

**LLANO COUNTY MUNICIPAL  
UTILITY DISTRICT #1  
ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2010**

**Singleton, Clark & Company, PC  
Certified Public Accountants**

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LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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**SINGLETON, CLARK**  
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CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditors' Report

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

Members of the Board of Directors:

We have audited the accompanying financial statements of the governmental activities, the proprietary activities, each major fund, and the aggregate remaining fund information of Llano County Municipal Utility District #1, (the "District") as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

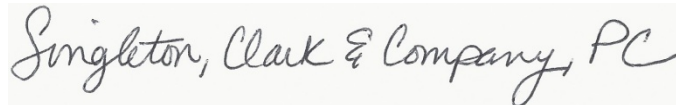
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the proprietary activities, each major fund, and the aggregate remaining fund information of Llano County Municipal Utility District #1, as of September 30, 2010, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2011 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Singleton, Clark & Company, PC  
Cedar Park, Texas

January 7, 2011

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

This discussion and analysis of the financial performance of Llano County Municipal Utility District #1 (the District) is intended to provide an overview and analysis of the District's financial activities for the fiscal year ended September 30, 2010. It should be read in conjunction with the accompanying financial statements.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

### **FINANCIAL HIGHLIGHTS**

- For the year ended September 30, 2010, the General Fund fund balance of the District experienced a fund balance increase of \$15,332 to end at \$160,201.
- Total governmental-type funds (the General Fund plus, the Debt Service Fund and the Streets & Lights Fund) of the District reported a combined fund balance increase of \$144,534, to end at \$549,889.
- The total cost of the Llano County Municipal Utility District #1's governmental activities was \$198,206. This amount is inclusive of depreciation expense recorded on the capital assets of the District.

### **FINANCIAL ANALYSIS OF THE WATER DISTRICT AS A WHOLE**

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

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

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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

**Table I**  
**Llano County Municipal Utility District #1**  
**Net Assets - Governmental Activities**

	Governmental Activities 2010	Governmental Activities 2009	Change
<b>ASSETS</b>			
Current and other assets	\$ 556,112	\$ 412,378	\$ 143,734
Capital assets	218,975	229,248	(10,273)
Total assets	<u>\$ 775,087</u>	<u>\$ 641,626</u>	<u>\$ 133,461</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 7,612	\$ 7,487	\$ 125
Noncurrent liabilities	175,000	177,000	(2,000)
Total liabilities	<u>182,612</u>	<u>184,487</u>	<u>(1,875)</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	43,975	52,248	(8,273)
Restricted	389,688	260,486	129,202
Unrestricted	158,812	144,405	14,407
Total net assets	<u>\$ 592,475</u>	<u>\$ 457,139</u>	<u>\$ 135,336</u>

**Net Assets - Proprietary Activities**

	Business-Type Activities 2010	Business-Type Activities 2009	Change
<b>ASSETS</b>			
Current and other assets	\$ 529,167	\$ 639,664	\$ (110,497)
Capital assets	1,888,279	1,970,149	(81,870)
Total assets	<u>\$ 2,417,446</u>	<u>\$ 2,609,813</u>	<u>\$ (192,367)</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 23,196	\$ 39,070	\$ (15,874)
Noncurrent liabilities	845,000	861,150	(16,150)
Total liabilities	<u>868,196</u>	<u>900,220</u>	<u>(32,024)</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,043,279	1,109,149	(65,870)
Unrestricted	505,971	600,444	(94,473)
Total net assets	<u>\$ 1,549,250</u>	<u>\$ 1,709,593</u>	<u>\$ (160,343)</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

**Table II**  
**Llano County MUD #1**  
**Statement of Activities - Governmental Activities**

	Governmental Activities 2010	Governmental Activities 2009	Change
REVENUES:			
General revenues:			
Property taxes	\$ 302,427	\$ 288,779	\$ 13,648
Other taxes and penalties and interest	20,624	22,122	(1,498)
Investment earnings	1,936	2,733	(797)
Miscellaneous revenue	8,555	7,873	682
Total revenue	<u>333,542</u>	<u>321,507</u>	<u>12,035</u>
EXPENSES:			
General Fund	164,045	168,334	(4,289)
Debt Service	6,801	6,605	196
Special Revenue Fund	18,357	12,845	5,512
Administrative Expense Allocated	636	637	(1)
Interest	8,367	7,019	1,348
Total expenses	<u>198,206</u>	<u>195,440</u>	<u>2,766</u>
CHANGE IN NET ASSETS	135,336	126,067	9,269
Net assets at 10/1/09 and 10/1/08	<u>457,139</u>	<u>331,072</u>	<u>126,067</u>
Net assets at 9/30/10 and 9/30/09	<u>\$ 592,475</u>	<u>\$ 457,139</u>	<u>\$ 135,336</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

