

LLANO COUNTY MUNICIPAL  
UTILITY DISTRICT # 1  
ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2016



SINGLETON, CLARK  
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

TABLE OF CONTENTS

	Page
<b>FINANCIAL SECTION</b>	
Annual Filing Affidavit	1
Independent Auditor’s Report	2
Management’s Discussion and Analysis	4
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of the Balance Sheet – Governmental Funds to the Government-wide Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Government-wide Statement of Activities	17
Statement of Net Position – Proprietary Funds	18
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	19
Statement of Cash Flows – Proprietary Funds	20
Notes to the Financial Statements	21
<b>Required Supplementary Information:</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	35
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Streets and Lights Fund	36
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund	37
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual – Sewer Fund	38
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual – Water Fund	39
<b>Other Supplementary Information:</b>	
Schedule of Services and Rates	40
Schedule of General Fund Expenditures	41
Schedule of Temporary Investments	42
Schedule of Taxes Levied and Receivable	43
Schedule of Board Members, Key Personnel, and Consultants	44
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	46
Schedule of Findings and Questioned Costs	48

## FINANCIAL SECTION

ANNUAL FILING AFFIDAVIT

STATE OF TEXAS, COUNTY OF LLANO

I, Angela Thomas of the Llano County Municipal Utility District #1 hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the 28<sup>th</sup> day of February, 2017, its annual audit report for the fiscal year ended September 30, 2016 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.

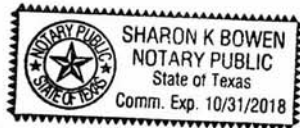
Date: March 17, 2017

By: Angela Thomas

Title: General Manager

Sworn to and subscribed to before me this 17<sup>th</sup> day of March, 2017.

My Commission Expires On: October 31, 2018 Sharon K. Bowen  
Notary Public in the State of Texas





UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS  
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION  
AND OTHER 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 the Llano County Municipal Utility District (the "District") as of and for the year ended September 30, 2016 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, 2016 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.

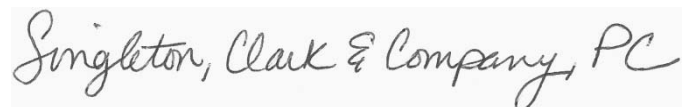
### *Other Supplementary Information*

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 Other 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 Other 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 13, 2017 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 13, 2017

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

As management of the 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, 2016.

**Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,198,740 (net position). Of this amount \$754,174 represents unrestricted net position which may be used to meet the District's ongoing obligations to citizens and creditors. The District's total government-wide net position did decrease by \$15,716 as a result of current year's operations.
- At the close of the current fiscal year the District's total governmental funds reported combined fund balances of \$291,990, a decrease of \$2,389,150 in comparison with the prior year due to capital expenditures in the District's Street and Lights Fund. Approximately 80% of total fund balance, or \$230,636, 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 \$232,636 which represents approximately 80% of total fiscal year 2016 General Fund expenditures.

**Overview of the Financial Statements**

The discussion and analysis provided herein is intended to serve as an introduction to the 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 other 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, 2016

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 water/wastewater utility operations.

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, 2016

**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 21-34 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 the Llano County Municipal Utility District #1, assets exceeded liabilities by \$2,198,740 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, 2016

**Llano County Municipal Utility District #1's Net Position**

	Governmental Activities 2016	Governmental Activities 2015	Change	Business- Type Activities 2016	Business- Type Activities 2015	Change
Current & other assets	\$ 306,878	\$ 2,711,256	\$(2,404,378)	\$ 629,984	\$ 616,370	\$ 13,614
Capital assets (net)	3,398,311	1,121,801	2,276,510	1,555,821	1,533,446	22,375
<b>Total assets</b>	<b>3,705,189</b>	<b>3,833,057</b>	<b>(127,868)</b>	<b>2,185,805</b>	<b>2,149,816</b>	<b>35,989</b>
Current liabilities	32,480	41,394	(8,914)	32,774	25,023	7,751
Long-term liabilities	2,899,000	2,952,000	(53,000)	728,000	750,000	(22,000)
<b>Total liabilities</b>	<b>2,931,480</b>	<b>2,993,394</b>	<b>(61,914)</b>	<b>760,774</b>	<b>775,023</b>	<b>(14,249)</b>
<b>Net position</b>						
Net investment in capital assets	499,311	545,334	(46,023)	827,821	783,446	44,375
Restricted	17,434	18,285	(851)	100,000	100,000	-
Unrestricted	256,964	276,044	(19,080)	497,210	491,347	5,863
<b>Total net position</b>	<b>\$ 773,709</b>	<b>\$ 839,663</b>	<b>\$ (65,954)</b>	<b>\$ 1,425,031</b>	<b>\$ 1,374,793</b>	<b>\$ 50,238</b>

By far, the largest portion of the Llano County Municipal Utility District #1's net position, approximately 60%, reflects its net 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, approximately 5%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of approximately 35% of the net position 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, 2016

Llano County Municipal Utility District #1's overall government-wide net position did decrease by \$15,716 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 \$65,954 from the prior fiscal year for an ending balance of \$773,709. The decrease in the overall net position of governmental activities is due to increased expenditure in general government and public safety during the year.

