

**DENTON COUNTY FRESH WATER SUPPLY  
DISTRICT NO. 1-A**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2011**



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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Denton County Fresh Water  
Supply District No. 1-A  
Denton County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Denton County Fresh Water Supply District No. 1-A (the District), as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements as listed in the preceding table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the basic financial statements, the District implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions."

In accordance with *Government Audit Standards*, we have also issued our report dated March 30, 2012 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.

Management's Discussions and Analysis (on pages 3 through 8 ) is not a required part of the basic financial statements but is supplementary information required by the by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires 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.

Denton County Fresh Water  
Supply District No. 1-A

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents on page 50 and 51 and the supplementary information listed in the table of contents on pages 52 through 61 (required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide*) are not a required part of the basic financial statements. The accompanying supplementary information, excluding the portion marked "Unaudited" has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplementary information marked "Unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL L.L.P.

Dallas, Texas  
March 30, 2012

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Our discussion and analysis of Denton County Fresh Water Supply District No. 1-A's (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2011. Please read it in conjunction with the District's financial statements, which begin on page 9.

**FINANCIAL HIGHLIGHTS**

- The assets of the District exceeded its liabilities at September 30, 2011 by \$2,024,347. Of this amount, \$966,986 is invested in capital assets which do not directly generate revenue and are not available to generate liquid capital. Net assets restricted for specific purposes total \$63,982. The remaining net assets balance of \$993,379 is unrestricted.
- The District's net assets increased by \$701,255. Unrestricted net assets, which may be used to meet the District's ongoing obligations to residents and creditors, increased by \$721,979. The primary reasons for the increase are the contributions received during the current fiscal year from other District's to fund reserves.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$954,673, a net increase of \$747,604 in comparison to the prior year.
- On a government-wide basis, the District's total liabilities increased by \$1,702,506 during the current fiscal year. The primary cause of the increase is the increase of developer liabilities of approximately \$847,000 and the issuance of approximately \$575,000 thousand of tax free bonds for construction related to the District's Pump Station Improvements Project.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements. The basic financial statements include: (1) government-wide financial statements and (2) fund financial statements and (3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements**

The District's annual report includes two financial statements composing the government-wide financial statements. The government-wide statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of the government-wide statements is the statement of net assets on page 9. The statement of net assets includes all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**Government-wide financial statements (continued)**

indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The statement of activities on page 10 reports how the District's net assets changed during the current fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes). Both the statement of net assets and statement of activities are prepared utilizing the accrual basis of accounting.

**Fund financial statements**

The statements also include 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. The District has three governmental fund-types. The General Fund accounts for resources not accounted for in another fund, and include customer service revenues, costs and general expenditures. The Capital Projects Fund accounts for financial resources segregated for acquisition or construction of facilities and related costs. The Ground Storage Capital Fund accounts for bond proceeds and uses related to the District's Pump Station Improvements Project.

Governmental funds are used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-time 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 evaluating a government's near-term financing requirements.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The reconciliation of the governmental funds balance sheet to the statement of net assets on page 13 and the reconciliation of the governmental funds statement of revenues, expenditures and changes in fund balances to the statement of activities on page 15 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

**Notes to the basic financial statements**

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 51 in this report.



**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**Other information**

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary. The District prepares a schedule of reimbursement from other governmental units pages 50 and 51 and information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* on pages 52 through 61.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$2,024,347 as of September 30, 2011.

A portion of the District's net assets reflects its investments in capital assets (e.g. lift station, vehicles and equipment and leasehold improvements), less any debt used to acquire those assets that is still outstanding. The District uses these assets to provide services to the other districts in the Castle Hills Subdivision.

The following is a comparative analysis of the government-wide statements of net assets:

|   | <u>Summary of Changes in the Statement of Net Assets</u> |                     |                   |
|---|--|---------------------|-------------------|
|   | <u>2011</u>  | <u>2010</u>         | <u>Change</u>     |
| Current and other assets                            | \$ 11,884,855  | 10,002,629          | \$ 1,882,226      |
| Capital assets (net of<br>accumulated depreciation) | 4,228,671  | 3,707,136           | 521,535           |
| <b>Total assets</b>                                 | <u>16,113,526</u>  | <u>13,709,765</u>   | <u>2,403,761</u>  |
| Bonds and capital leases-Noncurrent                 | 3,242,758  | 2,663,225           | 579,533           |
| Due to developer-Noncurrent                         | 10,223,735   | 9,376,426           | 847,309           |
| Other liabilities                                   | 622,686  | 347,022             | 275,664           |
| <b>Total liabilities</b>                            | <u>14,089,179</u>  | <u>12,386,673</u>   | <u>1,702,506</u>  |
| <b>Net assets</b>                                   |  |                     |                   |
| Invested in capital assets,<br>net of related debt  | 966,986  | 1,002,039           | (35,053)          |
| Restricted  | 63,982   | 49,653              | 14,329            |
| Unrestricted  | 993,379  | 271,400             | 721,979           |
| <b>Total net assets</b>                             | <u>2,024,347</u>   | <u>\$ 1,323,092</u> | <u>\$ 701,255</u> |

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

The following table provides a summary of the District's operations for the years ended September 30, 2011 and 2010. The District's net assets increased by \$701,255 or a 53.0% increase in net assets.

|   | <b>Summary of Changes in the Statement of Activities</b> |                     |                   |
|---|--|---------------------|-------------------|
|   | <b>2011</b>  | <b>2010</b>         | <b>Change</b>     |
| <b>Revenues:</b>  |  |                     |                   |
| Project management fee  | \$ 286,739   | \$ 326,929          | \$ (40,190)       |
| Contracted services   | 4,996  | 1,103               | 3,893             |
| Charges for services  | 20,015   | 58,011              | (37,996)          |
| Operating contributions   | 710,000  | -                   | 710,000           |
| Other revenues  | 9,556  | 84,827              | (75,271)          |
| <b>Total revenues</b>   | <b>1,031,306</b>   | <b>470,870</b>      | <b>560,436</b>    |
| <b>Expenses:</b>  |  |                     |                   |
| Expenses for services   | 227,888  | 336,621             | (108,733)         |
| Interest expense  | 5,671  | 3,102               | 2,569             |
| Depreciation  | 96,492   | 104,474             | (7,982)           |
| <b>Total expenses</b>   | <b>330,051</b>   | <b>444,197</b>      | <b>(114,146)</b>  |
| <b>Change in net assets</b>                                     | <b>701,255</b>   | <b>26,673</b>       | <b>674,582</b>    |
| <b>Net assets, beginning of year<br/>(as previously stated)</b> | <b>1,323,092</b>   | <b>1,292,827</b>    | <b>30,265</b>     |
| <b>Prior period adjustment</b>                                  | <b>-</b>   | <b>30,265</b>       | <b>(30,265)</b>   |
| <b>Net assets, beginning of year<br/>(as restated)</b>          | <b>1,323,092</b>   | <b>1,296,419</b>    | <b>26,673</b>     |
| <b>Net assets, end of year</b>                                  | <b>\$ 2,024,347</b>                                      | <b>\$ 1,323,092</b> | <b>\$ 701,255</b> |

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of September 30, 2011, was \$954,673, a net increase of \$747,604 from the prior year.

The General Fund had an increase in fund balance of \$751,226.

The Capital Projects Fund had a net decrease in fund balance of \$3,622.

The Ground Storage Capital Fund, being a cost reimbursement fund, had no change in its fund balance in the current year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual expenditures on a budgetary basis were \$286,825 compared to the amended budget of \$247,016. The budget variance of \$39,809 was primarily due to professional fees. Actual revenue on a budgetary basis was \$328,051 compared to the amended budget of \$268,198. The \$59,853 variance is primarily due to higher than expected project management fee revenue and unbudgeted charges for services related to lease payments. See the budget to actual comparison on page 52 for additional information.

**CAPITAL ASSETS**

The District's investment in capital assets as of September 30, 2011, amounts to \$4,228,671 (net of accumulated depreciation). This investment in capital assets includes construction in progress, the lift station, leasehold improvements, vehicles and equipment.

Capital Assets at Year-End, Net of Accumulated Depreciation

|                                 | 2011                       | 2010                       | Increase<br>(Decrease)   |
|---------------------------------|----------------------------|----------------------------|--------------------------|
| Construction in progress        | \$ 3,133,000               | 2,566,247                  | \$ 566,753               |
| Lift station                    | 937,531                    | 984,294                    | (46,763)                 |
| Equipment                       | 8,862                      | 94,711                     | (85,849)                 |
| Office equipment                | 7,498                      | 11,202                     | (3,704)                  |
| Vehicles                        | 141,780                    | 50,682                     | 91,098                   |
| <b>Total net capital assets</b> | <b><u>\$ 4,228,671</u></b> | <b><u>\$ 3,707,136</u></b> | <b><u>\$ 521,535</u></b> |

Additional information on the District's capital assets can be found in Note 5 on pages 24 and 25 of this report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**LONG-TERM DEBT ACTIVITIES**

The District has entered into capital leases on behalf of other Districts that are part of the Castle Hill's Development. The District issued Denton County Fresh Water Supply District No. 1-A Contract Revenue Bonds in 2009. Under the agreement with the Texas Water Development Board the District may receive up to \$3,335,000 of funding to cover expenditures related to the Pump Station Improvement Project. \$3,105,000 of proceeds were issued and received and \$114,813 was recorded as a receivable under the bond during the year ended September 30, 2011. The debt is recorded in the financial statements of the District and is funded by the other Districts that are a part of the Castle Hills's Development. The following schedule shows the change in the District's long-term liabilities for the year ended September 30, 2011.

|                                    |                            |
|------------------------------------|----------------------------|
| Debt balance - October 1, 2010     | \$ 2,705,097               |
| Add: ARRA Bonds issued             | 574,905                    |
| Less: Capital lease principal paid | <u>18,317</u>              |
| Debt balance - September 30, 2011  | <u><u>\$ 3,261,685</u></u> |

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

In the 2011-2012 Budget, revenues are anticipated to decrease by approximately \$7,811 from the 2010-2011 budget year, primarily due to water sales and management fees. Expenses for the FY 2011-2012 are anticipated to decrease by approximately \$3,750.

The District's expenses, as outlined in the Operating Agreement with District 1-B, District 1-C, District 1-D, District 1-E, District 1-F, District 1-G, and District 1-H (in this Note referred to as "Sub-Districts"), are allocated to the Sub-Districts. The District has made a concerted effort to limit expenditures to only items that are necessary.

In fiscal year 2010/2011 the General Fund budget was divided into three funds for accounting purposes; the General Fund, Operations Fund, and a Utility Fund, primarily to measure various expenditures against supporting revenue items. All expenditures, with the exception of District direct expenses and usage expenses, are billed to the District. Subsequently, each of the Sub-District's are charged with a portion of District 1-A's monthly bills which are billed to the Sub-District's as a 1-A reimbursement.

The General Fund, which is comprised of the District's General Fund, Operating Fund, and Utility Fund, is budgeted to operate next year with expenditures less than revenues.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Denton County Fresh Water Supply District No. 1-A, c/o Kelly Hart & Hallman, LLP, 201 Main Street, Suite 2500, Fort Worth, TX 76102.

## **BASIC FINANCIAL STATEMENTS**

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**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2011**

|  |                             |
|--|-----------------------------|
| <b>ASSETS</b>  |                             |
| Cash   | \$ 778,589                  |
| Receivables:   |                             |
| Service accounts (net of allowance for doubtful accounts of \$0) | 171                         |
| Other receivables  | 269,023                     |
| Prepaid costs  | 28,151                      |
| Due from other governmental units                                | 10,706,233                  |
| Deferred charges   | 102,688                     |
| Construction in progress   | 3,133,000                   |
| Capital assets (net of accumulated depreciation)                 | <u>1,095,671</u>            |
| <b>TOTAL ASSETS</b>  | <b><u>\$ 16,113,526</u></b> |
| <b>LIABILITIES</b>   |                             |
| Accounts payable   | \$ 361,039                  |
| Accrued liabilities  | 608                         |
| Due to other governmental units                                  | 113,752                     |
| Security deposits  | 3,700                       |
| Retainage payable  | 124,660                     |
| Current portion-capital lease and bonds payable                  | 183,927                     |
| Noncurrent liabilities   |                             |
| Due after one year-capital lease and bonds payable               | 3,077,758                   |
| Due after one year-due to developer                              | <u>10,223,735</u>           |
| <b>TOTAL LIABILITIES</b>   | <b><u>14,089,179</u></b>    |
| <b>NET ASSETS</b>  |                             |
| Invested in capital assets, net of related debt                  | 966,986                     |
| Restricted for:  |                             |
| Capital projects   | 63,982                      |
| Unrestricted   | <u>993,379</u>              |
| <b>TOTAL NET ASSETS</b>  | <b><u>\$ 2,024,347</u></b>  |

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

**REVENUES:**

|                         |            |
|-------------------------|------------|
| Project management fee  | \$ 286,739 |
| Charges for service     | 20,015     |
| Water service           | 4,686      |
| Penalty and interest    | 5          |
| Permits and inspections | 305        |
| Property tax revenues   | 931        |
| Investment revenues     | 7,885      |
| Operating contributions | 710,000    |
| Other revenues          | 740        |

|                       |                  |
|-----------------------|------------------|
| <b>TOTAL REVENUES</b> | <u>1,031,306</u> |
|-----------------------|------------------|

**EXPENSES**

|  |                |
|--|----------------|
| Service operations:                          |                |
| Personnel                                    | 1,380,376      |
| Contracted services                          | 482,152        |
| Director expenses                            | 10,852         |
| Administrative expenses                      | 239,609        |
| Purchased water service                      | 1,344,621      |
| Purchased wastewater service                 | 2,266          |
| Purchased non-potable water service          | 315,000        |
| Utilities                                    | 690,179        |
| Repairs and maintenance                      | 366,404        |
| Supplies and other charges                   | 646,495        |
| Loss on restatement of fixed assets          | 15,919         |
| Payments to other governments                | 4,200          |
| Reimbursements from other governmental units | (5,270,185)    |
| Total service expenses                       | <u>227,888</u> |

|                  |        |
|------------------|--------|
| Debt service:    |        |
| Interest expense | 5,671  |
| Depreciation     | 96,492 |

|                       |                |
|-----------------------|----------------|
| <b>TOTAL EXPENSES</b> | <u>330,051</u> |
|-----------------------|----------------|

|                             |         |
|-----------------------------|---------|
| <b>CHANGE IN NET ASSETS</b> | 701,255 |
|-----------------------------|---------|

|                                     |                  |
|-------------------------------------|------------------|
| <b>NET ASSETS - OCTOBER 1, 2010</b> | <u>1,323,092</u> |
|-------------------------------------|------------------|

|  |                            |
|--|----------------------------|
| <b>NET ASSETS - SEPTEMBER 30, 2011</b> | <u><u>\$ 2,024,347</u></u> |
|--|----------------------------|