**Table II, (continued)**  
**Llano County MUD #1**  
**Statement of Activities - Business-Type Activities**

	Business-Type Activities 2010	Business-Type Activities 2009	Change
<b>REVENUES:</b>			
Program revenues:			
Charges for services	\$ 399,243	\$ 400,766	\$ (1,523)
General revenues:			
Miscellaneous revenue	340	6,322	(5,982)
Investment earnings	3,078	-	3,078
Total revenue	<u>402,661</u>	<u>407,088</u>	<u>(4,427)</u>
<b>EXPENSES:</b>			
Administrative Expense Allocated	51,960	73,636	(21,676)
Depreciation	81,870	81,870	-
Water and Garbage	113,765	70,007	43,758
Sewer	220,812	128,304	92,508
Interest	42,649	43,241	(592)
Other Operating Expenses	51,947	57,177	(5,230)
Total expenses	<u>563,003</u>	<u>454,235</u>	<u>108,768</u>
CHANGE IN NET ASSETS	(160,342)	(47,147)	(113,195)
Net assets at 10/1/09 and 10/1/08	<u>1,709,593</u>	<u>1,756,739</u>	<u>(47,146)</u>
Net assets at 9/30/09 and 9/30/08	<u>\$ 1,549,251</u>	<u>\$ 1,709,592</u>	<u>\$ (160,341)</u>

**FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS**

The District maintains three governmental funds. The General Fund is the main operating fund of the District. The General Fund is presented in columnar format in the fund basis financial statements section of this report. Unlike the government-wide financial statements, the governmental funds utilize the modified accrual basis of accounting. The modified accrual basis focuses on near-term inflow and outflow of unrestricted resources, as well as on balances of unrestricted resources available at the end of the fiscal year. For the year ended September 30, 2010, the fund balance of the General Fund increased by \$15,332 over the prior year's fund balance.

The Streets & Lights Fund experienced a fund balance increase of \$126,120 and the Debt Service Fund experienced a fund balance increase of \$3,082 over the prior year's fund balance.

**BUDGETARY HIGHLIGHTS**

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

**ANALYSIS OF CHANGES IN CAPITAL ASSETS**

At September 30, 2010, the District had \$2,107,254, net of depreciation, invested in capital assets. A summary of capital asset activity is as follows:

**Llano County Municipal Utility District #1  
Summary of Capital Assets**

	Governmental Activities 2010	Governmental Activities 2009	Change
Land	\$ 10,000	\$ 10,000	\$ -
Buildings and improvements	104,901	104,901	-
Machinery and equipment	9,179	9,179	-
Infrastructure	185,147	185,147	-
Totals at historical cost	<u>309,227</u>	<u>309,227</u>	<u>-</u>
Less accumulated depreciation	<u>(90,252)</u>	<u>(79,979)</u>	<u>(10,273)</u>
Capital assets, net of depreciation	<u><u>\$ 218,975</u></u>	<u><u>\$ 229,248</u></u>	<u><u>\$ (10,273)</u></u>

	Business-Type Activities 2010	Business-Type Activities 2009	Change
Land	\$ 16,330	\$ 16,330	\$ -
Water System	972,328	972,328	-
Sewer System	2,189,608	2,189,608	-
Totals at historical cost	<u>3,178,266</u>	<u>3,178,266</u>	<u>-</u>
Less accumulated depreciation	<u>(1,289,987)</u>	<u>(1,208,117)</u>	<u>(81,870)</u>
Capital assets, net of depreciation	<u><u>\$ 1,888,279</u></u>	<u><u>\$ 1,970,149</u></u>	<u><u>\$ (81,870)</u></u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

**LONG-TERM DEBT**

At year end, the District's governmental and business-type activities had combined outstanding long-term debt of approximately \$1,020,000. A summary of long-term debt activity and ending balances is presented below.

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

	Governmental Activities 2010	Governmental Activities 2009	Change
Water System Improvement Bond, Series 2000	\$ 175,000	\$ 177,000	\$ (2,000)
Totals	<u>\$ 175,000</u>	<u>\$ 177,000</u>	<u>\$ (2,000)</u>
	Business-Type Activities 2010	Business-Type Activities 2009	Change
Water System Improvement Bond, Series 1996	\$ 845,000	\$ 861,000	\$ (16,000)
Totals	<u>\$ 845,000</u>	<u>\$ 861,000</u>	<u>\$ (16,000)</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Operating revenues for the 2010-2011 fiscal year are projected to be \$792,273 and expenditures are projected to be \$838,873. The District has adopted a tax rate of \$.2845 per \$100 valuation for the 2010-2011 fiscal year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

GOVERNMENT-WIDE STATEMENTS

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2010

	Primary Government		Total
	Governmental Activities	Business Type Activities	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 324,120	\$ 99,868	\$ 423,988
Investments - Current	231,992	297,166	529,158
Receivables (net of allowance for uncollectibles)	-	37,516	37,516
Prepaid Items	-	94,617	94,617
Capital Assets:			
Land	10,000	6,044	16,044
Infrastructure, net	178,975	-	178,975
Buildings, net	21,798	-	21,798
Improvements other than Buildings	-	3,170,735	3,170,735
Machinery and Equipment, net	8,202	1,487	9,689
Accumulated Depreciation	-	(1,289,987)	(1,289,987)
Total Assets	<u>\$ 775,087</u>	<u>\$ 2,417,446</u>	<u>\$ 3,192,533</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 1,823	\$ 15,245	\$ 17,068
Accrued Interest Payable	1,389	7,076	8,465
Other Current Liabilities	4,400	875	5,275
Non Current Liabilities			-
Due Within One Year	2,000	17,000	19,000
Due in More Than One Year	173,000	828,000	1,001,000
Total Liabilities	<u>182,612</u>	<u>868,196</u>	<u>1,050,808</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	43,975	1,043,279	1,087,254
Restricted for:			
Restricted for Streets & Lights	359,975	-	359,975
Restricted for Debt Service	29,713	-	29,713
Unrestricted Net Assets	158,812	505,971	664,783
Total Net Assets	<u>\$ 592,475</u>	<u>\$ 1,549,250</u>	<u>\$ 2,141,725</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, 2010

