

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

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2010

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET	8
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS	9
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	10
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	11
NOTES TO BASIC FINANCIAL STATEMENTS	12
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND	26
SUPPLEMENTARY INFORMATION - REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY	
NOTES REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY (Included in the notes to the basic financial statements)	
SERVICES AND RATES	27
GENERAL FUND EXPENDITURES	30
ANALYSIS OF TAXES RECEIVABLE	32
ANALYSIS OF TAXES LEVIED FOR THE LAST FOUR TAX YEARS	33
COMPARITIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND - FIVE YEARS	34
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	36



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Denton County Fresh Water Supply
District No. 1-C
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-C (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 7 and 26 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.

Denton County Fresh Water Supply
District No. 1-C

Page 2

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. 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 27 through 37 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-C
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-C'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 8.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at September 30, 2010 by \$15,274. This amount is unrestricted and may be used to meet the government's ongoing obligations to residents and creditors.
- The District's unrestricted net assets increased by \$3,283.
- At the close of the current fiscal year, the District's fund balance was \$57,091, an increase of \$2,231 from the prior year.

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 page 8. 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 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 activities on page 10 reports how the District's net assets changed during the current fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes).

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

Government-wide financial statements (continued)

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 one governmental fund type. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures.

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 9 and the reconciliation of the governmental funds statement of revenues, expenditures and changes in the fund balances to the statement of activities on page 11 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 12 through 25 in this report.

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.

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

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 \$15,274 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
Assets:			
Current and other assets	\$ 67,873	\$ 64,250	\$ 3,623
Total assets	<u>67,873</u>	<u>64,250</u>	<u>3,623</u>
Liabilities:			
Long-term liabilities	42,080	42,869	(789)
Other liabilities	10,519	9,390	1,129
Total liabilities	<u>52,599</u>	<u>52,259</u>	<u>340</u>
Net assets			
Unrestricted	<u>15,274</u>	<u>11,991</u>	<u>3,283</u>
Total net assets	<u><u>\$ 15,274</u></u>	<u><u>\$ 11,991</u></u>	<u><u>\$ 3,283</u></u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-C
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 increased by \$3,283, accounting for a 27.4% increase in net assets.

	Summary of Changes in the Statement of Activities		
	2010	2009	Change
Revenues:			
Property taxes	\$ 49,480	\$ 55,478	\$ (5,998)
Charges for services	82,132	97,084	(14,952)
Other revenues	1,791	5,051	(3,260)
Total revenues	133,403	157,613	(24,210)
Expenses for services	130,120	111,792	18,328
EXCESS OF REVENUES OVER EXPENDITURES	3,283	45,821	(42,538)
OTHER FINANCING SOURCES USED	-	(429)	429
Change in net assets	3,283	45,392	(42,109)
Net assets, beginning of year	11,991	(33,401)	45,392
Net assets, end of year	\$ 15,274	\$ 11,991	\$ 3,283

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUND

The District's fund balance as of September 30, 2010 was \$57,091, an increase of \$2,231 from the prior year.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual expenditures on a budgetary basis were \$130,120 compared to the amended budget of \$125,198. The negative budget variance of \$4,922 was primarily due to professional fees. Actual revenue on a budgetary basis was \$133,140 compared to the amended budget of \$133,128. See the budget to actual comparison on page 26 for additional information.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In the 2010-2011 Budget, revenues are anticipated to increase by approximately \$4,000 from the 2009-10 budget year, primarily to effluent water sales. Expenses for the FY 2010-11 are anticipated to decrease by approximately \$13,150 due to legal expenses. The General Fund, which is comprised of the District's General Fund, Operating Fund, and Utility Fund, is budgeted to operate next year with expenditures less than revenues.

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.

The District 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-C, c/o Kelly Hart & Hallman, LLP, 201 Main Street, Suite 2500, Fort Worth, TX 76102.

