

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
DENTON COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2009

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
DENTON COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2009

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Denton County Fresh Water Supply District No. 1-F (the "District"), as of and for the year ended September 30, 2009, which collectively comprise the District's basic financial statements as listed in the preceding table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted as promulgated within 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinion.

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, 2009, 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.

Member of
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants

Board of Directors
Denton County Fresh Water
Supply District No. 1-F

The Management's Discussion and Analysis on pages 3 through 7 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 33 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants

February 10, 2010

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Our discussion and analysis of Denton County Fresh Water Supply District No. 1-F's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2009. Please read it in conjunction with the District's financial statements, which begin on page 8.

USING THIS ANNUAL REPORT

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 8 and 9. The Statement of Net Assets is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The government-wide portion of the Statement of Activities on pages 11 and 12 reports how the District's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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 adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets on page 10 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 13 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 14 through 31 in this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$1,637,390 as of September 30, 2009.

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

	Summary of Changes in the Statement of Net Assets		
	2009	2008	Change Positive (Negative)
Current and Other Assets	\$ 1,087,158	\$ 474,302	\$ 612,856
Capital Assets (Net of Accumulated Depreciation)	<u>1,928,039</u>	<u>312,703</u>	<u>1,615,336</u>
Total Assets	<u>\$ 3,015,197</u>	<u>\$ 787,005</u>	<u>\$ 2,228,192</u>
Due to Developer	\$ 104,533	\$ 104,533	\$
Other Liabilities	<u>4,548,054</u>	<u>2,461,057</u>	<u>(2,086,997)</u>
Total Liabilities	<u>\$ 4,652,587</u>	<u>\$ 2,565,590</u>	<u>\$ (2,086,997)</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 207,981	\$ 208,170	\$ (189)
Restricted	658,552	305,616	352,936
Unrestricted	<u>(2,503,923)</u>	<u>(2,292,371)</u>	<u>(211,552)</u>
Total Net Assets	<u>\$ (1,637,390)</u>	<u>\$ (1,778,585)</u>	<u>\$ 141,195</u>
		(1)	

(1) As Adjusted, Note 14

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the District's operations for the years ended September 30, 2009, and September 30, 2008. The District's net assets increased by \$141,195.

	Summary of Changes in the Statement of Activities		
	2009	2008	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,124,207	\$ 884,399	\$ 239,808
Charges for Services	1,970,077	306,917	1,663,160
Investment Revenues	1,362	14,081	(12,719)
Other Revenues	<u>23,820</u>	<u> </u>	<u>23,820</u>
Total Revenues	\$ 3,119,466	\$ 1,205,397	\$ 1,914,069
Expenses for Services	<u>2,520,774</u>	<u>1,057,373</u>	<u>(1,463,401)</u>
Excess (Deficiency) of Revenues Over Expenses	\$ 598,692	\$ 148,024	\$ 450,668
Other Financing Sources (Uses)			
Transfer to PID 4	(450,000)		(450,000)
Proceeds from PID 4 Bond Sale		8,499,328	(8,499,328)
Contributed to Other Governmental Unit	<u>(7,497)</u>	<u>(10,021,413)</u>	<u>10,013,916</u>
Change in Net Assets	\$ 141,195	\$ (1,374,061)	\$ 1,515,256
Net Assets, Beginning of Year	<u>(1,778,585)</u>	<u>(404,524)</u>	<u>(1,374,061)</u>
Net Assets, End of Year	<u>\$ (1,637,390)</u>	<u>\$ (1,778,585)</u>	<u>\$ 141,195</u>

(1)

(1) As Adjusted, Note 14

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2009, were \$498,470, an increase of \$120,771 from the prior year.

The General Fund fund balance decreased by \$232,165, primarily due to the current year transfer of monies to the Debt Service Fund.

The Debt Service Fund fund balance increased by \$352,964, primarily due to the current year transfer of monies from the General Fund.

The Capital Projects Fund fund balance decreased by \$28.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual excess revenue was \$230,560 less than budgeted. See the budget to actual comparison on page 33.

CAPITAL ASSETS

A portion of the District's water, wastewater, drainage and road facilities were paid from proceeds of the City of Lewisville-Castle Hills Public Improvement District No. 4 (PID4) 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 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 for the wastewater and road 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, 2009, amounts to \$1,928,039 (net of accumulated depreciation).

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2009	2008	Increase (Decrease)
Capital Assets Not Being Depreciated			
Construction in Progress	\$ 1,530,602	\$	\$ 1,530,602
Capital Assets Net of Depreciation			
Wastewater System	305,325	312,703	(7,378)
Roads	92,112		92,112
Total Net Capital Assets	\$ 1,928,039	\$ 312,703	\$ 1,615,336

Additional information on the District's capital assets can be found in Note 4 on pages 21 and 22 of this report.