	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Assets		
			Primary Government		
		Charges for Services	Govt Activities	Business-type Activities	Total
<b>Primary Government</b>					
GOVERNMENTAL ACTIVITIES:					
Financial Administration	\$ 170,846	\$ -	\$ (170,846)	\$ -	\$ (170,846)
Highways and Streets	18,357	-	(18,357)	-	(18,357)
Bond Interest	8,367	-	(8,367)	-	(8,367)
Fiscal Agent's Fees	636	-	(636)	-	(636)
Total Governmental Activities	198,206	-	(198,206)	-	(198,206)
BUSINESS-TYPE ACTIVITIES:					
Revenue Fund	337,986	223,360	-	(114,626)	(114,626)
Operating Fund	218,724	169,589	-	(49,135)	(49,135)
Total Business-Type Activities	556,710	392,949	-	(163,761)	(163,761)
TOTAL PRIMARY GOVERNMENT:	\$ 754,916	\$ 392,949	\$ (198,206)	\$ (163,761)	\$ (361,967)

## General Revenues:

## Taxes:

Property Taxes, Levied for General Purposes	302,427	-	302,427
Property Taxes, Levied for Debt Service	18,007	-	18,007
Penalty and Interest	2,617	-	2,617
Miscellaneous Revenues	8,555	340	8,895
Investment Earnings	1,936	3,078	5,014
Total General Revenues	333,542	3,418	336,960
Change in Net Assets	135,336	(160,343)	(25,007)
Net Assets - Beginning	457,139	1,709,593	2,166,732
Net Assets - Ending	\$ 592,475	\$ 1,549,250	\$ 2,141,725

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

FUND BASIS STATEMENTS

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2010

	General Fund	Streets & Lights Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 63,744	\$ 249,386	\$ 10,990	\$ 324,120
Investments - Current	98,217	115,052	18,724	231,993
Total Assets	<u>\$ 161,961</u>	<u>\$ 364,438</u>	<u>\$ 29,713</u>	<u>\$ 556,112</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts Payable	\$ -	\$ 63	\$ -	\$ 63
Wages and Salaries Payable	1,760	-	-	1,760
Other Current Liabilities	-	4,400	-	4,400
Total Liabilities	<u>1,760</u>	<u>4,463</u>	<u>-</u>	<u>6,223</u>
Fund Balances:				
Reserved For:				
Debt Service	-	-	29,713	29,713
Unreserved Designated For:				
Streets & Lights	-	359,975	-	359,975
Unreserved and Undesignated:				
Reported in the General Fund	160,201	-	-	160,201
Total Fund Balances	<u>160,201</u>	<u>359,975</u>	<u>29,713</u>	<u>549,889</u>
Total Liabilities and Fund Balances	<u>\$ 161,961</u>	<u>\$ 364,438</u>	<u>\$ 29,713</u>	<u>\$ 556,112</u>

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS  
 FOR THE YEAR ENDED SEPTEMBER 30,2010

<b>Total Fund Balances - Governmental Funds</b>	\$ 549,889
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$309,227 and the accumulated depreciation was \$79,979. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.	52,248
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2010 capital outlays and debt principal payments is to increase (decrease) net assets.	(2,000)
The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(10,273)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	2,611
<b>Net Assets of Governmental Activities</b>	\$ 592,475

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, 2010

	General Fund	Streets & Lights Fund	Debt Service Fund	Total Governmental Funds
<b>REVENUES</b>				
Taxes:				
Property Taxes	\$ 167,859	\$ 135,298	\$ 18,195	\$ 321,352
Penalty and Interest on Taxes	-	-	2,617	2,617
Licenses and Permits	-	1,400	-	1,400
Investment Earnings	262	1,607	67	1,936
Other Revenue	7,155	-	-	7,155
Total Revenues	<u>175,276</u>	<u>138,305</u>	<u>20,879</u>	<u>334,460</u>
<b>EXPENDITURES</b>				
Current:				
General Government:				
Financial Administration	159,944	-	6,801	166,745
Highways and Streets	-	12,185	-	12,185
Debt Service:				
Bond Principal	-	-	2,000	2,000
Bond Interest	-	-	8,360	8,360
Fiscal Agent's Fees	-	-	636	636
Total Expenditures	<u>159,944</u>	<u>12,185</u>	<u>17,797</u>	<u>180,930</u>
Net Change in Fund Balances	15,332	126,120	3,082	144,534
Fund Balance-October 1 (Beginning)	<u>144,869</u>	<u>233,855</u>	<u>26,631</u>	<u>405,355</u>
Fund Balance-September 30 (Ending)	<u>\$ 160,201</u>	<u>\$ 359,975</u>	<u>\$ 29,713</u>	<u>\$ 549,889</u>

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$ 144,534
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2010 capital outlays and debt principal payments is to increase (decrease) net assets.	2,000
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(10,273)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	(925)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 135,336</b>

