029</u>	<u>47,023</u>
Noncurrent liabilities:			
Notes payable	728,000	-	728,000
Total noncurrent liabilities	<u>728,000</u>	<u>-</u>	<u>728,000</u>
Total liabilities	<u>763,994</u>	<u>11,029</u>	<u>775,023</u>
NET POSITION			
Net investment in capital assets	423,770	359,676	783,446
Restricted for debt service	100,000	-	100,000
Unrestricted	275,888	215,459	491,347
Total net position	<u>\$ 799,658</u>	<u>\$ 575,135</u>	<u>\$ 1,374,793</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, 2015

	Business-Type Activities		Total Business-Type Funds
	Sewer Fund	Water Fund	
Operating revenues:			
Charges for services:			
Water sales	\$ -	\$ 137,896	\$ 137,896
Sewerage services	295,209	-	295,209
Waste management services	-	55,694	55,694
Miscellaneous revenue	10	53	63
Total operating revenues	<u>295,219</u>	<u>193,643</u>	<u>488,862</u>
Operating expenses:			
Purchased professional and technical services	26,465	104,683	131,148
Other operating expenses	189,054	54,588	243,642
Depreciation	55,284	27,990	83,274
Total operating expenses	<u>270,803</u>	<u>187,261</u>	<u>458,064</u>
Operating income (loss)	24,416	6,382	30,798
Nonoperating revenues (expenses)			
Investment earnings	453	144	597
Interest expense	(37,850)	-	(37,850)
Total nonoperating revenues (expenses)	<u>(37,397)</u>	<u>144</u>	<u>(37,253)</u>
Change in net position	(12,981)	6,526	(6,455)
Net position-beginning	812,639	568,609	1,381,248
Net position-ending	<u>\$ 799,658</u>	<u>\$ 575,135</u>	<u>\$ 1,374,793</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, 2015

	Business-Type Activities		
	Sewer Fund	Water Fund	Total Business-Type Funds
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 294,960	\$ 191,563	\$ 486,523
Payments to suppliers and service providers	(203,014)	(157,977)	(360,991)
Net cash provided by (used for) operating activities	<u>91,946</u>	<u>33,586</u>	<u>125,532</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(8,709)		(8,709)
Principal paid on capital debt	(21,000)	-	(21,000)
Interest paid on capital debt	(38,025)	-	(38,025)
Net cash provided by (used for) capital and related financing activities	<u>(67,734)</u>	<u>-</u>	<u>(67,734)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	(39,169)	(31)	(39,200)
Interest on investments	453	144	597
Net cash provided by investing activities	<u>(38,716)</u>	<u>113</u>	<u>(38,603)</u>
Net increase (decrease) in cash and cash equivalents	(14,504)	33,699	19,195
Cash and cash equivalents-beginning	283,246	116,161	399,407
Cash and cash equivalents-ending	<u>\$ 268,742</u>	<u>\$ 149,860</u>	<u>\$ 418,602</u>
Reconciliation of operating income (loss) to net cash provided (used for) operating activities:			
Operating income (loss)	\$ 24,416	\$ 6,382	\$ 30,798
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	55,284	27,990	83,274
(Increase) decrease in accounts receivable	(259)	(2,079)	(2,338)
(Increase) decrease in due from other funds	3,174	-	3,174
(Increase) decrease in prepaid items	11,061	-	11,061
(Decrease) increase in accounts payable	(1,880)	5,743	3,863
(Decrease) increase in due to other funds	-	(3,000)	(3,000)
(Decrease) increase in other liabilities	150	(1,450)	(1,300)
Total adjustments	<u>67,530</u>	<u>27,204</u>	<u>94,734</u>
Net cash provided by (used for) operating activities	<u>\$ 91,946</u>	<u>\$ 33,586</u>	<u>\$ 125,532</u>

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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, 2015

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

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

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 District'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, 2015

E. Basis of presentation – fund financial statements

The fund financial statements provide information about the District'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 District reports the following major governmental funds:

The *General Fund* is the District'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 District reports the following major enterprise funds:

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

The *Water Fund* accounts for the water and garbage activity for the District.