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**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2011**

|   | <b>General Fund</b> | <b>Capital<br/>Projects Fund</b> |
|---|---------------------|----------------------------------|
| <b>ASSETS</b>   |                     |                                  |
| Cash  | \$ 715,702          | \$ 53,040                        |
| Receivables:  |                     |                                  |
| Service accounts (net of allowance for<br>doubtful accounts of \$0) | 171                 | -                                |
| Other receivables   | 154,210             | -                                |
| Prepaid costs   | 28,151              | -                                |
| Due from other governmental unit                                    | 482,498             | -                                |
| <b>TOTAL ASSETS</b>   | <b>\$ 1,380,732</b> | <b>\$ 53,040</b>                 |
| <b>LIABILITIES</b>  |                     |                                  |
| Accounts payable  | \$ 361,039          | \$ -                             |
| Accrued liabilities   | 608                 | -                                |
| Due to other governmental units                                     | 106,743             | 7,009                            |
| Security deposits   | 3,700               | -                                |
| Retainage payable   | -                   | -                                |
| <b>TOTAL LIABILITIES</b>  | 472,090             | 7,009                            |
| <b>FUND BALANCES</b>  |                     |                                  |
| Non-spendable   |                     |                                  |
| Prepaid costs   | 28,151              | -                                |
| Restricted  |                     |                                  |
| Capital projects  | -                   | 46,031                           |
| Committed:  |                     |                                  |
| Maintenance reserves  | 108,000             | -                                |
| Assigned:   |                     |                                  |
| Debt service requirements   | 170,000             | -                                |
| Maintenance reserves  | 432,000             | -                                |
| Unassigned  | 170,491             | -                                |
| <b>TOTAL FUND BALANCES</b>  | 908,642             | 46,031                           |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>                          | <b>\$ 1,380,732</b> | <b>\$ 53,040</b>                 |

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

| <b>Ground Storage<br/>Capital Fund</b> | <b>Total</b>        |
|--|---------------------|
| \$ 9,847                               | \$ 778,589          |
| -                                      | 171                 |
| 114,813                                | 269,023             |
| -                                      | 28,151              |
| -                                      | 482,498             |
| <u>\$ 124,660</u>                      | <u>\$ 1,558,432</u> |
| \$ -                                   | \$ 361,039          |
| -                                      | 608                 |
| -                                      | 113,752             |
| -                                      | 3,700               |
| <u>124,660</u>                         | <u>124,660</u>      |
| <u>124,660</u>                         | <u>603,759</u>      |
| -                                      | 28,151              |
| -                                      | 46,031              |
| -                                      | 108,000             |
| -                                      | 170,000             |
| -                                      | 432,000             |
| -                                      | 170,491             |
| <u>-</u>                               | <u>954,673</u>      |
| <u>\$ 124,660</u>                      | <u>\$ 1,558,432</u> |

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2011**

**Total Fund Balances - Governmental Funds** \$ 954,673

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

Certain bond issuance costs are expensed at the fund level, but are capitalized at the government-wide level and amortized over the life of the asset. 102,688

Governmental funds do not record long-term receivables due from other governmental units for amount contributed for construction projects. However, in the statement of net assets, the receivable is recorded. 10,223,735

Construction in progress in governmental activities is not a financial resource and therefore is not reported as an asset in the governmental funds. 3,133,000

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. 1,095,671

Governmental funds do not record a long-term liability to the developer for advances. However, in the statement of net assets, the liability for these advances are recorded. (10,223,735)

Certain liabilities, including leases payable and bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

|                         |    |             |             |
|-------------------------|----|-------------|-------------|
| Leases payable          | \$ | (41,872)    |             |
| Contractual obligations |    | (3,219,813) | (3,261,685) |
|                         |    |             |             |

**Total Net Assets of Governmental Activities** \$ 2,024,347

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

|  | <u>General<br/>Fund</u> | <u>Capital<br/>Projects Fund</u> | <u>Ground Storage<br/>Capital Fund</u> | <u>Total</u>      |
|--|-------------------------|----------------------------------|--|-------------------|
| <b>REVENUES:</b>   |                         |                                  |  |                   |
| Project management fee                                       | \$ 286,739              | \$ -                             | \$ -                                   | \$ 286,739        |
| Charges for service  | 20,015                  | -                                | -                                      | 20,015            |
| Water service  | 4,686                   | -                                | -                                      | 4,686             |
| Penalty and interest   | 5                       | -                                | -                                      | 5                 |
| Permits and inspections                                      | 305                     | -                                | -                                      | 305               |
| Property tax revenues  | 931                     | -                                | -                                      | 931               |
| Investment revenues  | 7,427                   | 458                              | -                                      | 7,885             |
| Miscellaneous revenues                                       | 7,943                   | 120                              | -                                      | 8,063             |
| <b>TOTAL REVENUES</b>  | <u>328,051</u>          | <u>578</u>                       | <u>-</u>                               | <u>328,629</u>    |
| <b>EXPENDITURES</b>  |                         |                                  |  |                   |
| Service operations:  |                         |                                  |  |                   |
| Personnel  | 1,380,376               | -                                | -                                      | 1,380,376         |
| Contracted services  | 482,152                 | -                                | -                                      | 482,152           |
| Director expenditures  | 10,852                  | -                                | -                                      | 10,852            |
| Administrative expenditures                                  | 239,609                 | -                                | -                                      | 239,609           |
| Purchased water service                                      | 1,344,621               | -                                | -                                      | 1,344,621         |
| Purchased wastewater service                                 | 2,266                   | -                                | -                                      | 2,266             |
| Purchased non-potable water service                          | 315,000                 | -                                | -                                      | 315,000           |
| Utilities  | 690,179                 | -                                | -                                      | 690,179           |
| Repairs and maintenance                                      | 366,404                 | -                                | -                                      | 366,404           |
| Supplies and other charges                                   | 638,343                 | -                                | 8,152                                  | 646,495           |
| Allocated costs  | (5,270,185)             | -                                | -                                      | (5,270,185)       |
| Capital outlay   | 67,193                  | -                                | 566,753                                | 633,946           |
| Debt service:  |                         |                                  |  |                   |
| Capital lease principal payments                             | 18,317                  | -                                | -                                      | 18,317            |
| Capital lease interest                                       | 1,698                   | -                                | -                                      | 1,698             |
| <b>TOTAL EXPENDITURES</b>                                    | <u>286,825</u>          | <u>-</u>                         | <u>574,905</u>                         | <u>861,730</u>    |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | <u>41,226</u>           | <u>578</u>                       | <u>(574,905)</u>                       | <u>(533,101)</u>  |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                         |                                  |  |                   |
| Contributions to other governmental units                    | -                       | (821,344)                        | -                                      | (821,344)         |
| Federal loan proceeds  | -                       | -                                | 574,905                                | 574,905           |
| Contributions from other governmental units                  | 710,000                 | -                                | -                                      | 710,000           |
| Developer advances   | -                       | 817,144                          | -                                      | 817,144           |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                  | <u>710,000</u>          | <u>(4,200)</u>                   | <u>574,905</u>                         | <u>1,280,705</u>  |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <u>751,226</u>          | <u>(3,622)</u>                   | <u>-</u>                               | <u>747,604</u>    |
| <b>FUND BALANCES - OCTOBER 1, 2010</b>                       | <u>157,416</u>          | <u>49,653</u>                    | <u>-</u>                               | <u>207,069</u>    |
| <b>FUND BALANCES - SEPTEMBER 30, 2011</b>                    | <u>\$ 908,642</u>       | <u>\$ 46,031</u>                 | <u>\$ -</u>                            | <u>\$ 954,673</u> |

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
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, 2011**

|  |            |
|--|------------|
| <b>Net Change in Fund Balances - Governmental Funds</b>  | \$ 747,604 |
| Amounts reported for governmental activities in the statement of activities are different because:   |            |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the fund financial statements.  | (7,323)    |
| Governmental funds report capital expenditures in the period purchased. However, in the government-wide financial statements, capital assets are increased by new purchases or contributed assets.   | 633,946    |
| Governmental funds report lease principal payments as expenditures. However, in the government-wide financial statements, lease principal payments are reported as decreases in long-term liabilities.   | 18,317     |
| Bond issuance costs are expenditures in the fund financial statements when debt is issued, but are amortized over the term of the bond in the government-wide financial statements.  | (3,973)    |
| Governmental funds do not account for depreciation. However, in the statement of net assets, capital assets are depreciated and depreciation is recorded in the statement of activities.   | (96,492)   |
| Governmental funds report contributions to other governmental units as other financing uses. However, in the government-wide financial statements, contributions to other governmental units that are expected to be repaid are recorded as an increase to the receivable. | 817,144    |
| Current year bond proceeds and capital leases are other finance sources in the fund financial statements, but are shown as an increase in the liabilities on the government-wide financial statements.   | (574,905)  |
| Decreases in the fixed assets book value due to an inventory of the fixed assets are not reported in governmental funds. The effect of recording the current years is to decrease net assets.  | (15,919)   |
| Governmental funds report developer advances and payments as other financing sources and uses. However, in government-wide financial statements they are shown as an increase in the amount owed to the developer.   | (817,144)  |
| <b>Change in Net Assets of Governmental Activities</b>   | \$ 701,255 |

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 1. CREATION OF DISTRICT**

By the terms of the Should be the 15th not the 17th ~~January 17, 1983~~, voters approved the creation of the Denton County Fresh Water Supply District No. 1, now known as the Denton County Fresh Water Supply District No. 1-A (the District). As a result of another election held on August 8, 1987, the voters approved the District's assumption of certain rights, authority, privileges and functions of a road district and approved for the District to purchase, construct, acquire, own, operate, repair, improve and extend sanitary sewer systems. On December 21, 1993, following a hearing, the governing board of the District approved the conversion of the District to a Water Control and Improvement District and conversion to operating under Chapter 51 of the Texas Water Code and specifically reserved certain rights under Sections 53.029, 53.030 through 53.035, 53.037 through 53.041, 53.111, 53.112, 53.121, and 53.125 of the Texas Water Code.

At an election held within the boundaries of the District on May 6, 1995, voters approved the division of the District into two new districts of which Denton County Fresh Water Supply District No. 1-A was one. The District held its first meeting on July 13, 1995. Pursuant to the provisions of Chapters 49, 51, and 53 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all firefighting activities within the District. The District and its operations are part of the 8 Districts which make up the community referred to as Castle Hills. The District has contracted to operate the Districts included in the Castle Hills Development, including Denton County Fresh Water Supply District No. 1-B, 1-C, 1-D 1-E, 1-F, 1-G and 1-H.

The District receives funding from local and state government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity," as defined in pronouncements by the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*. The District implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*, and it was determined that the District has no component units and the pronouncement has no effect on the financials statements.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. In addition, the accounting records of the District are maintained in accordance with the *Water District Financial Management Guide* published by the Texas Commission on Environmental Quality.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Financial Statement Presentation**

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments*.

GASB Statement No. 34 established standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components: Invested in Capital Assets, Net of Related Debt; Restricted; and Unrestricted. These classifications are defined as follows:

- Invested in Capital Assets, Net of Related Debt — This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Assets — This component of net assets consists of external constraints placed on the use of net assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets — This component of net assets consists of net assets that do not meet the definition of “Restricted” or “Invested in Capital Assets, Net of Related Debt.”

When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first.

**Measurement Focus**

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide statement of net assets and statement of activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net assets.

Governmental fund types are accounted for on a spending or financial resources measurement focus. Accordingly, only current assets and current liabilities are included on the balance sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources.



**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the District as a whole. The statement of net assets is reported by adjusting the governmental fund types to report on the full accrual basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the statement of net assets. The statement of activities is reported by adjusting the governmental fund types to the accrual basis of accounting, items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense on the government-wide statement of activities.

**Fund Financial Statements**

The District uses the modified accrual basis of accounting for government fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within sixty (60) days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which are considered available to defray the expenditures of the current year. Deferred tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the governmental funds balance sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

The fund statements include a balance sheet and statement of revenues, expenditures and changes in fund balance. The District has three major governmental funds.

General Fund – To account for resources not required to be accounted for in another fund, and include customer service revenues, costs and general expenditures.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Fund Financial Statements – Continued**

Capital Projects Fund – To account for financial resources segregated for acquisition or construction of facilities and related costs.

Ground Storage Capital Fund – To account for the bond proceeds and uses related to the District Pump Station Improvements Project.

**Budgeting**

In compliance with governmental accounting principles and the Operating Agreement (Note 12), the Board of Directors annually adopts an unappropriated budget for the General Fund.

**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.

**Prepaid Items and Deferred Charges**

Prepaid balances are for payments made by the District for which benefits extend beyond September 30, 2011, and a non-spendable fund balance has been established to signify that a portion of fund balance is not available for other subsequent expenditures.

Deferred charges reported at the government-wide level are comprised of the balance of unamortized debt issuance costs. The District's policy is to amortize issuance costs over the life of the related debt using the effective interest method.

**Capital Assets**

Capital assets which include vehicles, equipment and leasehold improvements, are reported in the government-wide statement of net assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as an expenditure in the governmental fund incurred and as an expense in the government-wide statement of activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Capital Assets – Continued**

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$10,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

|                  |             |
|------------------|-------------|
| Equipment        | 3 years     |
| Office equipment | 3-5 years   |
| Vehicles         | 5 years     |
| Lift station     | 20-45 years |

**Pensions**

The Internal Revenue Service has determined that directors are considered to be “employees” for federal payroll tax purposes only. A pension plan has not been established for the directors. A plan has been established for the District’s employees other than directors. (see Note 18).

**Net Assets/ Fund Balance**

In the fiscal year ended September 30, 2011, the District has implemented GASB No. 54, *Fund Balance, Reporting and Governmental Fund Type Definitions*, for its governmental funds. Under GASB No. 54, fund balances are required to be reported according to the following classifications.

Nonspendable Fund Balance – Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes prepaid costs.

Restricted Fund Balance – Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation).

Committed Fund Balance – Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) or by law (through constitutional provisions or enabling legislation). The District has committed fund balance at September 30, 2011 for maintenance of the facilities.

Assigned Fund Balance – Amounts that are constrained by the District’s intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Net Assets/ Fund Balance – Continued**

given. This classification includes balances assigned for Texas Water Development Board bond payments.

Unassigned Fund Balance – This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance.

**Allocated Costs**

Pursuant to the Operating Agreement (Note 12), the District pays all expenses required to maintain and operate the facilities of Districts 1-B through 1-H and all expenses related to management of the District. On a monthly basis, the District allocates to Districts 1-B through 1-H, their allocable shares of expenses, which is reflected as reimbursements from other governmental units on the statement of activities and the statement of governmental fund revenues, expenditures, and changes in fund balances.

**Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Implementation of New Standard**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The implementation of GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. The District has reclassified the fund balances of its governmental funds following the implementation of GASB 54 in fiscal year 2011.

**NOTE 3. DEPOSITS AND INVESTMENTS**

**Deposits**

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3. DEPOSITS AND INVESTMENTS**

**Deposits – Continued**

deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District’s deposits and cash on hand was \$778,589 and the bank balance was \$238,521. Due to the current FDIC program to fully insure non-interest bearing accounts, no additional collateral was necessary.