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

	Governmental Activities 2016	Governmental Activities 2015	Change	Business- Type Activities 2016	Business- Type Activities 2015	Change
Revenues:						
Program revenues:						
Charges for services	\$ 16,465	\$ 14,264	\$ 2,201	\$ 502,869	\$ 488,799	\$ 14,070
General revenues:						
Property taxes	443,443	405,864	37,579	-	-	-
Investment earnings	6,729	442	6,287	1,078	597	481
Other	-	30	(30)	4,362	63	4,299
Total revenue	466,637	420,600	46,037	508,309	489,459	18,850
Expenses:						
General government	151,699	149,337	2,362	-	-	-
Public safety	140,988	138,097	2,891	-	-	-
Highways and streets	131,652	33,096	98,556	-	-	-
Interest & fees on long-term debt	107,057	17,702	89,355	-	-	-
Debt issuance costs	1,195	155,441	(154,246)	-	-	-
Sewer Fund	-	-	-	262,519	308,653	(46,134)
Water Fund	-	-	-	195,552	187,261	8,291
Total expenses	532,591	493,673	38,918	458,071	495,914	(37,843)
Increase (decrease) in net position	(65,954)	(73,073)	7,119	50,238	(6,455)	56,693
Net position - beginning	839,663	912,736	(73,073)	1,374,793	1,381,248	(6,455)
Net position - ending	\$ 773,709	\$ 839,663	\$ (65,954)	\$ 1,425,031	\$ 1,374,793	\$ 50,238

**Business-type Activities.** For the Llano County Municipal Utility District #1's business-type activities, the results for the current fiscal year increased the overall net position to end at a balance of \$1,425,031. The total increase in net position for business-type activities (sewer and water funds) was \$50,238 or approximately 5% from the prior fiscal year.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

**Financial Analysis of Governmental Funds**

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

**Governmental Funds.** The focus of 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, 2016, Llano County Municipal Utility District #1's governmental funds reported combined fund balances of \$291,990, a decrease of \$2,389,150 in comparison with the prior year. Approximately 80% of this amount or \$230,636 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*.

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 \$230,636, which represented nearly all 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 80% of total the General Fund's fiscal year 2016 expenditures (meaning the General Fund has 80% of a year's average expenditures held in reserve). The fund balance of Llano County Municipal Utility District #1's General Fund increased slightly by \$6,066 during the current fiscal year. The fund reported an assigned fund balance of \$2,000 as of year end of the current fiscal year.

The Streets and Lights Fund, a major fund, had a \$2,394,365 decrease in fund balance during the current fiscal year which put the overall fund balance at \$41,920 as of year end. The decrease in the fund balance is attributed to capital outlay expenditures for roads during the year amounting to \$2,400,116. The fund reported its entire ending fund balance of \$41,920 as assigned for streets and lights.

The Debt Service Fund, the remaining major governmental fund, had a slight decrease in fund balance during the current year of \$851 to bring the year end fund balance to \$17,434.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

**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 \$345,382 and for the Water Fund was \$151,828. The total increase in net position for Sewer fund was \$43,086 attributed to lower than expected operating expenses during the year while the Water Fund saw a total increase in the net position of \$7,152.

**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. Budgetary schedules for all funds can be found on pages 35-39 of this report.

**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, 2016 amounted to \$4,954,132 (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 45%.

**Llano County Municipal Utility District #1's Capital Assets**

	Governmental Activities 2016	Governmental Activities 2015	Change	Business- Activities 2016	Business- Activities 2015	Change
Land	\$ 10,000	\$ 10,000	\$ -	\$ 6,044	\$ 6,044	\$ -
Buildings and Improvements	104,901	104,901	-	3,336,198	3,227,866	108,332
Machinery, Equipment and Vehicles	9,179	9,179	-	1,487	1,487	-
Infrastructure	3,624,037	1,017,066	2,606,971	-	-	-
Construction in Progress	-	206,855	(206,855)	-	-	-
Total	3,748,117	1,348,001	2,400,116	3,343,729	3,235,397	108,332
Less Accumulated Depreciation	(349,806)	(226,200)	(123,606)	(1,787,908)	(1,701,951)	(85,957)
Capital assets, net of depreciation	\$ 3,398,311	\$ 1,121,801	\$ 2,276,510	\$1,555,821	\$1,533,446	\$ 22,375

Additional information on Llano County Municipal Utility District #1's capital assets can be found in Note IV.D on pages 30-31 of this report.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

**Long-term Debt.** At the end of the current fiscal year, Llano County Municipal Utility District #1 had total bonded debt outstanding of \$3,627,000. Of this amount, \$2,899,000 is debt backed by the full faith and credit of the District.

**Llano County Municipal Utility District #1's Outstanding Debt**

	Governmental Activities 2016	Governmental Activities 2015	Change	Business- Activities 2016	Business- Activities 2015	Change
Water System Unlimited Tax Bonds	\$ 159,000	\$ 162,000	\$ (3,000)	\$ -	\$ -	\$ -
Unlimited Tax Street Repair Bonds	\$ 2,740,000	2,790,000	(50,000)	-	-	-
WasteWater System Revenue Bonds	-	-	-	728,000	750,000	(22,000)
Total	<u>\$ 2,899,000</u>	<u>\$ 2,952,000</u>	<u>\$ (53,000)</u>	<u>\$ 728,000</u>	<u>\$ 750,000</u>	<u>\$ (22,000)</u>

Llano County Municipal Utility District #1's total debt decreased by \$75,000 during the current fiscal year due to scheduled payments on debt during the year. Additional information on Llano County Municipal Utility District #1's long-term debt can be found in Note IV.F on pages 32-34 of this report.