During the course of operations the District 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, 2015

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 District 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 District.

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, Sewer Fund, and Water Fund.

The appropriated budgets are prepared by fund and line item. The District's General Manager 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.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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, 2015, expenditures exceeded appropriations in the Depreciation line item (the legal level of budgetary control) of the Sewer Fund by \$284.

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

1. Cash and cash equivalents

The District'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 District 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.

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 District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one year.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

As the District 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 District 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 District currently does not have any financial transactions that qualify for reporting in this category.

6. *Net position flow assumption*

Sometimes the District 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 District’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, 2015

7. Fund balance flow assumptions

Sometimes the District 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 District'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 District 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 District's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the District 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 District 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, 2015

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, 2014, upon which the levy for the 2014-2015 fiscal year was based, was \$141,757,406. 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, 2015 to finance General Fund and Fire and road maintenance operations were \$0.0837, \$0.010, and \$0.100, respectively, for a total tax rate of \$.2837 per \$100 valuation. The total tax levy for the General Fund and Streets and Lights Fund for the 2014-2015 fiscal year was \$402,091. Tax collections, including collections of prior year delinquent balances, for the year ended September 30, 2015 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 District's policy permits employees to accumulate earned but unused vacation benefits, which are in part, eligible for payment upon separation from the District's 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 District and, which are in part, eligible for payment 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 sewer fund and water 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, 2015

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
Capital assets, being depreciated	
Buildings and improvements	104,901
Machinery, equipment, and vehicles	9,179
Infrastructure	1,017,066
Accumulated depreciation	(226,200)

<i>Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities</i>	<u><u>\$ 1,121,801</u></u>

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

Bonds payable	\$ (2,952,000)
Accrued interest payable	(11,278)

<i>Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities</i>	<u><u>\$ (2,963,278)</u></u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

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 capital outlay expense exceeded depreciation expense in the current period.” The details of this amount are as follows:

Capital outlay	\$ 206,855
Depreciation expense	(37,028)
	\$ 169,827
<i>Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net position of governmental</i>	\$ 169,827

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:

General obligation bonds	2,790,000
Principal repayments:	
General obligation debt	\$ (3,000)
	\$ 2,787,000
<i>Net adjustment to increase changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities</i>	\$ 2,787,000

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	\$ (9,936)
	\$ (9,936)

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

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 overage that occurred for the year ended September 30, 2015.

B. Deficit fund equity

For the year ended September 30, 2015 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 District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of September 30, 2015, the District’s bank balance was \$769,510 which was not exposed to custodial credit risk because it was insured and collateralized with securities held by the pledging or financial institution’s trust department or agent, but not in the District’s name. The market value of such pledged securities or bonds on September 30, 2015 was \$800,707.

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 District 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 District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and TexPool Investment Pool.

As of September 30, 2015, the District had the following investments:

Investment Type	Maturity Time in Years			
	Less than 1	1-5	6-10	More Than 10
Investment Pools	\$2,549,439	\$ -	\$ -	\$ -
Total Investments	<u>\$2,549,439</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk. This is the risk that changes in interest rates will adversely affect the fair market value of an investment. The District’s investments are not currently exposed to interest rate risk. The weighted average of the District’s funds in investment pools is less than 60 days and therefore interest rate risk is minimal.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

Credit risk. Credit Risk is the risk that an issuer or other counterparty of an investment will not fulfill its obligations. The ratings of securities by nationally recognized ratings agencies are designed to give an indication of credit risk. As of September 30, 2015, the District's investment in TexPool investment pool was rated AAAM by Standard & Poor's.

Concentration of credit risk. This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e. lack of diversification). Concentration risk is defined as positions of five percent or more in securities of a single issuer. Investments issued by the U.S. government and investments in investment pools are excluded from the five percent disclosure requirement. The District is not currently exposed to concentration credit risk.

