

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

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-D
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-D (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 35 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-D

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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 36 through 49 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-D
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010**

Our discussion and analysis of Denton County Fresh Water Supply District No. 1-D'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 liabilities of the District exceeded its assets at September 30, 2010 by \$511,856. Of this amount, \$2,637,558 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 \$3,471,861. The District has an unrestricted deficit balance of \$6,621,275
- The District's net assets increase by \$672,359 which includes the prior period adjustments of \$373,521. Unrestricted net assets, which may be used to meet the District's ongoing obligations to residents and creditors, increased by \$61,122.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$4,017,949, a net increase of \$662,112 in comparison to the prior year including the prior period adjustment increase of \$396,854. The primary reason for the improvement is an increase in property tax received and coupled with the improvement of water revenues.
- On a government-wide basis, the District's total liabilities increased by \$40,726 or 0.6%.

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010**

Government-wide financial statements (continued)

The government-wide portion of the statement of activities 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 34 in this report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
MANAGEMENT'S DISCUSSION AND ANALYSIS
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, liabilities exceeded assets by \$511,856 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		
	<u>2010</u>	<u>2009</u>	<u>Change</u>
Current and other assets	\$ 4,241,920	\$ 3,464,064	\$ 777,856
Capital assets (Net of accumulated depreciation)	<u>2,637,558</u>	<u>2,702,329</u>	<u>(64,771)</u>
Total assets	<u>6,879,478</u>	<u>6,166,393</u>	<u>713,085</u>
Long-term liabilities	7,185,050	7,256,763	(71,713)
Other liabilities	<u>206,284</u>	<u>93,845</u>	<u>112,439</u>
Total liabilities	<u>7,391,334</u>	<u>7,350,608</u>	<u>40,726</u>
Net assets			
Invested in capital assets	2,637,558	2,702,329	(64,771)
Restricted	3,471,861	2,795,853	676,008
Unrestricted	<u>(6,621,275)</u>	<u>(6,682,397)</u>	<u>61,122</u>
Total net assets	<u>\$ (511,856)</u>	<u>\$ (1,184,215)</u>	<u>\$ 672,359</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
MANAGEMENT'S DISCUSSION AND ANALYSIS
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 \$672,359 including prior period adjustments, accounting for a 56.8% decrease in the net deficit. \$298,838 of the increase was from current year operations with the remainder of the change related to the prior period adjustments.

	Summary of Changes in the Statement of Activities		
	2010	2009	Change
Revenues:			
Property taxes	\$ 3,019,398	\$ 2,695,266	\$ 324,132
Charges for services	1,801,374	1,562,618	238,756
Investment revenues	18,757	99,028	(80,271)
Other revenues	34,837	50,472	(15,635)
Total revenues	4,874,366	4,407,384	466,982
Expenses for services	4,575,528	4,135,586	439,942
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	298,838	271,798	27,040
OTHER FINANCING SOURCES (USES)	-	(12,564)	12,564
Change in net assets	298,838	259,234	39,604
Net assets, beginning of year (as previously stated)	(1,184,215)	(1,443,449)	259,234
Prior Period Adjustment	373,521	-	373,521
NET ASSETS, beginning of year (as restated)	(810,694)	(1,443,449)	632,755
NET ASSETS, end of year	\$ (511,856)	\$ (1,184,215)	\$ 672,359

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2010, were \$4,017,949, an increase of \$662,112 from the prior year including prior period adjustments.

The General Fund balance decreased by \$18,776 net of the prior period adjustment increase of \$83,422. The decrease was primarily due to decreased permit and inspection revenues received during the current fiscal year.

The Debt Service Fund balance increased by \$680,888 including the prior period adjustment increase of \$313,432. The increase was primarily due the structure of the District's outstanding PID Debt.

There was no change in the Capital Projects Fund balance during the year.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010**

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual expenditures on a budgetary basis were \$2,295,135 compared to the amended budget of \$2,334,303. The positive budget variance of \$39,168 was primarily due to purchased water services and other expenditures. Actual revenue on a budgetary basis was \$2,311,583 compared to the amended budget of \$2,356,744. The \$45,161 negative variance is primarily due to wastewater services and building permits. See the budget to actual comparison on page 35 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)
Water system	\$ 724,987	\$ 742,412	\$ (17,425)
Wastewater system	646,723	662,288	(15,565)
Drainage system	792,356	811,783	(19,427)
Road system	54,152	56,265	(2,113)
Investment in shared lift station	419,340	429,581	(10,241)
Total net capital assets	\$ 2,637,558	\$ 2,702,329	\$ (64,771)

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 \$352,400 from the 2009-10 budget year, primarily to water sales, sanitary sewer lift station capacity revenue, and property tax revenue. Expenses for the FY 2010-11 are anticipated to increase by approximately \$456,000 due to a developer reimbursement and instituting reserve funding. 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.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010**