**Economic Factors and Next Year's Budgets and Rates**

Current economic factors affect the Llano County Municipal Utility District #1 and were considered in developing the 2016-2017 fiscal year budgets. For the 2016-2017 budget year, the District decreased its maintenance and operations tax rate to \$0.0744 per hundred of taxable value. The District increased its debt service tax to \$0.1190 for the 2016-2017. It held the fire service rate constant at \$0.10 per hundred of taxable value. The road maintenance rate was done away with for the year 2016-2017 since the project for road maintenance was completed in fiscal year 2015-2016. The combined tax rate of the District for the 2016-2017 budget year is \$0.2934 per hundred of taxable value which is \$.02 lower than the current year.

**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, Llano County Municipal Utility District #1, 2900 Blue Lake Drive Horseshoe Bay, Texas 78657.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2016

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 213,218	\$ 440,746	\$ 653,964
Investments - current	93,660	117,320	210,980
Accounts receivable	-	41,196	41,196
Prepaid items	-	30,722	30,722
Capital assets, not being depreciated:			
Land	10,000	6,044	16,044
Capital assets, being depreciated:			
Buildings and improvements	104,901	3,336,198	3,441,099
Machinery, equipment, and vehicles	9,179	1,487	10,666
Infrastructure	3,624,037	-	3,624,037
Accumulated depreciation	(349,806)	(1,787,908)	(2,137,714)
Total Assets	<u>3,705,189</u>	<u>2,185,805</u>	<u>5,890,994</u>
<b>LIABILITIES</b>			
Accounts payable	5,988	24,760	30,748
Accrued interest payable	17,592	-	17,592
Unearned revenue	-	6,067	6,067
Other current liabilities	-	1,497	1,497
Customer deposits	8,900	450	9,350
Noncurrent liabilities:			
Due within one year	63,000	24,000	87,000
Due in more than one year	2,836,000	704,000	3,540,000
Total Liabilities	<u>2,931,480</u>	<u>760,774</u>	<u>3,692,254</u>
<b>NET POSITION</b>			
Net investment in capital assets	499,311	827,821	1,327,132
Restricted for debt service	17,434	100,000	117,434
Unrestricted	256,964	497,210	754,174
Total Net Position	<u>\$ 773,709</u>	<u>\$ 1,425,031</u>	<u>\$ 2,198,740</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, 2016

Functions/Programs:	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Position		
			Primary Government		Total
			Governmental Activities	Business-Type Activities	
<b>Primary Government:</b>					
Governmental activities:					
General government	\$ 151,699	\$ 14,002	\$ (137,697)	\$ -	\$ (137,697)
Public safety	140,988	-	(140,988)	-	(140,988)
Streets	131,652	2,463	(129,189)	-	(129,189)
Interest	107,057	-	(107,057)	-	(107,057)
Other fees	1,195	-	(1,195)	-	(1,195)
Total governmental activities:	<u>532,591</u>	<u>16,465</u>	<u>(516,126)</u>	<u>-</u>	<u>(516,126)</u>
Business-type activities:					
Sewer Fund	262,519	304,683	-	42,164	42,164
Water Fund	195,552	198,186	-	2,634	2,634
Total business-type activities:	<u>458,071</u>	<u>502,869</u>	<u>-</u>	<u>44,798</u>	<u>44,798</u>
Total primary government	<u>\$ 990,662</u>	<u>\$ 519,334</u>	<u>(516,126)</u>	<u>44,798</u>	<u>(471,328)</u>
General Revenues:					
Property taxes			443,443	-	443,443
Investment earnings			6,729	1,078	7,807
Miscellaneous			-	4,362	4,362
Total general revenues			<u>450,172</u>	<u>5,440</u>	<u>455,612</u>
Change in net position			(65,954)	50,238	(15,716)
Net position -- beginning			839,663	1,374,793	2,214,456
Net position -- ending			<u>\$ 773,709</u>	<u>\$ 1,425,031</u>	<u>\$ 2,198,740</u>

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

FUND BASIS FINANCIAL STATEMENTS

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2016

	General Fund	Streets and Lights	Debt Service	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 175,733	\$ 20,051	\$ 17,434	\$ 213,218
Investments - current	58,783	34,877	-	93,660
Total assets	<u>\$ 234,516</u>	<u>\$ 54,928</u>	<u>\$ 17,434</u>	<u>\$ 306,878</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 1,880	\$ 4,108	-	\$ 5,988
Customer deposits	-	8,900	-	8,900
Total liabilities	<u>1,880</u>	<u>13,008</u>	<u>-</u>	<u>14,888</u>
<b>FUND BALANCES (DEFICITS)</b>				
Restricted:				
Debt service	-	-	17,434	17,434
Assigned:				
Streets and lights	-	41,920	-	41,920
Special purposes	2,000	-	-	2,000
Unassigned	230,636	-	-	230,636
Total fund balances	<u>232,636</u>	<u>41,920</u>	<u>17,434</u>	<u>291,990</u>
Total liabilities and fund balances	<u>\$ 234,516</u>	<u>\$ 54,928</u>	<u>\$ 17,434</u>	<u>\$ 306,878</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, 2016

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

Total fund balances - governmental funds	\$ 291,990
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,398,311
Accrued interest on long-term debt is not recorded within the funds.	(17,592)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(2,899,000)
Net position of governmental activities	<u>\$ 773,709</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  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

