

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

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Denton County Fresh Water Supply
District No. 1-B
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-B (the District), as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2010, 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.

In accordance with *Government Audit Standards*, we have also issued our report dated March 18, 2011 on our consideration of the District's internal control over financial reporting and our test 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Denton County Fresh Water Supply
District No. 1-B

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We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents on pages 35 through 48 are required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* and are not a required part of the basic financial statements. The accompanying supplementary information, excluding the portion marked "Unaudited" have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL L.L.P.

Dallas, Texas
March 18, 2011

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Our discussion and analysis of Denton County Fresh Water Supply District No. 1-B's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2010. 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, 2010 by \$2,519,399. Of this amount, \$354,305 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 \$2,369,093. A deficit balance of \$203,999 is unrestricted.
- The District's net assets decreased by \$692,064. Unrestricted net assets, which may be used to meet the District's ongoing obligations to residents and creditors, decreased by \$960,032 primarily due to a prior period adjustment to record liabilities due to developer and other governmental units.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,845,186, a net decrease of \$548,607 in comparison to the prior year including the prior period adjustment increase of \$104,313. The overall decrease was primarily due to payment of long term liabilities owed to the developer and other governmental units.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government wide financial statements combine both: (1) the Statement of Net Assets and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. This report also includes other supplementary information in addition to the basic financial statements.

Government-wide financial statements

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide portion of these statements provides 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. This information is found in the statement of net assets column on pages 9 and 10. The statement of net assets is the District-wide statement of its financial position presenting information that 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 indicator of whether the financial position of

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Government-wide financial statements (continued)

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 government-wide portion of the statement of net assets on pages 12 and 13 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 as opposed to the modified accrual basis used in prior reporting models.

Fund financial statements

The combined 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, customer service revenues, costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources accumulated for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources segregated for acquisition or construction of facilities and related costs.

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

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 adjustment column, the reconciliation of the governmental funds balance sheet to the statement of net assets on page 11 and the reconciliation of the governmental funds statement of revenues, expenditures and changes in the fund balances to the statement of activities on page 14 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 15 through 33 in this report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund. Additionally, information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is included as other supplementary information.

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 \$2,519,399 as of September 30, 2010.

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

	Summary of Changes in the Statement of Net Assets		
	2010	2009	Change Positive (Negative)
Current and other assets	\$ 841,321	\$ 2,045,780	\$ (1,204,459)
Cash with other governmental unit	2,332,930	1,574,760	758,170
Capital assets	354,305	366,589	(12,284)
Total assets	3,528,556	3,987,129	(458,573)
Other liabilities	1,009,157	775,666	233,491
Total liabilities	1,009,157	775,666	233,491
Net assets			
Invested in capital assets, net of related debt	354,305	366,589	(12,284)
Restricted	2,369,093	2,088,841	280,252
Unrestricted	(203,999)	756,033	(960,032)
Total net assets	\$ 2,519,399	\$ 3,211,463	\$ (692,064)

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the District's operations for the years ended September 30, 2010 and 2009. The District's net assets decreased by \$692,064, accounting for a 21.5% decrease in net assets.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2010</u>	<u>2009</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property taxes	\$ 2,515,750	\$ 2,417,666	\$ 98,084
Charges for services	1,605,634	1,366,734	238,900
Other revenues	47,614	162,337	(114,723)
Total revenues	4,168,998	3,946,737	222,261
Expenses for services	3,676,186	3,199,454	476,732
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	492,812	747,283	(254,471)
Change in net assets	492,812	747,283	(254,471)
Net assets, beginning of year (as previously stated)	3,211,463	2,464,180	747,283
Prior Period Adjustment	(1,184,876)	-	(1,184,876)
Net assets, beginning of year (as restated)	2,026,587	2,464,180	(437,593)
Net assets, end of year	\$ 2,519,399	\$ 3,211,463	\$ (692,064)

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2010, were \$2,845,186, a decrease of \$548,607 from the prior year including the prior period adjustment increase of \$104,313.

The General Fund fund balance decreased by \$829,331. Service revenues and property tax revenues exceeded the costs of operating the District's facilities.

The Debt Service Fund fund balance increased by \$280,723, primarily due to \$209,019 of redistricting funds received from Denton County Fresh Water Supply District No. 1-D during the current fiscal year.

The Capital Projects Fund fund balance increased by \$1 as a result of interest earned.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual expenditures on a budgetary basis were \$2,066,496 compared to the original budget of \$1,869,520. The negative budget variance of \$196,976 was primarily due to purchased wastewater, contracted services and professional fees. Actual revenue on a budgetary basis was \$2,317,916 compared to the original budget of \$2,066,374. The \$251,542 positive variance is primarily due to the receipt of additional property tax revenues from Denton County Fresh Water Supply District No. 1-D for redistricting, water services building permits and sales tax offsets. See the budget to actual comparison on page 34 for additional information.

CAPITAL ASSETS

A portion of the District's water, wastewater and drainage facilities were paid for from proceeds of the City of Lewisville – Castle Hills Public Improvement District No. 1 bond proceeds. The City of Lewisville has recorded these assets on the books of the City. The District also shares in the cost of the capital assets that Denton County Fresh Water Supply District No. 1-A purchases and records on its books.

Capital Assets at Year-End, Net of Accumulated Depreciation			
	2010	2009	Increase (Decrease)
Capital assets, net of accumulated depreciation:			
Investment in shared lift station	\$ 354,305	\$ 366,589	\$ (12,284)

Additional information on the District's capital assets can be found in Note 4 on pages 23 and 24 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In the 2010-2011 Budget, revenues are anticipated to increase by approximately \$194,889 from the 2009-10 budget year, primarily to water sales, sanitary sewer lift station capacity revenue, and permit revenue. Expenses for the FY 2010-11 are anticipated to increase by approximately \$370,000 due to instituting reserve funding and legal expenses. The District chose to not approve the water and sewer rates as recommended by District 1-A. 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 more than revenues.