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

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 proprietary funds of the District, including the applicable allowances for uncollectible accounts:

Proprietary Funds:

Receivables	Sewer Fund	Water Fund	Total Business-Type Funds
Accounts receivable	\$ 22,365	\$ 17,837	\$ 40,202
Net receivables	<u>\$ 22,365</u>	<u>\$ 17,837</u>	<u>\$ 40,202</u>

D. Interfund Balances and Transfers

As of year end, The District had the following Interfund Balances:

<u>Funds</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund		
Streets & Lights Fund	\$ 508	\$ 1,396
Total General Fund	<u>508</u>	<u>1,396</u>
Streets & Lights Fund		
General Fund	<u>1,396</u>	<u>508</u>
Total Streets & Lights Fund	<u>1,396</u>	<u>508</u>
Grand Total	<u>\$ 1,904</u>	<u>\$ 1,904</u>

The Streets and Lights Fund transferred \$129,000 during the year to the General Fund to cover expenditures.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

E. Capital Assets

Capital assets activity for the year ended September 30, 2015, was as follows:

Governmental Activities:

	Balance 10/1/14	Increases	Decreases	Balance 9/30/15
Capital assets, not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Construction-in-progress		206,855		206,855
Total capital assets, not being depreciated	10,000	206,855	-	216,855
Capital assets, being depreciated:				
Buildings and improvements	104,901	-	-	104,901
Machinery, equipment, and vehicles	9,179	-	-	9,179
Infrastructure	1,017,066	-		1,017,066
Total capital assets, being depreciated	1,131,146	-	-	1,131,146
Less accumulated depreciation for:				
Buildings and improvements	(45,101)	(3,125)	-	(48,226)
Machinery, equipment, and vehicles	(9,179)	-	-	(9,179)
Infrastructure	(134,892)	(33,903)	-	(168,795)
Total accumulated depreciation	(189,172)	(37,028)	-	(226,200)
Total capital assets being depreciated, net	941,974	(37,028)	-	904,946
Governmental activities capital assets, net	\$ 951,974	\$ 169,827	\$ -	\$ 1,121,801

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

Governmental activities:

General government	\$ 14,811
Streets	22,217
Total depreciation expense - governmental activities	<u>\$ 37,028</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Business-Type Activities:

	Balance 10/1/14	Increases	Decreases	Balance 9/30/15
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	8,709	-	3,227,866
Machinery, equipment, and vehicles	1,487	-	-	1,487
Total capital assets, being depreciated	3,220,644	8,709	-	3,229,353
Less accumulated depreciation for:				
Buildings and improvements	(1,617,190)	(83,274)	-	(1,700,464)
Machinery, equipment, and vehicles	(1,487)	-	-	(1,487)
Total accumulated depreciation	(1,618,677)	(83,274)	-	(1,701,951)
Total capital assets being depreciated, net	1,601,967	(74,565)	-	1,527,402
Business-type activities capital assets, net	\$ 1,608,011	\$ (74,565)	\$ -	\$ 1,533,446

F. Accrued liabilities

Accrued liabilities reported by governmental and proprietary funds at September 30, 2015, were as follows:

Governmental Funds:

	General Fund
Salaries and benefits	\$ 1,742
Total accrued liabilities	\$ 1,742

Proprietary Funds:

	Sewer Fund	Water Fund	Total Proprietary Funds
Accounts payable	\$ 6,844	\$ 10,679	\$ 17,523
Accrued interest payable	6,250	-	6,250
Other	900	350	1,250
Total accrued liabilities	\$ 13,994	\$ 11,029	\$ 25,023

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

G. 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 2014 tax roll (FY 2015) was \$0.0837.

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, related indebtedness from the Unlimited Tax Street Repair Bond for \$2,790,000 has been incurred. The road maintenance tax assessed in the 2014 tax roll (FY 2015) was \$0.1000.