	General Fund	Streets and Lights	Debt Service	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 278,346	\$ 8,032	\$ 157,065	\$ 443,443
Licenses and permits	-	2,463	-	2,463
Investment earnings	531	6,107	91	6,729
Miscellaneous revenue	14,002	-	-	14,002
Total revenues	<u>292,879</u>	<u>16,602</u>	<u>157,156</u>	<u>466,637</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Elections	1,024	-	-	1,024
Financial administration	144,801	-	3,069	147,870
Public safety:				
Fire	140,988	-	-	140,988
Streets	-	10,851	-	10,851
Debt service:				
Bond principal	-	-	53,000	53,000
Interest - bonds	-	-	100,743	100,743
Other fees	-	-	1,195	1,195
Capital outlay	-	2,400,116	-	2,400,116
Total expenditures	<u>286,813</u>	<u>2,410,967</u>	<u>158,007</u>	<u>2,855,787</u>
Excess (deficiency) of revenue over expenditures	<u>6,066</u>	<u>(2,394,365)</u>	<u>(851)</u>	<u>(2,389,150)</u>
Net change in fund balance	6,066	(2,394,365)	(851)	(2,389,150)
Fund balance - beginning	226,570	2,436,285	18,285	2,681,140
Fund balance - ending	<u>\$ 232,636</u>	<u>\$ 41,920</u>	<u>\$ 17,434</u>	<u>\$ 291,990</u>

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

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

Net change in fund balances - total governmental funds	\$ (2,389,150)
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 exceeded depreciation expense in the current period.	2,276,510
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of debt repayment in the treatment of long-term debt and related items.	53,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This amount is the effect of the change in accrued interest.	(6,314)
Change in net position - governmental activities	\$ (65,954)

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, 2016

	Business-Type Activities		
	Sewer Fund	Water Fund	Total Business-Type Funds
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 345,644	\$ 95,102	\$ 440,746
Investments - current	58,291	59,029	117,320
Accounts receivable, net	23,976	17,220	41,196
Due from other funds	63	-	63
Prepaid items	30,692	30	30,722
Total current assets	<u>458,666</u>	<u>171,381</u>	<u>630,047</u>
Noncurrent assets:			
Land	6,044	-	6,044
Improvements other than buildings	2,215,104	1,121,094	3,336,198
Machinery and equipment	1,487	-	1,487
Accumulated depreciation	(1,097,273)	(690,635)	(1,787,908)
Total noncurrent assets	<u>1,125,362</u>	<u>430,459</u>	<u>1,555,821</u>
Total assets	<u>1,584,028</u>	<u>601,840</u>	<u>2,185,868</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	6,167	18,593	24,760
Due to other funds	-	63	63
Accrued interest payable	6,067	-	6,067
Other current liabilities	600	897	1,497
Customer deposits	450	-	450
Bonds payable - current	24,000	-	24,000
Total current liabilities	<u>37,284</u>	<u>19,553</u>	<u>56,837</u>
Noncurrent liabilities:			
Bonds payable	704,000	-	704,000
Total noncurrent liabilities	<u>704,000</u>	<u>-</u>	<u>704,000</u>
Total liabilities	<u>741,284</u>	<u>19,553</u>	<u>760,837</u>
<b>NET POSITION</b>			
Net investment in capital assets	397,362	430,459	827,821
Restricted for debt service	100,000	-	100,000
Unrestricted	345,382	151,828	497,210
Total net position	<u>\$ 842,744</u>	<u>\$ 582,287</u>	<u>\$ 1,425,031</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, 2016

	Business-Type Activities		
	Sewer Fund	Water Fund	Total Business-Type Funds
Operating revenues:			
Charges for services:			
Water sales	\$ -	\$ 141,486	\$ 141,486
Sewerage services	304,683	-	304,683
Waste management services	-	56,700	56,700
Miscellaneous revenue	243	4,119	4,362
Total operating revenues	<u>304,926</u>	<u>202,305</u>	<u>507,231</u>
Operating expenses:			
Purchased professional and technical services	28,517	105,930	134,447
Other operating expenses	140,838	60,062	200,900
Depreciation	56,397	29,560	85,957
Total operating expenses	<u>225,752</u>	<u>195,552</u>	<u>421,304</u>
Operating income (loss)	79,174	6,753	85,927
Nonoperating revenues (expenses)			
Investment earnings	679	399	1,078
Interest expense	(36,767)	-	(36,767)
Total nonoperating revenues (expenses)	<u>(36,088)</u>	<u>399</u>	<u>(35,689)</u>
Net Income	<u>43,086</u>	<u>7,152</u>	<u>50,238</u>
Change in net position	43,086	7,152	50,238
Net position-beginning	799,658	575,135	1,374,793
Net position-ending	<u>\$ 842,744</u>	<u>\$ 582,287</u>	<u>\$ 1,425,031</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, 2016