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2010

	Business-Type Activities - Enterprise Funds		
	Revenue Fund	Operating Fund	Total Enterprise Funds
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 88,864	\$ 11,004	\$ 99,868
Investments - Current	168,724	128,442	297,166
Accounts Receivable - Net of Uncollectible Allowance	20,010	17,507	37,517
Due from Other Funds	-	18,990	18,990
Prepaid Items	94,587	30	94,617
Total Current Assets	<u>372,185</u>	<u>175,973</u>	<u>548,158</u>
<b>Noncurrent Assets:</b>			
Capital Assets:			
Land Purchase and Improvements	6,044	-	6,044
Improvements other than Buildings	2,198,407	972,328	3,170,735
Machinery and Equipment	1,487	-	1,487
Less Accumulated Depreciation	<u>(766,781)</u>	<u>(523,206)</u>	<u>(1,289,987)</u>
Total Noncurrent Assets	<u>1,439,157</u>	<u>449,122</u>	<u>1,888,279</u>
Total Assets	<u>1,811,342</u>	<u>625,095</u>	<u>2,436,437</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Current Liabilities:</b>			
Accounts Payable	2,584	12,661	15,245
Due to Other Funds	18,990	-	18,990
Accrued Interest Payable	7,076	-	7,076
Notes Payable - Current	17,000	-	17,000
Other Current Liabilities	150	725	875
Total Current Liabilities	<u>45,800</u>	<u>13,386</u>	<u>59,186</u>
<b>NonCurrent Liabilities:</b>			
Bonds Payable - Noncurrent	<u>828,000</u>	-	<u>828,000</u>
Total Noncurrent Liabilities	<u>828,000</u>	-	<u>828,000</u>
Total Liabilities	<u>873,800</u>	<u>13,386</u>	<u>887,186</u>
<b>NET ASSETS</b>			
Investments in Capital Assets, Net of Debt	594,157	449,122	1,043,279
Unrestricted Net Assets	343,385	162,587	505,972
Total Net Assets	<u>\$ 937,542</u>	<u>\$ 611,709</u>	<u>\$ 1,549,251</u>

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2010

	Business-Type Activities - Enterprise Funds		
	Revenue Fund	Operating Fund	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Water Service	\$ -	\$ 169,589	\$ 169,589
Sanitation Charges for Services	229,654	-	229,654
Other Revenue	-	340	340
Total Operating Revenues	<u>229,654</u>	<u>169,929</u>	<u>399,583</u>
OPERATING EXPENSES:			
Administrative Expenses	26,115	25,845	51,960
Regular Maintenance	220,812	98,259	319,071
Other Operating Expenses	-	51,947	51,947
Supplies	-	15,506	15,506
Depreciation	54,703	27,167	81,870
Total Operating Expenses	<u>301,630</u>	<u>218,724</u>	<u>520,354</u>
Operating Income (Loss)	<u>(71,976)</u>	<u>(48,795)</u>	<u>(120,771)</u>
NON-OPERATING REVENUES (EXPENSES):			
Investment Earnings	2,778	300	3,078
Interest Expense - Non-Operating	<u>(42,649)</u>	<u>-</u>	<u>(42,649)</u>
Total Non-Operating Rev. (Expenses)	<u>(39,871)</u>	<u>300</u>	<u>(39,571)</u>
Change in Net Assets	(111,847)	(48,495)	(160,342)
Total Net Assets - October 1 (Beginning)	<u>1,049,389</u>	<u>660,204</u>	<u>1,709,593</u>
Total Net Assets - September 30 (Ending)	<u>\$ 937,542</u>	<u>\$ 611,709</u>	<u>\$ 1,549,251</u>

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2010

	Revenue Fund	Operating Fund	Total Enterprise Fund
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 228,985	\$ 172,449	\$ 401,434
Cash Received from Other Revenue	-	340	340
Cash Payments to Employees for Services	(26,115)	(25,845)	(51,960)
Cash Payments for Regular Maintenance	(220,812)	(98,259)	(319,071)
Cash Payments for Suppliers	(13,256)	(17,773)	(31,029)
Cash Payments for Other Operating Expenses	(94,587)	(52,447)	(147,034)
Net Cash Provided by Operating Activities	<u>(125,785)</u>	<u>(21,535)</u>	<u>(147,320)</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Increase (decrease) in Short-term Loans	(16,000)	-	(16,000)
Interest Payments	(42,650)	-	(42,650)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(58,650)</u>	<u>-</u>	<u>(58,650)</u>
<u>Cash Flows from Investing Activities:</u>			
Investment Maturities (Purchases)	54,003	(250)	53,753
Interest and Dividends on Investments	2,778	300	3,078
Net Cash Provided by (Used for) Investing Activities	<u>56,781</u>	<u>50</u>	<u>56,831</u>
Net Increase in Cash and Cash Equivalents	(127,654)	(21,485)	(149,139)
Cash & Cash Equiv. at Beginning of the Year	216,518	32,489	249,007
Cash & Cash Equiv. at the End of the Year	<u>\$ 88,864</u>	<u>\$ 11,004</u>	<u>\$ 99,868</u>
<u>Reconciliation of Operating Income (Loss) to Net</u>			
<u>Cash Provided by Operating Activities</u>			
Operating Income:	\$ (71,976)	\$ (48,795)	\$ (120,771)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	54,703	27,167	81,870
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	(669)	2,860	2,191
Decrease (increase) in Prepaid Expenses	(94,587)	-	(94,587)
Increase (decrease) in Accounts Payable	(13,256)	(2,267)	(15,523)
Increase (decrease) in Other Liabilities	-	(500)	(500)
Net Cash Provided by Operating Activities	<u>\$ (125,785)</u>	<u>\$ (21,535)</u>	<u>\$ (147,320)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. CREATION OF DISTRICT**

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

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

**B. REPORTING ENTITY**

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

**C. BASIS OF PRESENTATION**

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

**D. BASIS OF ACCOUNTING**

The Statement of Net Assets and the Statement of Activities are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grant revenues are recognized as soon as the eligibility requirements have been met.