In September of 2014, the Board renewed the contract with 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 renewed contract was effective for the period November 1, 2014 to October 31, 2015.

H. Long-Term Liabilities

Governmental and Proprietary Long-Term Debt

By election on May 1, 1999, District voters approved the issuance of \$191,000 in Water System Improvement Bonds, 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, wastewater bonds in the amount of \$997,000 were issued, and will mature in increments until February 1, 2040. The completed cost of the wastewater system improvements, together with the original cost of the Wastewater System, is being accounted for in the Proprietary Sewer Fund.

On August 26, 2015, the District issued Unlimited Tax Street Repair Bonds Series 2015 amounting to \$2,790,000 for major road repairs project. Interest accrues at a rate of 3.00%-4% from the date of issue to maturity. The bonds and interest thereon are payable by an ad valorem tax assessed for this purpose and will mature in increments until August 1, 2040.

Details of long-term debt obligations outstanding at September 30, 2015 are as follows:

Governmental Activities:

Type	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/15
General Obligation Bonds:					
Water System Unlimited Tax Bond Series 2000	1999	\$ 191,000	4.75%	2040	\$ 162,000
Unlimited Tax Street Repair Bonds Series 2015	2015	2,790,000	3.00%-4.00%	2040	2,790,000
Total General Obligation Bonds					<u>\$ 2,952,000</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

Business-type Activities:

Type	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/15
Revenue Bonds:					
Wastewater System Revenue Bond Series 1996	1996	\$ 997,000	5.00%	2035	\$ 750,000
Total Revenue Bonds					<u>\$ 750,000</u>

Changes in long-term liabilities

Changes in the District's long-term liabilities for the year ended September 30, 2015 are as follows:

Governmental Activities:

Description	Balance 10/1/14	Additions	Deletions	Balance 9/30/15	Due in One Year
Bonds Payable					
Water System Unlimited Tax Bond Series 2000	\$ 165,000	\$ -	\$ (3,000)	\$ 162,000	\$ 3,000
Unlimited Tax Street Repair Bonds Series 2015	-	2,790,000	-	2,790,000	50,000
Total bonds payable	165,000	2,790,000	(3,000)	2,952,000	53,000
Governmental activities long-term liabilities	<u>\$ 165,000</u>	<u>\$ 2,790,000</u>	<u>\$ (3,000)</u>	<u>\$ 2,952,000</u>	<u>\$ 53,000</u>

Business-type Activities:

Description	Balance 10/1/14	Additions	Deletions	Balance 9/30/15	Due in One Year
Bonds Payable					
Wastewater System Revenue Bond Series 1996	\$ 771,000	\$ -	\$ (21,000)	\$ 750,000	\$ 22,000
Total bonds payable	771,000	-	(21,000)	750,000	22,000
Business-type activities long-term liabilities	<u>\$ 771,000</u>	<u>\$ -</u>	<u>\$ (21,000)</u>	<u>\$ 750,000</u>	<u>\$ 22,000</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

The debt service requirements for the District's bonds are as follows:

Governmental Activities:

Year Ended September 30,	Governmental Activities	
	Bonds Payable	
	Principal	Interest
2016	\$ 53,000	\$ 107,693
2017	63,000	105,550
2018	68,000	103,008
2019	74,000	100,242
2020	74,000	97,252
2021-2025	437,000	438,362
2026-2030	555,000	356,434
2031-2035	715,000	253,709
2036-2040	913,000	112,255
Totals	<u>\$ 2,952,000</u>	<u>\$ 1,674,504</u>

Business-type Activities:

Year Ended September 30,	Business-Type Activities	
	Bonds Payable	
	Principal	Interest
2016	22,000	36,950
2017	24,000	35,800
2018	25,000	34,575
2019	26,000	33,300
2020	28,000	31,950
2021-2025	160,000	137,050
2026-2030	204,000	91,850
2031-2035	261,000	33,725
Totals	<u>\$ 750,000</u>	<u>\$ 435,200</u>