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

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

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ -	\$ 1,958
Investments	-	298,133
Cash with other governmental unit	-	2,859,664
Receivables:		
Property taxes	1,693	8,395
Service Accounts (net of allowance for doubtful accounts of \$0)	147,302	-
Other	35,644	-
Prepaid costs	1,469	-
Due from other governmental unit	885,299	-
Due to other funds	-	301,348
Capital assets (net of accumulated depreciation)	-	-
TOTAL ASSETS	\$ 1,071,407	\$ 3,469,498
LIABILITIES		
Accounts payable	\$ 158,648	\$ -
Payroll deductions	2,370	-
Accrued wages	14,216	-
Due to other governmental units	-	-
Due to developer	-	-
Due to other funds	301,348	-
Security deposits	31,050	-
Deferred revenue	9,292	8,395
Total liabilities	516,924	8,395
FUND BALANCES/NET ASSETS		
FUND BALANCES		
Reserved for authorized construction:		
Net investment revenues	-	-
Reserved for PID 2	-	2,859,664
Reserved for contract debt obligations	-	601,439
Reserved for prepaid costs	1,469	-
Unreserved - undesignated	553,014	-
Total fund balances	554,483	3,461,103
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,071,407	\$ 3,469,498
NET ASSETS		
Invested in capital assets		
Restricted for:		
Capital projects		
Debt service		
Unrestricted		
TOTAL NET ASSETS		

The Notes to Financial Statements are an integral part of these statements.

Capital Projects Fund	Total	Adjustments	Statement of Net Assets
\$ 2,363	\$ 4,321	\$ -	\$ 4,321
-	298,133	-	298,133
-	2,859,664	-	2,859,664
-	10,088	-	10,088
-	147,302	-	147,302
-	35,644	-	35,644
-	1,469	-	1,469
-	885,299	-	885,299
-	301,348	(301,348)	-
-	-	2,637,558	2,637,558
<u>\$ 2,363</u>	<u>\$ 4,543,268</u>	<u>\$ 2,336,210</u>	<u>\$ 6,879,478</u>
\$ -	\$ 158,648	\$ -	\$ 158,648
-	2,370	-	2,370
-	14,216	-	14,216
-	-	2,297,343	2,297,343
-	-	4,887,707	4,887,707
-	301,348	(301,348)	-
-	31,050	-	31,050
-	17,687	(17,687)	-
<u>-</u>	<u>525,319</u>	<u>6,866,015</u>	<u>7,391,334</u>
2,363	2,363	(2,363)	-
-	2,859,664	(2,859,664)	-
-	601,439	(601,439)	-
-	1,469	(1,469)	-
-	553,014	(553,014)	-
<u>2,363</u>	<u>4,017,949</u>	<u>(4,017,949)</u>	<u>-</u>
<u>\$ 2,363</u>	<u>\$ 4,543,268</u>		
		2,637,558	2,637,558
		2,363	2,363
		3,469,498	3,469,498
		(6,621,275)	(6,621,275)
		<u>\$ (511,856)</u>	<u>\$ (511,856)</u>

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

Total Fund Balances - Governmental Funds	\$ 4,017,949
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.	2,637,558
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.	(2,297,343)
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.	(4,887,707)
Revenue reported as unearned revenue in the governmental fund financial statements was recorded as revenue in the government-wide financial financial statements.	<u>17,687</u>
Total Net Assets - Governmental Activities	<u><u>\$ (511,856)</u></u>

The Notes to Financial Statements are an integral part of these statements.

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

	General Fund	Debt Service Fund
REVENUES:		
Property taxes	\$ 507,344	\$ 2,516,348
Water service	929,471	-
Wastewater service	246,059	-
Solid waste revenue	112,652	-
Penalty and interest	11,208	25,986
Permits and inspections	323,196	-
Franchise fees	77,609	-
Sales tax revenues	68,033	-
Investment revenues	1,613	17,144
Miscellaneous revenues	34,398	-
Total revenues	2,311,583	2,559,478
EXPENDITURES/EXPENSES		
Service operations:		
Personnel	298,419	-
Professional fees	74,392	-
Contracted services	365,385	37,777
Purchased water service	661,145	-
Purchased wastewater service	234,876	-
Purchased non-potable water service	96,548	-
Utilities	71,600	-
Repairs and maintenance	309,604	-
Other	183,166	16,505
Debt service:		
Contract tax obligation - City of Lewisville	-	2,161,340
Depreciation	-	-
Total expenditures/expenses	2,295,135	2,215,622
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	16,448	343,856
OTHER FINANCING SOURCES (USES)		
Transfer in (out)	(23,600)	23,600
Contributions to other governmental units	(95,046)	-
Total other financing sources (uses)	(118,646)	23,600
NET CHANGE IN FUND BALANCES	(102,198)	367,456
CHANGE IN NET ASSETS		
NET FUND BALANCES/NET ASSETS AT OCTOBER 1, 2009 (as previously stated)	573,259	2,780,215
Prior Period Adjustment	83,422	313,432
FUND BALANCES/NET ASSETS, AT OCTOBER 1, 2009 (as restated)	656,681	3,093,647
FUND BALANCES/NET ASSETS - SEPTEMBER 30, 2010	\$ 554,483	\$ 3,461,103

The Notes to Financial Statements are an integral part of these statements.