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

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DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2009

	General Fund	Debt Service Fund
ASSETS		
Cash, Note 3	\$	\$ 2,408
Receivables:		
Property Taxes	20,613	
Service Accounts (Net of Reserve for Uncollectible Accounts of \$-0-)	4,984	
Other	14,529	
Prepaid Costs	8,006	
Due from Other Governmental Units, Note 15		
Cash with Other Governmental Unit, Note 6		655,899
Construction in Progress, Note 4		
Capital Assets (Net of Accumulated Depreciation), Note 4		
TOTAL ASSETS	\$ 48,132	\$ 658,307
LIABILITIES		
Accounts Payable	\$ 34,747	\$
Due to Other Governmental Units	124,853	
Due to Developer, Note 10		
Deficit Claim on Pooled Cash, Note 3	24,101	
Security Deposits	3,900	
Deferred Revenues:		
Property Taxes	20,613	
TOTAL LIABILITIES	\$ 208,214	\$ -0-
FUND BALANCES/NET ASSETS		
FUND BALANCES		
Reserved for Future Public Improvements	\$	\$
Reserve for Contract Debt Obligations		2,408
Reserved for PID 4 Reserve Fund, Note 6		559,925
Reserved for PID Assessment, Note 6		95,974
Reserved for Prepaid Costs	8,006	
Unreserved – Undesignated	(168,088)	
TOTAL FUND BALANCES	\$ (160,082)	\$ 658,307
TOTAL LIABILITIES AND FUND BALANCES	\$ 48,132	\$ 658,307
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		
Restricted for:		
Capital Projects		
Debt Service		
Unrestricted		
TOTAL NET ASSETS		

The accompanying notes to basic financial statements are an integral part of this report.

Capital Projects Fund	Total	Adjustments	Statement of Net Assets
\$ 165,474	\$ 167,882	\$	\$ 167,882
	20,613		20,613
	4,984		4,984
	14,529		14,529
	8,006		8,006
	655,899	215,245	215,245
		1,530,602	1,530,602
		397,437	397,437
<u>\$ 165,474</u>	<u>\$ 871,913</u>	<u>\$ 2,143,284</u>	<u>\$ 3,015,197</u>
\$ 165,229	\$ 199,976	\$	\$ 199,976
	124,853	4,195,224	4,320,077
		104,533	104,533
	24,101		24,101
	3,900		3,900
	20,613	(20,613)	
<u>\$ 165,229</u>	<u>\$ 373,443</u>	<u>\$ 4,279,144</u>	<u>\$ 4,652,587</u>
\$ 245	\$ 245	\$ (245)	\$
	2,408	(2,408)	
	559,925	(559,925)	
	95,974	(95,974)	
	8,006	(8,006)	
	(168,088)	168,088	
<u>\$ 245</u>	<u>\$ 498,470</u>	<u>\$ (498,470)</u>	<u>\$ -0-</u>
<u>\$ 165,474</u>	<u>\$ 871,913</u>		
		\$ 207,981	\$ 207,981
		245	245
		658,307	658,307
		(2,503,923)	(2,503,923)
		<u>\$ (1,637,390)</u>	<u>\$ (1,637,390)</u>

The accompanying notes to basic financial statements are an integral part of this report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2009**

Total Fund Balances – Governmental Funds	\$ 498,470
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Construction in progress in governmental activities is not a financial resource and therefore is not reported as an asset in the governmental funds.	1,530,602
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	397,437
Governmental funds do not record a long term receivable from other governmental units for the amounts due for the sale of capacity. This amount is not a current financial resource; therefore, this amount is only recorded as a receivable in the Statement of Net Assets of the District.	215,245
Governmental funds do not record 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.	(4,195,224)
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.	(104,533)
Deferred tax revenues for the 2008 and prior tax levies became part of recognized revenue in the governmental activities of the District.	<u>20,613</u>
Total Net Assets – Governmental Activities	<u>\$ (1,637,390)</u>

The accompanying notes to basic financial statements are an integral part of this report.

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DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 337,977	\$ 765,617
Water Service	130,198	
Wastewater Service	7,676	
Solid Waste Revenue	4,900	
Penalty and Interest	1,789	
Permits and Inspections	1,136,946	
Franchise Fees	23,323	
Investment Revenues	557	777
Miscellaneous Revenues	21,988	1,832
Sale of Capacity, Note 15		
TOTAL REVENUES	\$ 1,665,354	\$ 768,226
EXPENDITURES/EXPENSES		
Operating Expenses:		
Salaries	\$ 174,022	\$
Professional Fees	84,460	
Contracted Services	167,279	4,615
Purchased Water Service	342,771	
Purchased Wastewater Service	69,106	
Utilities	34,427	
Repairs and Maintenance	134,120	
Depreciation, Note 4		
Other	125,323	
Capital Outlay	12,258	
Conveyance of Assets		
Debt Service:		
City of Lewisville		1,156,903
TOTAL EXPENDITURES/EXPENSES	\$ 1,143,766	\$ 1,161,518
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 521,588	\$ (393,292)
OTHER FINANCING SOURCES (USES)		
Transfer In (Out)	\$ (746,256)	\$ 746,256
Transfer to PID 4, Note 15		
Contributed to Other Governmental Unit	(7,497)	
Contributed from Other Governmental Unit, Note 13		
TOTAL OTHER FINANCING SOURCES (USES)	\$ (753,753)	\$ 746,256
NET CHANGE IN FUND BALANCES	\$ (232,165)	\$ 352,964
CHANGE IN NET ASSETS		
FUND BALANCES/NET ASSETS, AS ADJUSTED, NOTE 14 – OCTOBER 1, 2008	72,083	305,343
FUND BALANCES/NET ASSETS – SEPTEMBER 30, 2009	\$ (160,082)	\$ 658,307

The accompanying notes to basic financial
statements are an integral part of this report.