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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

**E. CASH AND CASH EQUIVALENTS**

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

**F. PROPERTY TAXES**

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

**G. CAPITAL ASSETS**

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

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

	<u>Years</u>
Office Buildings and Improvements	20-40
Sewer System Collections and Treatment Plant	40
Water Treatment Plant	40
Office Equipment	5-7
Roads	30

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

**H. PENSION PLAN**

The District Employees do not participate in a public retirement system, but are covered by social security. The District elected to have its employees covered under social security pursuant to the requirements of the Omnibus Reconciliation Act of 1990. In addition, effective February 5, 1998 the District established a Deferred Compensation Plan for its employees. Under the terms of the plan, depending on the length of service, the District contributes seven and one half percent (7 ½%) or five percent (5%) of the employees' compensation. Employees' contributions are voluntary up to prescribed limits. District contributions to the plan amounted to \$4,461 in fiscal 2010. There were no other required employee benefit accruals as of September 30, 2010.

**I. BUDGETARY DATA**

Budgeted amounts are presented on the modified accrual basis of accounting. The budget for the year ended September 30, 2010 was adopted by the Board of Directors on October 13, 2009. The budget is presented in the Budgetary Comparison Schedule as part of the basic financial statements. All appropriations lapse at year-end.

**J. ESTIMATES**

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

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

**II. DETAILED NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

Legal and Contractual Provisions Governing Deposits and Investments

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

At September 30, 2010, the carrying amount of the District’s deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$953,145 and the bank balance was \$997,450.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchased agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies, although as of September 30, 2010 a depository contract was not in place with American Bank.

Investments at September 30, 2010 include the following:

	Reported Amount	Fair Value
Investment Pools:		
TexPool	\$ 429,158	\$ 429,158
First State Bank Central Texas - CD	100,000	100,000
Total Investments	\$ 529,158	\$ 529,158

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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

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

Policies Governing Deposits and Investments

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

**Custodial Credit Risk – Deposits:** This is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2010 were covered by depository insurance or by pledged collateral held by the District's agent bank in the District's name.

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

**Other Credit Risk:** There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, TexPool's investment policy allows the portfolio's investment manager to only invest in obligations of the U.S. Government, its agencies, repurchase agreements, and no load AAAM money market mutual funds registered with the SEC. As of September 30, 2010, TexPool's investments credit quality rating was AAAM (Standard & Poor's).

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

**B. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2010 was as follows:

	Balance 9/30/2009	Additions	Deletions	Balance 9/30/2010
Capital Assets:				
Land & Easements	\$ 10,000	\$ -	\$ -	\$ 10,000
Office & Grounds	104,901	-	-	104,901
Office Equipment	9,179	-	-	9,179
Roads	185,147	-	-	185,147
Total Primary Government	<u>309,227</u>	<u>-</u>	<u>-</u>	<u>309,227</u>
Less:				
Accumulated Depreciation	<u>(79,979)</u>	<u>(10,273)</u>	<u>-</u>	<u>(90,252)</u>
Governmental Activities				
Capital Assets, net	<u>\$ 229,248</u>	<u>\$ (10,273)</u>	<u>\$ -</u>	<u>\$ 218,975</u>

	Balance 9/30/2008	Additions	Deletions	Balance 9/30/2009
Capital Assets:				
Land & Easements	\$ 16,330	\$ -	\$ -	\$ 16,330
Water System	972,328	-	-	972,328
Sewer System	2,189,608	-	-	2,189,608
Total Busines Type Activities	<u>3,178,266</u>	<u>-</u>	<u>-</u>	<u>3,178,266</u>
Less:				
Accumulated Depreciation	<u>(1,208,117)</u>	<u>(81,870)</u>	<u>-</u>	<u>(1,289,987)</u>
Business Type Activities				
Capital Assets, net	<u>\$ 1,970,149</u>	<u>\$ (81,870)</u>	<u>\$ -</u>	<u>\$ 1,888,279</u>

Depreciation expense was charged to the governmental functions as follows:

Financial Administration	\$ 4,101
Highways & Streets	<u>6,172</u>
Total	<u>\$ 10,273</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

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

On August 11, 1984, the District received authorization to levy a water system maintenance tax not to exceed \$0.20 per \$100 assessed valuation. The maintenance tax levied on the 2009 tax roll (FY2010) was \$0.0734.

In May of 1987 the Texas Legislature passed Senate Bill 746. This bill allows the District to provide for the construction and maintenance of roads. The District may borrow and spend money, issue bonds, bond anticipation notes, tax anticipation notes, and levy and collect maintenance taxes. To date, no related indebtedness had been incurred. The road maintenance tax assessed in the 2009 tax roll (FY2010) was \$0.100.