The FY 2010/2011 budget has been 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. Another change in accounting is also the method expenditures are charged to the District. All expenditures, with the exception of District Direct expenses and District Usage expenses, are billed to District 1-A. Subsequently, each of District 1-A's expenses are billed to the District as a 1-A reimbursement.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

The District increased Homestead Exemption rates from 10% to 15% and maintained property tax rates at .90 per \$100 assessed value.

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 General Manager, 2540 King Arthur Suite 220, Lewisville, Texas 75056.

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**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2010**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 179,164	\$ 30,293
Investments	454,828	-
Cash with other governmental unit	-	2,332,930
Receivables:		
Property taxes	1,841	5,610
Service accounts (net of allowance for doubtful accounts of \$0)	134,727	-
Other	33,061	-
Prepaid costs	1,467	-
Due from other governmental unit	70	-
Capital assets (net of accumulated depreciation)	-	-
	\$ 805,158	\$ 2,368,833
LIABILITIES		
Accounts payable	\$ 150,641	\$ -
Payroll deductions	2,085	-
Accrued wages	12,510	-
Due to other governmental units	129,032	-
Due to developer	-	-
Security deposits	25,700	-
Deferred revenue	3,487	5,610
	323,455	5,610
FUND BALANCES/NET ASSETS		
FUND BALANCES		
Reserved for authorized construction:		
Net investment revenues	-	-
Reserved for PID 1 Reserve Fund	-	2,332,930
Reserved for contract debt obligations	-	30,293
Reserved for prepaid costs	1,467	-
Unreserved - undesignated	480,236	-
	481,703	2,363,223
TOTAL FUND BALANCES	481,703	2,363,223
TOTAL LIABILITIES AND FUND BALANCES	\$ 805,158	\$ 2,368,833
NET ASSETS		
Invested in capital assets, net of related debt		
Restricted for:		
Capital projects		
Debt service		
Unrestricted		
TOTAL NET ASSETS		

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$ 260	\$ 209,717	\$ -	\$ 209,717
-	454,828	-	454,828
-	2,332,930	-	2,332,930
-	7,451	-	7,451
-	134,727	-	134,727
-	33,061	-	33,061
-	1,467	-	1,467
-	70	-	70
-	-	354,305	354,305
<u>\$ 260</u>	<u>\$ 3,174,251</u>	<u>\$ 354,305</u>	<u>\$ 3,528,556</u>
\$ -	\$ 150,641	\$ -	\$ 150,641
-	2,085	-	2,085
-	12,510	-	12,510
-	129,032	-	129,032
-	-	689,189	689,189
-	25,700	-	25,700
-	9,097	(9,097)	-
-	329,065	680,092	1,009,157
260	260	(260)	-
-	2,332,930	(2,332,930)	-
-	30,293	(30,293)	-
-	1,467	(1,467)	-
-	480,236	(480,236)	-
<u>260</u>	<u>2,845,186</u>	<u>(2,845,186)</u>	<u>-</u>
<u>\$ 260</u>	<u>\$ 3,174,251</u>		
		354,305	354,305
		260	260
		2,368,833	2,368,833
		(203,999)	(203,999)
		<u>\$ 2,519,399</u>	<u>\$ 2,519,399</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

Total Fund Balances - Governmental Funds	\$ 2,845,186
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	354,305
Governmental funds do not record a long-term liability to the Developer for the advances made to the District for operations and project costs; however, in the statement of net assets, the liability for these advances is recorded.	(689,189)
Revenue reported as unearned revenue in the governmental fund financial statements was recorded as revenue in the government-wide financial financial statements.	<u>9,097</u>
Total Net Assets - Governmental Activities	<u><u>\$ 2,519,399</u></u>

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

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**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES:		
Property taxes	\$ 698,074	\$ 1,819,066
Water service	971,023	-
Wastewater service	262,273	-
Solid waste revenue	117,140	-
Penalty and interest	14,061	12,128
Permits and inspections	69,793	-
Franchise fees	107,159	-
Sales tax revenues	50,481	-
Investment revenues	6,934	19,631
Miscellaneous revenues	20,978	-
TOTAL REVENUES	<u>2,317,916</u>	<u>1,850,825</u>
EXPENDITURES/EXPENSES		
Service operations:		
Personnel	288,054	-
Professional fees	232,275	-
Contracted services	314,935	20,213
Purchased water service	542,108	-
Purchased wastewater service	180,647	-
Purchased non-potable water service	71,663	-
Utilities	57,059	-
Repairs and maintenance	180,698	-
Other	199,057	6,625
Debt service:		
Contract tax obligation - City of Lewisville	-	1,570,568
Depreciation	-	-
TOTAL EXPENDITURES/EXPENSES	<u>2,066,496</u>	<u>1,597,406</u>
EXCESS OF REVENUES OVER EXPENDITURES	251,420	253,419
OTHER FINANCING SOURCES (USES)		
Payments to developer	(600,000)	-
Contributions to other governmental units	(557,760)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,157,760)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(906,340)	253,419
CHANGE IN NET ASSETS		
NET FUND BALANCES/NET ASSETS AT OCTOBER 1, 2009 (as previously stated)	<u>1,311,034</u>	<u>2,082,500</u>
Prior Period Adjustment	<u>77,009</u>	<u>27,304</u>
FUND BALANCES/NET ASSETS, AT OCTOBER 1, 2009 (as restated)	<u>1,388,043</u>	<u>2,109,804</u>
FUND BALANCES/NET ASSETS - SEPTEMBER 30, 2010	<u>\$ 481,703</u>	<u>\$ 2,363,223</u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$ -	\$ 2,517,140	\$ (1,390)	\$ 2,515,750
-	971,023	1,134	972,157
-	262,273	306	262,579
-	117,140	136	117,276
-	26,189	-	26,189
-	69,793	-	69,793
-	107,159	-	107,159
-	50,481	-	50,481
1	26,566	-	26,566
-	20,978	70	21,048
1	4,168,742	256	4,168,998
-	288,054	-	288,054
-	232,275	-	232,275
-	335,148	-	335,148
-	542,108	-	542,108
-	180,647	-	180,647
-	71,663	-	71,663
-	57,059	-	57,059
-	180,698	-	180,698
-	205,682	-	205,682
-	1,570,568	-	1,570,568
-	-	12,284	12,284
-	3,663,902	12,284	3,676,186
1	504,840	(12,028)	492,812
-	(600,000)	600,000	-
-	(557,760)	557,760	-
-	(1,157,760)	1,157,760	-
1	(652,920)	652,920	-
		492,812	492,812
259	3,393,793	(182,330)	3,211,463
-	104,313	(1,289,189)	(1,184,876)
259	3,498,106	(1,471,519)	2,026,587
\$ 260	\$ 2,845,186	\$ (325,787)	\$ 2,519,399