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,103,594	\$ 20,613	\$ 1,124,207
	130,198		130,198
	7,676		7,676
	4,900		4,900
	1,789		1,789
	1,136,946		1,136,946
	23,323		23,323
28	1,362		1,362
	23,820		23,820
<u>450,000</u>	<u>450,000</u>	<u>215,245</u>	<u>665,245</u>
<u>\$ 450,028</u>	<u>\$ 2,883,608</u>	<u>\$ 235,858</u>	<u>\$ 3,119,466</u>
\$	\$ 174,022	\$	\$ 174,022
	84,460		84,460
	171,894		171,894
	342,771		342,771
	69,106		69,106
	34,427		34,427
	134,120		134,120
		9,173	9,173
56	125,379		125,379
1,830,770	1,843,028	(1,789,738)	53,290
		165,229	165,229
	<u>1,156,903</u>		<u>1,156,903</u>
<u>\$ 1,830,826</u>	<u>\$ 4,136,110</u>	<u>\$ (1,615,336)</u>	<u>\$ 2,520,774</u>
<u>\$ (1,380,798)</u>	<u>\$ (1,252,502)</u>	<u>\$ 1,851,194</u>	<u>\$ 598,692</u>
\$	\$	\$	\$
(450,000)	(450,000)		(450,000)
	(7,497)		(7,497)
<u>1,830,770</u>	<u>1,830,770</u>	<u>(1,830,770)</u>	
<u>\$ 1,380,770</u>	<u>\$ 1,373,273</u>	<u>\$ (1,830,770)</u>	<u>\$ (457,497)</u>
\$ (28)	\$ 120,771	\$ (120,771)	\$
		141,195	141,195
<u>273</u>	<u>377,699</u>	<u>(2,156,284)</u>	<u>(1,778,585)</u>
<u>\$ 245</u>	<u>\$ 498,470</u>	<u>\$ (2,135,860)</u>	<u>\$ (1,637,390)</u>

The accompanying notes to basic financial statements are an integral part of this report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
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, 2009**

Net Change in Fund Balances - Governmental Funds	\$ 120,771
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenue when its collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	20,613
Governmental funds do not record long-term receivables, however in the Statement of Net Assets the long-term receivables are recorded and the revenue is recorded in the Statement of Activities.	215,245
Governmental funds report capital expenditures in the period purchased. However, in the Statement of Net Assets, capital assets are increased by new purchases, net any conveyance of assets to others.	1,624,509
Governmental funds do not account for depreciation. However, in the Statement of Net Assets, capital assets are depreciated and depreciation expenses is recorded in the Statement of Activities.	(9,173)
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.	<u>(1,830,770)</u>
Change in Net Assets - Governmental Activities	<u>\$ 141,195</u>

The accompanying notes to basic financial statements are an integral part of this report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

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 (the "District") 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 November 5, 2002, voters approved the division of District No. 1-A into two new districts of which Denton County Fresh Water Supply District No. 1-F (District No. 1-F) was one. The District held its first meeting on February 5, 2004. 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 facilities within the District.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

The GASB has established 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 municipality. 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.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

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

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

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

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

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.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has three major governmental funds.

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

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

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

Basis of Accounting

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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

Amounts transferred from one fund to another fund are reported as an other 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.

Capital Assets

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

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

	<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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

The District does not have employees, except that the Internal Revenue Service has determined that directors are considered to be “employees” for federal payroll tax purposes only. A pension plan has not been established. The District has funded payroll costs to Denton County Fresh Water Supply District No. 1-A (District No. 1-A). District No. 1-A operates the District’s utility system on behalf of the District and handles pension provisions for its employees.

Measurement Focus

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

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Estimates

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

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$167,882 and the bank balance was \$167,882. The bank balance was 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, 2009, as listed below:

	Cash
GENERAL FUND ⁽¹⁾	\$ (24,101)
DEBT SERVICE FUND	2,408
CAPITAL PROJECTS FUND	165,474
TOTAL DEPOSITS	\$ 143,781

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, 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.

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

As of September 30, 2009, the District does not own any 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-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 4. CAPITAL ASSETS

The District's water, wastewater and drainage facilities are being paid for from proceeds of the City of Lewisville – Castle Hills Public Improvement District No. 4 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 costs of the capital assets that District No. 1-A purchases and records its books.

In addition, the District has recorded capital assets for the wastewater and road facilities that have been funded through other available monies, including advances by the Developer of the District. As of September 30, 2009, the District has also recorded Construction in Progress in the amount of \$1,530,602. This Construction in Progress relates to construction projects for Phase V-Section A utilities, Phase V-Section A, Phase 2 water injection and Phase VI, Sections A, B, C and D utilities, and Phase VI paving. As these projects are completed in the future, these facilities will be recorded as capital assets of the District.

Capital asset activity for the fiscal year ended September 30, 2009:

	<u>October 1, 2008</u>	<u>Additions</u>	<u>Decreases</u>	<u>September 30, 2009</u>
Capital Assets Not Being Depreciated				
Construction in Progress	\$ -0-	\$ 1,530,602	\$ -	\$ 1,530,602
Capital Assets at Historical Cost Subject to Depreciation				
Water System	\$ 331,985	\$ -	\$ -	\$ 331,985
Wastewater System	331,985			331,985
Drainage Facilities		93,907		93,907
Roads		93,907		93,907
Total Capital Assets at Historical Cost Subject of Depreciation	<u>\$ 331,985</u>	<u>\$ 93,907</u>	<u>\$ -0-</u>	<u>\$ 425,892</u>
Less Accumulated Depreciation				
Water System	\$ 19,282	\$ 7,378	\$ -	\$ 26,660
Wastewater System	19,282	7,378		26,660
Drainage Facilities		1,795		1,785
Roads		1,795		1,785
Total Less Accumulated Depreciation	<u>\$ 19,282</u>	<u>\$ 9,173</u>	<u>\$ -0-</u>	<u>\$ 28,455</u>
Total Depreciable Capital Assets Net of Accumulated Depreciation	<u>\$ 312,703</u>	<u>\$ 84,734</u>	<u>\$ -0-</u>	<u>\$ 397,437</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 312,703</u>	<u>\$ 1,615,336</u>	<u>\$ -0-</u>	<u>\$ 1,928,039</u>

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 4. CAPITAL ASSETS (Continued)

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

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

As of September 30, 2009, the District does not own capacity in the lift station facilities.