I. Subsequent events

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

J. 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 2015, 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, 2015

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 260,408	\$ 260,400	\$ 263,689	\$ 3,289
Investment earnings	164	119	154	35
Miscellaneous revenue	12,192	11,032	11,494	462
Total revenues	<u>272,764</u>	<u>271,551</u>	<u>275,337</u>	<u>3,786</u>
EXPENDITURES				
General government				
Elections	-	1,400	1,246	154
Financial administration	137,285	138,982	131,716	7,266
Public safety				
Fire	141,757	142,000	138,097	3,903
Total Expenditures	<u>279,042</u>	<u>282,382</u>	<u>271,059</u>	<u>11,323</u>
Excess (deficiency) of revenues over expenditures	<u>(6,278)</u>	<u>(10,831)</u>	<u>4,278</u>	<u>15,109</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	129,002	129,000	(2)
Total Other Financing Sources (Uses)	<u>-</u>	<u>129,002</u>	<u>129,000</u>	<u>(2)</u>
Net Change in Fund Balances	(6,278)	118,171	133,278	15,107
Fund balance - beginning	93,292	93,292	93,292	93,292
Fund balance - ending	<u>\$ 87,014</u>	<u>\$ 211,463</u>	<u>\$ 226,570</u>	<u>\$ 15,107</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, 2015

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Property taxes	\$ 141,757	\$ 141,000	\$ 142,175	\$ 1,175
Licenses and permits	8,000	4,000	2,800	(1,200)
Investment earnings	268	65	278	213
Total revenues	<u>150,025</u>	<u>145,065</u>	<u>145,253</u>	<u>188</u>
EXPENDITURES				
Current:				
Highways and streets	-	15,156	10,879	4,277
Debt issuance costs	21,886	154,646	154,646	-
Capital outlay	-	565,096	206,855	358,241
Total Expenditures	<u>21,886</u>	<u>734,898</u>	<u>372,380</u>	<u>362,518</u>
Excess (deficiency) of revenues over expenditures	<u>128,139</u>	<u>(589,833)</u>	<u>(227,127)</u>	<u>362,706</u>
OTHER FINANCING SOURCES (USES)				
Issuance of bonds		2,790,000	2,790,000	-
Transfers out	-	(129,000)	(129,000)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>2,661,000</u>	<u>2,661,000</u>	<u>-</u>
Net Change in Fund Balances	128,139	2,071,167	2,433,873	362,706
Fund balance - beginning	2,412	2,412	2,412	2,412
Fund balance - ending	<u>\$ 130,551</u>	<u>\$ 2,073,579</u>	<u>\$ 2,436,285</u>	<u>\$ 362,706</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, 2015