The carrying values of the deposits are included in the financial statements at September 30, 2011, as listed below:

|                       | Cash       |
|-----------------------|------------|
| General fund          | \$ 715,702 |
| Special revenue fund  | 9,847      |
| Capital projects fund | 53,040     |
| Total carrying value  | \$ 778,589 |

The District is the custodian of a consolidated cash account. The consolidated cash account is allocated between districts with operations within the Castle Hills development at September 30, 2011 the district’s share of the pool cash was \$0.

**Investments**

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District’s financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth.

No person may invest District funds without express written authority from the Board of Directors.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED**

**Investments – Continued**

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

As of September 30, 2011, the District had no investments; however, when possible the District's bank deposits are placed in interest bearing accounts.

**Restrictions**

All cash and investments of the Capital Projects Fund are restricted for the purchase, repair, or replacement of capital assets.

**NOTE 4. DUE TO OR FROM OTHER GOVERNMENTAL UNITS**

As a part of the normal course of operations which include transactions with other Districts within Castle Hills and other governments, the District may owe or be owed funds from other governmental entities. At September 30, 2011, the amounts reflected on the statement of net assets and the balance sheet as due from and to other governments included amounts due to and due from Districts 1-B through 1-H.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2011:

|  | September 30,<br>2010 | Additions         | Adjustments        | September 30,<br>2011 |
|--|-----------------------|-------------------|--------------------|-----------------------|
| Capital assets not being depreciated                                   |                       |                   |                    |                       |
| Construction in progress   | \$ 2,566,247          | \$ 566,753        | \$ -               | \$ 3,133,000          |
| Capital assets at historical costs<br>subject to depreciation          |                       |                   |                    |                       |
| Lift station   | 1,081,766             | -                 | -                  | 1,081,766             |
| Equipment  | 350,536               | -                 | 74,394             | 424,930               |
| Office equipment   | 118,853               | -                 | -                  | 118,853               |
| Vehicles   | 274,536               | 67,193            | 81,047             | 422,776               |
| Total capital assets at<br>historical costs subject<br>to depreciation | <u>1,825,691</u>      | <u>67,193</u>     | <u>155,441</u>     | <u>2,048,325</u>      |
| Less accumulated depreciation  |                       |                   |                    |                       |
| Lift station   | 97,472                | 24,039            | 22,724             | 144,235               |
| Equipment  | 255,825               | 33,185            | 127,058            | 416,068               |
| Office equipment   | 107,651               | 3,748             | (44)               | 111,355               |
| Vehicles   | 223,854               | 35,520            | 21,622             | 280,996               |
| Total accumulated depreciation   | <u>684,802</u>        | <u>96,492</u>     | <u>171,360</u>     | <u>952,654</u>        |
| Total depreciable capital assets,<br>net of accumulated depreciation   | <u>1,140,889</u>      | <u>(29,299)</u>   | <u>(15,919)</u>    | <u>1,095,671</u>      |
| Total capital assets, net of<br>accumulated depreciation               | <u>\$ 3,707,136</u>   | <u>\$ 537,454</u> | <u>\$ (15,919)</u> | <u>\$ 4,228,671</u>   |

During the current year a review of the fixed asset system resulted in several adjustments to the various fixed asset line items. The net effect of these adjustments have been recognized in the current years statement of activities.

On April 19, 2006, a Cost Sharing Agreement was executed between Denton County Fresh Water Supply District Nos. 1-B, 1-C, 1-D, 1-E and the District. The agreement provided for a cost sharing of the cost of construction of certain Lift Station Facilities. The District will own the facilities for the benefit of the residents and the property located within the original boundaries of Denton County Fresh Water Supply District No. 1, which includes District No. 1-B, District No. 1-C, District No. 1-D and District No. 1-E. On September 23, 2009, the District executed an Excess Capacity Purchase Agreement (ECPA) with District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, District No. 1-G, and District No. 1-H.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 5. CAPITAL ASSETS – CONTINUED**

This agreement reallocates the shared cost for the construction of the lift station facilities based on capacity. The capacity allocated to each participant was based upon the estimated total sewer connection as of September 2011. Capacity in the facilities is allocated as follows:

|                  |         |
|------------------|---------|
| District No. 1-B | 32.16 % |
| District No. 1-C | 0.18    |
| District No. 1-D | 37.69   |
| District No. 1-E | 17.66   |
| District No. 1-F | 12.31   |
| Total            | 100 %   |

District Nos. 1-B, 1-C, 1-D and 1-E are defined in the ECPA as “Selling Districts”. It is the intent of the Selling Districts to sell excess capacity to District Nos. 1-F, 1-G and 1-H based on the actual capacity needed as development occurs within their respective district. The cost of capacity to District Nos. 1-F, 1-G and 1-H will be calculated based upon the provisions outlined in the ECPA.

As of September 30, 2011, District Nos. 1-F, 1-G and 1-H have not purchased capacity in the lift station facilities.

**NOTE 6. MAINTENANCE TAX**

On November 7, 1995 voters of the District approved the levy and collection of a maintenance tax in an unlimited amount per \$100 of assessed valuation of taxable property within the District. The maintenance tax will be used for maintenance purposes to include funds for planning, maintaining, repairing and operating all necessary plants, properties, facilities and improvements of the District and for proper services, engineering and legal fees, and operational and administrative costs in accordance with Section 49.107 of the Texas Water Code. During the year ended September 30, 2011, the District did not levy an ad valorem maintenance tax.

The District’s tax calendar is as follows:

Levy Date – October 1, or as soon thereafter as practicable

Lien Date – January 1

Due Date – Not later than January 31

Delinquent Date – February 1, at which time the taxpayer is liable for penalty and interest



**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 7. RESERVE PAYMENTS TO OTHER GOVERNMENTAL UNITS**

In fiscal year 2011, the District recognized the need to develop a reserve to be used for one-time expenditures which are necessary to operate and maintain the facilities of the District. The District accounts for the other districts' deposits in a separate reserve account and will only utilize the funds in accordance with the District's Reserve Expense Policy, and in accordance with the allocation percentages authorized in the operating agreement with the District and adopted in the budgeting process on an annual basis. The schedule below recaps the reserve activity for the current period.

| <b>Comitted Fund balances<br/>held by District No. 1-A</b> | No. 1-B           | No. 1-D           | District<br>No. 1-E | No. 1-F           | No. 1-G          | Total             |
|--|-------------------|-------------------|---------------------|-------------------|------------------|-------------------|
| Balance at 9/30/2010                                       | \$ -              | \$ -              | \$ -                | \$ -              | \$ -             | \$ -              |
| Contributions 2011   | 150,000           | 150,000           | 60,000              | 150,000           | 30,000           | \$ 540,000        |
| Distributions 2011   | -                 | -                 | -                   | -                 | -                | -                 |
| Balance at 9/30/2011                                       | <u>\$ 150,000</u> | <u>\$ 150,000</u> | <u>\$ 60,000</u>    | <u>\$ 150,000</u> | <u>\$ 30,000</u> | <u>\$ 540,000</u> |

The contributions from other governmental units include a \$170,000 payment from various districts within the Castle Hills subdivision to fund the bond payments for the revenue bonds.

**NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS**

On July 15, 1996, the District, Denton County Fresh Water Supply District No. 1-B (District No.1-B), and the City of Lewisville (Lewisville) executed an Amended and Restated Joint Utility Contract. On November 13, 1997, Amendment No.1 to the amended and Restated Joint Utility Contract was approved. The contract states that Lewisville will proceed with financing utility and road facilities within District No.1-B through the sale of \$20,992,740 in Public Improvement District (PID) bonds, now referred to as PID 1. The District will have primary responsibility as Project Manager and shall perform its duties in accordance with an agreement dated March 14, 1997, (see Note 9). The District is responsible for designating the consulting engineer on the project and will approve the projects along with Lewisville.

The District serves as Project Manager for the purpose of easement and facilities site negotiation and acquisition as well as the inspection and supervision of the construction of facilities. The District further agrees that adequate water distribution, wastewater collection and treatment capacity, storm sewer and drainage capacity and road system capacity shall be reserved in the Project-Wide Facilities to accommodate the Castle Hills Facilities.

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, the District and District 1-B shall have the right to acquire the facilities at any time by paying to Lewisville the amount necessary to repay, redeem, refund or defease the PID 1 bonds allocable to the facilities being acquired.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS – CONTINUED**

The parties to the agreement agree that the cost of operations and maintenance of the facilities being constructed will be borne by the Districts and not Lewisville.

In order to finance the facilities being constructed with bond proceeds being issued by the PID 1 and Lewisville, District No.1-B agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 1 Bonds as they mature. District No.1-B will commit each year to levy, assess and collect a tax on all taxable property within District No.1-B, unlimited by rate or amount, sufficient to service the debt and other costs incidental to the PID 1 Bonds. Lewisville will calculate the total amount of payments to be made on the PID 1 Bonds on the following March 1, after application of the available reserves from proceeds of the PID 1 Bonds and, if needed, will calculate an assessment on all assessable property within the PID 1, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville. Lewisville will notify District No.1-B of the calculation of the Annual Assessment by September 1 of each year following the above referenced March 1.

During the current fiscal year, District No. 1-B made contract tax payments of \$1,568,013 to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement at September 30, 2011 is \$1,570,568 and the District has fully satisfied that requirement at year end. The City of Lewisville at September 30, 2011 is holding \$2,391,450 in trust for District No. 1-B, including reserve funds. The amount held in trust in excess of the reserve is available to cover debt service requirements of PID 1. The Reserve Fund is maintained by the City of Lewisville for PID 1.

| PID 1<br>SERIES - 1998                |                                 |   |                      |
|---------------------------------------|---------------------------------|---|----------------------|
| Fiscal Year<br>Ending<br>September 30 | Principal<br>Due<br>September 1 | Interest Due<br>March 1/<br>September 1 | Total                |
| 2012                                  | \$ 725,000                      | \$ 846,194                              | \$ 1,571,194         |
| 2013                                  | 765,000                         | 807,225                                 | 1,572,225            |
| 2014                                  | 805,000                         | 766,106                                 | 1,571,106            |
| 2015                                  | 850,000                         | 722,838                                 | 1,572,838            |
| 2016                                  | 895,000                         | 677,150                                 | 1,572,150            |
| 2017                                  | 945,000                         | 625,240                                 | 1,570,240            |
| 2018                                  | 1,000,000                       | 570,430                                 | 1,570,430            |
| 2019                                  | 1,060,000                       | 512,430                                 | 1,572,430            |
| 2020                                  | 1,120,000                       | 450,950                                 | 1,570,950            |
| 2021                                  | 1,185,000                       | 385,990                                 | 1,570,990            |
| 2022                                  | 1,250,000                       | 317,260                                 | 1,567,260            |
| 2023                                  | 1,330,000                       | 244,760                                 | 1,574,760            |
| 2024                                  | 1,405,000                       | 167,620                                 | 1,572,620            |
| 2025                                  | 1,485,000                       | 86,130                                  | 1,571,130            |
| Total                                 | <u>\$ 14,820,000</u>            | <u>\$ 7,180,323</u>                     | <u>\$ 22,000,323</u> |

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS – CONTINUED**

On February 1 following the date of receipt of written notification of the Annual Assessment, District No.1-B will certify to Lewisville the amount of all taxes collected. Lewisville will then impose an assessment, if needed, with the PID 1 sufficient to pay the debt service requirement on the PID 1 Bonds as they come due. The parties to the agreement acknowledge that the tax levy is contingent upon a one-time approval by the voters within District No.1-B. Such election occurred on August 10, 1996, and approved the levy and collection of said tax. For the fiscal year ending September 30, 2011, District No. 1-B levied a contract tax at the rate of \$0.6659 per \$100 of assessed valuation on taxable property within District No. 1-B, which resulted in a tax levy of \$1,654,994. The term of the agreement is forty (40) years.

On October 14, 1999, the District, Denton County Fresh Water Supply District No. 1-D (District No. 1-D), and the City of Lewisville (Lewisville) executed a Joint Utility Contract. The contract states that Lewisville will proceed with financing utility and road facilities within District No. 1-D through the sale of \$28,500,000 of Public Improvement District No. 2 (PID 2) bonds; the first installment of these bonds were sold in the amount of \$14,000,000. The first installment of bonds was followed by a refunding and capital improvement bond series in the amount of \$18,150,000. During the 2006 fiscal year, the final installment of bonds was sold in the amount of \$10,350,000. The District will have primary responsibility as Project Manager and shall perform its duties in accordance with an agreement dated June 14, 2000. This agreement was amended on June 11, 2002. The District is responsible for designating the consulting engineer on the project and will approve the projects along with Lewisville.

The District serves as Project Manager for the purpose of easement and facilities site negotiation and acquisition as well as the inspection and supervision of the construction of facilities. The District further agrees that adequate water distribution, wastewater collection and treatment capacity, storm sewer and drainage capacity and road system capacity shall be reserved in the Project-Wide Facilities to accommodate the Castle Hills Facilities.

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, District Nos. 1-A and 1-D shall have the right to acquire the facilities at any time by paying to Lewisville the amount necessary to repay, redeem, refund or defease the PID 2 bonds allocable to the facilities being acquired. The parties to the agreement agree that the cost of operations and maintenance of the facilities being constructed will be borne by the districts and not Lewisville.

In order to finance the facilities being constructed with bond proceeds being issued by the PID and Lewisville, District No. 1 -D agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 2 Bonds as they mature. District No. 1-D committed each year to levy, assess and collect a tax on all taxable property within the District, unlimited by rate or amount, sufficient to service the debt and other costs incidental to the PID 2 Bonds.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS – CONTINUED**

Lewisville will calculate the total amount of payments to be made on the PID 2 Bonds on the following March 1, after application of the available reserves from proceeds of the PID 2 Bonds and will, if needed, calculate an assessment on all assessable property within the PID 2, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville. Lewisville will notify District No. 1-D of the calculation of the Annual Assessment by September 1 of each year preceding the above-referenced March 1.

During the current fiscal year, District No. 1-D made contract tax payments to the City of Lewisville in the amount of \$2,347,905 in accordance with the bond covenants. The reserve fund requirement as of September 30, 2011, is \$2,359,065 and the District has fully satisfied that requirement at year end. The City of Lewisville is holding \$3,012,114 in trust for District No. 1-D at September 30, 2011, including reserve funds. The amounts held in trust in excess of the reserve requirement are available to cover debt service required of PID 2.

