

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

**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-E  
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-E (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. We have applied certain limited procedures to the required supplementary information in

Denton County Fresh Water Supply  
District No. 1-E

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accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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 48 are required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* and are not a required part of the basic financial statements. The accompanying supplementary information, excluding the portion marked "Unaudited" have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

WEAVER AND TIDWELL L.L.P.

Dallas, Texas  
March 18, 2011

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

Our discussion and analysis of Denton County Fresh Water Supply District No. 1-E'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 \$1,085,965. Of this amount, \$1,949,028 is invested in capital assets which do not directly generate revenue and are not available to generate liquid capital. A deficit balance of \$3,113,228 is unrestricted.
- The District's net assets increased by \$65,551 not including a prior period adjustment of \$84,942. Unrestricted deficit in net assets, which may be used to meet the District's ongoing obligations to residents and creditors, increased by \$253,466.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,168,937, a net increase of \$277,764 in comparison to the prior year including the prior period adjustment increase of \$84,942. The increase was primarily due to improving property tax revenues.

**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-E  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED 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-E  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

**Other information**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$1,085,965 as of September 30, 2010.

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

	<b>Summary of Changes in the Statement of Net Assets</b>		
	<b>2010</b>	<b>2009</b>	<b>Change</b>
Current and other assets	\$ 2,411,704	2,168,463	\$ 243,241
Capital assets (Net of accumulated depreciation)	1,949,028	1,996,169	(47,141)
<b>Total assets</b>	<b>4,360,732</b>	<b>4,164,632</b>	<b>196,100</b>
Long-term liabilities	3,056,022	3,056,022	-
Other liabilities	218,745	88,196	130,549
<b>Total liabilities</b>	<b>3,274,767</b>	<b>3,144,218</b>	<b>130,549</b>
<b>Net assets</b>			
Invested in capital assets	1,949,028	1,996,169	(47,141)
Restricted	2,250,165	1,884,007	366,158
Unrestricted	(3,113,228)	(2,859,762)	(253,466)
<b>Total net assets</b>	<b>\$ 1,085,965</b>	<b>\$ 1,020,414</b>	<b>\$ 65,551</b>

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

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

The following table provides a summary of the District's operations for the years ended September 30, 2010 and 2009. The District's net assets increased of \$65,551 or 6.4% of the balance as previously stated. The district had \$19,391 decrease from operations and remainder of the change was due to a prior period adjustment which added \$84,942 to the net assets.

	<b>Summary of Changes in the Statement of Activities</b>		
	<b>2010</b>	<b>2009</b>	<b>Change</b>
<b>Revenues:</b>			
Property taxes	\$ 2,410,980	\$ 2,214,869	\$ 196,111
Charges for services	1,599,400	1,402,744	196,656
Investment revenues	9,925	20,219	(10,294)
Other revenues	22,964	27,590	(4,626)
<b>Total revenues</b>	<b>4,043,269</b>	<b>3,665,422</b>	<b>377,847</b>
<b>Expenses for services</b>	<b>4,062,660</b>	<b>3,154,355</b>	<b>908,305</b>
<b>OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>(10,710)</b>	<b>10,710</b>
<b>Change in net assets</b>	<b>(19,391)</b>	<b>500,357</b>	<b>(519,748)</b>
<b>Net assets, beginning of year (as previously stated)</b>	<b>1,020,414</b>	<b>520,057</b>	<b>500,357</b>
<b>Prior Period Adjustment</b>	<b>84,942</b>	<b>-</b>	<b>84,942</b>
<b>Net assets, beginning of year (as restated)</b>	<b>1,105,356</b>	<b>520,057</b>	<b>585,299</b>
<b>Net assets, end of year</b>	<b>\$ 1,085,965</b>	<b>\$ 1,020,414</b>	<b>\$ 65,551</b>

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

The District's combined fund balances as of September 30, 2010, were \$2,168,937, an increase of \$277,764 from the prior year including the prior period adjustment increase of \$84,942.

The General Fund balance decreased by \$80,214, primarily due to operating costs exceeding revenues which were offset by a prior period adjustment which added \$84,848.

The Debt Service Fund balance increased by \$357,933, primarily due to an increase in property tax revenues.

The Capital Projects Fund balance increased by \$45.

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

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual expenditures on a budgetary basis were \$1,783,868 compared to the amended budget of \$1,801,048. The positive budget variance of \$17,180 was primarily due to purchased water costs and other expenditures. Actual Revenue on a budgetary basis was \$1,627,463 compared to the amended budget of \$1,698,626. The \$71,163 negative variance is primarily due to water service revenues. 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.

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.

The District's investment in capital assets as of September 30, 2010, amounts to \$1,949,028 (net of accumulated depreciation).

Capital Assets at Year-End, Net of Accumulated Depreciation			
	2010	2009	Increase (Decrease)
Water system	\$ 544,477	\$ 557,483	\$ (13,006)
Wastewater system	435,383	445,781	(10,398)
Drainage system	771,090	789,990	(18,900)
Investment in shared lift station	198,078	202,915	(4,837)
Total net capital assets	\$ 1,949,028	\$ 1,996,169	\$ (47,141)

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

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

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

In the 2010-2011 Budget, revenues are anticipated to increase by approximately \$195,000 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 \$205,200 due to instituting reserve funding and water/sewer expenses. The General Fund, which is comprised of the District's General Fund, Operating Fund, and Utility Fund, is budgeted to operate next year with expenditures less than revenues.