	Business-Type Activities		
	Sewer Fund	Water Fund	Total Business-Type Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 303,315	\$ 202,921	\$ 506,236
Payments to suppliers and service providers	(159,887)	(157,467)	(317,354)
Net cash provided by (used for) operating activities	<u>143,428</u>	<u>45,454</u>	<u>188,882</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(7,989)	(100,343)	(108,332)
Principal paid on capital debt	(22,000)	-	(22,000)
Interest paid on capital debt	(36,950)	-	(36,950)
Net cash provided by (used for) capital and related financing activities	<u>(66,939)</u>	<u>(100,343)</u>	<u>(167,282)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of investments	(266)	(268)	(534)
Interest on investments	679	399	1,078
Net cash provided by investing activities	<u>413</u>	<u>131</u>	<u>544</u>
Net increase (decrease) in cash and cash equivalents	76,902	(54,758)	22,144
Cash and cash equivalents-beginning	268,742	149,860	418,602
Cash and cash equivalents-ending	<u>\$ 345,644</u>	<u>\$ 95,102</u>	<u>\$ 440,746</u>
<b>Reconciliation of operating income (loss) to net cash provided (used for) operating activities:</b>			
Operating income (loss)	\$ 79,174	\$ 6,753	\$ 85,927
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation expense	56,397	29,560	85,957
(Increase) decrease in accounts receivable	(1,611)	617	(994)
(Increase) decrease in due from other funds	(63)	-	(63)
(Increase) decrease in prepaid items	10,058	-	10,058
(Decrease) increase in accounts payable	(677)	7,914	7,237
(Decrease) increase in due to other funds	-	63	63
(Decrease) increase in other liabilities	150	547	697
Total adjustments	<u>64,254</u>	<u>38,701</u>	<u>102,955</u>
Net cash provided by (used for) operating activities	<u>\$ 143,428</u>	<u>\$ 45,454</u>	<u>\$ 188,882</u>

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

NOTES TO THE FINANCIAL STATEMENTS

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

**I. Summary of significant accounting policies**

**A. Description of government-wide financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government 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 Commissioners Court of Llano County on February 8, 1971. The water distribution lines were purchased from Blue Lake Properties, Inc. on August 7, 1971. Then 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 Llano County Fresh Water Supply District #1 from a water district into a municipal utility district, renamed Llano County Municipal Utility District #1. The new district complied with all bond resolutions of the old district, and operated under the provision of Chapter 54 of the Texas Water Code. The remaining bonds at that time scheduled to mature on July 1, 1999 of \$30,000 were redeemed on that date.

**C. Reporting entity**

The Llano County Municipal Utility District #1 (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. Based on the criteria for reporting component units, discretely presented or blended, the District had no component units..

**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, 2016

**E. Basis of presentation – fund financial statements**

The fund financial statements provide information about the District's funds. 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 road and light activity related to tax levy funding.

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, 2016

**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, the Streets and Lights Fund, the Debt Service Fund, the Sewer Fund, and the 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, 2016

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, 2016, there were no expenditures reported in excess of appropriations in relation to any of the in the District's legally adopted budgets.

**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, 2016

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.

***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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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.

**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, 2015, upon which the levy for the 2015-2016 fiscal year was based, was \$143,030,313. Taxes are delinquent if not paid by February 1st of the following calendar year. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended September 30, 2016 to finance General Fund, Debt Service Fund, fire and road maintenance operations were \$0.0965, \$0.1106, \$0.100, and \$0.0063, respectively, for a total tax rate of \$.3134 per \$100 valuation. The total tax levy for the General Fund and Streets and Lights Fund for the 2015-2016 fiscal year was \$448,257. Tax collections,



LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

including collections of prior year delinquent balances for the year ended September 30, 2016 were approximately 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 Fund, Debt Service Fund, fire and road maintenance 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.

**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.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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	3,624,037
Accumulated depreciation	<u>(349,806)</u>
<i>Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities</i>	<u><u>\$ 3,398,311</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 at the beginning of the year	\$ (2,952,000)
Bonds repaid during the year	<u>53,000</u>
<i>Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities</i>	<u><u>\$ (2,899,000)</u></u>

**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	\$ 2,400,116
Depreciation expense	<u>(123,606)</u>
<i>Net adjustment to decrease net changes in fund balance - total governmental funds to arrive at changes in net position of governmental</i>	<u><u>\$ 2,276,510</u></u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

**III. Stewardship, compliance and accountability**

**A. Violations of legal or contractual provisions**

Note I.G.2, on the *Excess of expenditures over appropriations*, indicates that there were no budgetary overages that occurred for the year ended September 30, 2016.

**B. Deficit fund equity**

For the year ended September 30, 2016 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 has a deposit policy for custodial credit risk. As of September 30, 2016, the District’s bank balance was \$867,444 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, 2016 was \$1,150,086.

**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.H.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, 2016, the District had the following investments:

Investment Type	Maturity Time in Years			
	Less than 1	1-5	6-10	More Than 10
TexPool Investment Pool	\$ 210,980	\$ -	\$ -	\$ -
Total Investments	<u>\$ 210,980</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, 2016

*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, 2016, 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. Interfund Balances and Transfers**

As of year end, the Sewer Fund had an interfund balance of \$63 with the Water Fund. During the year, the District did not make any interfund transfers.

**D. Capital Assets**

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

**Governmental Activities:**

	Balance 10/1/15	Increases	Adjustments	Balance 9/30/16
Capital assets, not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Construction-in-progress	206,855	470	(207,325)	-
Total capital assets, not being depreciated	<u>216,855</u>	<u>470</u>	<u>(207,325)</u>	<u>10,000</u>
Capital assets, being depreciated:				
Buildings and improvements	104,901	-	-	104,901
Machinery, equipment, and vehicles	9,179	-	-	9,179
Infrastructure	1,017,066	2,399,646	207,325	3,624,037
Total capital assets, being depreciated	<u>1,131,146</u>	<u>2,399,646</u>	<u>207,325</u>	<u>3,738,117</u>
Less accumulated depreciation for:				
Buildings and improvements	(48,226)	(2,805)	-	(51,031)
Machinery, equipment, and vehicles	(9,179)	-	-	(9,179)
Infrastructure	(168,795)	(120,801)	-	(289,596)
Total accumulated depreciation	<u>(226,200)</u>	<u>(123,606)</u>	<u>-</u>	<u>(349,806)</u>
Total capital assets being depreciated, net	<u>904,946</u>	<u>2,276,040</u>	<u>207,325</u>	<u>3,388,311</u>
Governmental activities capital assets, net	<u>\$ 1,121,801</u>	<u>\$ 2,276,510</u>	<u>\$ -</u>	<u>\$ 3,398,311</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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