On November 22, 2005 the Board renewed the contract with the Lake Lyndon B. Johnson Municipal Utility District (LBJ MUD) now the City of Horseshoe Bay to perform Fire Fighting for the District. The District agreed to assess a \$0.0865 cent tax levy per \$100 of assessed valuation, and remit this to the City of Horseshoe Bay. The contract was effective for the period November 1, 2009 to October 31, 2010.

**D. GENERAL AND PROPRIETARY FUND LONG-TERM DEBT**

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

As of September 30, 2010, the debt service requirements at maturity on the bonds outstanding are as follows:

Year Ended September 30,	Bonds Payable		
	Principal	Interest	Total
2011	\$ 2,000	\$ 8,265	\$ 10,265
2012	2,000	8,170	10,170
2013	3,000	8,051	11,051
2014	3,000	7,909	10,909
Thereafter	165,000	89,313	254,313
	<u>\$ 175,000</u>	<u>\$ 121,708</u>	<u>\$ 296,708</u>

Year Ended September 30,	Bonds Payable		
	Principal	Interest	Total
2011	\$ 17,000	\$ 41,825	\$ 58,825
2012	18,000	40,950	58,950
2013	19,000	40,025	59,025
2014	20,000	39,050	59,050
Thereafter	771,000	473,225	1,244,225
	<u>\$ 845,000</u>	<u>\$ 635,075</u>	<u>\$ 1,480,075</u>

REQUIRED SUPPLEMENTARY INFORMATION

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL – GENERAL FUND  
 FISCAL YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property Taxes	\$ 167,551	\$ 167,859	\$ 167,859	\$ -
Investment Earnings	402	261	262	1
Other Revenue	7,260	7,155	7,155	-
Total Revenues	175,213	175,275	175,276	1
<b>EXPENDITURES</b>				
Current:				
General Government:				
Financial Administration	171,932	162,185	159,944	2,241
Total Expenditures	171,932	162,185	159,944	2,241
Net Change in Fund Balances	3,281	13,090	15,332	2,242
Fund Balance-Oct 1 (Beginning)	144,869	144,869	144,869	-
Fund Balance-Sept 30 (Ending)	\$ 148,150	\$ 157,959	\$ 160,201	\$ 2,242

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL – STREETS & LIGHTS FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts (GAAP Basis)	Final Budget Positive or (Negative)
<b>REVENUES</b>				
Taxes:				
Property Taxes	\$ 135,192	\$ 135,298	\$ 135,298	\$ -
Licenses and Permits	200	1,400	1,400	-
Investment Earnings	1,468	1,611	1,607	(4)
Other Revenue	5,000	5,000	-	(5,000)
Total Revenues	<u>141,860</u>	<u>143,309</u>	<u>138,305</u>	<u>(5,004)</u>
<b>EXPENDITURES</b>				
Current:				
Highways and Streets	25,622	13,157	12,185	972
Capital Outlay:				
Capital Outlay	6,000	-	-	-
Depreciation	3,972	3,972	-	3,972
Total Expenditures	<u>35,594</u>	<u>17,129</u>	<u>12,185</u>	<u>4,944</u>
Excess of Revenues Over Expenditures	<u>106,266</u>	<u>126,180</u>	<u>126,120</u>	<u>60</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers Out (Use)	<u>(4,011)</u>	<u>(4,011)</u>	-	4,011
Total Other Financing Sources (Uses)	<u>(4,011)</u>	<u>(4,011)</u>	-	4,011
Change in Fund Balance	102,255	122,169	126,120	3,951
Fund Balance - Oct 1 (Beginning)	<u>233,855</u>	<u>233,855</u>	<u>233,855</u>	-
Fund Balance - Sept 30 (Ending)	<u>\$ 336,110</u>	<u>\$ 356,024</u>	<u>\$ 359,975</u>	<u>\$ 3,951</u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL – DEBT SERVICE FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Property Taxes	\$ 18,025	\$ 18,195	\$ 18,195	\$ -
Penalty and Interest on Taxes	200	2,539	2,617	78
Investment Earnings	134	67	67	-
Total Revenues	18,359	20,801	20,879	78
<b>EXPENDITURES</b>				
Current:				
General Government:				
Financial Administration	6,994	6,801	6,801	-
Debt Service:				
Bond Principal	2,000	2,000	2,000	-
Bond Interest	8,360	8,360	8,360	-
Fiscal Agent's Fees	636	636	636	-
Total Expenditures	17,990	17,797	17,797	-
Net Change in Fund Balances	369	3,004	3,082	78
Fund Balance - Oct 1 (Beginning)	26,631	26,631	26,631	-
Fund Balance - Sept 30 (Ending)	\$ 27,000	\$ 29,635	\$ 29,713	\$ 78