The FY 2010/2011 budget has been divided into three funds for accounting purposes; the General Fund, Operations Fund, and a Utility Fund, primarily to measure various expenditures against supporting revenue items. Another change in accounting is also the method expenditures are charged to the District. All expenditures, with the exception of District Direct expenses and District Usage expenses, are billed to District 1-A. Subsequently, each of District 1-A's expenses are billed to the District as a 1-A reimbursement.

The District maintained property tax rates at .90 per \$100 assessed value.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Denton County Fresh Water Supply District No. 1-E, 2540 King Arthur, Suite 220, Lewisville, TX 75056.

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

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>
<b>ASSETS</b>			
Cash	\$ -	\$ 2,832	\$ 23,750
Cash with other governmental unit	-	2,203,412	-
Receivables:			
Property taxes	-	20,171	-
Service accounts (net of allowance for doubtful accounts of \$0)	124,139	-	-
Other	35,932	-	-
Prepaid costs	1,468	-	-
Capital assets (net of accumulated depreciation)	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 161,539</b>	<b>\$ 2,226,415</b>	<b>\$ 23,750</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 141,067	\$ -	\$ -
Payroll deductions	1,991	-	-
Accrued wages	11,941	-	-
Due to other governmental units	27,446	-	-
Due to developer	-	-	-
Security deposits	36,300	-	-
Deferred property tax revenue	3,851	20,171	-
<b>TOTAL LIABILITIES</b>	<b>222,596</b>	<b>20,171</b>	<b>-</b>
<b>FUND BALANCES/NET ASSETS</b>			
<b>FUND BALANCES</b>			
Reserved for authorized construction:			
Net investment revenues	-	-	23,750
Reserved for PID 3 Reserve Fund	-	2,203,412	-
Reserved for contract debt obligations	-	2,832	-
Reserved for prepaid costs	1,468	-	-
Unreserved - undesignated	(62,525)	-	-
<b>TOTAL FUND BALANCES</b>	<b>(61,057)</b>	<b>2,206,244</b>	<b>23,750</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 161,539</b>	<b>\$ 2,226,415</b>	<b>\$ 23,750</b>
<b>NET ASSETS</b>			
Invested in capital assets			
Restricted for:			
Capital projects			
Debt service			
Unrestricted			
<b>TOTAL NET ASSETS</b>			

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$ 26,582	\$ -	\$ 26,582
2,203,412	-	2,203,412
20,171	-	20,171
124,139	-	124,139
35,932	-	35,932
1,468	-	1,468
-	1,949,028	1,949,028
<u>\$ 2,411,704</u>	<u>\$ 1,949,028</u>	<u>\$ 4,360,732</u>
\$ 141,067	\$ -	\$ 141,067
1,991	-	1,991
11,941	-	11,941
27,446	1,650,767	1,678,213
-	1,405,255	1,405,255
36,300	-	36,300
24,022	(24,022)	-
<u>242,767</u>	<u>3,032,000</u>	<u>3,274,767</u>
23,750	(23,750)	-
2,203,412	(2,203,412)	-
2,832	(2,832)	-
1,468	(1,468)	-
(62,525)	62,525	-
<u>2,168,937</u>	<u>(2,168,937)</u>	<u>-</u>
<u>\$ 2,411,704</u>		
	1,949,028	1,949,028
	23,750	23,750
	2,226,415	2,226,415
	(3,113,228)	(3,113,228)
	<u>\$ 1,085,965</u>	<u>\$ 1,085,965</u>

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

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 2,168,937</b>
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.	1,949,028
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.	(1,650,767)
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.	(1,405,255)
Revenues earned but not available within sixty days of the year end are not recognized as revenues on the fund financial statements.	<u>24,022</u>
<b>Total Net Assets - Governmental Activities</b>	<b><u><u>\$ 1,085,965</u></u></b>

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



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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
<b>REVENUES:</b>			
Property taxes	\$ 16,564	\$ 2,386,296	\$ -
Project management fee	-	-	-
Water service	774,171	-	-
Wastewater service	252,654	-	-
Solid waste revenue	131,229	-	-
Penalty and interest	9,671	7,614	-
Permits and inspections	284,595	-	-
Franchise fees	85,999	-	-
Sales tax revenues	49,616	-	-
Investment revenues	-	9,880	45
Miscellaneous revenues	22,964	-	-
<b>Total revenues</b>	<u>1,627,463</u>	<u>2,403,790</u>	<u>45</u>
<b>EXPENDITURES/EXPENSES</b>			
Service operations:			
Personnel	262,898	-	-
Professional fees	96,695	-	-
Contracted services	317,021	26,195	-
Purchased water service	483,035	-	-
Purchased wastewater service	170,702	-	-
Purchased non-potable water service	70,434	-	-
Utilities	54,653	-	-
Repairs and maintenance	177,035	-	-
Other	151,395	7,357	-
Debt service:			
Contract tax obligation - City of Lewisville	-	2,198,099	-
Depreciation	-	-	-
<b>Total expenditures/expenses</b>	<u>1,783,868</u>	<u>2,231,651</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(156,405)	172,139	45
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer in (out)	(185,700)	185,700	-
Contributions from other governmental units	177,043	-	-
<b>Total other financing sources (uses)</b>	<u>(8,657)</u>	<u>185,700</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	(165,062)	357,839	45
<b>CHANGE IN NET ASSETS</b>			
<b>NET FUND BALANCES/NET ASSETS AT OCTOBER 1, 2009 (as previously stated)</b>	<u>19,157</u>	<u>1,848,311</u>	<u>23,705</u>
Prior Period Adjustment	<u>84,848</u>	<u>94</u>	<u>-</u>
<b>FUND BALANCES/NET ASSETS, AT OCTOBER 1, 2009 (as restated)</b>	<u>104,005</u>	<u>1,848,405</u>	<u>23,705</u>
<b>FUND BALANCES/NET ASSETS - SEPTEMBER 30, 2010</b>	<u>\$ (61,057)</u>	<u>\$ 2,206,244</u>	<u>\$ 23,750</u>