NOTE 5. MAINTENANCE TAX

On November 7, 2006, voters of the District approved the levy and collection of a maintenance tax in an unlimited amount per \$100 of assessed valuation of taxable property within the District. During the fiscal year ended September 30, 2009, the District levied a maintenance tax at the rate of \$0.307 of assessed valuation, which resulted in a tax levy of \$339,169 on an adjusted valuation of \$110,478,657 for the 2008 tax year. 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.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 6. JOINT UTILITY CONTRACT

On May 21, 2007 the District, Denton County Fresh Water Supply District No. 1-A (District No. 1-A), and the City of Lewisville (Lewisville) executed a 2007 Joint Utility Contract. On January 7, 2008, the Amended and Restated 2007 Joint Utility Contract was approved. The agreement became effective on the date executed by Lewisville and District 1-F in accordance with the Amended and Restated 2007 Joint Utility Contract. The contract states that Lewisville will proceed with financing utility and road facilities within the District through the sale of \$32,000,000 of PID4 bonds; the first installment of these bonds were sold in the prior fiscal year in the amount of \$20,000,000 and the second installment will be sold in the future in the amount of \$12,000,000. District No. 1-A will have primary responsibility as Project Manager and shall perform its duties in accordance with an agreement dated October 1, 2006. District No. 1-A is responsible for designating the consulting engineer on the project and approves the projects along with Lewisville.

District No. 1-A serves as Project Manager for the purpose of easement and facilities site negotiation and acquisition as well as the inspection and supervision of the construction of facilities. District No. 1-A further agrees that adequate water distribution, wastewater collection and treatment capacity, storm sewer and drainage capacity and road system capacity shall be reserved in the Project-Wide Facilities to accommodate the Castle Hills Facilities.

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, District Nos. 1-A and 1-F shall have the right to acquire the facilities at any time by paying to Lewisville the amount necessary to repay, redeem, refund or defease the PID4 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 PID4 and Lewisville, the District agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID4 Bonds as they mature. The District committed each year to levy, assess and collect a tax on all taxable property within the District, unlimited by rate or amount, sufficient to service up to ninety percent (90%) of the debt and other costs incidental to the PID4 Bonds. The additional ten percent (10%) of the debt and other costs included in the PID4 Bonds will be paid from the special assessment as outlined in the agreement. Lewisville will calculate the total amount of payments to be made on the PID4 Bonds on the following February 1, after application of the available reserves from proceeds of the PID4 Bonds and will calculate an assessment on all assessable property within the PID4, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville. Lewisville will notify the District of the calculation of the Annual Assessment by September 1 of each year proceeding the above-referenced February 1. As of the fiscal year end, the reserve fund requirement is \$1,833,194. To date, the District has funded \$559,925 of the reserve and a letter of

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 6. JOINT UTILITY CONTRACT (Continued)

credit covers the remaining reserve requirement. The Reserve Fund is maintained by PID4. During the current fiscal year, PID4 assessment revenue in the amount of \$348,289 was collected and remitted to Lewisville. These monies are maintained in an escrow account under the oversight of Lewisville. During the current fiscal year, available PID4 assessment revenue was used to pay down outstanding principal on the PID4 bonds in the amount of \$360,000. As of September 30, 2009, \$95,974 remained in the escrow account. As funds are accumulated in the escrow account, these monies will be used to retire additional outstanding PID4 bonds. The following is an updated amortization schedule on the existing outstanding debt the District's contract tax and assessments are expected to amortize as of September 30, 2009:

PID 4
 SERIES - 2008

Fiscal Year Ending	Principal Due October 1	Interest Due October 1/ April 1	Total
2010	\$	\$ 1,325,700	\$ 1,325,700
2011		1,325,700	1,325,700
2012		1,325,700	1,325,700
2013		1,325,700	1,325,700
2014	500,000	1,308,825	1,808,825
2015	535,000	1,273,894	1,808,894
2016	570,000	1,236,600	1,806,600
2017	610,000	1,196,775	1,806,775
2018	650,000	1,154,250	1,804,250
2019	695,000	1,108,856	1,803,856
2020	740,000	1,060,425	1,800,425
2021	795,000	1,008,619	1,803,619
2022	845,000	953,269	1,798,269
2023	905,000	894,206	1,799,206
2024	965,000	831,094	1,796,094
2025	1,030,000	763,762	1,793,762
2026	1,100,000	691,875	1,791,875
2027	1,170,000	615,263	1,785,263
2028	1,250,000	533,587	1,783,587
2029	1,335,000	446,344	1,781,344
2030	1,425,000	353,194	1,778,194
2031	1,520,000	253,800	1,773,800
2032	1,625,000	147,656	1,772,656
2033	1,375,000	46,406	1,421,406
	<u>\$ 19,640,000</u>	<u>\$ 21,181,500</u>	<u>\$ 40,821,500</u>

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 6. JOINT UTILITY CONTRACT (Continued)

On February 1st following the date of receipt of written notification of the Annual Assessment, the District will certify to Lewisville the amount of all taxes collected. If necessary, Lewisville will then impose an assessment with the PID4 sufficient to pay the debt service requirement on the PID4 Bonds as they come due. The parties to the agreement acknowledged that the tax levy would be contingent upon a one-time approval by the voters within the District. Such election occurred on May 12, 2007, and approved the levy and collection of said tax.