**Governmental activities:**

General government	\$	2,805
Streets		120,801
		123,606
Total depreciation expense - governmental activities	\$	123,606

**Business-Type Activities:**

	Balance		Balance
	10/1/15	Increases	Adjustments
	9/30/16		
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	3,227,866	108,332	-
Machinery, equipment, and vehicles	1,487	-	-
			1,487
Total capital assets, being depreciated	3,229,353	108,332	-
			3,337,685
Less accumulated depreciation for:			
Buildings and improvements	(1,700,464)	(85,957)	-
Machinery, equipment, and vehicles	(1,487)	-	-
			(1,487)
Total accumulated depreciation	(1,701,951)	(85,957)	-
			(1,787,908)
Total capital assets being depreciated, net	1,527,402	22,375	-
Business-type activities capital assets, net	\$ 1,533,446	\$ 22,375	\$ -
			\$ 1,555,821

**E. Water System Maintenance, Debt Service, 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 2015 tax roll (Fiscal Year 2016) was \$0.0965.

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 2015 tax roll (Fiscal Year 2016) was \$0.0063 and the Debt service tax assessed in the 2015 tax roll (Fiscal Year 2016) was \$0.1106.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

In September of 2015, 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, 2015 to October 31, 2016.

**F. 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% - 4.00% 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, 2016 are as follows:

Governmental Activities:

Type	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/16
<b>General Obligation Bonds:</b>					
Water System Unlimited Tax Bond, Series 2000	1999	\$ 191,000	4.75%	2040	\$ 159,000
Unlimited Tax Street Repair Bonds, Series 2015	2015	2,790,000	3.00%-4.00%	2040	2,740,000
Total General Obligation Bonds					<u>\$ 2,899,000</u>

Business-type Activities:

Type	Sale Date	Original Borrowing	Interest Rates to Maturity	Final Maturity	Outstanding 9/30/16
<b>Revenue Bonds:</b>					
Wastewater System Revenue Bond, Series 1996	1996	\$ 997,000	5.00%	2035	\$ 728,000
Total Revenue Bonds					<u>\$ 728,000</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

Changes in long-term liabilities

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

**Governmental Activities:**

Description	Balance 10/1/15	Additions	Deletions	Balance 9/30/16	Due in One Year
<b>Bonds Payable</b>					
Water System Unlimited Tax Bond, Series 2000	\$ 162,000	\$ -	\$ (3,000)	\$ 159,000	\$ 3,000
Unlimited Tax Street Repair Bonds, Series 2015	2,790,000	-	(50,000)	2,740,000	60,000
Total bonds payable	2,952,000	-	(53,000)	2,899,000	63,000
Governmental activities long-term liabilities	<u>\$2,952,000</u>	<u>\$ -</u>	<u>\$ (53,000)</u>	<u>\$ 2,899,000</u>	<u>\$ 63,000</u>

**Business-type Activities:**

Description	Balance 10/1/15	Additions	Deletions	Balance 9/30/16	Due in One Year
<b>Bonds Payable</b>					
Wastewater System Revenue Bond, Series 1996	\$ 750,000	\$ -	\$ (22,000)	\$ 728,000	\$ 24,000
Total bonds payable	750,000	-	(22,000)	728,000	24,000
Business-type activities long-term liabilities	<u>\$ 750,000</u>	<u>\$ -</u>	<u>\$ (22,000)</u>	<u>\$ 728,000</u>	<u>\$ 24,000</u>

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

Governmental Activities:

Year Ended September 30,	<u>Governmental Activities</u> <u>Bonds Payable</u>	
	Principal	Interest
2017	\$ 63,000	\$ 105,550
2018	68,000	103,008
2019	74,000	100,242
2020	74,000	97,251
2021	79,000	94,261
2022-2026	458,000	422,443
2027-2031	582,000	337,899
2032-2036	752,000	229,636
2037-2040	749,000	76,522
Totals	<u>\$ 2,899,000</u>	<u>\$ 1,566,811</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

Business-type Activities:

Year Ended September 30,	Business-Type Activities	
	Bonds Payable	
	Principal	Interest
2017	\$ 24,000	\$ 35,800
2018	25,000	34,575
2019	26,000	33,300
2020	28,000	31,950
2021	29,000	30,525
2022-2026	167,000	128,875
2027-2031	216,000	81,350
2032-2035	213,000	21,875
Totals	\$ 728,000	\$ 398,250

**G. Subsequent events**

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

**H. 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 2016, 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, 2016

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 279,961	\$ 278,000	\$ 278,346	\$ 346
Investment earnings	145	145	531	386
Miscellaneous revenue	14,592	14,592	14,002	(590)
Total revenues	<u>294,698</u>	<u>292,737</u>	<u>292,879</u>	<u>142</u>
<b>EXPENDITURES</b>				
Current:				
General government				
Elections	2,500	2,500	1,024	1,476
Financial administration	142,936	146,000	144,801	1,199
Public safety				
Fire	141,500	141,500	140,988	512
Total Expenditures	<u>286,936</u>	<u>290,000</u>	<u>286,813</u>	<u>3,187</u>
Excess (deficiency) of revenues over expenditures	<u>7,762</u>	<u>2,737</u>	<u>6,066</u>	<u>3,329</u>
Net change in fund balances	7,762	2,737	6,066	3,329
Fund balance - beginning	<u>226,570</u>	<u>226,570</u>	<u>226,570</u>	<u>-</u>
Fund balance - ending	<u>\$ 234,332</u>	<u>\$ 229,307</u>	<u>\$ 232,636</u>	<u>\$ 3,329</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, 2016