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ 2,402,860	\$ 8,120	\$ 2,410,980
-	-	-
774,171	2,581	776,752
252,654	842	253,496
131,229	428	131,657
17,285	-	17,285
284,595	-	284,595
85,999	-	85,999
49,616	-	49,616
9,925	-	9,925
22,964	-	22,964
<u>4,031,298</u>	<u>11,971</u>	<u>4,043,269</u>
262,898	-	262,898
96,695	-	96,695
343,216	-	343,216
483,035	-	483,035
170,702	-	170,702
70,434	-	70,434
54,653	-	54,653
177,035	-	177,035
158,752	-	158,752
2,198,099	-	2,198,099
-	47,141	47,141
<u>4,015,519</u>	<u>47,141</u>	<u>4,062,660</u>
15,779	(35,170)	(19,391)
-	-	-
177,043	(177,043)	-
<u>177,043</u>	<u>(177,043)</u>	<u>-</u>
192,822	(192,822)	
	(19,391)	(19,391)
<u>1,891,173</u>	<u>(870,759)</u>	<u>1,020,414</u>
<u>84,942</u>	<u>-</u>	<u>84,942</u>
<u>1,976,115</u>	<u>(870,759)</u>	<u>1,105,356</u>
<u>\$ 2,168,937</u>	<u>\$ (1,082,972)</u>	<u>\$ 1,085,965</u>

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

<b>Net Change in Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>192,822</b>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.		3,851
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.		(47,141)
Governmental funds report tax revenue when it is collected. However, in the statement of activities, revenue is recorded in the accounting period for which the taxes are levied.		8,120
Governmental funds report contributions from other governmental units as other financing sources. However, in the statement of net assets, the contributions that the District is obligated to reimburse are recorded as a liability.		(177,043)
		(177,043)
<b>Change in Net Assets - Governmental Activities</b>	<b>\$</b>	<b><u>(19,391)</u></b>

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

**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 May 6, 1995 voters approved the division of the District into two new districts of which Denton County Fresh Water Supply District No. 1-E (the District) was one. The District held its first meeting on July 13, 1995. Pursuant to the provisions of Chapters 49, 51 and 53 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The District has contracted with District No. 1-A to operate the utility system within the District.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. In addition, the accounting records of the District are maintained generally in accordance with the Water District Financial Management Guide published by the 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-E**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

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

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

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

**Financial Statement Presentation**

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

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

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

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

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

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

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the District as a whole. The District's statement of net assets and statement of activities are combined with the governmental fund financial statements. The District is viewed as a special purpose government and has the option of combining these financial statements.

The statement of net assets is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Assets.

The statement of activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide statement of activities.

**Fund Financial Statements**

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

**Governmental Funds**

The District has three major governmental funds.

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

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

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

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

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

**Basis of Accounting**

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

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

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

**Cash and Cash Equivalents**

The District cash and cash equivalents are considered to be cash on hand demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Prepaid Items**

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

**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 expenditure in the governmental fund incurred and as an expense in the government-wide statement of activities.



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

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

**Capital Assets – Continued**

Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

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

	<u>Years</u>
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.

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

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

**Measurement Focus – Continued**

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

Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances are included on the Balance Sheet as follows:

**Reserved:**

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

**Unreserved:**

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

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

**Accounting Estimates**

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

**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.

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

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

**Deposits – Continued**

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 \$26,582 and the bank balance was \$27,169. The bank balance was fully covered by federal depository insurance.

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	\$ 2,832	\$ -	\$ 2,832
Capital projects fund	23,750	-	23,750
Total deposits	\$ 26,582	\$ -	\$ 26,582

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-E  
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-i or P-I 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 no investments.

**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-E  
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. 3 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 fiscal 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	\$ 585,298	\$ -	\$ 585,298
Wastewater system	467,916	-	467,916
Drainage system	832,375	-	832,375
Investment in shared lift station facilities	217,694	-	217,694
	<u>2,103,283</u>	<u>-</u>	<u>2,103,283</u>
Total capital assets at historical cost subject to depreciation			
Less accumulated depreciation			
Water system	27,815	13,006	40,821
Wastewater system	22,135	10,398	32,533
Drainage system	42,385	18,900	61,285
Investment in shared lift station facilities	14,779	4,837	19,616
	<u>107,114</u>	<u>\$ 47,141</u>	<u>154,255</u>
Total accumulated depreciation			
Total capital assets, net of accumulated depreciation	<u>\$ 1,996,169</u>	<u>\$ (47,141)</u>	<u>\$ 1,949,028</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-E  
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-D. The agreement provided for the sharing of costs for the construction of certain lift station facilities. District No. 1-A owns the facilities for the benefit of the residents and the property located within the original boundaries of Denton County Fresh Water Supply District No. 1, which includes the District, District No. 1-C, District No. 1-D and District No. 1-E. On September 23, 2009, the District executed an Excess Capacity Purchase Agreement (ECPA) with District No. 1-A, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, District No. 1-G, and District No. 1-H. This agreement reallocates the shared cost for the construction of the lift station facilities based on capacity. The capacity allocated to each participant was based upon the estimated total sewer connections as of September 30, 2010. 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 has previously funded its share of capacity in the lift station. Based upon the reallocation of capacity as discussed in the ECPA, the District overfunded its share of capacity costs. During the year ended September 30, 2010 the selling Districts have fully reimbursed the District and no receivables are due to the District from the original selling Districts. The District’s share of capacity has been 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 November 2, 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. The maintenance tax will be used for maintenance purposes to include funds for planning, maintaining, repairing and operating all necessary plants, properties, facilities and improvements of the District and for proper services, engineering and legal fees, and operational and administrative costs in accordance with Section 49.107 of the Texas Water Code. During the fiscal year ended September 30, 2010, the District did not levy a maintenance tax. Current year collections were generally related to supplemental adjustments from previous years.