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ -	\$ 3,023,692	\$ (4,294)	\$ 3,019,398
-	929,471	5,181	934,652
-	246,059	1,372	247,431
-	112,652	607	113,259
-	37,194	-	37,194
-	323,196	-	323,196
-	77,609	-	77,609
-	68,033	-	68,033
-	18,757	-	18,757
-	34,398	439	34,837
<u>-</u>	<u>4,871,061</u>	<u>3,305</u>	<u>4,874,366</u>
-	298,419	-	298,419
-	74,392	-	74,392
-	403,162	-	403,162
-	661,145	-	661,145
-	234,876	-	234,876
-	96,548	-	96,548
-	71,600	-	71,600
-	309,604	-	309,604
-	199,671	-	199,671
-	2,161,340	-	2,161,340
-	-	64,771	64,771
<u>-</u>	<u>4,510,757</u>	<u>64,771</u>	<u>4,575,528</u>
<u>-</u>	<u>360,304</u>	<u>(61,466)</u>	<u>298,838</u>
-	-	-	-
-	(95,046)	95,046	-
-	(95,046)	95,046	-
-	265,258	(265,258)	-
		298,838	298,838
<u>2,363</u>	<u>3,355,837</u>	<u>(4,540,052)</u>	<u>(1,184,215)</u>
<u>-</u>	<u>396,854</u>	<u>(23,333)</u>	<u>373,521</u>
<u>2,363</u>	<u>3,752,691</u>	<u>(4,563,385)</u>	<u>(810,694)</u>
<u>\$ 2,363</u>	<u>\$ 4,017,949</u>	<u>\$ (4,529,805)</u>	<u>\$ (511,856)</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
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	\$	265,258
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.		3,305
Governmental funds report contributions to other governmental units as other financing uses. However, in the government-wide financial statements, contributions to other governmental units that are expected to be repaid are recorded as an increase to the receivable		95,046
Governmental funds do not account for depreciation. However, 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.		<u>(64,771)</u>
Change in Net Assets - Governmental Activities	\$	<u>298,838</u>

The Notes to Financial Statements are an integral part of these statements.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
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 August 9, 1997, voters approved the division of the District into two new districts of which Denton County Fresh Water Supply District No. 1-D (the District) was one. The District held its first meeting on May 27, 1999. 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 (GASB). In addition, the accounting records of the District are maintained generally in accordance with the Water District Financial Management Guide published by the Commission.

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-D
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 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-D
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.

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.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting – Continued

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.

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.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets – Continued

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

	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

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.

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.

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.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus – Continued

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.

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 \$302,454 and the bank balance was \$303,583. Of the bank balance, \$500,000 was covered by federal depository insurance.

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

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

Deposits – Continued

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:

	Cash	Certificates of Deposit	Total
Debt service fund	\$ 1,958	\$ 298,133	\$ 300,091
Capital projects fund	2,363	-	2,363
Total deposits	\$ 4,321	\$ 298,133	\$ 302,454

The General Fund had no claim on pooled cash at year end.

Investments

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

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-D
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

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

As of September 30, 2010, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years		
		Less Than 1	1 - 5	6 - 10
Debt Service Fund - Certificates of deposit	\$ 298,133	\$ 298,133	\$ -	\$ -
Total investments	<u>\$ 298,133</u>	<u>\$ 298,133</u>	<u>\$ -</u>	<u>\$ -</u>

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.

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

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. 2 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.

In addition, the District has recorded capital assets and intangible assets for the water, wastewater and drainage facilities that have been funded through other available monies, including advances by the Developer of the District.

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 at historical cost subject to depreciation			
Water system	\$ 784,140	\$ -	\$ 784,140
Wastewater system	700,441	-	700,441
Drainage system	858,281	-	858,281
Road system	63,391	-	63,391
Investment in shared lift station facilities	460,866	-	460,866
	<u>2,867,119</u>	<u>-</u>	<u>2,867,119</u>
Total capital assets at historical cost subject to depreciation			
Less accumulated depreciation			
Water system	41,728	17,425	59,153
Wastewater system	38,153	15,565	53,718
Drainage system	46,498	19,427	65,925
Road system	7,126	2,113	9,239
Investment in shared lift station facilities	31,285	10,241	41,526
	<u>164,790</u>	<u>64,771</u>	<u>229,561</u>
Total accumulated depreciation			
Total capital assets, net of accumulated depreciation	<u>\$ 2,702,329</u>	<u>\$ (64,771)</u>	<u>\$ 2,637,558</u>

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

NOTE 4. CAPITAL ASSETS – CONTINUED

On April 19, 2006, the District executed a Cost Sharing Agreement with Denton County Fresh Water Supply District Nos. 1-A, 1-B, 1-C 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-B, District No. 1-C 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-B, District No. 1-C, 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 30, 2009. Capacity in the facilities is allocated as follows:

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

The District’s purchase of the share of capacity in the lift station was partially funded by District 1-A in the amount of \$460,866. During fiscal year ended September 30, 2010, the District made payments in the amount of \$95,046 toward the balance due to District 1-A. The remaining balance of \$365,820 is recorded as a long term liability to District 1-A and is included in the statement of net assets as due to other governmental units. This asset is recorded as a capital asset of the District and is being amortized over the term of the Cost Sharing Agreement.