The following is an amortization schedule of the existing outstanding debt District No. 1-D's contract tax is expected to amortize.

| PID 2<br>REFUNDING SERIES - 2002      |                                 |   |                      |
|---------------------------------------|---------------------------------|---|----------------------|
| Fiscal Year<br>Ending<br>September 30 | Principal<br>Due<br>September 1 | Interest Due<br>March 1/<br>September 1 | Total                |
| 2012                                  | \$ 605,000                      | \$ 940,293                              | \$ 1,545,293         |
| 2013                                  | 635,000                         | 911,555                                 | 1,546,555            |
| 2014                                  | 670,000                         | 875,836                                 | 1,545,836            |
| 2015                                  | 705,000                         | 838,149                                 | 1,543,149            |
| 2016                                  | 745,000                         | 798,492                                 | 1,543,492            |
| 2017                                  | 790,000                         | 756,586                                 | 1,546,586            |
| 2018                                  | 835,000                         | 712,149                                 | 1,547,149            |
| 2019                                  | 880,000                         | 663,093                                 | 1,543,093            |
| 2020                                  | 935,000                         | 611,392                                 | 1,546,392            |
| 2021                                  | 990,000                         | 556,462                                 | 1,546,462            |
| 2022                                  | 1,045,000                       | 498,299                                 | 1,543,299            |
| 2023                                  | 1,105,000                       | 436,904                                 | 1,541,904            |
| 2024                                  | 1,170,000                       | 373,920                                 | 1,543,920            |
| 2025                                  | 1,235,000                       | 307,230                                 | 1,542,230            |
| 2026                                  | 1,310,000                       | 236,835                                 | 1,546,835            |
| 2027                                  | 1,385,000                       | 162,165                                 | 1,547,165            |
| 2028                                  | 1,460,000                       | 83,220                                  | 1,543,220            |
| Total                                 | <u>\$ 16,500,000</u>            | <u>\$ 9,762,580</u>                     | <u>\$ 26,262,580</u> |

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS – CONTINUED**

| PID 2<br>SERIES - 2005                |                               |                                       |               |
|---------------------------------------|-------------------------------|---------------------------------------|---------------|
| Fiscal Year<br>Ending<br>September 30 | Principal<br>Due<br>October 1 | Interest Due<br>April 1/<br>October 1 | Total         |
| 2012                                  | \$ 210,000                    | \$ 597,600                            | \$ 807,600    |
| 2013                                  | 225,000                       | 585,000                               | 810,000       |
| 2014                                  | 240,000                       | 571,500                               | 811,500       |
| 2015                                  | 250,000                       | 557,100                               | 807,100       |
| 2016                                  | 265,000                       | 542,100                               | 807,100       |
| 2017                                  | 285,000                       | 526,200                               | 811,200       |
| 2018                                  | 300,000                       | 509,100                               | 809,100       |
| 2019                                  | 320,000                       | 491,100                               | 811,100       |
| 2020                                  | 340,000                       | 471,900                               | 811,900       |
| 2021                                  | 360,000                       | 451,500                               | 811,500       |
| 2022                                  | 380,000                       | 429,900                               | 809,900       |
| 2023                                  | 400,000                       | 407,100                               | 807,100       |
| 2024                                  | 425,000                       | 383,100                               | 808,100       |
| 2025                                  | 450,000                       | 357,600                               | 807,600       |
| 2026                                  | 480,000                       | 330,600                               | 810,600       |
| 2027                                  | 510,000                       | 301,800                               | 811,800       |
| 2028                                  | 540,000                       | 271,200                               | 811,200       |
| 2029                                  | 570,000                       | 238,800                               | 808,800       |
| 2030                                  | 605,000                       | 204,600                               | 809,600       |
| 2031                                  | 640,000                       | 168,300                               | 808,300       |
| 2032                                  | 680,000                       | 129,900                               | 809,900       |
| 2033                                  | 720,000                       | 89,100                                | 809,100       |
| 2034                                  | 765,000                       | 45,900                                | 810,900       |
| Total                                 | \$ 9,960,000                  | \$ 8,661,000                          | \$ 18,621,000 |

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS – CONTINUED**

On February 1 following the date of receipt of written notification of the Annual Assessment, District No. 1-D will certify to Lewisville the amount of all taxes collected. Lewisville will then impose an assessment, if needed, with the PID 2 sufficient to pay the debt service requirement on the PID 2 Bonds as they come due. The parties to the agreement acknowledged that the tax levy would be contingent upon a one-time approval by the voters within District No. 1-D. Such election occurred on May 6, 2000, and approved the levy and collection of said tax. For the fiscal year ending September 30, 2011, District No. 1-D levied a contract tax at the rate of \$0.7083 per \$100 of assessed valuation upon property with District No. 1-D. The term of the agreement is forty (40) years.

On April 26, 2001 the District, Denton County Fresh Water Supply District No. 1-E (District No. 1-E), and the City of Lewisville (Lewisville) executed a 2001 Joint Utility Contract. The contract states that Lewisville will proceed with financing utility and road facilities within District No. 1-E through the sale of \$28,500,000 of Public Improvement District No. 3 (PID 3) bonds; the first installment of these bonds were sold in the amount of \$14,000,000. In 2004, PID 3 sold \$25,000,000 in Combination Contract Revenue and Special Assessment Refunding and Capital Improvement Bonds to refund the previously sold \$14,000,000 in bonds. The District will have primary responsibility as Project Manager and shall perform its duties in accordance with an agreement dated July 1, 2001. The District is responsible for designating the consulting engineer on the project and will approve the projects along with Lewisville.

The District serves as Project Manager for the purpose of easement and facilities site negotiation and acquisition as well as the inspection and supervision of the construction of facilities. The District further agrees that adequate water distribution, wastewater collection and treatment capacity, storm sewer and drainage capacity and road system capacity shall be reserved in the Project-Wide Facilities to accommodate the Castle Hills Facilities.

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, the District and District No. 1 -E shall have the right to acquire the facilities at any time by paying to Lewisville the amount necessary to repay, redeem, refund or defease the PID 3 bonds allocable to the facilities being acquired. The parties to the agreement agree that the cost of operations and maintenance of the facilities being constructed will be borne by the districts and not Lewisville.

In order to finance the facilities being constructed with bond proceeds being issued by the PID 3 and Lewisville, District No. 1-E agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 3 Bonds as they mature. District No. 1-E committed each year to levy, assess and collect a tax on all taxable property within District No. 1-E, unlimited by rate or amount, sufficient to service the debt and other costs incidental to the PID 3 Bonds. Lewisville will calculate the total amount of payments to be made on the PID 3 Bonds on the following March 1, after application of the available reserves from proceeds of the PID 3 Bonds and, if needed, will calculate an assessment on all assessable property within the PID 3, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville. Lewisville will notify District No. 1-E of the calculation of the Annual Assessment by September 1 of each year following the above-referenced March 1.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS – CONTINUED**

During the fiscal year, District 1-E made contract tax payments of \$2,199,375 to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement at September 30, 2011 is \$2,203,263 and the District has fully satisfied that requirement at year end. The City of Lewisville is holding \$2,296,229 in trust for District 1-E at September 30, 2011, including reserve funds. The amounts held in trust in excess of the reserve requirement are available to cover debt service required of PID 3.

The following is an amortization schedule of the existing outstanding debt District No. 1 -E's contract tax is expected to amortize.

PID 3  
SERIES - 2004

| Fiscal Year<br>Ending<br>September 30 | Principal<br>Due<br>September 1 | Interest Due<br>March 1/<br>September 1 | Total                |
|---------------------------------------|---------------------------------|---|----------------------|
| 2012                                  | \$ 760,000                      | \$ 1,443,263                            | \$ 2,203,263         |
| 2013                                  | 800,000                         | 1,399,563                               | 2,199,563            |
| 2014                                  | 850,000                         | 1,350,563                               | 2,200,563            |
| 2015                                  | 900,000                         | 1,298,500                               | 2,198,500            |
| 2016                                  | 955,000                         | 1,243,375                               | 2,198,375            |
| 2017                                  | 1,015,000                       | 1,184,881                               | 2,199,881            |
| 2018                                  | 1,080,000                       | 1,122,713                               | 2,202,713            |
| 2019                                  | 1,145,000                       | 1,056,563                               | 2,201,563            |
| 2020                                  | 1,215,000                       | 986,431                                 | 2,201,431            |
| 2021                                  | 1,290,000                       | 912,013                                 | 2,202,013            |
| 2022                                  | 1,370,000                       | 833,000                                 | 2,203,000            |
| 2023                                  | 1,450,000                       | 749,088                                 | 2,199,088            |
| 2024                                  | 1,540,000                       | 660,275                                 | 2,200,275            |
| 2025                                  | 1,635,000                       | 565,950                                 | 2,200,950            |
| 2026                                  | 1,735,000                       | 465,806                                 | 2,200,806            |
| 2027                                  | 1,840,000                       | 359,538                                 | 2,199,538            |
| 2028                                  | 1,955,000                       | 246,838                                 | 2,201,838            |
| 2029                                  | 2,075,000                       | 127,094                                 | 2,202,094            |
| Total                                 | <u>\$ 23,610,000</u>            | <u>\$ 16,005,454</u>                    | <u>\$ 39,615,454</u> |

On February 1 following the date of receipt of written notification of the Annual Assessment, District No. 1-E will certify to Lewisville the amount of all taxes collected. Lewisville will then impose an assessment, if needed, with the PID 3 sufficient to pay the debt service requirement on the PID 3 Bonds as they come due. The parties to the agreement acknowledged that the tax levy would be contingent upon a one-time approval by the voters within District No. 1-E. Such election occurred on November 7, 2000, and approved the levy and collection of said tax. For the fiscal year ending September 30, 2011, District No. 1-E levied a contract tax of \$0.8402 per \$100 of assessed valuation on property within District No. 1-E. The term of this contract is forty (40) years.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS – CONTINUED**

On May 21, 2007, the District, Denton County Fresh Water Supply District No. 1-F (District No. 1-F), and the City of Lewisville (Lewisville) executed a 2007 Joint Utility Contract. On January 7, 2008, the Amended and Restated 2007 Joint Utility Contract was approved. The agreement became effective on the date executed by Lewisville and District No. 1-F in accordance with the Amended and Restated 2007 Joint Utility Contract. The contract states that Lewisville will proceed with financing utility and road facilities within the District through the sale of \$32,000,000 of Public Improvement District No. 4 (PID 4) bonds; the first installment of these bonds were sold in the amount of \$20,000,000 in 2008 and the remaining balance of \$12,000,000 in the future. The District will have primary responsibility as Project Manager and shall perform its duties in accordance with an agreement dated October 1, 2006. The District is responsible for designating the consulting engineer on the project and approves the projects along with Lewisville.

The District serves as Project Manager for the purpose of easement and facilities site negotiation and acquisition as well as the inspection and supervision of the construction of facilities. The District further agrees that adequate water distribution, wastewater collection and treatment capacity, storm sewer and drainage capacity and road system capacity shall be reserved in the Project-Wide Facilities to accommodate the Castle Hills Facilities.

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, the District and District No. 1-F shall have the right to acquire the facilities at any time by paying to Lewisville the amount necessary to repay, redeem, refund or defease the PID 4 bonds allocable to the facilities being acquired. The parties to the agreement agree that the cost of operations and maintenance of the facilities being constructed will be borne by the districts and not Lewisville.

In order to finance the facilities being constructed with bond proceeds being issued by the PID 4 and Lewisville, District No. 1-F agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 4 Bonds as they mature. District No. 1-F committed each year to levy, assess and collect a tax on all taxable property within District No. 1-F, unlimited by rate or amount, sufficient to service up to ninety percent (90%) of the debt and other costs incidental to the PID 4 Bonds.

The additional ten percent (10%) of the debt and other costs included to the PID 4 Bonds will be paid from the special assessment as outlined in the agreement. Lewisville will calculate the total amount of payments to be made on the PID 4 Bonds on the following February 1, after application of the available reserves from proceeds of the PID 4 Bonds and will calculate an assessment on all assessable property within the PID 4, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville. Lewisville will notify District No. 1-F of the calculation of the Annual Assessment by September 1 of each year proceeding the above-referenced February 1.

As of the fiscal year end, the reserve fund requirement is \$1,854,750. To date, District No. 1-F has funded \$1,286,925 of the reserve and a letter of credit covers the remaining reserve requirement. The Reserve Fund is maintained by PID 4. As of September 30, 2011 District 1-F had \$2,031,015 in trust with the City of Lewisville. During the current fiscal year, PID 4 assessment revenue in the amount of \$454,101 was collected and remitted to Lewisville.



**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS – CONTINUED**

These monies are maintained in an escrow account under the oversight of Lewisville. During the current fiscal year, available PID 4 assessment revenue was used to pay down outstanding principal on the PID 4 bonds in the amount of \$505,000. As of September 30, 2011, \$88,182 remained in the escrow account. As funds are accumulated in the escrow account, these monies will be used to retire additional outstanding PID 4 bonds. The following is an updated amortization schedule on the existing outstanding debt the District's contract tax and assessments are expected to amortize as of September 30, 2011:

| PID 4<br>SERIES - 2008                |                               |                                       |                      |
|---------------------------------------|-------------------------------|---------------------------------------|----------------------|
| Fiscal Year<br>Ending<br>September 30 | Principal<br>Due<br>October 1 | Interest Due<br>October 1/<br>April 1 | Total                |
| 2012                                  | \$ -                          | \$ 1,251,113                          | \$ 1,251,113         |
| 2013                                  | 500,000                       | 1,251,113                             | 1,751,113            |
| 2014                                  | 535,000                       | 1,217,362                             | 1,752,362            |
| 2015                                  | 570,000                       | 1,181,250                             | 1,751,250            |
| 2016                                  | 610,000                       | 1,142,775                             | 1,752,775            |
| 2017                                  | 650,000                       | 1,101,600                             | 1,751,600            |
| 2018                                  | 695,000                       | 1,057,725                             | 1,752,725            |
| 2019                                  | 740,000                       | 1,010,812                             | 1,750,812            |
| 2020                                  | 795,000                       | 960,863                               | 1,755,863            |
| 2021                                  | 845,000                       | 907,200                               | 1,752,200            |
| 2022                                  | 905,000                       | 850,162                               | 1,755,162            |
| 2023                                  | 965,000                       | 789,075                               | 1,754,075            |
| 2024                                  | 1,030,000                     | 723,938                               | 1,753,938            |
| 2025                                  | 1,100,000                     | 654,412                               | 1,754,412            |
| 2026                                  | 1,170,000                     | 580,162                               | 1,750,162            |
| 2027                                  | 1,250,000                     | 501,188                               | 1,751,188            |
| 2028                                  | 1,335,000                     | 416,812                               | 1,751,812            |
| 2029                                  | 1,425,000                     | 326,700                               | 1,751,700            |
| 2030                                  | 1,520,000                     | 230,513                               | 1,750,513            |
| 2031                                  | 1,625,000                     | 127,912                               | 1,752,912            |
| 2032                                  | 270,000                       | 18,225                                | 288,225              |
| Total                                 | <u>\$ 18,535,000</u>          | <u>\$ 16,300,912</u>                  | <u>\$ 34,835,912</u> |

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS – CONTINUED**

On February 1 following the date of receipt of written notification of the Annual Assessment, District No. 1-F will certify to Lewisville the amount of all taxes collected. If necessary, Lewisville will then impose an assessment with the PID 4 sufficient to pay the debt service requirement on the PID 4 Bonds as they come due. The parties to the agreement acknowledged that the tax levy would be contingent upon a one-time approval by the voters within District No. 1-F. Such election occurred on May 12, 2007, and approved the levy and collection of said tax. For the fiscal year ending September 30, 2011, District No. 1-F levied a contract tax at the rate of \$.8968 per \$100 of assessed valuation upon property with District No. 1-F. The term of the agreement is forty (40) years.