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

**NOTE 6. JOINT UTILITY CONTRACT**

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

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

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

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

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

**NOTE 6. JOINT UTILITY CONTRACTS – CONTINUED**

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 \$2,198,099 to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement at September 30, 2010 is \$2,203,263 and the District has fully satisfied that requirement at year end. The City of Lewisville at September 30, 2010 including reserve funds is holding \$2,203,412 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 3.

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

PID 3 SERIES - 2004			
Fiscal Year Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2011	\$ 715,000	\$ 1,484,375	\$ 2,199,375
2012	760,000	1,443,263	2,203,263
2013	800,000	1,399,563	2,199,563
2014	850,000	1,350,563	2,200,563
2015	900,000	1,298,500	2,198,500
2016	955,000	1,243,375	2,198,375
2017	1,015,000	1,184,881	2,199,881
2018	1,080,000	1,122,713	2,202,713
2019	1,145,000	1,056,563	2,201,563
2020	1,215,000	986,431	2,201,431
2021	1,290,000	912,013	2,202,013
2022	1,370,000	833,000	2,203,000
2023	1,450,000	749,088	2,199,088
2024	1,540,000	660,275	2,200,275
2025	1,635,000	565,950	2,200,950
2026	1,735,000	465,806	2,200,806
2027	1,840,000	359,538	2,199,538
2028	1,955,000	246,838	2,201,838
2029	2,075,000	127,094	2,202,094
Total	<u>\$ 24,325,000</u>	<u>\$ 17,489,829</u>	<u>\$ 41,814,829</u>



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

**NOTE 6. JOINT UTILITY CONTRACT – CONTINUED**

On February 1 following the date of receipt of written notification of the Annual Assessment, District No. 1-E will certify to Lewisville the amount of all taxes collected. Lewisville will then impose an assessment, if needed, with the PID 3 sufficient to pay the debt service requirement on the PID 3 Bonds as they come due. The parties to the agreement acknowledged that the tax levy would be contingent upon a one-time approval by the voters within District No. 1-E. Such election occurred on November 7, 2000, and approved the levy and collection of said tax. For the fiscal year ending September 30, 2010, District No. 1-E levied a contract tax of \$0.90 per \$100 of assessed valuation on property within District No. 1-E. The term of this contract is forty (40) years.

For the September 30, 2010, fiscal year, the District levied an ad valorem contract tax at the rate of \$0.90 per \$100 assessed valuation which resulted in a tax levy of \$2,410,980 on adjusted taxable valuation of \$264,174,760 for the 2009 tax year.

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

The Districts tax calendar is as follows:

Levy Date - October 1, or as soon thereafter as practicable.

Lien Date - January 1.

Due Date - Not later than January 31.

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

**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.

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

**NOTE 7. WATER SUPPLY AGREEMENTS – CONTINUED**

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.

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

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

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

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.

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

**NOTE 7. WATER SUPPLY AGREEMENTS – CONTINUED**

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

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

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

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

**NOTE 8. OPERATING AGREEMENT**

On September 18, 2001, to be effective October 1, 2001, the District entered into an Operating Agreement with Denton County Fresh Water Supply District No. 1-A (District No. 1-A). The District 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. District Nos. 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H are referred to as the "participating Districts" in this footnote.

District No. 1-A is responsible for preparing and submitting to the participating districts a Facilities Operating and Maintenance Budget (FOMB) by September 1 of each year for the next fiscal year expected to start October 1. With the exception of costs based on customer usage, if the total actual costs do not exceed the FOMB by more than 12% the participating districts' revision requests are only advisory. If the reverse is true, the new budget will not take effect until approved by the Board of Directors of the participating districts. 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.

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

**NOTE 8. OPERATING AGREEMENT – CONTINUED**

District No. 1-A agreed to handle all aspects of operating the participating districts including contracting for consultants, negotiating with various utility companies, coordinating with various governmental entities, reviewing all statements, invoices and billings, supervising and coordinating contractors, verifying insurance on contractors and facilities and recommending water and sewer rates. 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 in an amount sufficient to cover expenses. District No. 1-A agreed to provide such issuance of permits and inspection fees and management of the utility system. The fees for such permits and inspection services, payable to the District, will be the amount charged for the services. The District agreed to fund a pro-rata portion of overhead cost incurred by the District No. 1-A from proceeds of the water, sewer and solid waste collection revenues.

District No. 1-A agreed to provide construction and contract management services for the districts and have agreed to maintain and operate the roads and bridges. The participating districts have agreed to fund the cost of such services as required.