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Investment earnings	\$ 14	\$ 10	\$ 10	\$ -
Total revenues	<u>14</u>	<u>10</u>	<u>10</u>	<u>-</u>
EXPENDITURES				
General government				
Financial administration	3,344	3,344	1,564	1,780
Debt service:				
Bond principal	3,000	3,000	3,000	-
Interest - bonds	7,766	7,766	8,561	(795)
Fiscal agent fees	875	800	-	800
Total Expenditures	<u>14,985</u>	<u>14,910</u>	<u>13,125</u>	<u>1,785</u>
Excess (deficiency) of revenues over expenditures	<u>(14,971)</u>	<u>(14,900)</u>	<u>(13,115)</u>	<u>1,785</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	1	-	(1)
Total Other Financing Sources (Uses)	<u>-</u>	<u>1</u>	<u>-</u>	<u>(1)</u>
Net Change in Fund Balances	(14,971)	(14,899)	(13,115)	1,784
Fund balance - beginning	31,400	31,400	31,400	31,400
Fund balance - ending	<u>\$ 16,429</u>	<u>\$ 16,501</u>	<u>\$ 18,285</u>	<u>\$ 1,784</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 - SEWER FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
OPERATING REVENUES				
Sewer service	\$ 291,580	\$ 281,000	\$ 295,208	\$ 14,208
Total operating revenues	<u>291,580</u>	<u>281,000</u>	<u>295,218</u>	<u>14,218</u>
OPERATING EXPENSES				
Other operating expense	164,965	220,000	189,054	30,946
Depreciation	54,703	55,000	55,284	(284)
Total Expenditures	<u>219,668</u>	<u>275,000</u>	<u>270,803</u>	<u>4,197</u>
Operating income (loss)	<u>71,912</u>	<u>6,000</u>	<u>24,415</u>	<u>18,415</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	301	295	453	158
Interest expense	(38,025)	(38,025)	(37,850)	175
Total Nonoperating revenues (expenses)	<u>(37,724)</u>	<u>(37,730)</u>	<u>(37,397)</u>	<u>333</u>
Net Change in Net Position	34,188	(31,730)	(12,982)	18,748
Net position - beginning	812,639	812,639	812,639	812,639
Net position - ending	<u>\$ 846,827</u>	<u>\$ 780,909</u>	<u>\$ 799,657</u>	<u>\$ 18,748</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 - WATER FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
OPERATING REVENUES				
Water sales	\$ 142,640	\$ 131,500	\$ 137,896	\$ 6,396
Waste management services	55,326	55,000	55,694	694
Miscellaneous revenue	75	50	50	-
Total operating revenues	<u>198,041</u>	<u>186,550</u>	<u>193,640</u>	<u>7,090</u>
OPERATING EXPENSES				
Purchased professional and technical services	106,650	108,000	104,683	3,317
Other operating expense	43,808	55,000	54,588	412
Depreciation	27,167	28,167	27,990	177
Total Expenditures	<u>177,625</u>	<u>191,167</u>	<u>187,261</u>	<u>3,906</u>
Operating income (loss)	<u>20,416</u>	<u>(4,617)</u>	<u>6,379</u>	<u>10,996</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	108	109	144	35
Total Nonoperating revenues (expenses)	<u>108</u>	<u>109</u>	<u>144</u>	<u>35</u>
Net Change in Net Position	20,524	(4,508)	6,523	11,031
Net Position - beginning	568,609	568,609	568,609	568,609
Net Position - ending	<u>\$ 589,133</u>	<u>\$ 564,101</u>	<u>\$ 575,132</u>	<u>\$ 11,031</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, 2015

Services Provided by the District During the Fiscal Year:

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

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"	240	240	
1"	9	9	
Total Water	<u>261</u>	<u>249</u>	
Wastewater	<u>402</u>	<u>395</u>	<u>395</u>

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

		Water Accountability Ratio
Gallons Pumped into System	13,554,918	
Gallons Billed to Customers	<u>12,675,800</u>	
Difference	879,118	93.51%

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 SCHEDULE OF GENERAL FUND EXPENDITURES
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

Personnel Expenditures (Including Benefits)	\$	97,238
Professional Fees:		
Auditing		5,740
Legal		567
Fire Coverage Service		138,097
Utilities		4,960
Repairs and Maintenance		5,295
Administrative Expenditures:		
Office Supplies		6,470
Other Administrative Expenditures		12,690
Total Expenditures		\$ 271,059