NOTE 5. MAINTENANCE TAX

On August 14, 1999, 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. During the fiscal year ended September 30, 2010, the District levied a maintenance tax rate of \$0.1451 per \$100 of assessed valuation, which resulted in a tax levy of \$512,613 on an adjusted taxable valuation of \$353,420,054 for the 2009 tax year. The maintenance tax will be used for maintenance purposes including 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.

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

NOTE 6. JOINT UTILITY CONTRACT

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

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

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

In order to finance the facilities being constructed with bond proceeds being issued by the PID and Lewisville, District No. 1-D agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 2 Bonds as they mature. District No. 1-D committed each year to levy, assess and collect a tax on all taxable property within the District, unlimited by rate or amount, sufficient to service the debt and other costs incidental to the PID 2 Bonds. Lewisville will calculate the total amount of payments to be made on the PID 2 Bonds on the following March 1, after application of the available reserves from proceeds of the PID 2 Bonds and will, if needed, calculate an assessment on all assessable property within the PID 2, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville. Lewisville will notify District No. 1-D of the calculation of the Annual Assessment by September 1 of each year preceding the above-referenced March 1.

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 \$2,161,340 to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement at September 30, 2010 is \$2,359,065 and the District has fully satisfied that requirement at year end.

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

NOTE 6. JOINT UTILITY CONTRACT – CONTINUED

The City of Lewisville at September 30, 2010 including reserve funds is holding \$2,859,664 in trust for the District. The amounts held in trust in excess of the reserve requirement are available to cover debt service required of PID 2.

The following are the amortization schedules on the existing outstanding debt the District's contract tax is expected to amortize.

PID 2 REFUNDING SERIES - 2002				
Years Ending September 30	Principal September 1	Interest Due		Total
		March 1/September 1		
2011	\$ 575,000	\$ 967,605		\$ 1,542,605
2012	605,000	940,293		1,545,293
2013	635,000	911,555		1,546,555
2014	670,000	875,836		1,545,836
2015	705,000	838,149		1,543,149
2016	745,000	798,492		1,543,492
2017	790,000	756,586		1,546,586
2018	835,000	712,149		1,547,149
2019	880,000	663,093		1,543,093
2020	935,000	611,392		1,546,392
2021	990,000	556,462		1,546,462
2022	1,045,000	498,299		1,543,299
2023	1,105,000	436,904		1,541,904
2024	1,170,000	373,920		1,543,920
2025	1,235,000	307,230		1,542,230
2026	1,310,000	236,835		1,546,835
2027	1,385,000	162,165		1,547,165
2028	1,460,000	83,220		1,543,220
	\$ 17,075,000	\$ 10,730,185		\$ 27,805,185

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

NOTE 6. JOINT UTILITY CONTRACT – CONTINUED

PID 2
REFUNDING SERIES - 2005

Years Ending September 30	Principal September 1	Interest Due March 1/September 1	Total
2011	\$ 200,000	\$ 609,600	\$ 809,600
2012	210,000	597,600	807,600
2013	225,000	585,000	810,000
2014	240,000	571,500	811,500
2015	250,000	557,100	807,100
2016	265,000	542,100	807,100
2017	285,000	526,200	811,200
2018	300,000	509,100	809,100
2019	320,000	491,100	811,100
2020	340,000	471,900	811,900
2021	360,000	451,500	811,500
2022	380,000	429,900	809,900
2023	400,000	407,100	807,100
2024	425,000	383,100	808,100
2025	450,000	357,600	807,600
2026	480,000	330,600	810,600
2027	510,000	301,800	811,800
2028	540,000	271,200	811,200
2029	570,000	238,800	808,800
2030	605,000	204,600	809,600
2031	640,000	168,300	808,300
2032	680,000	129,900	809,900
2033	720,000	89,100	809,100
2034	765,000	45,900	810,900
	<u>\$ 10,160,000</u>	<u>\$ 9,270,600</u>	<u>\$ 19,430,600</u>

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

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

NOTE 6. JOINT UTILITY CONTRACT – CONTINUED

During the fiscal year ended September 30, 2010, the District levied an ad valorem contract tax of \$2,657,469 computed at the rate of \$0.7549 per \$100 assessed valuation based upon an appraised taxable valuation of \$353,420,054 for the 2009 tax year. The Debt Service Fund Balance of \$3,461,103 is reserved to meet the contract debt obligations.

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.