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

	<u>General Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS				
Other receivables	\$ 378	\$ 378	\$ -	\$ 378
Prepaid costs	1,408	1,408	-	1,408
Due from other governmental unit	66,087	66,087	-	66,087
TOTAL ASSETS	<u>\$ 67,873</u>	<u>\$ 67,873</u>	<u>\$ -</u>	<u>\$ 67,873</u>
LIABILITIES				
Accounts payable	\$ 8,531	\$ 8,531	\$ -	\$ 8,531
Payroll deductions	201	201	-	201
Accrued wages	1,137	1,137	-	1,137
Due to other governmental units	-	-	4,365	4,365
Due to developer	-	-	37,715	37,715
Security deposits	650	650	-	650
Deferred property tax revenue	263	263	(263)	-
Total liabilities	<u>10,782</u>	<u>10,782</u>	<u>41,817</u>	<u>52,599</u>
FUND BALANCES/NET ASSETS				
FUND BALANCES				
Reserved for prepaid costs	1,408	1,408	(1,408)	-
Unreserved - undesignated	55,683	55,683	(55,683)	-
TOTAL FUND BALANCES	<u>57,091</u>	<u>57,091</u>	<u>(57,091)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 67,873</u>	<u>\$ 67,873</u>		
NET ASSETS				
Unrestricted			<u>15,274</u>	<u>15,274</u>
TOTAL NET ASSETS			<u>\$ 15,274</u>	<u>\$ 15,274</u>

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

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

Total Fund Balances - Governmental Funds	\$	57,091
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Revenue reported as unearned revenue in the governmental fund financial statements was recorded as revenue in the government wide financial statements.</p>		263
<p>Governmental funds do not record a long-term liability to other governmental units for the advances made on behalf of the District for operations and project costs. However, in the statement of net assets, the liability for these advances is recorded.</p>		(4,365)
<p>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.</p>		(37,715)
		(37,715)
Total Net Assets - Governmental Activities	\$	<u>15,274</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-C
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>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES:				
Property taxes	\$ 49,480	\$ 49,480	\$ -	\$ 49,480
Water service	4,039	4,039	-	4,039
Non-potable water service	65,378	65,378	-	65,378
Wastewater service	3,295	3,295	-	3,295
Permits and inspections	1,436	1,436	-	1,436
Franchise fees	6,786	6,786	-	6,786
Sales tax revenues	1,198	1,198	-	1,198
Miscellaneous revenues	1,528	1,528	263	1,791
TOTAL REVENUES	<u>133,140</u>	<u>133,140</u>	<u>263</u>	<u>133,403</u>
EXPENDITURES/EXPENSES				
Service operations:				
Personnel	23,269	23,269	-	23,269
Professional fees	33,881	33,881	-	33,881
Contracted services	8,908	8,908	-	8,908
Purchased water service	11,281	11,281	-	11,281
Purchased wastewater service	3,744	3,744	-	3,744
Purchased non-potable water service	24,323	24,323	-	24,323
Utilities	2,186	2,186	-	2,186
Repairs and maintenance	4,533	4,533	-	4,533
Other	17,995	17,995	-	17,995
TOTAL EXPENDITURES/EXPENSES	<u>130,120</u>	<u>130,120</u>	<u>-</u>	<u>130,120</u>
EXCESS OF REVENUES OVER EXPENDITURES	3,020	3,020	263	3,283
OTHER FINANCING SOURCES (USES)				
Contributions to other governmental units	(789)	(789)	789	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(789)</u>	<u>(789)</u>	<u>789</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	2,231	2,231	(2,231)	
CHANGE IN NET ASSETS			3,283	3,283
FUND BALANCES/NET ASSETS - OCTOBER 1, 2009	<u>54,860</u>	<u>54,860</u>	<u>(42,869)</u>	<u>11,991</u>
FUND BALANCES/NET ASSETS - SEPTEMBER 30, 2010	<u>\$ 57,091</u>	<u>\$ 57,091</u>	<u>\$ (41,817)</u>	<u>\$ 15,274</u>

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-C
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	\$	2,231
<p>Amounts reported for governmental activities in the statement of net activities are different because:</p>		
<p>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.</p>		789
<p>Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.</p>		<hr style="width: 100%;"/> 263
Change in Net Assets - Governmental Activities	\$	<u><u>3,283</u></u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-C
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-C (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 No. 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-C
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-C
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 one 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.

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.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting – Continued

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.

Budgeting

In compliance with governmental accounting principles and the operating agreement with District 1-A, the Board of Directors annually acknowledges receipt or approves an unappropriated annual budget for the General Fund. The District did not have any budget amendments during the current fiscal year.

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-C
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-C
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.

During the current fiscal year, the District had no deposits as described above.

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.

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

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

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

During the current fiscal year, the District had no investments as described above; however, when possible the District's bank deposits are placed in interest bearing accounts.

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.

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

NOTE 4. CAPITAL ASSETS – CONTINUED

This agreement reallocates the shared cost for the construction of the lift station facilities based on capacity. The capacity allocated to each participant was based upon the estimated total sewer 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	20.12
 Total	 100.00 %

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.