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

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

**NOTE 8. OPERATING AGREEMENT – CONTINUED**

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 remained the same, with the exception of the allocation of the maintenance costs. In accordance with the agreement, costs of the maintenance of the facilities within the districts of the Castle Hills Subdivision shall be allocated to each district on the basis of projected property values. Projected property values are defined as the combined total value of all property that exists on January 1 of the current fiscal year plus that which is projected to be added during the next succeeding fiscal year for the districts. Each district's cost will be calculated based upon a fraction the numerator of which shall be the total projected property value on January 1 the year immediately following the completion of the fiscal year being budgeted within each district divided by the total projected property value on January 1 the year immediately following the completion of the fiscal year being budgeted within all of the districts. Such fraction shall be calculated as of the first day of the fiscal year in which such fraction is to be used to allocate such costs among the districts and shall be recalculated as of the first day of each succeeding fiscal year thereafter. This agreement terminates on the fortieth (40th) anniversary of October 1, 2008.

**NOTE 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.

**NOTE 10. ECONOMIC DEPENDENCY**

The District is contractually obligated to levy sufficient contract taxes to fund the City of Lewisville's Public Improvement District bonds and the District has contracted with Denton County Fresh Water Supply District No. 1-A to conduct District operations. The District is further obligated for significant water supply commitments. The ability to meet all these obligations may require the Developer to advance monies to the District from time to time.

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

**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 October, 2009, the report was presented to the District 1-E Board of Directors which indicated that \$1,405,255 of costs were documented in accordance with the terms of the analysis. This amount is reflected as a liability in the Statement of Net Assets of the District. The Developer has also indicated that District No. 1-E owes interest at the contract rate of 6% on the remaining balance of advances owed accruing from October 1, 2008. Since this amount is unknown at this time, this has not been reflected as a liability in the Statement of Net Assets.

**NOTE 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. 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, District No. 1-D, the District, District No. 1-F, District No, 1-G, and District No. 1-H (collectively, the Districts). For advances made by Bright Entities on or before November 20, 2006, the Districts will reimburse the relevant Bright Entity for 100% of such advances. For advances made by a Bright Entity after November 20, 2006, the Districts will transfer reimbursement funds to 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 14. DUE TO DISTRICT NO. 1-A**

In 2008, the District 1-A contracted with the prior Auditor to complete a Report on Applying Agreed-Upon Procedures to Construction, Engineering and Related Costs Reimbursable to Bright Farm Partnership (Developer). In May, 2009, the report was presented to the District 1-A Board of Directors that indicated that \$143,180 was due to 1-A for its share of costs associated with the Pump Station (\$15,210) and for General Operations (\$127,970).

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

**NOTE 14. DUE TO DISTRICT NO. 1-A – CONTINUED**

In addition, the District has recorded a liability of \$1,507,587 for developer advances in accordance with the agreement noted in Note 12 and a liability of \$27,466 for a general fund deficit cash balance both due to District No. 1-A. The total amount due to District No. 1-A of \$1,678,213 has been recorded as a liability in the statement of net assets of the District.

**NOTE 15. PRIOR PERIOD ADJUSTMENT**

During the current fiscal year, the District adjusted its beginning fund balance on the Governmental Financial Statements to record interest income received in the prior year for PID 3 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 \$94.

During the current fiscal year, the District adjusted its beginning fund balance on the Governmental financial Statements to record unbilled utility revenues earned during fiscal 2009. The effect of these changes resulted in an increase in the beginning fund balance in the General Fund by \$84,848.

**NOTE 16. BOND ELECTION**

On November 7, 2000, voters within the District approved for the District to issue bonds in the maximum amount of \$28,500,000 for new money bonds and \$28,500,000 for refunding purposes.

**NOTE 17. DEFICIT FUND BALANCE**

A fund balance deficit in the amount of \$61,057 exists in the general fund expenditures from operations in excess of funding during the current fiscal year. The District anticipates this deficit will be addressed in the upcoming fiscal year through its normal operations.

**NOTE 18. LITIGATION**

On December 21, 2009, petitions for appeal of retail water and sewer rates of Denton County Fresh Water Supply District Nos. 1-A, 1-B, 1-C, 1-D, 1-E, 1-F, 1-G, and 1-H were submitted to the Texas Commission on Environmental Quality (TCEQ) under § 13.043(b)(4) of the Texas Water Code. The petition was filed at the TCEQ by Patrick Kelly on behalf of all petitioning ratepayers, appealing the decision of the Board of Directors of the named Districts. Under the Operating Agreements that the other named Districts have with District No. 1-A, District No. 1-A performs a variety of administrative services necessary to operate the Districts' facilities which includes defending all claims, administrative proceedings and lawsuits brought by third parties against the Districts which have any effect on the Districts' facilities, or the construction, maintenance or operation of the Districts' facilities.

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

**NOTE 18. LITIGATION – CONTINUED**

Pursuant to the Operating Agreement and on behalf of all of the above-listed entities, Denton County Fresh Water Supply District No. 1-A filed a response to the petitions asserting that TCEQ does not have appellate jurisdiction over all or some of the listed water districts' rates. On June 14, 2010, an Administrative Law Judge (ALJ) for the State Office of Administrative Hearings (SOAH) accepted provisional jurisdiction over the rate appeal petitions subject to briefing by the Parties on certain jurisdictional issues. Such briefing to date has not been submitted due to on-going settlement discussions.

On July 23, 2010 a settlement agreement was entered into between District 1-A and the ratepayer petitioners of Districts 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H as represented by Patrick Kelly. The settlement agreement calls for an independent review of water rates during the 2010-2011 fiscal year. The only remaining party which has not agreed to settle is an individual ratepayer of District 1-D. At the present time, the judge has not acted on District 1-A's request to dismiss the settling ratepayers and districts from the case and the case remains pending before the ALJ with a prehearing conference scheduled for April 7, 2011. It is anticipated that this rate appeal case will not be concluded prior to the beginning of fiscal year 2011-2012. If settlement discussions do not resolve the remaining rate appeal, an administrative hearing will be held after which TCEQ will determine the appropriate water and sewer rates for one or more of the above-listed water districts (depending upon the ALJ's ruling on jurisdictional issues). Such TCEQ-determined rates could be less than rates set by the Boards of the respective water districts, which could necessitate the issuance of refunds to customers and the future generation of revenues less than the amount budgeted by the affected water districts. At this time, no reasonable basis exists for determining whether that may occur or the impacts on the revenues of any of the water districts.