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

During the year ended September 30, 2009, the District levied an ad valorem contract tax at the rate of \$0.693 per \$100 of assessed valuation, which resulted in a tax levy of \$765,617 on the adjusted taxable valuation of \$110,478,657 for the 2008 tax year.

The District's tax calendar is as follows:

- Levy Date - October 1, or as soon thereafter as practicable.
- Lien Date - January 1.
- Due Date - Not later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

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 and the District has ratified that assumption of the agreement. The UTRWD has agreed to use its best efforts to build the facilities called for in this agreement and to issue debt to fund the cost of the facilities.

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 7. WATER SUPPLY AGREEMENTS (Continued)

Upper Trinity Regional Water District Regional Treated Water Supply Service Contract for Additional Participating Member (Continued)

The supply of water on a minimum demand, on an interim basis, is for .50 million gallons of water per day (MGD) and 3.0 MGD for regular service. Each member can adjust the regular service amount upon mutual agreement of the members. A determination of demand on an annual basis that takes into account actual usage for the most recent five (5) water years and projected needs for the next water year will be made. Payments will be comprised of three components including an Operation and Maintenance Component, a Capital Component and a special reserve for operation and maintenance cost of the system. Annual budgets will be prepared for the system. The District will pay its part of the annual requirement in monthly installments.

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

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

On March 8, 1995, the Upper Trinity Regional Water District executed an agreement with the Denton County Fresh Water Supply District No. 1 (District No. 1) to provide for the supply of non-potable water to District No. 1. Denton County Fresh Water Supply District No. 1-A has assumed the obligations of District No. 1 under the terms of this agreement and the District has ratified the actions of District No. 1-A. District No. 1 desired to develop the ability to have a dual delivery system to provide non-potable water and the UTRWD agreed to provide such a water source. District No. 1-A has agreed to make sufficient payments to assure adequate funds to fulfill its obligations under the contract terms. The minimum capacity reserved for District No. 1-A is 3.35 million gallons per day (MGD).

The UTRWD agreed to provide the necessary equipment and devices of standard type required for measuring the quantity of non-potable water delivered. Sixty (60) days after the end of a fiscal year, District No. 1-A will report to UTRWD the number of gallons of non-potable raw water and non-potable treated wastewater effluent used for irrigation, make-up water for lakes and ponds and other purposes. Also reported would be the estimated annual water requirements for each of the next five (5) years for both types of water and an estimate of demand for the next year.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 7. WATER SUPPLY AGREEMENTS (Continued)

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

The UTRWD will choose the consulting engineers and provide for the construction of the system to provide the non-potable water. The sale of bonds by the UTRWD will be considered for funding the facilities. Payments will be comprised of three components including an Operation and Maintenance Component, a Capital Component and a special reserve for operation and maintenance cost of the system. Annual budgets will be prepared for the system. District No. 1-A will pay its annual payment including facilities charges and charges for the actual volume of water taken. The agreement is in effect for thirty (30) years from the effective date of the agreement.

Wholesale Water Supply Agreement with the City of Lewisville

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

District No. 1-A will be charged a two-part rate, consisting of a volume rate and a demand rate (Charges), based on the City Wholesale Service Area's treated water consumption and Maximum Day Demand. The initial demand capacity requested from the City is 300,000 gallons per day. 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 November 15, 2007, the District entered into an Operating Agreement with Denton County Fresh Water Supply District No. 1-A (District No. 1-A). District No. 1-A is responsible for operating, maintaining, and managing the Facilities to be constructed within the boundaries of the once defined Denton County Fresh Water Supply District No. 1 which now includes Districts 1-A, 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 8. OPERATING AGREEMENT (Continue)

District No. 1-A is responsible for preparing and submitting to the District a Facilities Operating and Maintenance Budget (FOMB) by September 1 of each year for the next fiscal year expected to start October 1. With the exception of costs based on customer usage, if the total actual costs do not exceed the FOMB by more than 12%, the District's revision requests are only advisory. If the reverse is true, the new budget will not take effect until approved by the Board of Directors of the District. District No. 1-A shall be authorized to make expenditures not approved in the FOMB if, (1) immediately required by law or, (2) not in excess of \$5,000, with notification efforts being made to the applicable District.

District No. 1-A agreed to handle all aspects of operating the District including contracting for consultants, negotiating with various utility companies, coordinating with various governmental entities, reviewing all statements, invoices and billings, supervising and coordinating contractors, verifying insurance on contractors and facilities and recommending water and sewer rates. District No. 1-A will employ personnel as required.

The District agreed to institute a rate order containing water, sewer, solid waste collection, building permits and inspection fees. District No. 1-A agreed to provide such issuance of permits and inspection fees and management of the utility system. The fees for such permits and inspection services, payable to the District, will be the amount charged for the services. The District agreed to fund a pro-rata portion of overhead cost incurred by District No. 1-A from proceeds of the water, sewer and solid waste collection revenues.