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Net Change in Fund Balances - Governmental Funds	\$	(652,920)
Amounts reported for governmental activities in the statement of activities are different because:		
In the statement of net assets, capital assets are depreciated over the estimated useful life of the asset and depreciation expense is recorded in the statement of activities.		(12,284)
Governmental funds report payments to developers as other financing uses. However, in the statement of net assets, developer advances, net any amount paid to the developer, are recorded as a liability.		600,000
Governmental funds report repayments to other governmental units as other financing uses. However, in the statement of net assets, repayments on long-term liabilities are recorded as a reduction of the liability.		557,760
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.		<u>256</u>
Change in Net Assets - Governmental Activities	\$	<u><u>492,812</u></u>

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

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

NOTE 1. CREATION OF DISTRICT

By the terms of an election held on January 17, 1983, voters approved the creation of the Denton County Fresh Water Supply District No. 1, now known as Denton County Fresh Water Supply District No. 1-A (District No. 1-A). 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-B (the District) 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, 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 fire-fighting activities within the District. The District has contracted with District No. 1-A to operate the utility system within the District.

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 generally in accordance with the *Water District Financial Management Guide* published by the Texas Commission on Environmental Quality.

Under Governmental Accounting Standards Board Statement 14 the criteria for determining whether or not a given entity is a component unit. The criteria are: (1) is the potential component unit a legally separate entity, (2) does the primary government appoint a voting majority of the potential component unit's board, (3) is the primary government able to impose its will on the potential component unit, (4) is there a financial benefit or burden relationship. The District was created as an independent governmental entity. GASB 39 added clarification to GASB 14 by including entities which meet all three of the following requirements:

1. The economic resources received or held by separate organization are entirely for the direct benefit of the primary government, its component units, or its constituents.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to access, are significant to that primary government.

The District does not meet the criteria for inclusion as a component unit of any entity nor does any other entity meet the component unit criteria for inclusion in the District's basic financial statements.

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.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
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 District's statement of net assets and statement of activities are combined with the governmental fund financial statements. The District is viewed as a special purpose government and has the option of combining these financial statements.

The statement of net assets is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource 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 report only items related to current year revenues and expenditures. 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 of the government-wide statement of activities.

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide statements. The fund statements include a balance sheet and statement of revenues, expenditures and changes in fund balances.

Governmental Funds

The District has three major governmental funds.

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

Debt Service Fund – To account for ad valorem taxes and financial resources accumulated for servicing bond debt and the cost of assessing and collecting taxes.

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectible 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 collectible 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 were 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 another financing source or use. 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.

Cash and Cash Equivalents

The District 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

Prepaid balances are for payments made by the District for which benefits extend beyond September 30, 2010, and the reserve for prepaid items has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, 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.

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:

	Years
Buildings	40
Water system	10 - 45
Wastewater system	10 - 45
Drainage System	10 - 45
Road system	10 - 50
All other equipment	3 - 20

Budgeting

Pursuant to the Operating Agreement, District No. 1-A will prepare and submit to the District for its review on or about September 1 of each year an annual operating and maintenance budget.

During fiscal year 2010 the District’s Board acknowledged the receipt of the annual budget provided by District 1-A.

Pensions

The District does not have employees, except that 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. The District has funded payroll costs to District No. 1-A. District No. 1-A operates the District’s utility system on behalf of the District and handles pension provisions for its employees.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 flow 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. Fund balances are included on the balance sheet as follows:

Reserved:

To indicate fund equity which is legally segregated for a specific future use.

Unreserved:

Designated - To indicate fund equity for which the District has made tentative plans.

Undesignated - To indicate fund equity which is available for use in future periods.

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.

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

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 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 Authority 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 was \$664,545 and the bank balance was \$853,919. Of the bank balance, \$500,000 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District and held in a third party depository.

The carrying values of the deposits are included in the governmental funds balance sheet and the statement of net assets at September 30, 2010, as listed below:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
General fund ⁽¹⁾	\$ 179,164	\$ 454,828	\$ 633,992
Debt service fund	30,293	-	30,293
Capital projects fund	<u>260</u>	<u>-</u>	<u>260</u>
Total deposits	<u>\$ 209,717</u>	<u>\$ 454,828</u>	<u>\$ 664,545</u>

(1) Cash of the General Fund is included in a consolidated cash account maintained by District No. 1-A.

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

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

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. 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. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

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, 2010, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10
General Fund - Certificate of deposit	\$ 454,828	\$ 454,828	\$ -	\$ -
Total investments	<u>\$ 454,828</u>	<u>\$ 454,828</u>	<u>\$ -</u>	<u>\$ -</u>

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

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes.

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

NOTE 4. CAPITAL ASSETS

The District’s water, wastewater and drainage facilities were funded from proceeds of the City of Lewisville — Castle Hills Public Improvement District No. 1 bond proceeds, (see Note 6). The City of Lewisville has recorded these assets on the books of the City. The District also shares in the cost of capital assets that District No. 1-A purchases and records on its books.