**NOTE 9. PROJECT MANAGEMENT AGREEMENTS**

The District and the City of Lewisville (Lewisville) executed a Project Management Agreement dated March 14, 1997, for District No. 1-B. On November 1, 1999, and July 1, 2001, the District executed additional Project Management Agreements with Denton County Fresh Water Supply Districts Nos. 1-D and 1-E, respectively. On October 1, 2006, the District entered into a Project Management Agreement with Denton County Fresh Water Supply Districts Nos. 1-F and 1-G.

The agreements provide for the District to prepare a proposed development plan titled the "Project Management Plan." (Plan) The Plan provides for the recommended time sequence in which construction and acquisition of the Facilities should be completed, including completion of the streets and highways planned for the Project, installation of water, sewer, drainage and other public utilities on the Project, and completion of off-site development. In addition, the agreements provide for the estimated cost of the facilities and recommendations for the issuance of bonds, notes and other obligations.

The District's development duties include and are not limited to contracting for professional services, entering into construction contracts, coordinating with other municipalities, reviewing invoices for payment by Lewisville, verifying the appropriate insurance with each contractor and supervising the performance of each contract. The District further agreed to keep the Project in compliance with the applicable laws, ordinances, regulations and orders relative to the use, operation, leasing, repair, and maintenance of the Project and with all the terms of the Trust Agreements.

The cost of the project includes employees and consultants necessary for implementation of the contract, which shall be billed to Lewisville on a monthly basis and funded from proceeds of the PID Bonds. Other costs to be billed to Lewisville and paid from the PID Bonds are premiums for insurance, all taxes, assessments and special assessments and all costs of facilities. The District will take no action in connection with the development of the Projects unless such action either is in accordance with the development plans and the project budgets or is approved in writing by Lewisville.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 9. PROJECT MANAGEMENT AGREEMENTS – CONTINUED**

Monthly fees under Project Management Agreements for District No. 1-B, 1-D and 1-E have ceased under the terms of the respective Project Management Agreements. The term of the agreements will terminate thirty (30) days after the issuance of completion certificates by the Engineer for the District on all Facilities unless sooner terminated or unless extended by mutual agreement of Lewisville and the District.

**NOTE 10. SEWAGE TREATMENT SERVICE CONTRACT**

The District and the City of Lewisville (Lewisville) executed a Sewage Treatment Service Agreement dated August 18, 1997. The District agrees to provide for the conveyance of sewage from its facilities and residents to Lewisville's wastewater collection system and Lewisville agreed to treat the wastewater once received from the District. Lewisville agreed to charge the District the same rate for treatment of its sewage as the rate charged the City of Highland Village. Annually a cost of service study will be performed to determine the rate to be charged the District.

The District's maximum daily volume of sewage delivered to Lewisville shall be 10.5 Million Gallons Per Day (MGD). If wastewater entering Lewisville's system causes Lewisville's system to exceed capacity, the District shall be liable for all penalties assessed to Lewisville regarding the overflow and spillage caused by the District.

On or before June 1 of each year the District will furnish Lewisville with the number of active residential sewer connections, the number of commercial/industrial sewer connections and the number of active educational institutions, hospitals or similar institutions served, all as of May 1. Additionally the District shall notify Lewisville of all non-residential establishments planned to be constructed. The term of the agreement is thirty (30) years from its effective date, which was 30 days after the agreement was executed.

**NOTE 11. WATER SUPPLY AGREEMENTS**

**Upper Trinity Regional Water District Regional Treated Water Supply Service Contract for Additional Participating Member**

On May 7, 1992 Denton County Fresh Water Supply District No. 1 executed an agreement with the Upper Trinity Regional Water District (UTRWD) to provide treated water to participants in the UTRWD. Denton County Fresh Water Supply District No. 1-A has assumed the obligations of District No. 1 under the terms of this agreement. The UTRWD has agreed to use its best efforts to build the facilities called for in this agreement and to issue debt to fund the cost of the facilities.

The governing body of each contract member, each participating member and Denton County are entitled to appoint a qualified person to serve on the Board. The governing body of each customer can appoint one member of the governing body or an employee as a member of the Customer Advisory Council (Council) of the UTRWD. The Council will consult with and advise the UTRWD and Board on all pertinent matters related to operation of the UTRWD.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 11. WATER SUPPLY AGREEMENTS – CONTINUED**

**Upper Trinity Regional Water District Regional Treated Water Supply Service Contract for Additional Participating Member – Continued**

The supply of water on a minimum demand, on an interim basis, is for .5 million gallons of water per day (MGD) and 3.0 MGD for regular service. Each member can adjust the regular service amount upon mutual agreement of the members. A determination of demand on an annual basis that takes into account actual usage for the most recent five (5) water years and projected needs for the next water year will be made. Payments will be comprised of three components including an Operation and Maintenance Component, a Capital Component and a special reserve for operation and maintenance cost of the system. Annual budgets will be prepared for the system. The District will pay its part of the annual requirement in monthly installments.

The agreement provides for water conservation and drought contingency issues. The term of the contract is thirty (30) years or as long as the bonds issued remain outstanding. The Contract has a twenty (20) year extension provision.

**Upper Trinity Regional Water District Contract for Non-Potable Water Service with Denton County Fresh Water Supply District No. 1**

On March 8, 1995, the Upper Trinity Regional Water District executed an agreement with the Denton County Fresh Water Supply District No. 1 (District No. 1) to provide for the supply of non-potable water to District No. 1. Denton County Fresh Water Supply District No. 1-A has assumed the obligations of District No. 1 under the terms of this agreement.

District No. 1 desired to develop the ability to have a dual delivery system to provide non-potable water and UTRWD agreed to provide such a water source. The District has agreed to make sufficient payments to assure adequate funds to fulfill its obligations under the contract terms. The minimum capacity reserved for the District is 3.35 million gallons per day (MGD).

The UTRWD agreed to provide the necessary equipment and devices of standard type required for measuring the quantity of non-potable water delivered. Sixty (60) days after the end of a fiscal year, the District will report to the UTRWD the number of gallons of non-potable raw water and non-potable treated wastewater effluent used for irrigation, make-up water for lakes and ponds and other purposes. Also reported would be the estimated annual water requirements for each of the next five (5) years for both types of water and an estimate of demand for the next year.

The UTRWD will choose the consulting engineers and provide for the construction of the system to provide the non-potable water. The sale of bonds by the UTRWD will be considered for funding the facilities. Payments will be comprised of three components including an Operation and Maintenance Component, a Capital Component and a special reserve for operation and maintenance cost of the system. Annual budgets will be prepared for the system. The District will pay its annual payment including facilities charges and charges for the actual volume of water taken. The agreement is in effect for thirty (30) years from the effective date of the agreement. On October 1, 1997, the District started funding the cost of the agreement with the UTRWD.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 11. WATER SUPPLY AGREEMENTS – CONTINUED**

**Wholesale Water Supply Agreement with the City of Lewisville**

On January 28, 2008, District No. 1-A entered into a wholesale water supply agreement with the City of Lewisville (City). The City agrees to provide wholesale water supply to District No. 1-A for the City Wholesale Service Area. Within the City Wholesale Service Area, District No. 1-A agrees not to use potable water, including ground water, from any source or facilities other than from the City system without the prior written consent of the City Council of the City. District No. 1-A agrees, at its sole expense, to design and construct the infrastructure necessary to enable the City to connect the City system to District No. 1-A's system.

District No. 1-A will be charged a two-part rate, consisting of a volume rate and a demand rate (Charges), based on the City Wholesale Service Area's treated water consumption and Maximum Day Demand. The initial demand capacity requested from the City is 300,000 gallons per day.

The initial volume rate is \$1.49 per 1,000 gallons and demand rate of \$299,160 per million gallons per day, paid monthly. The term of this agreement ends the earlier of August 18, 2032, or such date specified for District's annexation by the City.

**NOTE 12. OPERATING AGREEMENTS**

On July 15, 1999, the District entered in to an Amended and Restated Operating Agreement with Denton County Fresh Water Supply District No. 1-B (District No. 1-B) with an effective date of October 1, 1997, and a separate Amended and Restated Operating Agreement with Denton County Fresh Water Supply District No. 1-C (District No. 1-C) with an effective date of August 13, 1997. On June 14, 2000, the District executed an Operating Agreement with Denton County Fresh Water Supply District No. 1-D (District No. 1-D). The agreement was effective November 1, 1999.

On September 18, 2001, effective October 1, 2001, the District executed an operating agreement with District No. 1-E (District No. 1-E). The District also executed amended operating agreements with Districts 1-B, 1-C and 1-D on September 18, 2001, effective October 1, 2001. On November 15, 2007, the District executed an operating agreement with Denton County Fresh Water Supply District No. 1-F (District No. 1-F). On February 19, 2008, effective March 1, 2008, the District executed amended operating agreements with District Nos. 1-B, 1-C, 1-D, 1-E and 1-F. On March 18, 2008, the District executed an operating agreement with Denton County Fresh Water Supply District No. 1-G (District No. 1-G). On September 16, 2008, the District executed an operating agreement with Denton County Fresh Water Supply District No. 1-H (District No. 1-H). On September 16, 2008, effective October 1, 2008, the District executed amended and restated operating agreement with District Nos. 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H. The termination on all agreements is the fortieth (40th) anniversary date of the agreements.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 12. OPERATING AGREEMENTS – CONTINUED**

The District is responsible for operating, maintaining, and managing the Facilities, as defined in the joint utility contract, to be constructed within the boundaries of the once defined Denton County Fresh Water Supply District No. 1. Which includes District Nos. 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H (Participating Districts).

The District is responsible for preparing and submitting to the Participating Districts a Facilities Operating and Maintenance Budget (FOMB) by September 1 of each year for the next fiscal year expected to start October 1. With the exception of costs based on customer usage, if the total actual costs do not exceed the FOMB by more than 12% the Participating Districts' revision requests are only advisory. If the reverse is true, the new budget will not take effect until approved by the Board of Directors of the Participating Districts. The District shall be authorized to make expenditures not approved in the FOMB if: 1) Immediately required by law, or, 2) not in excess of \$5,000, with notification efforts being made to the applicable district.

The District agreed to handle all aspects of operating the Participating Districts including contracting for consultants, negotiating with various utility companies, coordinating with various governmental entities, reviewing all statements, invoices and billings, supervising and coordinating contractors, verifying insurance on contractors and facilities and recommending water and sewer rates. The District will employ personnel as required.

The respective districts being operated by the District agreed to institute a rate order containing, water, sewer, solid waste collection, building permits and inspection fees in an amount sufficient to cover expenses. The District agreed to provide such issuance of permits and inspection fees and management of the utility system. The fees for such permits and inspection services, payable to the District, will be the amount charged for the services. The Participating Districts agreed to fund a pro-rata portion of overhead cost incurred by the District from proceeds of the water, sewer and solid waste collection revenues.

The District agreed to provide construction and contract management services for the districts and has agreed to maintain and operate the roads and bridges. The Participating Districts have agreed to fund the cost of such services as required.

On August 17, 2005, the District approved the Amended and Restated Operating Agreement with District Nos. 1-B, 1-C, 1-D and 1-E. These new agreements became effective October 1, 2005. In accordance with these agreements, the cost of maintenance of the facilities within the districts of the Castle Hill Subdivision shall be allocated to each district based on the basis of projected water connections. Projected water connections are defined as those new connections that are projected to occur during the next succeeding fiscal year for all the districts. Each district's cost will be calculated based upon a fraction, the numerator of which shall be the total number of actual and projected water connections within each district divided by the total number of actual and projected water connections within all the districts. Such fraction shall be calculated as of the first day of the fiscal year in which such fraction is to be used to allocate such costs among the districts and shall be recalculated as of the first of each succeeding fiscal year thereafter.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 12. OPERATING AGREEMENTS – CONTINUED**

On September 17, 2008, the Participating Districts approved the Amended and Restated Operating Agreement. This agreement was effective on October 1, 2008. All other provisions remained the same, with the exception of the allocation of the maintenance costs. In accordance with the agreement, costs of the maintenance of the facilities within the districts of the Castle Hills Subdivision shall be allocated to each district on the basis of projected property values. Projected property values are defined as the combined total value of all property that exists on January 1 of the current fiscal year plus that which is projected to be added during the next succeeding fiscal year for the districts.

Each district's cost will be calculated based upon a fraction, the numerator of which shall be the total projected property value on January 1 the year immediately following the completion of the fiscal year being budgeted within each district, divided by the total projected property value on January 1, the year immediately following the completion of the fiscal year being budgeted within all of the districts. Such fraction shall be calculated as of the first day of the fiscal year in which such fraction is to be used to allocate such costs among the districts and shall be recalculated as of the first day of each succeeding fiscal year thereafter. This agreement terminates on the fortieth (40th) anniversary of October 1, 2008.

**NOTE 13. STRATEGIC PARTNERSHIP AGREEMENT**

In June, 2009, District No. 1-A, District No. 1-B, District No. 1-C, District 1-D, District 1-E, District 1-F, District 1-G, and District 1-H, approved a Strategic Partnership Agreement (SPA) with the City of Lewisville. The Agreement allowed the City of Lewisville to annex certain properties for the limited purpose of imposing a sales and use tax on certain properties within each District. The sales and use tax collected will be used first to cover the cost of the City of Lewisville providing public safety services to the Districts. If, after all public safety costs are covered, there are surplus funds, then those funds are split 50%/50% between the City of Lewisville and District 1-A. Upon receipt of surplus funds, District 1-A will allocate those funds to the District(s) that generated the sales and use tax. The Agreement specifies that a District that receives funds from the SPA must first use those funds to repay any outstanding developer debt. If no outstanding developer debt exists, the funds can be used for any lawful purpose. The Agreement will expire June, 2019 unless the City of Lewisville either; 1) renews the agreement, or 2) fully annexes the District.

**NOTE 14. UNREIMBURSED DEVELOPER COST**

On November 1, 1996, the District ratified participation in an Agreement for Construction and Purchase of Facilities and Reimbursements for Cost dated April 24, 1995, with Bright Farm Partnership (the Developer) to provide the advancement of monies to facilitate the operations of the District.

In 2008, the District 1-A contracted with the prior Auditor to complete a Report on Applying Agreed-Upon Procedures to Construction, Engineering and Related Costs Reimbursable to Bright Farm Partnership, Castle Hills Property Company, and Bright Realty, LTD. (collectively the Developer).