NOTE 5. MAINTENANCE TAX

On November 4, 1997, 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 an ad valorem maintenance tax at the rate of \$0.90 per \$100 of assessed valuation, which resulted in a tax levy of \$49,480 on an adjusted taxable valuation of \$6,378,544.

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-C
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. 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 and the

District has ratified that assumption of the 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.

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 and the District has ratified the actions of District No. 1-A. 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-C
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. WATER SUPPLY AGREEMENTS – CONTINUED

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

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

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, at its sole expense, to design and construct the infrastructure necessary to enable the City to connect the City system to Castle Hill 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-C
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 7. 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) with an effective date of August 13, 1997. This agreement was further amended on September 18, 2001, to be effective October 1, 2001. 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 from proceeds of the water, sewer and solid waste collection revenues.

District No. 1-A agreed to provide construction and contract management services for the District. The District has agreed to fund the cost of such services. District No. 1-A further agreed to maintain and operate the roads and bridges.

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.

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

NOTE 7. OPERATING AGREEMENT – CONTINUED

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. 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 8. STRATEGIC PARTNERSHIP AGREEMENT

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

NOTE 9. 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.

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

NOTE 10. DUE TO DEVELOPER

On May 19, 2009 the District executed an Agreement for Construction and Purchase of Facilities and Reimbursements for Cost with Castle Hills Development Corporation (the Developer) to provide the advancement of monies to facilitate the operations of the District.

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). In May, 2009, the report was presented to the District 1-C Board of Directors which indicated that \$37,715 of costs were documented in accordance with the terms of the analysis. This amount is reflected as a liability in the Statement of Net Assets of the District. The Developer has also indicated that District No. 1-C 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, this has not been reflected as a liability in the Statement of Net Assets.

NOTE 11. REIMBURSEMENT AGREEMENT

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

NOTE 12. DUE TO DISTRICT NO. 1-A

In 2008, the District 1-A contracted with the prior Auditor to complete a Report on Applying Agreed-Upon Procedures to Construction, Engineering and Related Costs Reimbursable to Bright Farm Partnership (Developer). In May, 2009, the report was presented to the District 1-A Board of Directors that indicated that \$3,365 was due to 1-A for its share of costs associated with the Lift Station (\$1,414), Pump Station (\$54) and for General Operations (\$1,897). In addition, the District has recorded a liability of \$1,000 for developer advances due to District No. 1-A in accordance with the agreement noted in Note 10. The total amount due to District No. 1-A of \$4,365 has been recorded as a liability in the statement of net assets of the District.

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

NOTE 13. LITIGATION

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. 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. 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.

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REQUIRED SUPPLEMENTARY INFORMATION

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-C
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	\$ 54,537	\$ 54,537	\$ 49,480	\$ (5,057)
Water service	8,139	8,139	4,039	(4,100)
Non-potable water service	65,000	65,000	65,378	378
Wastewater service	4,023	4,023	3,295	(728)
Permits and inspections	1,429	1,429	1,436	7
Franchise fees	-	-	6,786	6,786
Sales tax revenues	-	-	1,198	1,198
Miscellaneous revenues	-	-	1,528	1,528
TOTAL REVENUES	<u>133,128</u>	<u>133,128</u>	<u>133,140</u>	<u>12</u>
EXPENDITURES/EXPENSES				
Service operations				
Personnel	23,174	23,174	23,269	(95)
Professional fees	21,500	21,500	33,881	(12,381)
Contracted services	10,241	10,241	8,908	1,333
Purchased water service	11,020	11,020	11,281	(261)
Purchased wastewater service	2,573	2,573	3,744	(1,171)
Purchased non-potable water service	28,711	28,711	24,323	4,388
Utilities	1,679	1,679	2,186	(507)
Repairs and maintenance	5,722	5,722	4,533	1,189
Other	20,578	20,578	17,995	2,583
TOTAL EXPENDITURES/EXPENSES	<u>125,198</u>	<u>125,198</u>	<u>130,120</u>	<u>(4,922)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>7,930</u>	<u>7,930</u>	<u>3,020</u>	<u>(4,910)</u>
OTHER FINANCING SOURCES (USES)				
Contributions to other governmental units	-	(789)	(789)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(789)</u>	<u>(789)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	7,930	7,141	2,231	(4,910)
FUND BALANCES - OCTOBER 1, 2009	<u>54,860</u>	<u>54,860</u>	<u>54,860</u>	<u>-</u>
FUND BALANCES - SEPTEMBER 30, 2010	<u>\$ 62,790</u>	<u>\$ 62,001</u>	<u>\$ 57,091</u>	<u>\$ (4,910)</u>