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 9,000	\$ 8,000	\$ 8,032	\$ 32
Licenses and permits	4,500	2,400	2,463	63
Investment earnings	4,041	6,000	6,107	107
Total revenues	<u>17,541</u>	<u>16,400</u>	<u>16,602</u>	<u>202</u>
<b>EXPENDITURES</b>				
Current:				
Streets	12,500	12,500	10,851	1,649
Capital outlay	2,425,933	2,425,933	2,400,116	25,817
Total Expenditures	<u>2,438,433</u>	<u>2,438,433</u>	<u>2,410,967</u>	<u>27,466</u>
Excess (deficiency) of revenues over expenditures	<u>(2,420,892)</u>	<u>(2,422,033)</u>	<u>(2,394,365)</u>	<u>27,668</u>
Net change in fund balances	(2,420,892)	(2,422,033)	(2,394,365)	27,668
Fund balance - beginning	2,436,285	2,436,285	2,436,285	-
Fund balance - ending	<u>\$ 15,393</u>	<u>\$ 14,252</u>	<u>\$ 41,920</u>	<u>\$ 27,668</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, 2016

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 158,114	\$ 157,000	\$ 157,065	\$ 65
Investment earnings	458	91	91	-
Total revenues	<u>158,572</u>	<u>157,091</u>	<u>157,156</u>	<u>65</u>
<b>EXPENDITURES</b>				
Current:				
General government				
Financial administration	3,576	3,131	3,069	62
Debt service:				
Bond principal	53,000	53,000	53,000	-
Interest	107,658	100,744	100,743	1
Other fees	1,275	1,200	1,195	5
Total Expenditures	<u>165,509</u>	<u>158,075</u>	<u>158,007</u>	<u>68</u>
Excess (deficiency) of revenues over expenditures	<u>(6,937)</u>	<u>(984)</u>	<u>(851)</u>	<u>133</u>
Net change in fund balances	(6,937)	(984)	(851)	133
Fund balance - beginning	18,285	18,285	18,285	-
Fund balance - ending	<u>\$ 11,348</u>	<u>\$ 17,301</u>	<u>\$ 17,434</u>	<u>\$ 133</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, 2016

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>OPERATING REVENUES</b>				
Sewer service	\$ 294,611	\$ 294,611	\$ 304,683	\$ 10,072
Miscellaneous revenue	-	-	243	243
Total operating revenues	<u>294,611</u>	<u>294,611</u>	<u>304,926</u>	<u>10,315</u>
<b>OPERATING EXPENSES</b>				
Purchased professional and technical services	28,800	28,800	28,517	283
Other operating expense	171,329	171,329	140,837	30,492
Depreciation	55,000	57,000	56,398	602
Total Expenditures	<u>255,129</u>	<u>257,129</u>	<u>225,752</u>	<u>31,377</u>
Operating income (loss)	<u>39,482</u>	<u>37,482</u>	<u>79,174</u>	<u>41,692</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	326	326	679	353
Interest expense	(36,950)	(36,950)	(36,767)	183
Total Nonoperating revenues (expenses)	<u>(36,624)</u>	<u>(36,624)</u>	<u>(36,088)</u>	<u>536</u>
Net change in net position	2,858	858	43,086	42,228
Net position - beginning	<u>799,658</u>	<u>799,658</u>	<u>799,658</u>	<u>-</u>
Net position - ending	<u>\$ 802,516</u>	<u>\$ 800,516</u>	<u>\$ 842,744</u>	<u>\$ 42,228</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, 2016

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>OPERATING REVENUES</b>				
Water sales	\$ 139,000	\$ 141,000	\$ 141,486	\$ 486
Waste management services	51,624	56,000	56,700	700
Miscellaneous revenue	-	4,000	4,119	119
Total operating revenues	<u>190,624</u>	<u>201,000</u>	<u>202,305</u>	<u>1,305</u>
<b>OPERATING EXPENSES</b>				
Purchased professional and technical services	103,450	106,000	105,930	70
Other operating expense	56,905	61,000	60,062	938
Depreciation	28,200	32,000	29,560	2,440
Total Expenditures	<u>188,555</u>	<u>199,000</u>	<u>195,552</u>	<u>3,448</u>
Operating income (loss)	<u>2,069</u>	<u>2,000</u>	<u>6,753</u>	<u>4,753</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment earnings	120	120	399	279
Total Nonoperating revenues (expenses)	<u>120</u>	<u>120</u>	<u>399</u>	<u>279</u>
Net change in net position	2,189	2,120	7,152	5,032
Net Position - beginning	<u>575,135</u>	<u>575,135</u>	<u>575,135</u>	-
Net Position - ending	<u>\$ 577,324</u>	<u>\$ 577,255</u>	<u>\$ 582,287</u>	<u>\$ 5,032</u>

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

OTHER SUPPLEMENTARY INFORMATION

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 SCHEDULE OF SERVICE AND RATES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