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 14. UNREIMBURSED DEVELOPER COST – CONTINUED**

In May, 2009, the report was presented to the District 1-A Board of Directors that indicated that a combined amount of \$1,278,717 was due to District 1-A from District 1-B, District 1-C, District 1-D, District 1-E, District 1-F, District 1-G and District 1-H. The following table outlines the activity in the amounts by District for the year ended September 30, 2011:

| District     | Beginning Balance<br>Due to 1-A | Additions   | Repayments  | Ending Balance<br>Due to 1-A |
|--------------|---------------------------------|-------------|-------------|------------------------------|
| District 1-C | \$ 3,365                        | \$ -        | \$ -        | \$ 3,365                     |
| District 1-D | 583,602                         | -           | -           | 583,602                      |
| District 1-E | 143,180                         | -           | -           | 143,180                      |
| District 1-F | 150,108                         | -           | -           | 150,108                      |
| District 1-G | 92,913                          | -           | -           | 92,913                       |
| District 1-H | 305,549                         | -           | -           | 305,549                      |
| <b>Total</b> | <b>\$ 1,278,717</b>             | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 1,278,717</b>          |

Effective May 20, 2009, the District entered into a reimbursement agreement between Castle Hills Development Corporation Bright Realty, Ltd., Bright Farm Partnership, Bright & Company, Inc., Castle Hills Property Company (collectively Bright Entities), District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, District No. 1-G, and District No. 1-H (collectively the Districts). For advances made by Bright Entities on or before November 20, 2006, the Districts will reimburse the relevant Bright Entity for 100% of such advances. For advances made by a Bright Entity after November 20, 2006, the Districts will transfer reimbursement funds to the District. The District will act as a clearinghouse for receipt of reimbursement proceeds and for the deployment of such proceeds to any District that would otherwise require an advance from a Bright Entity. Any reimbursement for advances received by the District will be considered as a full complete release of that particular district's obligation pursuant to existing developer reimbursement agreements.

In addition to the \$1,278,717 shown above, the District has recorded \$8,945,018 as an additional receivable from the other governmental units and as a liability the amount due to the Developer in accordance with this agreement in the statement of net assets. The following table outlines the activity in the amounts by District for the year ended September 30, 2011:

| District     | Beginning Balance<br>Due to 1-A | Additions           | Repayments          | Ending Balance<br>Due to 1-A |
|--------------|---------------------------------|---------------------|---------------------|------------------------------|
| District 1-C | \$ 1,000                        | \$ -                | \$ -                | \$ 1,000                     |
| District 1-D | 1,713,741                       | 30,165              | -                   | 1,743,906                    |
| District 1-E | 1,507,587                       | -                   | -                   | 1,507,587                    |
| District 1-F | 4,680,408                       | 817,144             | -                   | 5,497,552                    |
| District 1-G | 140,236                         | 250,000             | (250,000)           | 140,236                      |
| District 1-H | 54,737                          | -                   | -                   | 54,737                       |
| <b>Total</b> | <b>\$ 8,097,709</b>             | <b>\$ 1,097,309</b> | <b>\$ (250,000)</b> | <b>\$ 8,945,018</b>          |



**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 15. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, error and omission and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NOTE 16. EXCESS CAPACITY PURCHASE AGREEMENT**

On August 31, 1999, the District executed an agreement with Denton County Fresh Water Supply District No. 1-B (District No. 1-B). In accordance with the agreement, District No. 1-B agreed to sell excess capacity it has either purchased or constructed to the District. The capacity sold included drainage capacity constructed for the drainage basins, offsite water facilities, offsite sewer facilities, metering man holes and major water lines, thoroughfares and entrances and certain bridge and structural road facilities.

The District agreed to pay District No. 1-B \$4,100,000 for the excess capacity. On November 19, 1999, the District received \$1,875,158 from Denton County Fresh Water Supply District No. 1-D for a portion of the excess capacity purchased from District No. 1-B and \$75,006 from District No. 1-C. These amounts were forwarded to District No. 1-B in satisfaction of a portion of the amount due District No. 1-B. In addition, during the September 30, 2000, fiscal year, the Developer advanced \$1,211,415 to the District which was also paid to District No. 1-B in partial satisfaction of the amount due District No. 1-B. District No. 1-B subsequently repaid this amount to the Developer. In the September 30, 2001 fiscal year, the District received \$2,147,684 from PID 3 on behalf of District No. 1-E. The District continues to own \$2,152 in capacity previously constructed by PID No. 1 within the boundaries of District No. 1-B.

**NOTE 17. LONG-TERM DEBT**

A summary of long-term debt transactions, including the portion, for the year ended September 30, 2011, is as follows:

|                                      | Beginning<br>Balance | Additions         | Reductions         | Ending<br>Balance   | Due Within<br>One Year |
|--------------------------------------|----------------------|-------------------|--------------------|---------------------|------------------------|
| Governmental activities:             |                      |                   |                    |                     |                        |
| Bonds payable                        | \$ 2,644,908         | \$ 574,905        | \$ -               | \$ 3,219,813        | \$ 165,000             |
| Leases payable                       | 60,189               | -                 | (18,317)           | 41,872              | 18,927                 |
| Govenemnetal actiivty long-term debt | <u>\$ 2,705,097</u>  | <u>\$ 574,905</u> | <u>\$ (18,317)</u> | <u>\$ 3,261,685</u> | <u>\$ 183,927</u>      |

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 17. LONG-TERM DEBT – CONTINUED**

**Texas Water Development Bonds**

The contract revenue bonds are serial obligations with zero interest rate and scheduled to mature annually through 2030 when the full \$3,335,000 has been issued. Based on the construction draws to date as well as accrued retainage and liabilities for services performed but not yet paid the District is obligated for \$3,219,813 at year end.

The revenue bonds are payable from the net revenues of the District. Gross revenues are to be used for operating and maintenance expense of the system, and second to maintain revenue bond funds in accordance with the bond covenants. The District is in compliance with the revenue bond debt covenants as of September 30, 2011. Remaining revenues may then be used for any lawful purpose.

Debt service requirements of the revenue bonds for the years subsequent to September 30, 2011 are as follows:

| <u>Fiscal<br/>Year</u> | <u>Principal</u>    | <u>Interest</u> | <u>Total<br/>Requirements</u> |
|------------------------|---------------------|-----------------|-------------------------------|
| 2012                   | \$ 165,000          | \$ -            | \$ 165,000                    |
| 2013                   | 165,000             | -               | 165,000                       |
| 2014                   | 165,000             | -               | 165,000                       |
| 2015                   | 165,000             | -               | 165,000                       |
| 2016                   | 165,000             | -               | 165,000                       |
| 2017-2021              | 825,000             | -               | 825,000                       |
| 2022-2027              | 835,000             | -               | 835,000                       |
| 2027-2030              | 734,813             | -               | 734,813                       |
|                        | <u>\$ 3,219,813</u> | <u>\$ -</u>     | <u>\$ 3,219,813</u>           |

**Capital Lease Agreement**

On November 11, 2008, the District entered into a Capital Lease Agreement with Caterpillar Financial for the purchase of a 420E Caterpillar Backhoe Loader. The purchase price of the equipment was \$92,185. The leased assets and related obligations are accounted for in the Statement of Net Assets. During the current fiscal year, the District made total payments of \$20,015 with respect to the lease. The lease payments are split between all Participating Districts in accordance with each individual operating contract.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 17. LONG-TERM DEBT – CONTINUED**

**Capital Lease Agreement – Continued**

The following is a schedule of future minimum lease payments under the capital lease as of September 30, 2011.

|   |    |                      |
|---|----|----------------------|
| 2012  | \$ | 20,015               |
| 2013  |    | 20,015               |
| 2014  |    | <u>3,400</u>         |
| Minimum lease payments  |    | <u>43,430</u>        |
| Less  |    |                      |
| Amount representing interest at the District's incremental borrowing rate of interest |    | <u>1,558</u>         |
| Present value of minimum lease payments   | \$ | <u><u>41,872</u></u> |

As of September 30, 2011, the total present value of the capital lease obligation was \$41,872 of this total, \$18,927 was due within one year and the balance of \$22,945 is due after one year. In the current year, capital lease payments of \$18,317 for principal and \$1,698 for interest were made. These payments were made from contributions from the participants in the total amount of \$20,015.

**NOTE 18. PENSION PLAN**

**Plan Description**

On October 1, 2008, the District initiated a retirement plan. The District provides retirement, disability, and death benefits for all of its full-time employees through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 586 non-traditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the District, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the District.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 18. PENSION PLAN – CONTINUED**

**Plan Description – Continued**

Benefit amounts are determined by the sum of the employee’s contributions to the plan, with interest, and employer-financed monetary credit. The level of these monetary credits is adopted by the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer’s commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee’s accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

**Funding Policy**

The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The District contributed using the actuarially determined rate of 8.99% for the months of the calendar year in 2010, and 8.99% for the months of the calendar year in 2011.

The contribution rate payable by the employee members for 2010 and 2011 is the rate of 7% as adopted by the District. The employee contribution rate and the employer contribution rate may be changed by the District within the options available in the TCDRS Act.

**Annual Pension Cost**

For the fiscal year ending September 30, 2011, the annual pension cost for the TCDRS plan for the District’s employees was \$98,628 and the employee contributions were \$72,411. The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employees, parameters based on the actuarial valuations as of October 1, 2008, and December 31, 2008 and 2009, the basis for determining the contribution rates for fiscal years 2008 and 2009. The December 31, 2010 actuarial valuation is the most recent valuation.

|                              | Actuarial Valuation Information     |                                     |                                     |
|------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
|                              | December 31, 2008                   | December 31, 2009                   | December 31, 2010                   |
| Actuarial valuation date     | Entry age                           | Entry age                           | Entry age                           |
| Actuarial cost method        | Level percentage of payroll, closed | Level percentage of payroll, closed | Level percentage of payroll, closed |
| Amortization method          | 10                                  | 8.6                                 | 3.8                                 |
| Amortization period in years |                                     |                                     |                                     |

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 18. PENSION PLAN – CONTINUED**

**Annual Pension Cost – Continued**

|                             | December 31, 2008<br>(SAF: 10-year<br>smoothed value) | December 31, 2009<br>(SAF: 10-year<br>smoothed value) | December 31, 2010<br>(SAF: 10-year<br>smoothed value) |
|-----------------------------|---|---|---|
| Asset Valuation Method      | ESF: Fund Value                                       | ESF: Fund Value                                       | ESF: Fund Value                                       |
| Actuarial assumptions       |   |   |   |
| Investment return *         | 8.0%  | 8.0%  | 8.0%  |
| Projected salary increases* | 5.3%  | 5.4%  | 5.4%  |
| Inflation                   | 3.5%  | 3.5%  | 3.5%  |
| Cost of living adjustments  | 0.0%  | 0.0%  | 0.0%  |

\*Includes inflation as the stated rate

The City's net pension obligation (NPO) for TCDRS is calculated as follows:

| Fiscal Year                  | September 30, 2009 | September 30, 2010 | September 30, 2011 |
|------------------------------|--------------------|--------------------|--------------------|
| NPO, beginning of the year   | \$ -               | \$ -               | \$ -               |
| Annual pension cost:         |                    |                    |                    |
| Annual required contribution | 91,427             | 92,996             | 98,628             |
| Contributions made           | (91,427)           | (92,996)           | (98,628)           |
| NPO, end of the year         | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        |

The following is the schedule of funding progress for the retirement plan for the employees of the District:

| Actuarial Valuation Date                                | December 31, 2008 | December 31, 2009 | December 31, 2010 |
|---|-------------------|-------------------|-------------------|
| Actuarial value of assets                               | \$ 39,207         | \$ 207,845        | \$ 385,119        |
| Actuarial accrued liability                             | 181,895           | 319,517           | 448,854           |
| Underfunded (overfunded)<br>actuarial accrued liability | 142,688           | 111,672           | 63,735            |
| Funded ratio  | 21.55%            | 65.05%            | 85.80%            |
| Annual covered payroll                                  | 980,785           | 997,273           | 1,028,821         |
| UAAL as a percentage of<br>covered payroll              | 14.55%            | 11.20%            | 6.19%             |

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 19. OFFICE SPACE LEASE AGREEMENT**

On September 5, 2008, the District executed an operating lease for office space. The lease is for 60 months with a base rent of \$11,546 per month. In the current year the expense for this lease totaled \$138,552. These lease payments are split between all Participating Districts in accordance with each individual operating contract. Currently the future lease payments are as follows:

|                                     |                          |
|-------------------------------------|--------------------------|
| 2012                                | \$ 138,552               |
| 2013                                | 138,552                  |
|                                     | <hr/>                    |
| Total base future lease obligations | <u><u>\$ 277,104</u></u> |

**NOTE 20. OPERATING LEASES**

On February 12, 2008, the District executed a new operating lease for a copy machine. The agreement provides for the District to lease the copy machine for 60 months at the rate of \$273 per month. In the current year the expense for this lease totaled \$3,279. These lease payments are split between all Participating Districts in accordance with each individual operating contract. Currently, the future lease payments are as follows:

|                                     |                        |
|-------------------------------------|------------------------|
| 2012                                | \$ 3,279               |
| 2013                                | 546                    |
|                                     | <hr/>                  |
| Total base future lease obligations | <u><u>\$ 3,825</u></u> |

On August 22, 2010, the District executed a new operating lease for another copy machine. The agreement provides for the District to lease the copy machine for 60 months at the rate of \$186 per month. In the current year the expense for this lease totaled \$2,228. These lease payments are split between all Participating Districts in accordance with each individual operating contract. Currently, the future lease payments are as follows:

|                                     |                        |
|-------------------------------------|------------------------|
| 2012                                | \$ 2,228               |
| 2013                                | 2,228                  |
| 2014                                | 2,228                  |
| 2015                                | 1,485                  |
|                                     | <hr/>                  |
| Total base future lease obligations | <u><u>\$ 8,169</u></u> |

On March 2, 2007, the District executed an operating lease for a postage machine. The agreement provides for the District to lease the postage machine for sixty (60) months at the rate of \$124 a month. In the current year the expense for this lease totaled \$1,494. These lease payments are split between all Participating Districts in accordance with each individual operating contract. Currently, the future lease payments due during fiscal year 2012 are as follows:

|                                     |                      |
|-------------------------------------|----------------------|
| 2012                                | <u>\$ 373</u>        |
| Total base future lease obligations | <u><u>\$ 373</u></u> |

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 21. COMMITMENTS AND CONTINGENCIES**

**Outstanding Commitments**

Outstanding commitments at September 30, 2011, under authorized construction contracts were approximately \$200,000. These outstanding commitments are to be financed by available cash and investment balances as well as additional proceeds available from the District's federal loan program.

**Litigation**

The District is party to legal actions arising in the ordinary course of business. In the opinion of the District's management, the District has adequate legal defense and/or insurance coverage regarding each of these actions and does not believe that they will materially affect the District's operations or financial position.