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
BUDGET AND ACTUAL – REVENUE FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>OPERATING REVENUES:</b>				
Sanitation Charges for Services	\$ 234,072	\$ 229,617	\$ 229,654	\$ 37
Investment Earnings	3,306	2,770	2,778	8
Total Operating Revenues	<u>237,378</u>	<u>232,387</u>	<u>232,432</u>	<u>45</u>
<b>OPERATING EXPENSES:</b>				
Administrative Expenses	26,065	26,137	26,115	22
Regular Maintenance	228,520	222,607	220,812	1,795
Depreciation	55,000	55,000	54,703	297
Interest Expense	42,650	42,650	42,649	1
Total Operating Expenses	<u>352,235</u>	<u>346,394</u>	<u>344,279</u>	<u>298</u>
Operating Income (Loss)	(114,857)	(114,007)	(111,847)	2,160
Net Assets - Oct 1 (Beginning)	<u>1,049,389</u>	<u>1,049,389</u>	<u>1,049,389</u>	<u>-</u>
Net Assets - Sept 30 (Ending)	<u><u>\$ 934,532</u></u>	<u><u>\$ 935,382</u></u>	<u><u>\$ 937,542</u></u>	<u><u>\$ 2,160</u></u>

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
BUDGET AND ACTUAL – OPERATING FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>OPERATING REVENUES:</b>				
Charges for Water Services	\$ 176,027	\$ 170,179	169,589	\$ (590)
Investment Earnings	492	303	300	(3)
Other Revenue	100	140	340	200
Total Operating Revenues	176,619	170,622	170,229	(393)
<b>OPERATING EXPENSES:</b>				
Administrative Expenses	25,683	25,829	25,845	(16)
Regular Maintenance	90,552	96,714	98,259	(1,545)
Other Operating Expenses	57,880	51,864	51,947	(83)
Supplies	22,350	18,425	15,506	2,919
Depreciation	25,416	25,416	27,167	(1,751)
Total Operating Expenses	221,881	218,248	218,724	1,085
Operating Income (Loss)	(45,262)	(47,626)	(48,495)	(869)
Net Assets - Oct 1 (Beginning)	660,204	660,204	660,204	-
Net Assets - Sept 30 (Ending)	\$ 614,942	\$ 612,578	\$ 611,709	\$ (869)

SUPPLEMENTARY INFORMATION

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 SCHEDULE OF SERVICES AND RATES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

**Services Provided by the District During the Fiscal Year:**

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

**Retail Service Providers**

Retail Rates for a 3/4" Meter (or Equivalent)

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum Use
Water	\$ 33.74	3,000	Y	\$ 1.50
Wastewater	46.40	n/a	Y	-
Out of District	47.20			

District Employs Winter Averaging for Wastewater Usage? No

Meter Size	Total Connections	Active Connections	Active ESFCs
Unmetered	-		
3/4"	254	247	247
1"	7	7	7
Total Water	260	254	254
Total Wastewater	400	393	393

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

		Water Accountability Ratio
Gallons Pumped into System	19,876,000	
Gallons Billed to Customers	16,765,000	84.35%

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 SCHEDULE OF GENERAL FUND EXPENDITURES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

Personnel Expenditures (Including Benefits)	\$ 89,924
Professional Fees:	
Auditing	6,800
Legal	1,149
Insurance and Bonds	96,652
Tax Appraisal and Collection	293
Contracted Services:	
Appraisal District	-
Other Contracted Services	-
Utilities	4,183
Repairs and Maintenance	623
Administrative Expenditures:	
Office Supplies	6,790
Allocation of Administrative Expense	(58,980)
Other Administrative Expenditures	<u>12,511</u>
Total Expenditures	<u><u>\$ 159,944</u></u>

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

LLANO COUNTY MUNICIPAL DISTRICT #1  
 SCHEDULE OF TEMPORARY INVESTMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
General Fund-TexPool	1501100005	Var	Daily	\$ 98,217
Debt Service-TexPool	1501100004	Var	Daily	18,724
Special Revenue-TexPool	1501100006	Var	Daily	115,052
Utility Fund-TexPool	1501100003	Var	Daily	128,442
Interest & Sinking	1501100002	Var	Daily	16,739
Sewer Reserve-Texpool	1501100001	Var	Daily	51,985
Total - TexPool				<u>429,158</u>
Revenue Fund - CD	100140109	1.5%		<u>100,000</u>
Total - First State Bank Central Texas				<u>100,000</u>
Total Temporary Investments				<u><u>\$ 529,158</u></u>

LLANO COUNTY MUNICIPAL DISTRICT #1  
SCHEDULE OF TAXES LEVIED AND RECEIVABLE  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Maintenance Taxes	Debt Service Taxes	Road Maintenance	Fire	Total
Taxes Receivable October 1, 2009	\$ 237	\$ 188	\$ 244	\$ 249	\$ 918
Taxes Assessed, 2009 Roll	73,300	18,007	135,054	94,062	320,423
Tax Collections:					
Current Year	73,300	18,007	135,054	94,062	320,423
Prior Years	237	188	244	249	918
Total Collections	<u>\$ 73,537</u>	<u>\$ 18,195</u>	<u>\$ 135,298</u>	<u>\$ 94,311</u>	<u>\$ 321,341</u>
Taxes Receivable September 30, 2010	-	-	-	-	-
Assessed Valuation:	2009	2008	2007	2006	2005
	<u>\$ 105,925,041</u>	<u>\$ 100,448,411</u>	<u>\$ 84,569,583</u>	<u>\$ 73,921,076</u>	<u>\$ 71,375,012</u>
Debt Service Rate	0.0170	0.0207	0.0207	0.0243	0.0273
Maintenance Rate	0.0692	0.0583	0.1120	0.1120	0.1120
Road Rate	0.1275	0.1500	0.1000	0.1000	0.0666
Firefighting Service Tax	0.0888	0.0808	0.0877	0.0865	0.1002
Tax Rates/\$100 Valuation	<u>0.3025</u>	<u>0.3098</u>	<u>0.3204</u>	<u>0.3228</u>	<u>0.3061</u>
Original Tax Levy	\$ 320,423	\$ 311,189	\$ 270,961	\$ 238,617	\$ 218,479
Percentage of Taxes Collected of Taxes Levied	100%	100%	100%	100%	100%