On April 19, 2006, the District executed a Cost Sharing Agreement with Denton County Fresh Water Supply District Nos. 1-A, 1-C, 1-D and 1-E. The agreement provided for the sharing of costs for the construction of certain lift station facilities. District No. 1-A owns 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 the District, 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-A, 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. 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 connections as of September, 2009. Capacity in the facilities is allocated as follows:

The District	36.69 %
District No. 1-C	0.22
District No. 1-D	42.97
District No. 1-E	<u>20.12</u>
 Total	 <u><u>100.00 %</u></u>

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.

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

NOTE 4. CAPITAL ASSETS – CONTINUED

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

	<u>October 01, 2009</u>	<u>Additions</u>	<u>September 30, 2010</u>
Capital assets subject to depreciation			
Investment in shared lift station facilities	\$ 393,287	\$ -	\$ 393,287
Less accumulated depreciation			
Investment in shared lift station facilities	26,698	12,284	38,982
Total depreciable capital assets, Net of depreciation	<u>\$ 366,589</u>	<u>\$ (12,284)</u>	<u>\$ 354,305</u>

NOTE 5. MAINTENANCE TAX

On August 10, 1996, 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 fiscal year ended September 30, 2010, the District levied a maintenance tax at the rate of \$0.2471 per \$100 of assessed valuation, which resulted in a tax levy of \$692,791 on an assessed taxable valuation of \$264,304,205.

NOTE 6. AMENDED AND RESTATED JOINT UTILITY CONTRACT

On July 15, 1996, the District, Denton County Fresh Water Supply District No. 1-A (District No. 1-A), and the City of Lewisville (Lewisville) executed an Amended and Restated Joint Utility Contract. On December 12, 1997, this agreement was amended with Amendment No. 1. The contract states that Lewisville will proceed with financing utility and road facilities within the District through the sale of \$20,922,740 of Public Improvement District (PID 1) bonds. District No. 1-A will have primary responsibility as Project Manager and shall perform its duties in accordance with an agreement dated March 14, 1997. District No. 1-A is responsible for designating the consulting engineer on the project and approves the projects along with Lewisville.

District No. 1-A 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. District No. 1-A 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.

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

NOTE 6. AMENDED AND RESTATED JOINT UTILITY CONTRACT – CONTINUED

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-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. 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 PID 1 and Lewisville, the District agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of PID 1 Bonds as they mature. The District will commit 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 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 will calculate an assessment, if necessary, 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 the District of the calculation of the Annual Assessment by September 1 of each year proceeding the above-referenced March 1. During the current fiscal year, the District made contract tax payments of \$1,570,568 to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement at September 30, 2010 is \$1,570,568 and the District has fully satisfied that requirement at year end. The City of Lewisville at September 30, 2010 including reserve funds is holding \$2,332,930 in trust for the District. The amounts 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.

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

NOTE 6. AMENDED AND RESTATED JOINT UTILITY CONTRACT – CONTINUED

PID 1
SERIES - 1998

Fiscal Year Ending	Principal Due September 1	Interest Due March 1/ September 1	Total
2011	\$ 685,000	\$ 883,013	\$ 1,568,013
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>\$ 15,505,000</u>	<u>\$ 8,063,336</u>	<u>\$ 23,568,336</u>

On February 1 following the date of receipt of written notification of the Annual Assessment, the District will certify to Lewisville the amount of all taxes collected. Lewisville will, if necessary, then impose an assessment with PID 1 sufficient to pay the debt service requirement on the PID 1 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 the District. Such election occurred on August 10, 1996, and approved the levy and collection of said tax.

During the year ended September 30, 2010, the District levied an ad valorem contract tax at the rate of \$0.6529 per \$100 of assessed valuation, which resulted in a tax levy of \$1,830,121 on the adjusted taxable valuation of \$264,304,205.

The term of the agreement is forty (40) years.

The Districts 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-B
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 7. 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 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 the 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 of the UTRWD. The Council will consult with and advise the UTRWD and Board on all pertinent matters related to operation of the UTRWD.

The supply of water on a minimum demand, on an interim basis, is for .50 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 further 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 the UTRWD agreed to provide such a water source. District No. 1-A has agreed to make sufficient payments to assure adequate funds to fulfill its obligations under the contract terms. The minimum capacity reserved for District No. 1-A is 3.35 million gallons per day (MGD).

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

NOTE 7. WATER SUPPLY AGREEMENTS – CONTINUED

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

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, District No. 1-A will report to 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. District No. 1-A 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.

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 to design and construct the infrastructure necessary to enable the City to connect the City system to Castle Hills Subdivision'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. Effective the date of this agreement, 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 1-A's annexation by the City.

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

NOTE 8. OPERATING AGREEMENT

On July 15, 1999, the District entered in to an Amended and Restated Operating Agreement with Denton County Fresh Water Supply District No. 1-A (District No. 1-A) effective October 1, 1997. On September 18, 2001, effective October 1, 2001, the District executed an Amended Operating Agreement. District No. 1-A is responsible for operating, maintaining, and managing the Facilities to be constructed within the boundaries of the once defined Denton County Fresh Water Supply District No. 1 which now includes Districts 1-A, 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H.

District No. 1-A is responsible for preparing and submitting to the District 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 expenses based on customer usage, if the total actual costs do not exceed the FOMB by more than 12%, the District's 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 District. District No. 1-A 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.

District No. 1-A agreed to handle all aspects of operating the District 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. District No. 1-A will employ personnel as required.

The District agreed to institute a rate order containing water, sewer, solid waste collection, building permits and inspection fees. District No. 1-A 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 District agreed to fund a pro-rata portion of overhead cost incurred by District No. 1-A.

On August 17, 2005, the District approved the Amended and Restated Operating Agreement. This agreement was effective October 1, 2005. In accordance with the agreement, costs of the maintenance of the facilities within 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 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 of each succeeding fiscal year thereafter.