On December 21, 2009, petitions for appeal of retail water and sewer rates of Denton County Fresh Water Supply District Nos. 1-A, 1-B, 1-C, 1-D, 1-E, 1-F, 1-G, and 1-H were submitted to the Texas Commission on Environmental Quality (TCEQ) under § 13.043(b)(4) of the Texas Water Code. The petition was filed at the TCEQ on behalf of all petitioning ratepayers, appealing the decision of the Board of Directors of the named Districts. Under the Operating Agreements that the other named Districts have with District No. 1-A, District No. 1-A performs a variety of administrative services necessary to operate the Districts' facilities which includes defending all claims, administrative proceedings and lawsuits brought by third parties against the Districts which have any effect on the Districts' facilities, or the construction, maintenance or operation of the Districts' facilities. Pursuant to the Operating Agreement and on behalf of all of the above-listed entities, Denton County Fresh Water Supply District No. 1-A filed a response to the petitions asserting that TCEQ does not have appellate jurisdiction over all or some of the listed water districts' rates. On June 14, 2010, an Administrative Law Judge (ALJ) for the State Office of Administrative Hearings (SOAH) accepted provisional jurisdiction over the rate appeal petitions subject to briefing by the Parties on certain jurisdictional issues. Such briefing to date has not been submitted due to on-going settlement discussions.

On July 23, 2010 a settlement agreement was entered into between District 1-A and the ratepayer petitioners of Districts 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H as represented. The settlement agreement calls for an independent review of water rates during the 2010-2011 fiscal year. The only remaining party which has not agreed to settle is an individual ratepayer of District 1-D. At the present time, the judge has not acted on District 1-A's request to dismiss the settling ratepayers and districts from the case and the case remains pending before the ALJ with a prehearing conference scheduled for April 7, 2011. It is anticipated that this rate appeal case will not be concluded prior to the beginning of fiscal year 2011-2012. If settlement discussions do not resolve the remaining rate appeal, an administrative hearing will be held after which TCEQ will determine the appropriate water and sewer rates for one or more of the above-listed water districts (depending upon the ALJ's ruling on jurisdictional issues).

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
NOTES TO BASIC FINANCIAL STATEMENTS**

**NOTE 21. COMMITMENTS AND CONTINGENCIES – CONTINUED**

**Litigation – Continued**

Such TCEQ-determined rates could be less than rates set by the Boards of the respective water districts, which could necessitate the issuance of refunds to customers and the future generation of revenues less than the amount budgeted by the affected water districts. At this time, no reasonable basis exists for determining whether that may occur or the impacts on the revenues of any of the water districts.

**NOTE 22. SUBSEQUENT EVENTS**

The District has evaluated all events or transactions that occurred after September 30, 2011 up through March 30, 2012, the date the financial statements were issued. During this period there were no subsequent events requiring disclosure



## **OTHER SUPPLEMENTARY INFORMATION**

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
SCHEDULE OF REIMBURSEMENTS TO (FROM) OTHER  
GOVERNMENTAL UNITS – GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

|  | <b>District<br/>No. 1-A</b>  | <b>District<br/>No. 1-B</b> | <b>District<br/>No. 1-C</b> |
|--|------------------------------|-----------------------------|-----------------------------|
| <b>Reimbursements to (from)<br/>other governmental units:</b>      |                              |                             |                             |
| Personnel  | \$ (1,185,889)               | \$ 269,737                  | \$ 17,151                   |
| Contracted labor   | (77,427)                     | 15,134                      | 1,058                       |
| Insurance  | (194,487)                    | 44,806                      | 2,753                       |
| Office supplies  | (34,306)                     | 7,951                       | 333                         |
| Office rental  | (162,565)                    | 38,402                      | 2,284                       |
| Utilities  | (645,726)                    | 153,623                     | 2,524                       |
| Landscape maintenance  | (398,762)                    | 94,869                      | 1,558                       |
| Public safety  | (367,094)                    | 87,336                      | 1,434                       |
| Public safety revenue allocations                                  | 367,094                      | (87,336)                    | (1,434)                     |
| Purchased water services   | (1,339,877)                  | 318,768                     | 5,235                       |
| Non-potable  | (315,000)                    | 74,941                      | 1,231                       |
| Dues and subscriptions   | (27,051)                     | 6,088                       | 410                         |
| Communication  | (44,453)                     | 10,420                      | 584                         |
| Training   | (11,373)                     | 2,535                       | 168                         |
| Capital purchases  | (67,193)                     | 16,321                      | 743                         |
| Bond payment funding   | (170,000)                    | 40,446                      | 664                         |
| Equipment rental   | (103,093)                    | 24,450                      | 507                         |
| Supplies   | (105,377)                    | 24,680                      | 1,276                       |
| Maintenance  | (363,679)                    | 86,626                      | 1,527                       |
| Other  | (23,927)                     | 5,431                       | 176                         |
| <b>Total reimbursements to (from)<br/>other governmental units</b> | <b><u>\$ (5,270,185)</u></b> | <b><u>\$1,235,228</u></b>   | <b><u>\$ 40,182</u></b>     |

| <u>District<br/>No. 1-D</u> | <u>District<br/>No. 1-E</u> | <u>District<br/>No. 1-F</u> | <u>District<br/>No. 1-G</u> | <u>District<br/>No. 1-H</u> |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| \$ 290,992                  | \$ 238,198                  | \$ 320,214                  | \$ 49,597                   | \$ -                        |
| 17,774                      | 15,761                      | 24,262                      | 3,438                       | -                           |
| 47,793                      | 39,084                      | 52,508                      | 7,543                       | -                           |
| 9,185                       | 7,352                       | 7,702                       | 1,488                       | 295                         |
| 39,851                      | 32,645                      | 43,937                      | 5,446                       | -                           |
| 193,904                     | 151,101                     | 97,909                      | 33,298                      | 13,367                      |
| 119,743                     | 93,311                      | 60,463                      | 20,563                      | 8,255                       |
| 110,233                     | 85,901                      | 55,661                      | 18,930                      | 7,599                       |
| (110,233)                   | (85,901)                    | (55,661)                    | (18,930)                    | (7,599)                     |
| 402,348                     | 313,534                     | 203,161                     | 69,093                      | 27,738                      |
| 94,590                      | 73,711                      | 47,762                      | 16,244                      | 6,521                       |
| 6,666                       | 5,412                       | 7,168                       | 1,307                       | -                           |
| 10,914                      | 8,920                       | 12,252                      | 1,363                       | -                           |
| 2,785                       | 2,279                       | 3,085                       | 521                         | -                           |
| 18,667                      | 14,725                      | 12,561                      | 3,407                       | 769                         |
| 51,049                      | 39,780                      | 25,776                      | 8,766                       | 3,519                       |
| 30,340                      | 23,758                      | 17,019                      | 5,110                       | 1,909                       |
| 26,374                      | 21,573                      | 28,006                      | 3,224                       | 244                         |
| 108,389                     | 84,567                      | 57,205                      | 18,162                      | 7,203                       |
| 6,853                       | 5,443                       | 4,364                       | 1,360                       | 300                         |
| <u>\$1,478,217</u>          | <u>\$1,171,154</u>          | <u>\$1,025,354</u>          | <u>\$ 249,930</u>           | <u>\$ 70,120</u>            |

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**SUPPLEMENTARY INFORMATION - REQUIRED BY THE WATER  
DISTRICT FINANCIAL MANAGEMENT GUIDE**

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)- GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

|   | <u>Original</u>   | <u>Amended</u>    | <u>Actual</u>     | <u>Variance<br/>Positive<br/>(Negative)</u> |
|---|-------------------|-------------------|-------------------|---|
| <b>REVENUES:</b>                                |                   |                   |                   |   |
| Project management fee                          | \$ 247,013        | \$ 247,013        | \$ 286,739        | \$ 39,726                                   |
| Charges for service                             | -                 | -                 | 20,015            | 20,015                                      |
| Water service                                   | 13,185            | 13,185            | 4,686             | (8,499)                                     |
| Penalty and interest                            | -                 | -                 | 5                 | 5   |
| Permits and inspections                         | -                 | -                 | 305               | 305   |
| Property tax revenues                           | -                 | -                 | 931               | 931   |
| Investment revenues                             | -                 | -                 | 7,427             | 7,427                                       |
| Miscellaneous revenues                          | 8,000             | 8,000             | 7,943             | (57)  |
| <b>TOTAL REVENUES</b>                           | <u>268,198</u>    | <u>268,198</u>    | <u>328,051</u>    | <u>59,853</u>                               |
| <b>EXPENDITURES</b>                             |                   |                   |                   |   |
| Service operations:                             |                   |                   |                   |   |
| Personnel                                       | 1,455,326         | 1,455,326         | 1,380,376         | 74,950                                      |
| Contracted services                             | 575,587           | 557,587           | 482,152           | 75,435                                      |
| Director expenditures                           | 10,740            | 10,740            | 10,852            | (112)                                       |
| Administrative expenditures                     | 228,926           | 228,926           | 239,609           | (10,683)                                    |
| Purchased water service                         | 1,344,795         | 1,344,795         | 1,344,621         | 174   |
| Purchased wastewater service                    | 3,307             | 3,307             | 2,266             | 1,041                                       |
| Purchased non-potable water service             | 315,000           | 315,000           | 315,000           | -   |
| Utilities                                       | 599,400           | 599,400           | 690,179           | (90,779)                                    |
| Repairs and maintenance                         | 432,900           | 435,960           | 366,404           | 69,556                                      |
| Supplies and other charges                      | 678,442           | 675,382           | 638,343           | 37,039                                      |
| Allocated costs                                 | (5,484,109)       | (5,484,107)       | (5,270,185)       | (213,922)                                   |
| Capital outlay                                  | 86,700            | 104,700           | 67,193            | 37,507                                      |
| Debt service:                                   |                   |                   |                   |   |
| Lease principal                                 | -                 | -                 | 18,317            | (18,317)                                    |
| Lease interest                                  | -                 | -                 | 1,698             | (1,698)                                     |
| <b>TOTAL EXPENDITURES</b>                       | <u>247,014</u>    | <u>247,016</u>    | <u>286,825</u>    | <u>(39,809)</u>                             |
| <b>EXCESS OF REVENUES<br/>OVER EXPENDITURES</b> | 21,184            | 21,182            | 41,226            | 20,044                                      |
| <b>OTHER FINANCING SOURCES (USES)</b>           |                   |                   |                   |   |
| Contributions from other<br>governmental units  | -                 | -                 | 710,000           | 710,000                                     |
| <b>TOTAL OTHER FINANCING<br/>SOURCES</b>        | <u>-</u>          | <u>-</u>          | <u>710,000</u>    | <u>710,000</u>                              |
| <b>NET CHANGE IN FUND BALANCES</b>              | 21,184            | 21,182            | 751,226           | 730,044                                     |
| <b>FUND BALANCE AT OCTOBER 1, 2010</b>          | <u>157,416</u>    | <u>157,416</u>    | <u>157,416</u>    | <u>-</u>                                    |
| <b>FUND BALANCES SEPTEMBER 30, 2011</b>         | <u>\$ 178,600</u> | <u>\$ 178,598</u> | <u>\$ 908,642</u> | <u>\$ 730,044</u>                           |

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011  
(UNAUDITED)**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

|                 |  |                 |                      |                 |            |
|-----------------|--|-----------------|----------------------|-----------------|------------|
| <u>  X  </u>    | Retail Water   | <u>        </u> | Wholesale Water      | <u>  X  </u>    | Drainage   |
| <u>  X  </u>    | Retail Wastewater  | <u>        </u> | Wholesale Wastewater | <u>        </u> | Irrigation |
| <u>  X  </u>    | Parks/Recreation   | <u>  X  </u>    | Fire Protection      | <u>        </u> | Security   |
| <u>  X  </u>    | Solid Waste/Garbage  | <u>  X  </u>    | Flood Control        | <u>  X  </u>    | Roads      |
| <u>  X  </u>    | Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) |                 |                      |                 |            |
| <u>        </u> | Other (specify): _____   |                 |                      |                 |            |

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 1" METER (OR EQUIVALENT):

Based on the rate order approved September 27, 2010

|                        | <u>Minimum Charge</u> | <u>Minimum Usage</u> | <u>Flat Rate Y/N</u> | <u>Rate per 1,000 Gallons over Minimum Usage</u> | <u>Usage Levels</u>                |
|------------------------|-----------------------|----------------------|----------------------|--|------------------------------------|
| Water:                 | 34.75                 | 2,000                | N                    | 3.74   | 2,001 to 15,000                    |
|                        |                       |                      |                      | 4.24   | 15,001 to 25,000                   |
|                        |                       |                      |                      | 5.06   | 25,001 to 35,000                   |
|                        |                       |                      |                      | 6.06   | 35,001 to 45,000                   |
|                        |                       |                      |                      | 7.06   | 45,001 to 55,000                   |
|                        |                       |                      |                      | 8.06   | 55,001 and up                      |
| Wastewater:            |                       |                      |                      |  |                                    |
| Residential            | 10.70                 |                      | N                    | 4.90   | 2,001 not to exceed 15,000 gallons |
| Residential            | 42.41                 |                      | Y                    |  | New Customers                      |
| Commercial             | 10.70                 |                      | N                    | 4.90   | 2,001 and up                       |
| Surcharge:             |                       |                      |                      |  |                                    |
| Solid waste/garbage    | 16.55                 |                      | Y                    |  |                                    |
| Commission             | .5% of actual         |                      |                      |  |                                    |
| Regulatory Assessments | water and sewer bill  |                      |                      |  |                                    |

District employs winter averaging for wastewater usage?      X      Yes                No

Total monthly charges per 10,000 gallons usage: Water: \$64.67 Wastewater: \$42.41  
Solid Waste: \$16.55

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011  
(UNAUDITED)**

2. RETAIL SERVICE PROVIDERS – CONTINUED

b. WATER AND WASTEWATER RETAIL CONNECTIONS (Unaudited):

| <u>Meter Size</u>            | <u>Total<br/>Connections</u> | <u>Active<br/>Connections</u> | <u>ESFC<br/>Factor</u> | <u>Active<br/>ESFC's</u> |
|------------------------------|------------------------------|-------------------------------|------------------------|--------------------------|
| Unmetered                    |                              |                               | X 1.0                  |                          |
| ≤ 3/4"                       |                              |                               | X 1.0                  |                          |
| 1"                           | 1                            | 1                             | X 2.5                  | 1                        |
| 1 1/2"                       |                              |                               | X 5.0                  |                          |
| 2"                           | 6                            | 6                             | X 8.0                  | 48                       |
| 3"                           |                              |                               | X 15.0                 |                          |
| 4"                           |                              |                               | X 25.0                 |                          |
| 6"                           |                              |                               | X 50.0                 |                          |
| 8"                           |                              |                               | X 80.0                 |                          |
| 10"                          |                              |                               | X 115.0                |                          |
| Total water connections      | 7                            | 7                             |                        | 49                       |
| Total wastewater connections | 0                            | 0                             | X 1.0                  | 0                        |

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

|                              |           |  |
|------------------------------|-----------|--|
|                              |           | Water Accountability Ratio:<br>(Gallons billed and sold/Gallons<br>pumped and purchased) |
| Gallons billed to customers: | 4,470,000 | <u>94.1%</u>   |
| Gallons purchased:           | 4,750,074 | <u>From Upper Trinity Regional Water<br/>District &amp; Lewisville</u>                   |



**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
SERVICES AND RATES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011  
(UNAUDITED)**

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have debt service standby fees? Yes \_\_\_\_ No  X

Does the District have operation and maintenance standby fees? Yes \_\_\_\_ No  X

5. LOCATION OF DISTRICT:

Is the District located entirely within one county? Yes  X  No \_\_\_\_

County or Counties in which District is located:

Denton County, TX.