**REQUIRED SUPPLEMENTARY INFORMATION**

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

	<b>Budget Original</b>	<b>Budget Amended</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>REVENUES:</b>				
Property taxes	\$ -	\$ -	\$ 16,564	\$ 16,564
Water service	934,346	934,346	774,171	(160,175)
Wastewater service	256,552	256,552	252,654	(3,898)
Solid waste revenue	134,748	134,748	131,229	(3,519)
Penalty and interest	6,200	6,200	9,671	3,471
Permits and inspections	255,701	255,701	284,595	28,894
Franchise fees	97,829	97,829	85,999	(11,830)
Sales tax revenues	-	-	49,616	49,616
Miscellaneous revenues	13,250	13,250	22,964	9,714
<b>Total revenues</b>	<b>1,698,626</b>	<b>1,698,626</b>	<b>1,627,463</b>	<b>(71,163)</b>
<b>EXPENDITURES/EXPENSES</b>				
Service operations:				
Personnel	266,233	266,226	262,898	3,328
Professional fees	31,500	31,500	96,695	(65,195)
Contracted services	219,771	219,771	317,021	(97,250)
Purchased water service	506,762	653,838	483,035	170,803
Purchased wastewater service	106,191	106,191	170,702	(64,511)
Purchased non-potable water service	70,645	70,645	70,434	211
Utilities	49,413	49,413	54,653	(5,240)
Repairs and maintenance	200,610	200,610	177,035	23,575
Other	202,854	202,854	151,395	51,459
<b>Total expenditures/expenses</b>	<b>1,653,979</b>	<b>1,801,048</b>	<b>1,783,868</b>	<b>17,180</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>44,647</b>	<b>(102,422)</b>	<b>(156,405)</b>	<b>(53,983)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in (out)	-	(185,700)	(185,700)	-
Contributions from other governmental units	-	177,042	177,043	1
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(8,658)</b>	<b>(8,657)</b>	<b>1</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>44,647</b>	<b>(111,080)</b>	<b>(165,062)</b>	<b>(53,982)</b>
<b>FUND BALANCE AT OCTOBER 1, 2009 (as previously stated)</b>	<b>104,005</b>	<b>104,005</b>	<b>19,157</b>	<b>(84,848)</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>-</b>	<b>-</b>	<b>84,848</b>	<b>84,848</b>
<b>FUND BALANCE AT OCTOBER 1, 2009 (as restated)</b>	<b>104,005</b>	<b>104,005</b>	<b>104,005</b>	<b>-</b>
<b>FUND BALANCES SEPTEMBER 30, 2010</b>	<b>\$ 148,652</b>	<b>\$ (7,075)</b>	<b>\$ (61,057)</b>	<b>\$ (53,982)</b>

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-E  
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 Waster: \$16.07

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

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC's</u>
Unmetered	0	0	X 1.0	0
≤ 3/4"	51	51	X 1.0	51
1"	696	696	X 2.5	1740
1 1/2"	2	2	X 5.0	10
2"	17	17	X 8.0	136
3"			X 15.0	0
4"			X 25.0	0
6"			X 50.0	0
8"			X 80.0	0
10"			X 115.0	0
Total water connections	<u>766</u>	<u>766</u>		<u>1937</u>
Total wastewater connections	<u>720</u>	<u>720</u>	X 1.0	<u>720</u>

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

		Water Accountability Ratio: (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	127,264,800	<u>93.2%</u>
Gallons purchased:	136,564,052	From: Our water suppliers

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

<b>Personnel (including benefits)</b>	<u>\$ 262,898</u>
<b>Professional fees:</b>	
Auditing	17,250
Legal	<u>79,445</u>
<b>Total professional fees</b>	<u>96,695</u>
<b>Purchased services for resale:</b>	
Water service	483,035
Non-potable water service	70,434
Wastewater service	<u>170,702</u>
<b>Total purchased services for resale</b>	<u>724,171</u>
<b>Contracted services:</b>	
Police department	25,737
Fire protection and EMS	61,005
Solid waste disposal	99,949
Contract labor	57,220
Management fee	73,109
Tax collector	<u>1</u>
<b>Total contracted services</b>	<u>317,021</u>
<b>Utilities:</b>	
Electricity	41,527
Telephone	<u>13,126</u>
<b>Total utilities</b>	<u>54,653</u>
<b>Repairs and maintenance</b>	<u>177,035</u>

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

**Other expenditures:**

Director fees	5,850
Directors costs	970
Insurance	23,825
Office supplies and postage	9,560
Tap connections	6,109
State certification	240
Office rental	41,760
Equipment rental	4,861
Supplies- medical	18
Supplies- small tools	3,311
Supplies- uniforms	2,029
Supplies- gas and oil	16,757
Other	<u>36,105</u>

<b>Total other expenditures</b>	<u>151,395</u>
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<b>Total expenditures</b>	<u><u>\$ 1,783,868</u></u>
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Number of persons employed by the District      -0-      Full-Time      -0-      Part-Time