On September 17, 2008, the District approved the Amended and Restated Operating Agreement. This agreement is to become effective on October 1, 2008. All other provisions remain the same, with the exception of the allocation of the maintenance costs.

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

NOTE 8. OPERATING AGREEMENT – CONTINUED

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 9. STRATEGIC PARTNERSHIP AGREEMENT

In June 2009, District No. 1-A, 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, 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 10. 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 the years since the District's creation, the Developer has advanced monies to the District and has funded certain costs directly to vendors. In the 2002 fiscal year, the District reimbursed \$1,303,937 to the Developer for a portion of the amounts directly advanced on behalf of the District in prior fiscal years.

In 2008, the District 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 (Developer).

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

NOTE 10. UNREIMBURSED DEVELOPER COST – CONTINUED

In October 2009, the report was presented to the District 1-B Board of Directors which indicated that \$1,312,552 of costs were documented in accordance with the terms of the analysis. Subsequently, the Developer has removed \$23,333 which was applied to the District No. 1-B report inadvertently for a net liability of \$1,289,189.

On January 19, 2010, District No. 1-B contracted with Jacobs Engineering to perform an analysis of the 2009 Developer's request for reimbursement. Subsequently, Jacobs provided a report to District No. 1-B which reviewed the back-up materials held by District No. 1-A. Jacobs analysis of the Developer Advance back-up materials further divided the advance items into three categories, as if the reimbursements had proceeded through a TCEQ Chapter 293 – Water Districts review process; 1) items commonly reimbursed; 2) items that might be reimbursed; and 3) items specifically prohibited from reimbursement.

During the audit year, District No. 1-B has made payments of \$600,000 towards the amount owed the Developer of Category 1 items as categorized by Jacobs. As of September 30, 2010, the Developer has indicated that \$689,189 is still outstanding for amounts advanced and funded for the benefit of the District. These costs include amounts for letter-of-credit fees related to the PID1 bonds that are outstanding or costs associated with renegotiating the letter-of-credit fees, boundary survey costs, legal fees and general developer advances. The District has questioned these costs and has hired a consultant to assist in the determination of the validity of the costs. This amount is reflected as a liability in the Statement of Net Assets as the maximum amount of remaining advances owed to the developer. The Developer has also indicated that District No. 1-B owes interest at the contract rate of 6% on the remaining balance of advances owed accruing from October 1, 2008. Since this amount is unknown at this time due to a disagreement on the remaining balance, this has not been reflected as a liability in the Statement of Net Assets.

NOTE 11. 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 12. BOND ELECTION

At an election held within the District on January 17, 1998, voters approved for the District to sell up to \$20,444,212 in bonds.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Contractual Commitments

The District was obligated at September 30, 2010 to a professional service vendor of which they intend to utilize unreserved fund balance. The District was obligated in the amount of \$8,500 relating to these future services as of September 30, 2010.

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

NOTE 13. COMMITMENTS AND CONTINGENCIES – CONTINUED

Litigation

On November 17, 2010, the District was named in a lawsuit; Castle Hills Development Corporation v Denton County Fresh Water Supply District No. 1-B. The suit was filed in 393rd Judicial District Court of Denton County, Texas, claiming Castle Hills Development Corporation is owed \$689,189 plus interest and attorney fees. In accordance with GAAP, those judgments considered “probable” are accrued, while those claims and judgments considered “reasonably possible” are disclosed but not accrued. Counsel has not expressed an opinion on the likely outcome related to the matter. However, as discussed in Note 10, the \$689,189 liability has been reflected as a liability in the Statement of Net Assets. The District’s Board of Directors and the Developer continue to discuss a potential resolution of the claims, but as of March 18, 2011, the parties have not reached a final agreement.

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 by Patrick Kelly 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. By board action, the District declined District No. 1-A’s defense of claims and retained Angela Stepherson with Coats Rose to represent the District in the rate appeal. 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 by Patrick Kelly. 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.

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

NOTE 13. COMMITMENTS AND CONTINGENCIES – CONTINUED

Litigation – Continued

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). 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.

Various claims are pending in which the District is involved. Included among the various actions is a potential claim by Denton County Fresh Water Supply District No. 1-A (1-A) of breach of the operating agreement between 1-A and the District. It is the opinion of the District's counsel that the ultimate outcome of this matter is not determinable. As a result, counsel has not provided a range of potential loss related to the matter. The District believes that the potential outcome would not have a material adverse effect on the District's financial position.

Contingent Liabilities

The District retained an engineering firm to verify the District boundaries and compare these boundaries with the boundaries used by the Dallas Central Appraisal District for taxing purpose. The study identified several discrepancies between the District's actual boundaries and the boundaries used for tax purposes. The District is evaluating the results of the study to determine the next course of action and has not recorded a liability in the financial statements related to this matter.

NOTE 14. PRIOR PERIOD ADJUSTMENT

During the current fiscal year, the District adjusted its beginning fund balance on the governmental financial statements to record interest income received in the prior year for PID 1 bond reserve account (see Note 6). The effect of these changes resulted in an increase in the beginning fund balance in the Debt Service Fund by \$27,304.

During the current fiscal year, the District adjusted its beginning fund balance on the governmental financial statements to record unbilled utility revenues earned during fiscal 2009. The effect of these changes resulted in an increase in the beginning fund balance in the General Fund by \$77,009.