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

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

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved September 22, 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? X 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-C
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	0	0	X 1.0	0
≤ 3/4"	2	2	X 1.0	2
1"	2	2	X 2.5	5
1 1/2"			X 5.0	0
2"	1	1	X 8.0	8
3"	1	1	X 15.0	15
4"			X 25.0	0
6"			X 50.0	0
8"			X 80.0	0
10"			X 115.0	0
Total water connections	<u>6</u>	<u>6</u>		<u>30</u>
Total wastewater connections	<u>5</u>	<u>5</u>	X 1.0	<u>5</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:	821,300	<u>91.2%</u>
Gallons purchased:	900,852	From: Our water suppliers

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

Personnel (including benefits)	<u>\$ 23,269</u>
Professional fees:	
Auditing	8,750
Legal	<u>25,131</u>
Total professional fees	<u>33,881</u>
Purchased services for resale:	
Water service	11,281
Non-potable water service	24,323
Wastewater service	<u>3,744</u>
Total purchased services for resale	<u>39,348</u>
Contracted services:	
Police department	622
Solid waste disposal	16
Contract labor	6,018
Management fee	1,766
Appraisal district	348
Tax collector	<u>138</u>
Total contracted services	<u>8,908</u>
Utilities	<u>2,186</u>
Repairs and maintenance	<u>4,533</u>

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

Other expenditures:

Director fees	2,850
Directors costs	486
Insurance	7,422
Office supplies and postage	690
State certification	24
Office rental	2,521
Equipment rental	114
Supplies- medical	2
Supplies- small tools	185
Supplies- uniforms	179
Supplies- gas and oil	1,123
Other	<u>2,399</u>

Total other expenditures	<u>17,995</u>
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Total expenditures	<u><u>\$ 130,120</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-C
ANALYSIS OF TAXES RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Maintenance Tax	
TAXES RECEIVABLE - OCTOBER 1, 2009	\$ -	
Adjustments to beginning balance	-	\$ -
Original 2009 tax levy	\$ 54,203	
Adjustment to 2009 tax levy	(4,723)	\$ 49,480
TOTAL TO BE ACCOUNTED FOR		\$ 49,480
TAX COLLECTIONS:		
Prior years	\$ -	
Current year	49,480	\$ 49,480
TAXES RECEIVABLE - SEPTEMBER 30, 2010		\$ -

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-C
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	\$ 2,930,162	\$ 2,810,797	\$ 3,370,486	\$ 2,318,477
Improvements	2,445,828	2,261,148	3,644,628	5,005,234
Personal property	1,003,113	1,093,079	1,150,559	1,171,529
Exemptions	(559)	(792)	(473)	-
TOTAL PROPERTY VALUATIONS	<u>\$ 6,378,544</u>	<u>\$ 6,164,232</u>	<u>\$ 8,165,200</u>	<u>\$ 8,495,240</u>
TAX RATES PER \$100 VALUATION				
Contract	\$ -	\$ -	\$ -	\$ -
Maintenance	0.90	0.90	0.90	0.90
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.90</u>	<u>\$ 0.90</u>	<u>\$ 0.90</u>	<u>\$ 0.90</u>
ADJUSTED TAX LEVY*	<u>\$ 49,480</u>	<u>\$ 55,478</u>	<u>\$ 73,487</u>	<u>\$ 80,705</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</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 November 4, 1997.