**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>	
<b>Water</b>	\$ 37.13	3,000	N	3,001-10,000	\$ 3.00
				10,100-20,000	3.10
				20,001-30,000	3.20
				30,001-40,000	3.30
				40,001 & Over	3.40
<b>Wastewater</b>	55.64	n/a	Y		
<b>Out of District</b>	56.59	n/a	Y		

**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>
<b>Unmetered</b>	-	-	-
<b>3/4"</b>	242	242	
<b>1"</b>	9	9	
<b>Total Water</b>	<u>251</u>	<u>251</u>	
<b>Wastewater</b>	<u>410</u>	<u>410</u>	-

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

		<b>Water Accountability Ratio</b>
<b>Gallons Pumped into System</b>	<b>18,900,000</b>	
<b>Gallons Billed to Customers</b>	<u><b>15,644,700</b></u>	
<b>Difference</b>	<b>3,255,300</b>	<b>82.78%</b>



LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 SCHEDULE OF GENERAL FUND EXPENDITURES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

Personnel Expenditures (Including Benefits)	\$	105,525
Professional Fees:		
Auditing		10,995
Legal		305
Fire Coverage Service		140,988
Utilities		4,830
Repairs and Maintenance		3,179
Administrative Expenditures:		
Office Supplies		8,776
Other Administrative Expenditures		10,282
Total Expenditures	\$	284,880

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, 2016

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
General Fund-TexPool	1501100005	Var	Daily	\$ 58,783
Special Revenue-TexPool	1501100007	Var	Daily	34,877
Utility Fund-TexPool	1501100003	Var	Daily	59,029
Sewer Reserve-Texpool	1501100001	Var	Daily	<u>58,291</u>
Total - TexPool				<u>210,980</u>
Total Temporary Investments				<u><u>\$ 210,980</u></u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
SCHEDULE OF TAXES LEVIED AND RECEIVABLE  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

	Maintenance Taxes	Debt Service Taxes	Road Maintenance	Fire	Total
Taxes Receivable October 1, 2015	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes Assessed, 2015 Roll	138,024	158,192	9,011	143,030	448,257
Tax Collections:					
Current Year	138,024	158,192	9,011	143,030	448,257
Prior Years	-	-	-	-	-
Total Collections	<u>\$ 138,024</u>	<u>\$ 158,192</u>	<u>\$ 9,011</u>	<u>\$ 143,030</u>	<u>\$ 448,257</u>
Taxes Receivable September 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Assessed Valuation:	2015	2014	2013	2012	2011
	<u>\$ 143,030,313</u>	<u>\$ 141,730,998</u>	<u>\$ 143,339,239</u>	<u>\$ 123,082,381</u>	<u>\$ 120,762,034</u>
	2015	2014	2013	2012	2011
Debt Service Rate	0.1106	0	0.0107	0.0116	0.0116
Maintenance Rate	0.0965	0.0837	0.0900	0.1134	0.1134
Road Rate	0.0063	0.1000	0.0871	0.0700	0.0700
Firefighting Service Tax	0.1000	0.1000	0.1000	0.1000	0.1000
Tax Rates/\$100 Valuation	<u>0.3134</u>	<u>0.2837</u>	<u>0.2878</u>	<u>0.2950</u>	<u>0.2950</u>
Original Tax Levy	\$ 448,257	\$ 402,091	\$ 412,525	\$ 356,248	\$ 356,248
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, 2016

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 9/30/16	Expense Reimbursements FYE 9/30/16	Title at Year End
<b>Board Members:</b>				
Rodney Bond 406 Blue Waters Horseshoe Bay, TX 78657	Elected 5/2014 5/2018	\$ -	\$ 540	President - Treasurer
Bruce Lomax 203 Beaver Circle Horseshoe Bay, TX 78657	Elected 5/2014 5/2018	-	540	Vice President
Warner Tweed 3105 Golf Course Drive Horseshoe Bay, TX 78657	Elected 5/2014 5/2018	-	540	Secretary
L.D. Stewart 2910 Blue Lake Drive Horseshoe Bay, TX 78657	Elected 5/1/2016 5/1/2020	-	998	Board Member
John Walters 3602 Blue Lake drive Horseshoe Bay, TX 78657	Elected 5/1/2016 5/1/2020	-	360	Board Member

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 SCHEDULE OF BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)  
 FOR THE YEAR ENDED SEPTEMBER 30, 2016

**Key Administrative Personnel:**

Angela Burton 103 Miranda Johnson City, TX 78636	8/2014	\$ 47,148	540	General Manager
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Names and Addresses:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid FY 9/30/16	Fees FY 9/30/16	Title at Year End
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**Consultants:**

McGinnis, Lochridge & Kilgore, LLP 600 Congress Avenue, Suite 2100 Austin, TX 78701	2010	\$ 1,511	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	10,995	District Auditor
Willis Environmental & Engineering 310 Main Street Marble Falls, TX 78654	1995	36,943	Engineer
M&M Inspection Service 541 Sunset Dr. Granite Shoals, Tx 78654	2016	-	MUD Inspector
TNA Operations & Management 103 Miranda Johnson City, TX 78636	2013	98,035	Water & Sewer Operations Management Contract



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

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 the Llano County Municipal Utility District #1, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Llano County Municipal Utility District #1's basic financial statements, and have issued our report thereon dated January 13, 2017.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the Llano County Municipal Utility District #1's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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 13, 2017

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2016

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**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 federal Uniform Guidance, a Single Audit was not required due to expenditures of federal awards being below \$750,000.

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**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, 2016 and 2015.

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**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

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

Not applicable.