A prior period adjustment was also recorded in the government wide financial statements to reflect the liability to the Developer which was confirmed via various consultants. The effect of recording the liability was to increase the amount due to the developer and decrease the beginning net assets by \$1,289,189. (See Note 10)

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REQUIRED SUPPLEMENTARY INFORMATION

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>Original</u>	<u>Amended</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES:				
Property taxes	\$ 594,635	\$ 594,635	\$ 698,074	\$ 103,439
Water service	858,612	858,612	971,023	112,411
Wastewater service	358,736	358,736	262,273	(96,463)
Solid waste revenue	122,318	122,318	117,140	(5,178)
Penalty and interest	7,000	7,000	14,061	7,061
Permits and inspections	19,736	19,736	69,793	50,057
Franchise fees	91,987	91,987	107,159	15,172
Sales tax revenues	-	-	50,481	50,481
Investment revenues	-	-	6,934	6,934
Miscellaneous revenues	13,350	13,350	20,978	7,628
TOTAL REVENUES	<u>2,066,374</u>	<u>2,066,374</u>	<u>2,317,916</u>	<u>251,542</u>
EXPENDITURES/EXPENSES				
Service operations:				
Personnel	292,830	292,875	288,054	4,821
Professional fees	123,500	139,249	232,275	(93,026)
Contracted services	233,583	233,983	314,935	(80,952)
Purchased water service	571,760	571,760	542,108	29,652
Purchased wastewater service	108,085	108,085	180,647	(72,562)
Purchased non-potable water service	71,906	71,906	71,663	243
Utilities	50,999	50,999	57,059	(6,060)
Repairs and maintenance	205,594	205,594	180,698	24,896
Other	211,265	212,512	199,057	13,455
TOTAL EXPENDITURES	<u>1,869,522</u>	<u>1,886,963</u>	<u>2,066,496</u>	<u>(179,533)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	196,852	179,411	251,420	72,009
OTHER FINANCING SOURCES (USES)				
Contributions to other governmental units	-	(81,208)	(557,760)	(476,552)
Developer repayment	-	(35,597)	(600,000)	(564,403)
TOTAL OTHER FINANCING SOURCES (USES)	-	(116,805)	(1,157,760)	(1,040,955)
NET CHANGE IN FUND BALANCES	196,852	62,606	(906,340)	(968,946)
FUND BALANCE, AT OCTOBER 1, 2009 (as previously stated)	1,311,034	1,311,034	1,311,034	-
PRIOR PERIOD ADJUSTMENT	-	-	77,009	77,009
FUND BALANCE, AT OCTOBER 1, 2009 (as restated)	<u>1,311,034</u>	<u>1,311,034</u>	<u>1,388,043</u>	<u>77,009</u>
FUND BALANCES SEPTEMBER 30, 2010	<u>\$ 1,507,886</u>	<u>\$ 1,373,640</u>	<u>\$ 481,703</u>	<u>\$ (891,937)</u>

**SUPPLEMENTARY INFORMATION - REQUIRED BY
THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY**

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved December 15, 2009

	<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	8.75	2,000	N	3.70	2,001 not to exceed 15,000
Residential	37.04		Y		New Customers
Commercial	8.75	2,000	N	3.70	2,001 and up
Surcharge:					
Solid waste/garbage	16.07		Y		
Commission	0.5% of actual				
Regulatory Assessments	water and sewer bill				

District employs winter averaging for wastewater usage? Yes No

Total monthly charges per 10,000 gallons usage: Water: \$64.67 Wastewater: \$37.04
Solid Waste: \$16.07

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC's</u>
Unmetered			X 1.0	0
≤ 3/4"	1	1	X 1.0	1
1"	653	653	X 2.5	1632.5
1 1/2"	1	1	X 5.0	5
2"	34	34	X 8.0	272
3"			X 15.0	0
4"			X 25.0	0
6"			X 50.0	0
8"			X 80.0	0
10"			X 115.0	0
Total water connections	<u>689</u>	<u>689</u>		<u>1910.5</u>
Total wastewater connections	<u>642</u>	<u>642</u>	X 1.0	<u>642</u>

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

		Water Accountability Ratio: (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	174,553,800	<u>93.4%</u>
Gallons purchased:	186,942,931	<u>From Upper Trinity Regional Water District</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

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, Texas

Is the District located within a city?

Entirely ___ Partly ___ Not at all X

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

Entirely X Partly ___ Not at all ___

ETJ's in which District is located:

City of Lewisville, Texas.

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Personnel (including benefits)	<u>\$ 288,054</u>
Professional fees:	
Auditing	27,950
Engineering	15,749
Legal	<u>188,576</u>
Total professional fees	<u>232,275</u>
Purchased services for resale:	
Water service	542,108
Non-potable water service	71,663
Wastewater service	<u>180,647</u>
Total purchased services for resale	<u>794,418</u>
Contracted services:	
Police department	26,186
Fire protection and EMS	62,069
Contract labor	61,935
Management fee	74,384
Tax collector	4
Solid waste disposal	89,957
Other	<u>400</u>
Total contracted services	<u>314,935</u>
Utilities:	
Electricity	42,257
Telephone	<u>14,802</u>
Total utilities	<u>57,059</u>
Repairs and maintenance	<u>180,698</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
GENERAL FUND EXPENDITURES – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Other expenditures:

Director fees	7,650
Directors costs	2,343
Insurance	26,042
Tap connections	481
Office supplies and postage	10,293
State certification	300
Office rental	45,050
Equipment rental	4,936
Supplies- medical	21
Supplies- small tools	3,536
Supplies- uniforms	2,329
Supplies- gas and oil	18,871
Other	<u>77,205</u>

Total other expenditures	<u>199,057</u>
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Total expenditures	<u><u>\$ 2,066,496</u></u>
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Number of persons employed by the District -0- Full-Time -0- Part-Time

(Note: The District is allocated a portion of personnel cost from Denton County Fresh Water Supply District No. 1-A in accordance with an Operating Agreement.)