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



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

	<b>Maintenance Tax</b>		<b>Contract Tax</b>	
Taxes receivable -				
October 1, 2009	\$ 60		\$ 11,991	
Adjustments to beginning balance		\$ 60	60	\$ 12,051
Original 2009 tax levy	\$ -		\$2,409,304	
Adjustment to 2009 tax levy	-	-	1,676	2,410,980
 Total to be accounted for		 60		 2,423,031
 Tax collections:				
Prior years	\$ 60		\$ 3,428	
Current year	-	60	2,399,432	2,402,860
 Taxes receivable -				
September 30, 2010		\$ -		\$ 20,171
 Taxes receivable by year:				
2009		\$ -		\$ 11,548
2008		-		2,944
2007		-		2,711
2006		-		2,968
		\$ -		\$ 20,171

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>PROPERTY VALUATIONS</b>				
Land	\$ 71,831,082	\$ 70,230,789	\$ 61,363,061	\$ 54,256,692
Improvements	198,581,191	181,181,173	140,808,524	98,077,374
Personal property	507,824	615,492	394,714	315,609
Exemptions	<u>(6,745,337)</u>	<u>(5,887,914)</u>	<u>(5,165,429)</u>	<u>(3,809,344)</u>
<b>TOTAL PROPERTY VALUATIONS</b>	<u><u>\$ 264,174,760</u></u>	<u><u>\$ 246,139,540</u></u>	<u><u>\$ 197,400,870</u></u>	<u><u>\$ 148,840,331</u></u>
<b>TAX RATES PER \$100 VALUATION</b>				
Contract	\$ 0.9000	\$ 0.8915	\$ 0.9000	\$ 0.9500
Maintenance	<u>-</u>	<u>0.0085</u>	<u>-</u>	<u>-</u>
<b>TOTAL TAX RATES PER \$100 VALUATION</b>	<u><u>\$ 0.9000</u></u>	<u><u>\$ 0.9000</u></u>	<u><u>\$ 0.9000</u></u>	<u><u>\$ 0.9500</u></u>
<b>ADJUSTED TAX LEVY*</b>	<u><u>\$ 2,410,980</u></u>	<u><u>\$ 2,214,869</u></u>	<u><u>\$ 1,776,614</u></u>	<u><u>\$ 1,414,342</u></u>
<b>PERCENT OF TAXES COLLECTED TO TAXES LEVIED</b>	<u><u>99.52%</u></u>	<u><u>99.87%</u></u>	<u><u>99.85%</u></u>	<u><u>99.79%</u></u>

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

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

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

	Amounts			
	2010	2009	2008	2007
<b>REVENUES:</b>				
Property taxes	\$ 16,564	\$ 20,402	\$ -	\$ -
Water service	774,171	609,475	455,418	373,203
Wastewater service	252,654	226,890	189,947	165,638
Solid waste revenue	131,229	119,090	103,334	82,642
Penalty and interest	9,671	12,154	15,799	5,414
Permits and inspections	284,595	323,754	633,149	662,431
Franchise fees	85,999	96,184	130,864	97,343
Sales tax revenues	49,616	-	-	-
Investment revenues	-	18	74	1,714
Miscellaneous revenues	22,964	27,590	20,344	11,964
<b>Total revenues</b>	<u>1,627,463</u>	<u>1,435,557</u>	<u>1,548,929</u>	<u>1,400,349</u>
<b>EXPENDITURES/EXPENSES</b>				
Service operations:				
Personnel	262,898	251,897	92,526	283,149
Professional fees	96,695	34,242	41,665	41,720
Contracted services	317,021	272,560	210,717	216,748
Purchased water service	483,035	486,853	436,874	407,648
Purchased wastewater service	170,702	84,017	146,154	124,954
Purchased non-potable water service	70,434	-	-	-
Utilities	54,653	44,468	59,940	57,428
Repairs and maintenance	177,035	179,642	283,077	182,983
Other	151,395	147,444	155,993	158,949
Capital outlay	-	18,390	12,052	6,434
<b>Total expenditures/expenses</b>	<u>1,783,868</u>	<u>1,519,513</u>	<u>1,438,998</u>	<u>1,480,013</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(156,405)</u>	<u>(83,956)</u>	<u>109,931</u>	<u>(79,664)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer out	(185,700)	-	-	(76,000)
Contributions to other governmental units	-	(10,710)	(29,021)	-
Contributions from other governmental units	177,043	-	-	-
<b>Total other financing sources (uses)</b>	<u>(8,657)</u>	<u>(10,710)</u>	<u>(29,021)</u>	<u>(76,000)</u>
<b>NET CHANGE IN FUND BALANCES</b>	(165,062)	(94,666)	80,910	(155,664)
<b>BEGINNING FUND BALANCES (As previously stated)</b>	19,157	113,823	32,913	188,577
<b>PRIOR PERIOD ADJUSTMENT</b>	84,848	-	-	-
<b>BEGINNING FUND BALANCES (As restated)</b>	<u>104,005</u>	<u>113,823</u>	<u>32,913</u>	<u>188,577</u>
<b>ENDING FUND BALANCE</b>	<u>\$ (61,057)</u>	<u>\$ 19,157</u>	<u>\$ 113,823</u>	<u>\$ 32,913</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>766</u>	<u>729</u>	<u>702</u>	<u>612</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>720</u>	<u>680</u>	<u>610</u>	<u>545</u>