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, 2015

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
General Fund-TexPool	1501100005	Var	Daily	\$ 58,516
Special Revenue-TexPool	1501100007	Var	Daily	2,374,137
Utility Fund-TexPool	1501100003	Var	Daily	58,761
Sewer Reserve-Texpool	1501100001	Var	Daily	58,025
Total - TexPool				<u>2,549,439</u>
Total Temporary Investments				<u><u>\$ 2,549,439</u></u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
SCHEDULE OF TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Maintenance Taxes	Debt Service Taxes	Road Maintenance	Fire	Total
Taxes Receivable October 1, 2014	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes Assessed, 2014 Roll	118,629	-	141,731	141,731	402,091
Tax Collections:					
Current Year	118,629		141,731	141,731	402,091
Prior Years	372	-	444	444	1,261
Total Collections	<u>\$ 119,001</u>	<u>\$ -</u>	<u>\$ 142,175</u>	<u>\$ 142,175</u>	<u>\$ 403,352</u>
Less Bad Debt					
Taxes Receivable September 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Assessed Valuation:	2014	2013	2012	2011	2010
	<u>\$ 141,730,998</u>	<u>\$ 143,339,239</u>	<u>\$ 123,082,381</u>	<u>\$ 120,762,034</u>	<u>\$ 119,630,086</u>
	2014	2013	2012	2011	2010
Debt Service Rate	0	0.0107	0.0116	0.0116	0.0151
Maintenance Rate	0.0837	0.0900	0.1134	0.1134	0.0734
Road Rate	0.1000	0.0871	0.0700	0.0700	0.1000
Firefighting Service Tax	0.1000	0.1000	0.1000	0.1000	0.0960
Tax Rates/\$100 Valuation	<u>0.2837</u>	<u>0.2878</u>	<u>0.2950</u>	<u>0.2950</u>	<u>0.2845</u>
Original Tax Levy	\$ 402,091	\$ 412,525	\$ 356,248	\$ 356,248	\$ 340,348
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, 2015

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: 08/29/2014

Limit on Fees of Office that a Director May Receive During Fiscal Year: \$7,200

Names and Addresses:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid FYE 9/30/15	Expense Reimbursements FYE 9/30/15	Title at Year End
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 5/2014 5/2018		540	Vice President
Rodney Bond 406 Blue Waters Horseshoe Bay, TX 78657	Elected 5/2014 5/2018		870	Secretary-Treasurer
Warner Tweed 3105 Golf Course Drive Horseshoe Bay, TX 78657	Elected 5/2014 5/2018		540	Board Member
L.D. Stewart 2910 Blue Lake Drive Horseshoe Bay, TX 78657	Elected 5/2012 5/2016		540	Board Member

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
 SCHEDULE OF BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)
 FOR THE YEAR ENDED SEPTEMBER 30, 2015

Key Administrative Personnel:

Angela Burton 1209 Ash Dr. Marble Falls, TX 78654	8/2014	43,118	705	General Manager
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Names and Addresses:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid FY 9/30/15	Fees FY 9/30/15	Title at Year End
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Consultants:

McGinnis, Lochridge & Kilgore, LLP 600 Congress Avenue, Suite 2100 Austin, TX 78701			\$ 1,998	General Counsel
Llano County Appraisal District 103 East Sandstone Llano, TX 78643	1997		3,276	Appraisal District
Singleton, Clark & Company, PC 1130 Cottonwood Creek Trail Building B, Suite 4 Cedar park, Texas 78613	2009		5,740	District Auditor
Willis Environmental & Engineering 310 Main Street Marble Falls, TX 78654	1995		176,052	Engineer
Ron Tomison 19807 N Hwy 183 Lometa, TX 76853	2002		1,875	MUD Inspector
TNA Operations & Management 1209 Ash Dr. Marble Falls, TX 78654	2013		85,770	Water & Sewer Operations Management Contract



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

Members of 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, business-type activities, and each major fund information of Llano County Municipal Utility District #1, as of and for the year ended September 30, 2015, 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 January 22, 2016.

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.

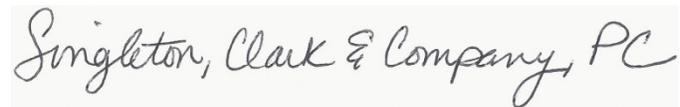
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

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

January 22, 2016

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

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:

No findings or questioned costs required to be reported in accordance with *Government Auditing Standards* for the year ended September 30, 2015 and 2014.

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, 2015 and 2014.