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
INVESTMENTS
SEPTEMBER 30, 2010**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
General Fund					
Certificate of Deposit	10356	0.75%	6/1/11	\$243,472	\$ -
Claim on Pooled Certificate of Deposit	10431	0.75%	5/4/11	<u>211,356</u>	
Total General Fund				<u>\$454,828</u>	<u>-</u>
Total - all funds				<u><u>\$454,828</u></u>	<u><u>\$ -</u></u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
ANALYSIS OF TAXES RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>Maintenance Tax</u>		<u>Contract Tax</u>	
Taxes receivable -				
October 1, 2009	\$ 2,759		\$ 6,082	
Adjustments to beginning balance	<u>(2,502)</u>	257	<u>(4,658)</u>	1,424
Original 2009 tax levy	\$616,482		\$1,628,537	
Adjustment to 2009 tax levy	<u>76,309</u>	<u>692,791</u>	<u>201,584</u>	<u>1,830,121</u>
Total to be accounted for		693,048		1,831,545
Tax collections:				
Prior years	\$ 45,954		\$ 121,396	
Current year	<u>645,253</u>	<u>691,207</u>	<u>1,704,539</u>	<u>1,825,935</u>
Taxes receivable -				
September 30, 2010		<u>\$ 1,841</u>		<u>\$ 5,610</u>
Taxes receivable by year:				
2009		\$ 1,744		\$ 5,355
2006		47		124
2005		<u>50</u>		<u>131</u>
		<u>\$ 1,841</u>		<u>\$ 5,610</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
ANALYSIS OF TAXES LEVIED
FOR THE LAST FOUR TAX YEARS**

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
PROPERTY VALUATIONS				
Land	\$ 72,169,183	\$ 74,985,928	\$ 68,200,656	\$ 67,423,174
Improvements	217,613,660	205,822,683	205,289,905	192,629,263
Personal property	2,806,514	2,086,084	2,251,860	2,212,369
Exemptions	<u>(28,285,152)</u>	<u>(14,269,399)</u>	<u>(12,947,633)</u>	<u>(14,602,211)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 264,304,205</u>	<u>\$ 268,625,296</u>	<u>\$ 262,794,788</u>	<u>\$ 247,662,595</u>
TAX RATES PER \$100 VALUATION				
Contract	\$ 0.6529	\$ 0.6182	\$ 0.6100	\$ 0.6386
Maintenance	<u>0.2471</u>	<u>0.2818</u>	<u>0.2900</u>	<u>0.3114</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.9000</u>	<u>\$ 0.9000</u>	<u>\$ 0.9000</u>	<u>\$ 0.9500</u>
ADJUSTED TAX LEVY*	<u>\$ 2,366,084</u>	<u>\$ 2,418,034</u>	<u>\$ 2,365,187</u>	<u>\$ 2,353,178</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>99.70%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>99.99%</u>

* Based upon adjusted tax at time of audit for the period in which the tax was levied.

Maintenance Tax — Maximum tax rate in unlimited amount per \$100 of assessed valuation approved by voters on August 10, 1996.

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

	Amounts			
	2010	2009	2008	2007
REVENUES:				
Property taxes	\$ 698,074	\$ 756,441	\$ 764,579	\$ 764,690
Water service	971,023	841,225	616,231	452,384
Wastewater service	262,273	251,369	231,422	239,046
Solid waste revenue	117,140	114,030	107,290	95,102
Penalty and interest	14,061	13,135	19,633	12,194
Permits and inspections	69,793	45,025	93,723	53,963
Franchise fees	107,159	85,521	139,283	105,272
Sales tax revenues	50,481	3	-	-
Investment revenues	6,934	16,761	24,852	34,074
Miscellaneous revenues	20,978	17,912	-	5,981
TOTAL REVENUES	2,317,916	2,141,422	1,997,013	1,762,706
EXPENDITURES/EXPENSES				
Service operations:				
Personnel	288,054	250,166	218,555	153,471
Professional fees	232,275	88,878	78,183	39,143
Contracted services	314,935	277,810	287,649	202,199
Purchased water service	542,108	443,088	471,768	494,382
Purchased wastewater service	180,647	85,580	158,372	153,650
Purchased non-potable water service	71,663	-	-	-
Utilities	57,059	45,195	67,724	64,084
Repairs and maintenance	180,698	161,174	310,290	223,057
Other	199,057	206,452	153,578	144,080
Capital outlay	-	18,676	13,058	7,773
TOTAL EXPENDITURES/EXPENSES	2,066,496	1,577,019	1,759,177	1,481,839
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	251,420	564,403	237,836	280,867
OTHER FINANCING SOURCES (USES)				
Contributions to other governmental units	(557,760)	-	(31,448)	-
Developer contribution	(600,000)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,157,760)	-	(31,448)	-
NET CHANGE IN FUND BALANCES	(906,340)	564,403	206,388	280,867
BEGINNING FUND BALANCE (As previously stated)	1,311,034	746,631	540,243	259,376
PRIOR PERIOD ADJUSTMENT	77,009	-	-	-
BEGINNING FUND BALANCE (As restated)	1,388,043	746,631	540,243	259,376
ENDING FUND BALANCE	\$ 481,703	\$ 1,311,034	\$ 746,631	\$ 540,243
TOTAL ACTIVE RETAIL WATER CONNECTIONS	689	679	677	676
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	642	637	625	617

Percent of Total Revenues					
2006	2010	2009	2008	2007	2006
\$ 521,596	30.1 %	35.4 %	38.2 %	43.3 %	29.9 %
629,179	41.9	39.3	30.9	25.7	36.2
211,639	11.3	11.7	11.6	13.6	12.2
93,083	5.1	5.3	5.4	5.4	5.4
9,965	0.6	0.6	1.0	0.7	0.6
157,319	3.0	2.1	4.7	3.1	9.0
89,671	4.6	4.0	7.0	6.0	5.2
-	2.2	0.0	0.0	0.0	0.0
12,894	0.3	0.8	1.2	1.9	0.7
13,535	0.9	0.8	0.0	0.3	0.8
<u>1,738,881</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
155,925	12.4	11.7	10.9	8.7	9.0
44,875	10.0	4.2	3.9	2.2	2.6
203,858	13.6	13.0	14.4	11.5	11.7
583,440	23.4	20.7	23.6	28.0	33.6
156,758	7.8	4.0	7.9	8.7	9.0
	3.1	0.0	0.0	0.0	0.0
59,952	2.5	2.1	3.4	3.6	3.4
220,018	7.8	7.5	15.5	12.7	12.7
149,553	8.6	9.6	7.7	8.2	8.6
187,012	0.0	0.9	0.7	0.4	10.8
<u>1,761,391</u>	<u>89.2</u>	<u>73.7</u>	<u>88.0 %</u>	<u>84.0 %</u>	<u>101.4 %</u>
<u>(22,510)</u>	<u>10.8 %</u>	<u>26.3 %</u>	<u>12.0 %</u>	<u>16.0 %</u>	<u>-1.4 %</u>
-					
-					
-					
(22,510)					
281,886					
-					
<u>281,886</u>					
<u>\$ 259,376</u>					
<u>665</u>					
<u>602</u>					