Is the District located within a city?

Entirely \_\_\_\_ Partly  X  Not at all \_\_\_\_

City or Cities in which District is located:

City of Lewisville, TX.

Is the District located within a city's extra territorial jurisdiction (ETJ)?

Entirely \_\_\_\_ Partly  X  Not at all \_\_\_\_

ETJ's in which District is located:

City of Lewisville, TX.

Are Board Members appointed by an office outside the District? Yes \_\_\_\_ No  X

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
GENERAL FUND EXPENDITURES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

|  |                  |
|--|------------------|
| <b>Personnel expenditures</b>              |                  |
| State certification                        | \$ 1,338         |
| Medicare expense                           | 15,816           |
| Retirement contribution                    | 98,628           |
| Salaries and wages                         | 1,150,740        |
| Unemployment tax expense                   | 2,210            |
| Insurance                                  | 111,644          |
|  | <hr/>            |
| <b>Total personal expenditures</b>         | <b>1,380,376</b> |
| <b>Contract services:</b>                  |                  |
| Contract labor                             | 476,189          |
| Solid waste disposal                       | 5,963            |
|  | <hr/>            |
| <b>Total contract services</b>             | <b>482,152</b>   |
| <b>Director expenditures:</b>              |                  |
| Personnel expenditures                     | 3,785            |
| Directors costs                            | 2,172            |
| Director fees                              | 4,425            |
| Payroll taxes and administration           | 470              |
|  | <hr/>            |
| <b>Total director expenditures</b>         | <b>10,852</b>    |
| <b>Administrative expenditures:</b>        |                  |
| Auditing                                   | 26,075           |
| Engineering                                | 31,540           |
| Legal                                      | 100,886          |
| Insurance                                  | 80,858           |
| Other contract services                    | 250              |
|  | <hr/>            |
| <b>Total administrative expenditures</b>   | <b>239,609</b>   |
| <b>Purchased services for resale:</b>      |                  |
| Water service                              | 1,344,621        |
| Wastewater service                         | 2,266            |
| Purchased non-potable water service        | 315,000          |
|  | <hr/>            |
| <b>Total purchased services for resale</b> | <b>1,661,887</b> |
| <b>Utilities:</b>                          |                  |
| Telephone                                  | 44,453           |
| Electricity                                | 190,669          |
| Water service                              | 455,057          |
|  | <hr/>            |
| <b>Total utilities expenditures:</b>       | <b>690,179</b>   |

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
GENERAL FUND EXPENDITURES  
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

|  |             |
|--|-------------|
| <b>Repairs and Maintenance</b>                     |             |
| Water system                                       | \$ 49,930   |
| Regulatory expense                                 | 4,431       |
| Sewer system                                       | 82,619      |
| Streets and drainage                               | 115,772     |
| Parks  | 75,130      |
| Building   | 5,816       |
| Vehicle and equipment                              | 32,706      |
| <b>Total repairs and maintenance</b>               | 366,404     |
| <b>Supplies and other charges:</b>                 |             |
| Supplies- postage                                  | 14,261      |
| Office rental                                      | 162,565     |
| Equipment rental                                   | 55,941      |
| Supplies- small tools                              | 9,064       |
| Supplies- uniforms                                 | 11,721      |
| Supplies- gas and oil                              | 72,603      |
| Bank fees  | 1,400       |
| Advertising  | 1,131       |
| Lease office equipment                             | 47,151      |
| Travel and meetings                                | 3,799       |
| Training and education                             | 11,373      |
| Dues and subscriptions                             | 27,051      |
| Office supplies and postage                        | 20,045      |
| Debt service allocation                            | 170,000     |
| Other and misc. expenses                           | 30,238      |
| <b>Total supplies and other charges</b>            | 638,343     |
| <b>Reimbursement from other governmental units</b> | (5,270,185) |
| <b>Capital Outlay</b>                              | 67,193      |
| <b>Debt service:</b>                               |             |
| Lease principal                                    | 18,317      |
| Lease interest                                     | 1,698       |
| <b>Total Debt Service</b>                          | 20,015      |
| <b>Total expenditures</b>                          | \$ 286,825  |

(Note: Personnel costs are allocated to the Participating Districts in the Castle Hills Development.)

Number of persons employed by the District

Full-time:24

Part-time:1

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL FUND – FIVE YEARS**

|  | <b>Amounts</b>    |                  |                   |                  |
|--|-------------------|------------------|-------------------|------------------|
|  | <b>2011</b>       | <b>2010</b>      | <b>2009</b>       | <b>2008</b>      |
| <b>REVENUES:</b>   |                   |                  |                   |                  |
| Project management fee                                       | \$ 286,739        | \$326,929        | \$ 259,487        | \$ 39            |
| Charges for service  | 20,015            | 58,011           | 50,498            | -                |
| Water service  | 4,686             | 6                | 696               | 2,726            |
| Wastewater service   | -                 | -                | 109               | 229,335          |
| Penalty and interest   | 5                 | 2                | 341               | -                |
| Permits and inspections                                      | 305               | 1,095            | 19,054            | 93               |
| Franchise fees   | -                 | -                | 4,957             | 5,910            |
| Property tax revenues  | 931               | -                | -                 | -                |
| Investment revenues  | 7,427             | 7,454            | 10,785            | 1,607            |
| Federal program revenues                                     | -                 | -                | -                 | -                |
| Miscellaneous revenues                                       | 7,943             | 11,429           | -                 | -                |
| <b>TOTAL REVENUES</b>  | <b>328,051</b>    | <b>404,926</b>   | <b>345,927</b>    | <b>239,710</b>   |
| <b>EXPENDITURES/EXPENSES</b>                                 |                   |                  |                   |                  |
| Service operations:  |                   |                  |                   |                  |
| Personnel  | -                 | 5,268            | 58,905            | 4,203            |
| Contracted services  | 5,963             | -                | 13,103            | 3,723            |
| Director expenditures  | 10,852            | 8,851            | 10,505            | -                |
| Administrative expenditures                                  | 239,609           | 308,530          | 138,639           | 123,263          |
| Purchased water service                                      | 4,744             | 366              | 9,646             | 7,586            |
| Purchased wastewater service                                 | 2,266             | 1,493            | -                 | 2,463            |
| Utilities  | -                 | -                | 1,608             | 1,081            |
| Repairs and maintenance                                      | 2,725             | 2,152            | 17,756            | 4,795            |
| Supplies and other charges                                   | 651               | 318              | 9,321             | 90,774           |
| Capital outlay   | -                 | -                | 93,758            | 94,244           |
| Debt service:  |                   |                  |                   |                  |
| Lease principal  | 18,317            | 54,909           | 45,685            | 29,703           |
| Lease interest   | 1,698             | 3,102            | 5,542             | 4,761            |
| <b>TOTAL EXPENDITURES/EXPENSES</b>                           | <b>286,825</b>    | <b>384,989</b>   | <b>404,468</b>    | <b>366,596</b>   |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | <b>41,226</b>     | <b>19,937</b>    | <b>(58,541)</b>   | <b>(126,886)</b> |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                   |                  |                   |                  |
| Capital lease financing                                      | -                 | -                | 92,185            | -                |
| Contributions by other governmental units                    | 710,000           | 476,552          | -                 | 128,021          |
| Developer repayment  | -                 | (476,552)        | -                 | -                |
| <b>TOTAL OTHER FINANCING<br/>SOURCES (USES)</b>              | <b>710,000</b>    | <b>-</b>         | <b>92,185</b>     | <b>128,021</b>   |
| <b>NET CHANGE IN FUND BALANCES</b>                           | <b>751,226</b>    | <b>19,937</b>    | <b>33,644</b>     | <b>1,135</b>     |
| <b>FUND BALANCES AT OCTOBER 1, 2010</b>                      | <b>157,416</b>    | <b>137,479</b>   | <b>103,835</b>    | <b>102,700</b>   |
| <b>FUND BALANCES AT SEPTEMBER 30, 2011</b>                   | <b>\$ 908,642</b> | <b>\$157,416</b> | <b>\$ 137,479</b> | <b>\$103,835</b> |
| <b>TOTAL ACTIVE RETAIL WATER<br/>CONNECTIONS</b>             | <b>N/A</b>        | <b>N/A</b>       | <b>N/A</b>        | <b>19</b>        |
| <b>TOTAL ACTIVE RETAIL<br/>WASTEWATER CONNECTIONS</b>        | <b>N/A</b>        | <b>N/A</b>       | <b>N/A</b>        | <b>2</b>         |

| Percent of Total Revenues |               |              |                |                |                 |
|---------------------------|---------------|--------------|----------------|----------------|-----------------|
| 2007                      | 2011          | 2010         | 2009           | 2008           | 2007            |
| \$ 32,107                 | 87.4 %        | 80.8 %       | 75.1 %         | 0.0 %          | 45.9 %          |
| -                         | 6.1           | 14.3         | 14.6           | 0.0            | 0.0             |
| 764                       | 1.4           | 0.0          | 0.2            | 1.1            | 1.1             |
| 34,515                    | 0.0           | 0.0          | 0.0            | 95.7           | 49.3            |
| -                         | 0.0           | 0.0          | 0.1            | 0.0            | 0.0             |
| -                         | 0.1           | 0.3          | 5.5            | 0.0            | 0.0             |
| -                         | 0.0           | 0.0          | 1.4            | 2.5            | 0.0             |
| -                         | 0.3           | 0.0          | 0.0            | 0.0            | 0.0             |
| 995                       | 2.3           | 1.8          | 3.1            | 0.7            | 1.4             |
| 1,244                     | 0.0           | 0.0          | 0.0            | 0.0            | 1.8             |
| 332                       | 2.4           | 2.8          | 0.0            | 0.0            | 0.5             |
| <u>69,957</u>             | <u>100.0</u>  | <u>100.0</u> | <u>100.0</u>   | <u>100.0</u>   | <u>100.0</u>    |
| 3,415                     | 0.0           | 1.3          | 17.0           | 1.8            | 4.9             |
| 1,775                     | 1.8           | 0.0          | 3.8            | 1.6            | 2.5             |
| -                         | 3.3           | 2.2          | 3.0            | 0.0            | 0.0             |
| 82,679                    | 73.0          | 76.2         | 40.1           | 51.4           | 118.2           |
| 7,025                     | 1.4           | 0.1          | 2.8            | 3.2            | 10.0            |
| 2,292                     | 0.7           | 0.4          | 0.0            | 1.0            | 3.3             |
| 840                       | 0.0           | 0.0          | 0.5            | 0.5            | 1.2             |
| 2,991                     | 0.8           | 0.5          | 5.1            | 2.0            | 4.3             |
| 88,364                    | 0.2           | 0.1          | 2.7            | 37.9           | 126.3           |
| -                         | 0.0           | 0.0          | 27.1           | 39.3           | 0.0             |
| -                         | 0.0           | 0.0          | 0.0            | 0.0            | 0.0             |
| 30,953                    | 5.6           | 13.6         | 13.2           | 12.4           | 44.2            |
| 5,983                     | 0.5           | 0.8          | 1.6            | 2.0            | 8.6             |
| <u>226,317</u>            | <u>87.3</u>   | <u>95.1</u>  | <u>116.9</u>   | <u>153.0</u>   | <u>323.5</u>    |
| <u>(156,360)</u>          | <u>12.7 %</u> | <u>4.9 %</u> | <u>-16.9 %</u> | <u>-53.0 %</u> | <u>-223.5 %</u> |
| -                         |               |              |                |                |                 |
| 36,936                    |               |              |                |                |                 |
| -                         |               |              |                |                |                 |
| <u>36,936</u>             |               |              |                |                |                 |
| (119,424)                 |               |              |                |                |                 |
| <u>222,124</u>            |               |              |                |                |                 |
| <u>\$102,700</u>          |               |              |                |                |                 |
| <u>31</u>                 |               |              |                |                |                 |
| <u>2</u>                  |               |              |                |                |                 |

\* Note District No. 1-A changed its method for allocating expenses to the District. Allocated costs have been combined with related line item for comparison purposes.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2011  
(UNAUDITED)**

District Mailing Address - Denton County Fresh Water Supply District No. 1-A  
2540 King Arthur, Suite 220  
Lewisville, TX 75056

District Telephone No. - (972) 899-4000

| <u>Board Members</u>  | <u>Term of Office<br/>(Elected or Appointed)</u> | <u>Fees of Office for the year ended September 30, 2011</u> | <u>Expense Reimbursements for the year ended September 30, 2011</u> | <u>Title</u>            |
|-----------------------|--|---|---|-------------------------|
| <u>J. Jack Hays</u>   | 07/10<br>05/14<br>(Elected)                      | \$ 2,400  | \$ 86   | Assistant Treasurer     |
| Gaylord S. O'Con      | 05/08<br>05/12<br>(Appointed)                    | \$ 900  | \$ 130  | President               |
| John Phillip Brosseau | 05/08<br>05/12<br>(Elected)                      | \$ 1,200  | \$ 108  | Vice President          |
| Scott Beard           | 05/08<br>05/14<br>(Elected)                      | \$ 1,950  | \$ 149  | Treasurer/<br>Secretary |
| Charles Lawson        | 05/10<br>05/14<br>(Elected)                      | \$ 1,650  | \$ 288  | Assistant Secretary     |

Note: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developer or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):  
May 27, 2010.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by the Texas Water Code Section 49.060. On May 18, 2005, the District formally adopted a Resolution setting the limits for its Directors at \$3,500. Fees of office shown above are at the amount actually paid to a Director during the District's current fiscal year.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS – CONTINUED  
SEPTEMBER 30, 2011  
(UNAUDITED)**

| <u>Consultants</u>  | <u>Date Hired</u> | <u>Fees for the<br/>year ended<br/>September 30, 2011</u> | <u>Title</u>                                 |
|---|-------------------|---|--|
| Kelly Hart & Hallman, LLP<br>201 Main Street, Suite 2500<br>Fort Worth, TX 76102                              | 6/3/2008          | \$ 97,927   | Attorney                                     |
| Pate Engineers, Inc.<br>8150 Brookriver Drive, Suite S-700<br>Dallas, Texas 75247                             | 11/16/2009        | \$ 28,748   | Project<br>Engineer                          |
| Hurt & Berry<br>10670 N Central Expy # 450<br>Dallas, TX 75231-1075   | 5/3/2010          | \$ 400  | Attorney                                     |
| McGriff, Seibels & Williams<br>Risk Management Consultants<br>5080 Spectrum Dr, Ste 900E<br>Addison, TX 75001 | 5/3/2010          | \$ 1,563  | Consultant                                   |
| <b><u>Employees</u></b>   |                   |   |  |
| Zane Miller<br>2540 King Arthur, Suite 220<br>Lewisville, TX 75056  | 9/18/2007         | \$ 0  | General<br>Manager/<br>Investment<br>Officer |