LLANO COUNTY MUNICIPAL DISTRICT #1  
ANALYSIS OF CHANGES IN LONG-TERM DEBT  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 10/1/2009	Additions	Deletions	Amounts Outstanding 9/30/2010
<b>Governmental Activities:</b>						
<b>Bonds Payable</b>						
Water System Improvement Bond Series 2000	4.75%	\$ 191,000	\$ 177,000	\$ -	\$ 2,000	\$ 175,000
<b>Total Bonds Payable</b>			<u>\$ 177,000</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ 175,000</u>

Paying Agent's Name & Address:                      Series 2000:

**J.P. Morgan Chase Bank  
P.O. Box 2320  
Dallas, TX 75221**

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 10/1/2008	Additions	Deletions	Amounts Outstanding 9/30/2009
<b>Proprietary Activities:</b>						
<b>Bonds Payable</b>						
Water System Revenue Bonds Series 1996	5.00%	\$ 997,000	\$ 861,000	\$ -	\$ 16,000	\$ 845,000
<b>Total Bonds Payable</b>			<u>\$ 861,000</u>	<u>\$ -</u>	<u>\$ 16,000</u>	<u>\$ 845,000</u>

Paying Agent's Name & Address:                      Series 1996:

**J.P. Morgan Chase Bank  
P.O. Box 911953  
Dallas, TX 75391**

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
SCHEDULE OF BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Complete Mailing Address: 2900 Blue Lake Drive, Horseshoe Bay, Texas 78657

Business Telephone Number: (830) 598-5460

Submission Date of the Most Recent District Registration Form: 6/03/2010

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

Names and Addresses:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid FYE 9/30/10	Expense Reimbursements FYE 9/30/10	Title at Year End
<b>Board Members:</b>				
William Stevens 3402 Packsaddle Drive Horseshoe Bay, TX 78657	Elected 5/2008 5/2012		\$ 657	President
Bruce Lomax 203 Beaver Circle Horseshoe Bay, TX 78657	Elected 5/2010 5/2014		\$ 225	Vice President
Gary A Simons 201 W. Bluebonnet Road Horseshoe Bay, TX 78657	Elected 5/2010 5/2014		\$ 270	Secretary-Treasurer
Warner Tweed 3105 Golf Course Drive Horseshoe Bay, TX 78657	Elected 05/2010 05/2014		\$ 270	Board Member
Jeff Pruett 1527 Vista Del Monte San Antonio, TX 78216	Elected 5/2008 5/2012		\$ 612	Board Member
D. Jarrett Bates 213 Beaver Circle Horseshoe Bay, TX 78657	Elected 5/2006 5/2010		\$ 387	No Longer on Board
Emory Garlick 2907 Blue Lake Drive Horseshoe Bay, TX 78657	Elected 5/2006 5/2010		\$ 432	No Longer on Board
L. D. Stewart 2910 Blue Lake Drive Horseshoe Bay, TX 78657	Elected 5/2006 5/2010		\$ 567	No Longer on Board
<b>Key Administrative Personnel:</b>				
Betty Brooker P.O. Box 921 Kingsland, TX 78639	7/1996	\$ 49,336	\$ 623	General Manager

LLANO COUNTY MUNICIPAL UTILITY DISTRICT #1  
 SCHEDULE OF BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

(continued)

Names and Addresses:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid FYE 9/30/10	Fees FYE 9/30/10	Title at Year End
<b>Consultants:</b>				
Law Offices of Skip Newsome P.O. Box 712 Dripping Springs, TX 78620			\$1,125	Election General Counsel
Llano County Appraisal District 103 East Sandstone Llano, TX 78643			\$2,687	Appraisal District
Singleton, Clark & Company, PC Preston Singleton, CPA 930 South Bell Blvd. Ste. 105 Cedar Park, TX 78613			\$6,800	District Auditor
Lawrence H. Meyers 3411 Blue Lake Drive Horsehoe Bay, TX 78657			\$563	MUD Inspector
James Miertschin & Associates, Inc. Environmental Engineer P.O. Box 162305 Austin, TX 78716			\$6,753	Engineer

OTHER INFORMATION REQUIRED BY GAO



**SINGLETON, CLARK**  
**& COMPANY, PC**  
CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Llano County Municipal Utility District #1 (the "District") as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements and we have issued our report thereon dated January 7, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

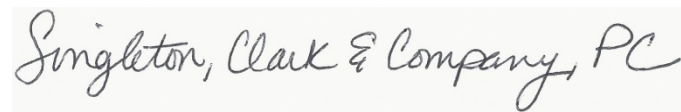
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

### Compliance and Other Matters

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

The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in a separate letter dated January 7, 2011.

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

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

Singleton, Clark & Company, PC  
Cedar Park, Texas

January 7, 2011