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 District.

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.

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

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 District agreed to provide such a water source. The District has agreed to make sufficient payments to assure adequate funds to fulfill its obligations under the contract terms. The minimum capacity reserved for the District is 3.35 million gallons per day (MGD).

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

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

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 Hills Subdivision's system.

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

NOTE 7. WATER SUPPLY AGREEMENTS – CONTINUED

Wholesale Water Supply Agreement with the City of Lewisville – Continued

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.

NOTE 8. OPERATING AGREEMENT

On June 14, 2000, 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.

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

NOTE 8. OPERATING AGREEMENT – CONTINUED

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.

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. 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.

NOTE 9. 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.

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

NOTE 10. ECONOMIC DEPENDENCY

The District is contractually obligated to levy sufficient contract taxes to fund the City of Lewisville, Texas Castle Hills Public Improvement District No. 2 bonds. The ability to meet these obligations may require the Developer to advance monies to the District from time to time.

NOTE 11. UNREIMBURSED DEVELOPER COST

On May 27, 1997, 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-D Board of Directors which indicated that \$4,864,374 of costs were documented in accordance with the terms of the analysis. Subsequently, the Developer has added \$23,333 which was applied to the District No. 1-B report inadvertently bringing the amount owed to the Developer to \$4,887,707. This amount is reflected as a liability in the Statement of Net Assets of the District. The Developer has the right to charge 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 12. 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 13. BOND ELECTION

On August 14, 1999, voters within the District approved for the District to issue bonds in the maximum amount of \$28,500,000.

NOTE 14. 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), District No. 1-A, District No, 1-C, the District, District No. 1-E, District No. 1-F, District No, 1-G, and District No. 1-H (collectively the Districts).

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

NOTE 14. REIMBURSEMENT AGREEMENT – CONTINUED

For advances made by Bright Entities on or before November 20, 2006, the Districts will reimburse the relevant Bright Entity for 100% of such advances. For advances made by a Bright Entity after November 20, 2006, the Districts will transfer reimbursement funds to District No. 1-A. District No. 1-A will act as a clearinghouse for receipt of reimbursement proceeds and for the deployment of such proceeds to any District that would otherwise require an advance from a Bright Entity. Any reimbursement for advances received by 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 15. DUE TO DISTRICT 1-A

In 2008, the District 1-A contracted with the District's 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 \$583,602 was due to 1-A for its share of costs associated with the Lift Station (\$365,820), Pump Station (\$14,255) and for General Operations (\$203,527). In addition, the District has recorded a liability of \$1,713,741 for developer advances due to District No. 1-A in accordance with the agreement noted in Note 14. The total amount due to District No. 1-A of \$2,297,343 has been recorded as a liability in the statement of net assets of the District.

NOTE 16. LITIGATION

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

On December 21, 2009, petitions for appeal of retail water and sewer rates of Denton County Fresh Water Supply District Nos. 1-A, 1-B, 1-C, 1-D, 1-E, 1-F, 1-G, and 1-H were submitted to the Texas Commission on Environmental Quality (TCEQ) under § 13.043(b)(4) of the Texas Water Code. The petition was filed at the TCEQ 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.

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

NOTE 16. LITIGATION – CONTINUED

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.

NOTE 17. PRIOR PERIOD ADJUSTMENT

The District adjusted its beginning fund balance on the governmental financial statements to record unbilled utility revenues earned during fiscal year 2009. The effect of these changes resulted in an increase in the beginning fund balance in the General Fund by \$83,422.

The District adjusted its beginning fund balance on the governmental financial statements to record interest income received in prior years for PID 2 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 \$313,432.

In addition to the prior period adjustments noted above which increased net assets by \$396,854, an adjustment of \$23,333 reduced net assets. The adjustment was the result of a review of the amounts due to a Developer that was charged incorrectly to another District. The net effect of all the prior period adjustments was to increase beginning net assets by \$373,521.