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

	Amounts			
	2010	2009	2008	2007
REVENUES:				
Property taxes	\$ 49,480	\$ 55,478	\$ 73,465	\$ 80,858
Water service	4,039	8,276	75,631	91,834
Wastewater service	3,295	1,261	987	1,091
Non-Potable Water Service	65,378	83,607	-	-
Penalty and interest	-	12	733	179
Permits and inspections	1,436	-	921	955
Franchise fees	6,786	3,928	519	795
Sales tax revenues	1,198	-	-	-
Miscellaneous revenues	1,528	5,051	-	251
TOTAL REVENUES	<u>133,140</u>	<u>157,613</u>	<u>152,256</u>	<u>175,963</u>
EXPENDITURES/EXPENSES				
Service operations:				
Personnel	23,269	21,324	4,199	3,928
Professional fees	33,881	23,801	30,182	15,916
Contracted services	8,908	13,288	3,110	2,742
Purchased water service	11,281	31,989	99,918	144,376
Purchased wastewater service	3,744	1,943	710	733
Purchased non-potable water service	24,323	-	-	-
Utilities	2,186	1,470	407	417
Repairs and maintenance	4,533	4,930	1,390	1,100
Other	17,995	11,380	12,874	9,455
Capital outlay	-	1,667	59	37
TOTAL EXPENDITURES/EXPENSES	<u>130,120</u>	<u>111,792</u>	<u>152,849</u>	<u>178,704</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3,020</u>	<u>45,821</u>	<u>(593)</u>	<u>(2,741)</u>
OTHER FINANCING SOURCES (USES)				
Contributions to other governmental units	(789)	(429)	(141)	-
Contributions from other governmental units	-	788	-	-
Developer contribution	-	-	1,000	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(789)</u>	<u>359</u>	<u>859</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	2,231	46,180	266	(2,741)
FUND BALANCES AT OCTOBER 1, 2009	<u>54,860</u>	<u>8,680</u>	<u>8,414</u>	<u>11,155</u>
FUND BALANCES AT SEPTEMBER 30, 2010	<u>\$ 57,091</u>	<u>\$ 54,860</u>	<u>\$ 8,680</u>	<u>\$ 8,414</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>6</u>	<u>5</u>	<u>6</u>	<u>6</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

Percent of Total Revenues

	2010	2009	2008	2007	2006
2006					
\$ 40,721	37.2 %	35.2 %	48.3 %	46.0 %	33.0
80,704	3.0	5.3	49.7	52.2	65.4
781	2.5	0.8	0.6	0.6	0.6
-	49.1	53.0	0.0	0.0	0.0
515	0.0	0.0	0.5	0.1	0.4
50	1.1	0.0	0.6	0.5	0.0
498	5.1	2.5	0.3	0.5	0.4
-	0.9	0.0	0.0	0.0	0.0
42	1.1	3.2	0.0	0.1	0.0
123,311	100.0	100.0	100.0	100.0	100.0
6,237	17.5	13.5	2.8	2.2	5.1
15,361	25.4	15.1	19.8	9.0	12.5
2,146	6.7	8.4	2.0	1.6	1.7
97,664	8.5	20.3	65.6	82.0	79.2
871	2.8	1.2	0.5	0.4	0.7
-	18.3	0.0	0.0	0.0	0.0
528	1.6	0.9	0.3	0.2	0.4
1,210	3.4	3.1	0.9	0.6	1.0
10,527	13.5	7.2	8.5	5.4	8.5
25	0.0	1.1	0.0	0.0	0.0
134,569	97.7	70.9	100.4 %	101.6 %	109.1
(11,258)	2.3 %	29.1 %	-0.4 %	-1.6 %	-9.2
-					
-					
-					
-					
(11,258)					
22,413					
\$ 11,155					
2					
1					

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

District Mailing Address - Denton County Fresh Water Supply District No. 1-C
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>
David Moore	05/08 05/12 (Elected)	\$ 600	\$ -	President
Preston Freeman	05/06 05/14 (Elected)	\$ 750	\$ 21	Vice President
Lori Holstom	06/09 05/14 (Appointed)	\$ 600	\$ 53	Assistant Treasurer/
Debra Caskey	05/06 05/14 (Elected)	\$ 600	\$ -	Treasurer/ Secretary
Robert L. Brown	02/09 05/12 (Appointed)	\$ 900	\$ 64	Assistant Secretary

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

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

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by the Texas Water Code Section 49.060. The District has not formally adopted a resolution setting the limits for its directors. Fees of office are the amounts paid to a Director during the District's current fiscal year.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-C
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	25,131	Attorney
Zane Miller 2540 King Arthur, Suite 220 Lewisville, TX 75056	9/18/2007	-	Investment Officer
McCall Gibson Swedlund Barfoot PLLC Certified Public Accountants 13100 Wortham Center Drive, Suite 235 Houston, TX 77065-5610	11/15/2000	8,750	Auditor
Denton County Appraisal District P.O. Box 2816 Denton, TX 76202-7816	Legislative Action	328	Property Tax Appraisals
Denton County Tax Collector c/o Steve Mossman 1505 E. McKinney Street Denton, TX 76209	6/14/2000	22	Tax Assessor/ Collector