In accordance with the agreement, costs of the maintenance of the facilities within districts of the Castle Hill Subdivision shall be allocated to each district based on the basis of projected water connections. Projected water connections are defined as those new connections that are projected to occur during the next succeeding fiscal year for all the districts. Each district's cost will be calculated based upon a fraction the numerator of which shall be the total number of actual and projected water connections within each district divided by the total number of actual and projected water connections within all 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 allocated such costs among the districts and shall be recalculated as of the first of each succeeding fiscal year thereafter.

On September 17, 2008, the District approved the Amended and Restated Operating Agreement. This agreement is to become effective on October 1, 2008. All other provisions 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 are existing on January 1 of the current fiscal year plus that which is projected to be added during the next succeeding

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 8. OPERATING AGREEMENT (Continued)

fiscal year for the districts. Each districts' 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. ECONOMIC DEPENDENCY AND DEFICIT FUND BALANCE

The District is contractually obligated to levy sufficient contract taxes to fund the City of Lewisville's Public Improvement District bonds, see Note 6, 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 to meet all the financial obligations and to cover any operating deficits of the District. As of September 30, 2009, the District's General Fund had a deficit fund balance of \$160,082.

NOTE 10. UNREIMBURSED DEVELOPER COST

On February 5, 2003, the District executed an Agreement for Construction and Purchase of Facilities and Reimbursements for Cost with Castle Hills Development Corporation to provide for the advancement of monies to facilitate the operations of the District and or construction costs of the District. The Developer has indicated that \$104,533 has been advanced to the District as of September 30, 2009, that remains unreimbursed. This amount has been recorded as a liability in the Statement of Net Assets of the District.

NOTE 11. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, error and omission and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and there have been no settlements of claims exceeding coverage in the last three years.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 12. 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), Denton No. 1-A, Denton No, 1-C, Denton No. 1-D, Denton 1-E, the District, Denton No, 1-G, and Denton 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 13. DUE TO DISTRICT NO. 1-A

The District has recorded a liability in the amount of \$44,484 for its share of constructions costs related to Windhaven East, \$9,298 for costs related to Windhaven Phase 6 and \$96,325 for general operations of District No. 1-A. In addition, the District has recorded a liability of \$4,045,117 for developer advances due to District No. 1-A in accordance with the agreement noted in Note 12. The total amount due to District No. 1-A of \$4,195,224 has been recorded in the Statement of Net Assets. Of this amount, \$1,830,770 was recorded as received from Denton No. 1-A during the current fiscal year.

NOTE 14. PRIOR PERIOD ADJUSTMENT

During the current fiscal year, the District adjusted its beginning Net Assets to decrease the amount previously recorded as a due to Developer. In addition, the District recorded an additional amount due to District No. 1-A for its share of prior year construction costs, operations costs, and developer advances of District No. 1-A, see Note 13. The effect of these changes resulted in a decrease in the beginning net assets of \$175,050.

Net Assets Balance – October 1, 2008	\$(1,603,535)
Less: Effect of reducing the amount due to Developer and recording additional amounts due to District No. 1-A	<u>(175,050)</u>
Net Assets Balance – October 1, 2008, As Adjusted	<u><u>\$(1,778,585)</u></u>

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DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

NOTE 15. EXCESS CAPACITY PURCHASE AGREEMENT

The District entered into an Excess Capacity Purchase Agreement (the “Agreement”) with Denton No. 1-G. In accordance with the Agreement, Denton No. 1-G agreed to purchase excess drainage capacity and sewer capacity from the District. In addition, District No. 1-G will purchase one-hundred (100) percent of the capacity in the two master water meters installed pursuant to the Wholesale Water Supply Agreement, see Note 7, with the City of Lewisville. The total purchase price for the capacity will be \$665,245. During the current fiscal year, District No. 1-G made a partial payment to the District in the amount of \$450,000. The remaining balance of \$215,245 has been recorded as a receivable in the Statement of Net Assets. Upon receiving the current year payment from District No. 1-G, the District transferred the \$450,000 to PID4. These funds were used by PID4 to fund various construction costs within the District.

NOTE 16. BOND ELECTION

On May 12, 2007, voters within the District approved for the District to issue bonds in the maximum amount of \$43,000,000 for new money bonds and \$50,750,000 for refunding purposes.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2009