REQUIRED SUPPLEMENTARY INFORMATION

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
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	\$ 491,196	\$ 491,196	\$ 507,344	\$ 16,148
Water service	811,766	811,766	929,471	117,705
Wastewater service	347,858	347,858	246,059	(101,799)
Solid waste revenue	119,778	119,778	112,652	(7,126)
Penalty and interest	7,100	7,100	11,208	4,108
Permits and inspections	477,080	477,080	323,196	(153,884)
Franchise fees	85,716	85,716	77,609	(8,107)
Sales tax revenues	-	-	68,033	68,033
Investment revenues	-	-	1,613	1,613
Miscellaneous revenues	16,250	16,250	34,398	18,148
Total revenues	<u>2,356,744</u>	<u>2,356,744</u>	<u>2,311,583</u>	<u>(45,161)</u>
EXPENDITURES/EXPENSES				
Service operations:				
Personnel	296,413	296,402	298,419	(2,017)
Professional fees	32,000	32,000	74,392	(42,392)
Contracted services	284,268	284,268	365,385	(81,117)
Purchased water service	692,530	891,951	661,145	230,806
Purchased wastewater service	145,582	145,582	234,876	(89,294)
Purchased non-potable water service	96,850	96,850	96,548	302
Utilities	65,769	65,769	71,600	(5,831)
Repairs and maintenance	271,419	271,419	309,604	(38,185)
Other	250,062	250,062	183,166	66,896
Total expenditures/expenses	<u>2,134,893</u>	<u>2,334,303</u>	<u>2,295,135</u>	<u>39,168</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	221,851	22,441	16,448	(5,993)
OTHER FINANCING SOURCES (USES)				
Transfer in (out)	-	-	(23,600)	(23,600)
Contributions to other governmental units	-	(95,046)	(95,046)	-
Total other financing sources (uses)	<u>-</u>	<u>(95,046)</u>	<u>(118,646)</u>	<u>(23,600)</u>
NET CHANGE IN FUND BALANCES	221,851	(72,605)	(102,198)	(29,593)
FUND BALANCE, AT OCTOBER 1, 2009 (as previously stated)	<u>573,259</u>	<u>573,259</u>	<u>573,259</u>	<u>-</u>
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>83,422</u>	<u>83,422</u>
FUND BALANCE, AT OCTOBER 1, 2009 (as restated)	<u>573,259</u>	<u>573,259</u>	<u>656,681</u>	<u>83,422</u>
FUND BALANCES SEPTEMBER 30, 2010	<u>\$ 795,110</u>	<u>\$ 500,654</u>	<u>\$ 554,483</u>	<u>\$ 53,829</u>

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

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

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

Services provided by the district during the fiscal year:

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved September 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		N	3.70	2,001 not to exceed 15,000 gallons
Residential	37.04		Y		New Customers
Commercial	8.75		N	3.70	2,001 and up
Surcharge:					
Solid waste/garbage	16.07		Y		
Commission	.5% of actual				
Regulatory Assessments	water and sewer bill				

District employs winter averaging for wastewater usage? X Yes No

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
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"	72	72	X 1.0	72
1"	599	599	X 2.5	1497.5
1 1/2"	1	1	X 5.0	5
2"	19	19	X 8.0	152
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	691	691		1726.5
Total wastewater connections	635	635	X 1.0	635

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:	163,713,600	<u>93.3%</u>
Gallons purchased:	175,415,076	From: Our water suppliers

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

Personnel (including benefits)	<u>\$ 298,419</u>
Professional fees:	
Auditing	17,700
Legal	<u>56,692</u>
Total professional fees	<u>74,392</u>
Purchased services for resale:	
Water service	661,145
Non-potable water service	96,548
Wastewater service	<u>234,876</u>
Total purchased services for resale	<u>992,569</u>
Contracted services:	
Police department	35,291
Fire protection and EMS	83,650
Solid waste disposal	83,865
Contract labor	61,614
Management fee	100,214
Tax collector	1
Surveying	<u>750</u>
Total contracted services	<u>365,385</u>
Utilities:	
Electricity	56,919
Telephone	<u>14,681</u>
Total utilities	<u>71,600</u>
Repairs and maintenance	<u>309,604</u>

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

Other expenditures:

Director fees	4,500
Directors costs	973
Insurance	25,820
Supplies- postage	11,456
State certification	276
Office rental	51,070
Equipment rental	6,678
Supplies- medical	21
Supplies- small tools	4,069
Supplies- uniforms	2,278
Supplies- gas and oil	20,272
Tap connection expenditures	11,622
Other	44,131

Total other expenditures	183,166
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Total expenditures	\$ 2,295,135
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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-D
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>
Debt Service Fund Certificate of Deposit	10495	0.75%	4/20/2011	<u>\$ 298,133</u>	<u>\$ -</u>
Total - all funds				<u><u>\$ 298,133</u></u>	<u><u>\$ -</u></u>

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

	Maintenance Tax		Contract Tax	
Taxes receivable -				
October 1, 2009	\$	1,107	\$	13,275
Adjustments to beginning balance		1,107		13,275
		-		-
Original 2009 tax levy		511,130		2,657,685
Adjustment to 2008 tax levy		1,483		(216)
		512,613		2,657,469
 Total to be accounted for		 513,720		 2,670,744
 Tax collections:				
Prior years		2,287		11,890
Current year		509,740		2,650,459
		512,027		2,662,349
 Taxes receivable -				
September 30, 2010	\$	1,693	\$	8,395
 Taxes receivable by year:				
2009	\$	1,658	\$	8,224
2008		35		171
		1,693		8,395
		1,693		8,395

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
PROPERTY VALUATIONS				
Land	\$ 119,688,771	\$ 112,325,231	\$ 108,628,976	\$ 77,386,102
Improvements	237,723,361	192,548,997	138,278,980	89,043,317
Personal property	1,770,715	790,463	226,652	660,195
Exemptions	<u>(5,762,793)</u>	<u>(6,164,575)</u>	<u>(5,746,906)</u>	<u>(5,272,376)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 353,420,054</u>	<u>\$ 299,500,116</u>	<u>\$ 241,387,702</u>	<u>\$ 161,817,238</u>
TAX RATES PER \$100 VALUATION				
Contract	\$ 0.7549	\$ 0.8307	\$ 0.8575	\$ 0.9500
Maintenance	<u>0.1451</u>	<u>0.0693</u>	<u>0.0425</u>	<u>-</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>\$ 3,170,082</u>	<u>\$ 2,695,506</u>	<u>\$ 2,172,978</u>	<u>\$ 1,537,505</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>99.68%</u>	<u>99.99%</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 August 14, 1999.