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

	<u>Amounts</u>			
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
REVENUES:				
Property taxes	\$ 1,819,066	\$ 1,659,303	\$ 1,608,090	\$ 1,580,351
Penalty and interest	12,128	16,426	16,891	21,300
Investment revenues	19,631	127,663	110,039	78,074
TOTAL REVENUES	<u>1,850,825</u>	<u>1,803,392</u>	<u>1,735,020</u>	<u>1,679,725</u>
EXPENDITURES				
Tax collection expenditures	26,838	38,139	29,116	38,276
Contract tax obligation - City of Lewisville	<u>1,570,568</u>	<u>1,572,012</u>	<u>1,571,763</u>	<u>1,570,013</u>
TOTAL EXPENDITURES	<u>1,597,406</u>	<u>1,610,151</u>	<u>1,600,879</u>	<u>1,608,289</u>
NET CHANGE IN FUND BALANCES	253,419	193,241	134,141	71,436
BEGINNING FUND BALANCE (As previously stated)	<u>2,082,500</u>	<u>1,889,259</u>	<u>1,755,118</u>	<u>1,683,682</u>
PRIOR PERIOD ADJUSTMENT	<u>27,304</u>	<u>-</u>	<u>-</u>	<u>-</u>
BEGINNING FUND BALANCE (As restated)	<u>2,109,804</u>	<u>1,889,259</u>	<u>1,755,118</u>	<u>1,683,682</u>
ENDING FUND BALANCE	<u><u>\$ 2,363,223</u></u>	<u><u>\$ 2,082,500</u></u>	<u><u>\$ 1,889,259</u></u>	<u><u>\$ 1,755,118</u></u>

Percent of Total Revenues

<u>2006</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 1,580,088	98.3 %	92.0 %	92.7 %	94.1 %	97.7 %
16,792	0.7	0.9	1.0	1.3	1.0
21,735	1.1	7.1	6.3	4.6	1.3
1,618,615	100.1	100.0	100.0	100.0	100.0
32,733	1.5	2.1	1.7	2.3	2.0
1,525,198	84.9	87.2	90.6	93.5	94.2
1,557,931	86.4	89.3	92.3	95.8	96.2
60,684	<u>13.7 %</u>	<u>10.7 %</u>	<u>7.7 %</u>	<u>4.2 %</u>	<u>3.8 %</u>
1,622,998					
-					
1,622,998					
<u>\$ 1,683,682</u>					

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2010**

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

District Telephone No. - (972) 899-4000

<u>Board Members</u>	<u>Term of Office (Elected or Appointed)</u>	<u>Fees of Office for the year ended September 30, 2010</u>	<u>Expense Reimbursements for the year ended September 30, 2010</u>	<u>Title</u>
Mark Sommer	05/06 05/10 (Elected)	\$ 1,050	\$ -	Assistant Secretary
Jason L. Shirey	05/10 05/14 (Elected)	\$ 1,200	\$ -	President
Guy Harris	05/08 05/12 (Elected)	\$ 1,650	\$ -	Vice President
Bob Hansen	05/08 05/12 (Elected)	\$ 1,200	\$ -	Assistant Treasurer/ Assistant Secretary
Inge Drechsler	05/08 05/12 (Elected)	\$ 1,800	\$ 618	Treasurer/ Secretary
Jason Bahamundi*	05/10 05/14 (Elected)	\$ 750	\$ -	Assistant Secretary

*Replaced Mark Sommer

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 20, 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 are the amounts actually paid to a Director during the District's current fiscal year.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-B
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2010**

<u>Consultants</u>	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2010</u>	<u>Title</u>
Kelly Hart & Hallman, LLP 201 Main Street, Suite 2500 Fort Worth, TX 76102	6/3/2008	44,489	Attorney
K&L Gates 1717 Main Street, Suite 2800 Dallas, TX 75201	9/10/2009	60,249	Attorney
Shupe Ventura Lindelow & Olson, PLLC 9406 Biscayne Blvd. Dallas, TX 75218	3/16/2010	76,090	Attorney
Coats Rose 5420 Lyndon B Johnson Fwy#1300 Dallas, TX 75240-6299	5/18/2010	7,748	Attorney
Pate Engineers, Inc. 8150 Brookriver Drive, Suite S-700 Dallas, TX 75247	11/16/2009	2,993	Project Engineer
Zane Miller 2540 King Arthur, Suite 220 Lewisville, TX 75056	9/18/2007	0	Investment Officer
McCall Gibson Swedlund Barfoot PLLC Certified Public Accountants 13100 Wortham Center Drive, Suite 235 Houston, TX 77065-5610	11/15/2000	27,950	Auditor
Jacobs Engineering, Inc. 6688 N. Central Expressway, Suite 400 MB13 Dallas, TX 75206-3914	1/19/2010	12,756	Engineer
Denton County Appraisal District P.O. Box 2816 Denton, TX 76202-7816	Legislative Action	19,681	Property Tax Appraisals
Denton County Tax Collector c/o Steve Mossman 1505 E. McKinney Street Denton, TX 76209	6/14/2000	533	Tax Assessor/ Collector