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Maintenance Taxes	\$ 339,793	\$ 337,977	\$ (1,816)
Water Service	218,399	130,198	(88,201)
Wastewater Service	52,703	7,676	(45,027)
Solid Waste Revenue	29,846	4,900	(24,946)
Penalty and Interest	23,215	1,789	(21,426)
Permit and Inspections	797,945	1,136,946	339,001
Franchise Fees	18,137	23,323	5,186
Investment Revenues	4,000	557	(3,443)
Miscellaneous Revenues	<u>736</u>	<u>21,988</u>	<u>21,252</u>
TOTAL REVENUES	<u>\$ 1,484,774</u>	<u>\$ 1,665,354</u>	<u>\$ 180,580</u>
EXPENDITURES			
Service Operations:			
Salaries	\$ 204,439	\$ 174,022	\$ 30,417
Professional Fees	39,150	84,460	(45,310)
Contracted Services	173,545	167,279	6,266
Purchased Water Service	384,913	342,771	42,142
Purchased Wastewater Service	73,607	69,106	4,501
Utilities	36,544	34,427	2,117
Repairs and Maintenance	124,115	134,120	(10,005)
Other	136,590	125,323	11,267
Capital Outlay	<u>14,762</u>	<u>12,258</u>	<u>2,504</u>
TOTAL EXPENDITURES	<u>\$ 1,187,665</u>	<u>\$ 1,143,766</u>	<u>\$ 43,899</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 297,109</u>	<u>\$ 521,588</u>	<u>\$ 224,479</u>
OTHER FINANCING SOURCES (USES)			
Transfer Out	\$ (307,498)	\$ (746,256)	\$ (438,758)
Developer Advance	8,784		(8,784)
Contributed to Other Governmental Unit	<u></u>	<u>(7,497)</u>	<u>(7,497)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ (298,714)</u>	<u>\$ (753,753)</u>	<u>\$ (455,039)</u>
NET CHANGE IN FUND BALANCE	\$ (1,605)	\$ (232,165)	\$ (230,560)
FUND BALANCE – OCTOBER 1, 2008	<u>72,083</u>	<u>72,083</u>	<u></u>
FUND BALANCE – SEPTEMBER 30, 2009	<u>\$ 70,478</u>	<u>\$ (160,082)</u>	<u>\$ (230,560)</u>

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
SEPTEMBER 30, 2009

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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

<u> X </u>	Retail Water	_____	Wholesale Water	<u> X </u>	Drainage
<u> X </u>	Retail Wastewater	_____	Wholesale Wastewater	_____	Irrigation
<u> X </u>	Parks/Recreation	<u> X </u>	Fire Protection	_____	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)				
_____	Other (specify): _____				

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved September 17, 2008.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 18.74	2,000	N	\$ 3.44	2,001 to 15,000
				3.64	15,001 to 25,000
				4.59	25,001 to 35,000
				5.59	35,001 to 45,000
				6.59	45,001 to 55,000
				7.59	55,001 and up
WASTEWATER:	\$ 7.75	2,000	N	\$ 3.20	2,001 not to exceed 15,000 gallons
SURCHARGE:					
Solid Waste/Garbage Commission	\$ 15.75		Y		
Regulatory Assessments	0.5% of actual water and sewer bill				

District employs winter averaging for wastewater usage?

<u> X </u>	_____
Yes	No

Total monthly charges per 10,000 gallons usage: Water: \$46.26 Wastewater: \$33.35 Surcharge: \$16.15

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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 ESFCs</u>
Unmetered	_____	_____	x 1.0	_____
≤¾"	<u>37</u>	<u>37</u>	x 1.0	<u>37</u>
1"	<u>89</u>	<u>89</u>	x 2.5	<u>223</u>
1½"	<u>4</u>	<u>4</u>	x 5.0	<u>20</u>
2"	<u>24</u>	<u>24</u>	x 8.0	<u>192</u>
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water Connections	<u><u>154</u></u>	<u><u>154</u></u>		<u><u>472</u></u>
Total Wastewater Connections	<u><u>47</u></u>	<u><u>47</u></u>	x 1.0	<u><u>47</u></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:	26,162,000	<u>103.7%</u>
Gallons purchased:	25,227,000	From: Our water suppliers, see Note 7

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

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

Does the District have Debt Service standby fees? Yes No

Does the District have Operation and Maintenance standby fees? Yes No

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County or Counties in which District is located:

Denton County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely 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

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

PERSONNEL EXPENDITURES (Including Benefits)	\$ <u>174,022</u>
PROFESSIONAL FEES:	
Auditing	\$ 11,000
Engineering	1,087
Legal	<u>72,373</u>
TOTAL PROFESSIONAL FEES	\$ <u>84,460</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 342,771
Purchased Wastewater Service	<u>69,106</u>
TOTAL PURCHASED SERVICES FOR RESALE	\$ <u>411,877</u>
CONTRACTED SERVICES:	
Contract Labor	\$ 31,355
Management Fee	41,973
Police Services	26,793
Fire and EMS Services	42,642
Tax Collector	<u>5,287</u>
TOTAL CONTRACTED FEES	\$ <u>148,050</u>
UTILITIES:	
Electricity	\$ 29,915
Telephone	<u>4,512</u>
TOTAL UTILITIES	\$ <u>34,427</u>
REPAIRS AND MAINTENANCE	\$ <u>134,120</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 7,050
Dues	1,489
Training and Education	1,571
Insurance	28,414
Advertising	117
Director Cost	623
Office Supplies and Postage	5,926
Payroll Taxes and Administration	444
Travel and Meetings	584
Lease Office Equipment	1,502
Other	<u>9,061</u>
TOTAL ADMINISTRATIVE EXPENDITURES	\$ <u>56,781</u>

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

CAPITAL OUTLAY:			
Capitalized Assets		\$	
Expenditures not Capitalized			<u>12,258</u>
TOTAL CAPITAL OUTLAY		\$	<u>12,258</u>
TAP CONNECTION EXPENDITURES		\$	<u>21,026</u>
SOLID WASTE DISPOSAL		\$	<u>19,229</u>
FIRE FIGHTING		\$	<u>-0-</u>
PARKS AND RECREATION		\$	<u>-0-</u>
SECURITY		\$	<u>-0-</u>
OTHER EXPENDITURES:			
Supplies-Small Tools		\$	2,182
Supplies-Uniforms			1,273
Supplies-Medical			50
Supplies-Gas and Oil			8,956
Supplies-Postage			1,395
Office Rental			23,766
Equipment Rental			9,773
State Certification			<u>121</u>
TOTAL OTHER EXPENDITURES		\$	<u>47,516</u>
DEBT SERVICE		\$	<u>-0-</u>
TOTAL EXPENDITURES		\$	<u>1,143,766</u>
Number of persons employed by the District	<u>-0-</u>	Full-Time	<u>-0-</u>
			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.)