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

	Amounts				
	2010	2009	2008	2007	2006
REVENUES:					
Property taxes	\$ 507,344	\$ 207,077	\$ 101,971	\$ -	\$ -
Water service	929,471	780,866	626,522	409,345	338,994
Wastewater service	246,059	208,463	159,818	120,147	83,629
Solid waste revenue	112,652	100,210	79,025	60,009	38,573
Penalty and interest	11,208	10,957	22,548	5,569	3,909
Permits and inspections	323,196	350,829	905,825	818,898	1,063,417
Franchise fees	77,609	85,190	118,475	76,229	45,941
Sales tax revenues	68,033	-	-	-	-
Investment revenues	1,613	4,546	5,627	5,466	1,438
Miscellaneous revenues	34,398	50,472	-	17,037	192,695
Total revenues	<u>2,311,583</u>	<u>1,798,610</u>	<u>2,019,811</u>	<u>1,512,700</u>	<u>1,768,596</u>
EXPENDITURES/EXPENSES					
Service operations:					
Personnel	298,419	237,700	218,625	283,149	174,656
Professional fees	74,392	33,052	68,849	34,977	60,117
Contracted services	365,385	290,979	258,911	196,853	116,466
Purchased water service	661,145	600,176	409,559	321,574	303,167
Purchased wastewater service	234,876	109,446	133,982	97,721	80,312
Purchased non-potable water service	96,548	-	-	-	-
Utilities	71,600	55,136	59,205	45,941	34,155
Repairs and maintenance	309,604	300,534	262,328	566,862	128,888
Other	183,166	173,387	154,426	143,828	123,175
Capital outlay	-	20,814	11,048	9,377	7,011
Total expenditures/expenses	<u>2,295,135</u>	<u>1,821,224</u>	<u>1,576,933</u>	<u>1,700,282</u>	<u>1,027,947</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	16,448	(22,614)	442,878	(187,582)	740,649
OTHER FINANCING SOURCES (USES)					
Transfer out	(23,600)	(37,296)	-	(374,128)	-
Contributions to other governmental units	(95,046)	(12,564)	(26,604)	150,069	-
Total other financing sources (uses)	<u>(118,646)</u>	<u>(49,860)</u>	<u>(26,604)</u>	<u>(224,059)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(102,198)	(72,474)	416,274	(411,641)	740,649
BEGINNING FUND BALANCE (as previously stated)	573,259	645,733	229,459	641,100	(99,549)
PRIOR PERIOD ADJUSTMENT	83,422	-	-	-	-
BEGINNING FUND BALANCE (as restated)	<u>656,681</u>	<u>645,733</u>	<u>229,459</u>	<u>641,100</u>	<u>(99,549)</u>
ENDING FUND BALANCE	<u>\$ 554,483</u>	<u>\$ 573,259</u>	<u>\$ 645,733</u>	<u>\$ 229,459</u>	<u>\$ 641,100</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>691</u>	<u>655</u>	<u>587</u>	<u>514</u>	<u>406</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>635</u>	<u>584</u>	<u>489</u>	<u>400</u>	<u>264</u>

Percent of Total Revenues

2010	2009	2008	2007	2006
21.9 %	11.5 %	5.1 %	0.0 %	0.0
40.2	43.4	31.0	27.1	19.2
10.6	11.6	7.9	7.9	4.7
4.9	5.6	3.9	4.0	2.2
0.5	0.6	1.1	0.4	0.2
14.0	19.5	44.8	54.1	60.1
3.4	4.7	5.9	5.0	2.6
2.9	0.0	0.0	0.0	0.0
0.1	0.3	0.3	0.4	0.1
1.5	2.8	0.0	1.1	10.9
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
12.9	13.2	10.8	18.7	9.9
3.2	1.8	3.4	2.3	3.4
15.8	16.2	12.8	13.0	6.6
28.6	33.4	20.3	21.3	17.1
10.2	6.1	6.6	6.5	4.5
4.2	0.0	0.0	0.0	0.0
3.1	3.1	2.9	3.0	1.9
13.4	16.7	13.0	37.5	7.3
7.9	9.6	7.6	9.5	7.0
0.0	1.2	0.5	0.6	0.4
<u>99.3</u>	<u>101.3</u>	<u>77.9</u>	<u>112.4</u>	<u>58.1</u>
<u><u>0.7 %</u></u>	<u><u>-1.3 %</u></u>	<u><u>22.1 %</u></u>	<u><u>-12.4 %</u></u>	<u><u>41.9</u></u>