**Percent of Total Revenues**

<u>2006</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ -	1.0 %	1.4 %	0.0 %	0.0 %	0.0 %
365,117	47.6	42.5	29.4	26.6	21.2
112,133	15.5	15.8	12.3	11.8	6.6
64,880	8.1	8.3	6.7	5.9	3.8
3,809	0.6	0.8	1.0	0.4	0.2
1,080,353	17.5	22.6	40.9	47.3	63.1
63,115	5.3	6.7	8.4	7.0	3.7
-	3.0	0.0	0.0	0.0	0.0
9,586	0.0	0.0	0.0	0.1	0.6
12,952	1.4	1.9	1.3	0.9	0.8
1,711,945	100.0	100.0	100.0	100.0	100.0
286,839	16.2	17.5	6.0	20.2	16.8
71,198	5.9	2.4	2.7	3.0	4.2
172,479	19.5	19.0	13.6	15.5	10.1
414,571	29.7	33.9	28.2	29.1	24.2
110,333	10.5	5.9	9.4	8.9	6.4
-	4.3	0.0	0.0	0.0	0.0
48,633	3.4	3.1	3.9	4.1	2.8
163,279	10.9	12.5	18.3	13.1	9.5
149,772	9.3	10.3	10.1	11.4	8.7
604,630	0.0	1.3	0.8	0.5	35.3
2,021,734	109.7 %	105.9 %	93.0 %	105.8 %	118.0 %
(309,789)	-9.7 %	-5.9 %	7.0 %	-5.8 %	-18.0 %
-					
-					
-					
-					
(309,789)					
498,366					
-					
498,366					
\$ 188,577					
516					
441					

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

	Amounts			
	2010	2009	2008	2007
<b>REVENUES:</b>				
Property taxes	\$ 2,386,296	\$ 2,203,188	\$ 1,770,452	\$ 1,391,924
Penalty and interest	7,614	15,197	15,477	14,775
Investment revenues	9,880	20,141	57,882	42,916
<b>Total revenues</b>	<u>2,403,790</u>	<u>2,238,526</u>	<u>1,843,811</u>	<u>1,449,615</u>
<b>EXPENDITURES</b>				
Tax collection expenditures	33,552	86,027	105,732	31,926
Contract tax obligation - City of Lewisville	2,198,099	1,523,188	1,523,188	1,518,340
<b>Total expenditures</b>	<u>2,231,651</u>	<u>1,609,215</u>	<u>1,628,920</u>	<u>1,550,266</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>172,139</u>	<u>629,311</u>	<u>214,891</u>	<u>(100,651)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in (out)	185,700	-		76,000
Contributions from other governmental units		11,542		
Developer contribution	-	-		945,400
<b>Total other financing sources (uses)</b>	185,700	11,542	-	1,021,400
<b>NET CHANGE IN FUND BALANCES</b>	<u>357,839</u>	<u>640,853</u>	<u>214,891</u>	<u>920,749</u>
<b>BEGINNING FUND BALANCES (As previously stated)</b>	1,848,311	1,207,458	992,567	71,818
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>94</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>BEGINNING FUND BALANCES (As restated)</b>	<u>1,848,405</u>	<u>1,207,458</u>	<u>992,567</u>	<u>71,818</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 2,206,244</u>	<u>\$ 1,848,311</u>	<u>\$ 1,207,458</u>	<u>\$ 992,567</u>

Percent of Total Revenues					
2006	2010	2009	2008	2007	2006
\$ 990,125	99.3 %	98.4 %	96.1 %	95.8 %	96.8 %
9,426	0.3	0.7	0.8	1.1	1.0
21,022	0.4	0.9	3.1	3.1	2.2
<u>1,020,573</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
22,547	1.4	3.8	5.7	2.2	2.2
<u>1,475,597</u>	<u>91.4</u>	<u>68.0</u>	<u>82.6</u>	<u>104.7</u>	<u>144.6</u>
<u>1,498,144</u>	<u>92.8</u>	<u>71.9</u>	<u>88.3</u>	<u>106.9</u>	<u>146.8</u>
<u>(477,571)</u>	<u>7.2 %</u>	<u>28.1 %</u>	<u>11.7 %</u>	<u>(6.9) %</u>	<u>(46.8) %</u>
-					
<u>(477,571)</u>					
549,389					
-					
<u>549,389</u>					
<u>\$ 71,818</u>					

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

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

District Telephone No. - (972) 899-4000

<u>Board Members</u>	<u>Term of Office (Elected or Appointed)</u>	<u>Fees of Office for the year ended September 30, 2010</u>	<u>Expense Reimbursements for the year ended September 30, 2010</u>	<u>Title</u>
Vance Timm	05/08 05/12 (Elected)	\$ 1,050	\$ 145	Treasurer/ Assistant Secretary
Ralph "Doug" Sumurdy	05/08 05/12 (Elected)	\$ 1,050	\$ 192	President
Roshni Ramanujam	05/10 05/14 (Elected)	\$ 750	\$ 38	Secretary
Caleb A. Oliver	05/10 05/14 (Elected)	\$ 900	\$ -	Assistant Secretary
Seth Higgins	05/10 05/14 (Elected)	\$ 150	\$ -	Vice President
Matthew Taylor	05/06 05/10 (Elected)	\$ 750	\$ 62	Assistant Secretary
Marcus O'Con	05/06 05/10 (Elected)	\$ 600	\$ 46	Vice President
Anthony Zablocki	05/06 12/09 (Elected)	\$ 150	\$ -	Secretary
Pamela Miller	12/09 05/10 (Elected)	\$ 450	\$ -	Secretary

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

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

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



**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-E  
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	\$ 79,445	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 PLLC Certified Public Accountants 13100 Wortham Center Drive, Suite 235 Houston, TX 77065-5610	11/15/2000	\$ 17,250	Auditor
Denton County Appraisal District P.O. Box 2816 Denton, TX 76202-7816	Legislative Action	\$ 10,277	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