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

	Amounts				
	2010	2009	2008	2007	2006
REVENUES:					
Property taxes	\$2,516,348	\$2,487,403	\$2,085,490	\$1,523,634	\$1,337,217
Penalty and interest	25,986	26,103	34,551	22,618	15,821
Investment revenues	17,144	94,482	17,424	85,149	20,510
Total revenues	<u>2,559,478</u>	<u>2,607,988</u>	<u>2,137,465</u>	<u>1,631,401</u>	<u>1,373,548</u>
EXPENDITURES					
Tax collection expenditures	54,282	60,143	61,236	33,715	30,518
Contract tax obligation - City of Lewisville	2,161,340	2,164,668	1,639,667	1,612,681	1,633,621
Total expenditures	<u>2,215,622</u>	<u>2,224,811</u>	<u>1,700,903</u>	<u>1,646,396</u>	<u>1,664,139</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>343,856</u>	<u>383,177</u>	<u>436,562</u>	<u>(14,995)</u>	<u>(290,591)</u>
OTHER FINANCING SOURCES (USES)					
Transfer in (out)	23,600	-		374,128	-
Contributions to other governmental units	-	-	-	-	-
Developer contribution	-	-	301,348	496,000	497,383
Total other financing sources (uses)	<u>23,600</u>	<u>-</u>	<u>301,348</u>	<u>870,128</u>	<u>497,383</u>
NET CHANGE IN FUND BALANCES	367,456	383,177	737,910	855,133	206,792
BEGINNING FUND BALANCE (as previously stated)	<u>2,780,215</u>	<u>2,397,038</u>	<u>1,659,128</u>	<u>803,995</u>	<u>597,203</u>
PRIOR PERIOD ADJUSTMENT	313,432	-	-	-	-
BEGINNING FUND BALANCE (as restated)	<u>3,093,647</u>	<u>2,397,038</u>	<u>1,659,128</u>	<u>803,995</u>	<u>597,203</u>
ENDING FUND BALANCE	<u>\$3,461,103</u>	<u>\$2,780,215</u>	<u>\$2,397,038</u>	<u>\$1,659,128</u>	<u>\$ 803,995</u>

Percent of Total Revenues

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
98.3 %	95.4 %	97.6 %	93.4 %	97.3 %
1.0	1.0	1.6	1.4	1.2
<u>0.7</u>	<u>3.6</u>	<u>0.8</u>	<u>5.2</u>	<u>1.5</u>
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
2.1	2.3	2.9	2.1	2.2
<u>84.4</u>	<u>83.0</u>	<u>76.7</u>	<u>98.9</u>	<u>118.9</u>
<u>86.5</u>	<u>85.3</u>	<u>79.6</u>	<u>101.0</u>	<u>121.1</u>
<u>13.5</u> %	<u>14.7</u> %	<u>20.4</u> %	<u>(1.0)</u> %	<u>(21.1)</u> %

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

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

District Telephone No. - (972) 899-4000

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended September 30, 2010	Expense Reimbursements for the year ended September 30, 2010	Title
Julie Koustoubardis	05/08 05/12 (Elected)	\$ 450	\$ 29	Secretary
Mark Channels	05/08 05/12 (Elected)	\$ 750	\$ 113	President
Bruce Johnson	05/10 05/14 (Elected)	\$ 750	\$ -	Treasurer/ Assistant Secretary
Ulf Andersson	05/10 05/14 (Elected)	\$ 1,050	\$ -	Assistant Treasurer/
John Ehinger, Jr.	05/10 05/14 (Elected)	\$ 1,050	\$ -	Vice President
Ronald Vaughn, Jr.	05/06 05/10 (Elected)	\$ 150	\$ 21	Treasurer/ Assistant Secretary
Patti Brown	05/06 05/10 (Elected)	\$ 300	\$ 47	Assistant Secretary
Alex Ramsey	05/06 05/10 (Elected)	\$ -	\$ -	Vice President

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

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

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
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	\$ 56,692	Attorney
Pate Engineers, Inc. 8150 Brookriver Drive, Suite S-700 Dallas, Texas 75247	11/16/2009	\$ -	Project Engineer
Zane Miller 2540 King Arthur, Suite 220 Lewisville, TX 75056	9/18/2007	\$ -	Investment Officer
McCall Gibson Swedlund Barfoot PL Certified Public Accountants 13100 Wortham Center Drive, Suite 235 Houston, TX 77065-5610	11/15/2000	\$ 17,700	Auditor
Denton County Appraisal District P.O. Box 2816 Denton, TX 76202-7816	Legislative Action	\$ 13,818	Property Tax Appraisals
Denton County Tax Collector c/o Steve Mossman 1505 E. McKinney Street Denton, TX 76209	6/14/2000	\$ 1	Tax Assessor/ Collector