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
ANALYSIS OF TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Maintenance Tax		Contract Tax	
TAXES RECEIVABLE –				
OCTOBER 1, 2008	\$		\$	
Adjustments to Beginning Balance	<u>20,613</u>	\$ 20,613	<u> </u>	\$ -0-
Original 2008 Tax Levy	\$ 339,793		\$ 767,024	
Adjustment to 2008 Tax Levy	<u>(624)</u>	<u>339,169</u>	<u>(1,407)</u>	<u>765,617</u>
TOTAL TO BE ACCOUNTED FOR		\$ 359,782		\$ 765,617
TAX COLLECTIONS:				
Prior Years	\$		\$	
Current Year	<u>339,169</u>	<u>339,169</u>	<u>765,617</u>	<u>765,617</u>
TAXES RECEIVABLE –				
SEPTEMBER 30, 2009		<u>\$ 20,613</u>		<u>\$ -0-</u>

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	2008	2007
PROPERTY VALUATIONS		
Land	\$ 110,478,657	\$ 90,296,322
Improvements		159,042
Personal Property		45,870
Exemptions		<u>(2,061,305)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 110,478,657</u>	<u>\$ 88,439,929</u>
TAX RATES PER \$100 VALUATION:		
Contract	\$ 0.693	\$ 0.00
Maintenance	<u>0.307</u>	<u>1.00</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 1.000</u>	<u>\$ 1.00</u>
ADJUSTED TAX LEVY*	<u>\$ 1,104,786</u>	<u>\$ 884,399</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>100.00%</u>	<u>97.67%</u>

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

Maintenance Tax – Maximum tax rate in unlimited amount per \$100 of assessed valuation approved by voters on November 7, 2006.

See accompanying independent auditor's report.

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

	<u>Amounts</u>		
	<u>2009</u>	<u>2008</u>	<u>2007*</u>
REVENUES			
Property Taxes	\$ 337,977	\$ 884,399	\$
Water Service	130,198	9,350	
Wastewater Service	7,676		
Solid Waste Disposal	4,900		
Penalty and Interest	1,789	331	
Permits and Inspection Fees	1,136,946	271,098	46
Franchise Fee Revenues	23,323	26,138	
Investment Revenues	557	1,454	
Miscellaneous	21,988		
TOTAL REVENUES	\$ 1,665,354	\$ 1,192,770	\$ 46
EXPENDITURES			
Salaries	\$ 174,022	\$ 305,056	\$
Professional Fees	84,460	167,897	117,264
Contracted Services	167,279	188,008	
Purchased Water Service	342,771	189,977	
Purchased Wastewater Service	69,106	31,921	8,589
Utilities	34,427	20,940	
Repairs and Maintenance	134,120	65,547	
Other	125,323	59,988	16,603
Capital Outlay	12,258	2,633	
TOTAL EXPENDITURES	\$ 1,143,766	\$ 1,031,967	\$ 142,456
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 521,588	\$ 160,803	\$ (142,410)
OTHER FINANCING SOURCES (USES)			
Transfer Out	\$ (746,256)	\$ (298,845)	\$
Developer Advances		235,359	127,800
Contributed to Other Governmental Unit	(7,497)	(6,342)	
TOTAL OTHER FINANCING SOURCES (USES)	\$ (753,753)	\$ (69,828)	\$ 127,800
NET CHANGE IN FUND BALANCE	\$ (232,165)	\$ 90,975	\$ (14,610)
BEGINNING FUND BALANCE	72,083	(18,892)	(4,282)
ENDING FUND BALANCE	\$ (160,082)	\$ 72,083	\$ (18,892)

* First Year Audit

See accompanying independent auditor's report.

		Percent of Total Revenues				
2006	2005	2009	2008	2007*	2006	2005
\$	\$	20.3%	74.2%	%		
		7.8	0.8			
		0.5				
		0.3				
		0.1				
		68.3	22.7	100.0		
		1.4	2.2			
			0.1			
		<u>1.3</u>				
<u>\$</u>	<u>\$</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>		
\$	\$	10.4%	25.6%	%		
		5.1	14.1	254,921.7		
		10.0	15.8			
		20.6	15.9			
		4.1	2.7	18,671.7		
		2.1	1.8			
		8.1	5.5			
		7.5	5.0	36,093.5		
		<u>0.7</u>	<u>0.2</u>			
<u>\$</u>	<u>\$</u>	<u>68.6%</u>	<u>86.6%</u>	<u>309,686.9%</u>		
<u>\$</u>	<u>\$</u>	<u>31.4%</u>	<u>13.4%</u>	<u>(309,586.9)%</u>	<u>N/A</u>	<u>N/A</u>
\$	\$					
<u>\$</u>	<u>\$</u>					
\$	\$					
<u>\$</u>	<u>\$</u>	<u>N/A</u>	<u>N/A</u>			

See accompanying independent auditor's report.

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

	Amounts		
	2009	2008	2007*
REVENUES			
Property Taxes	\$ 765,617	\$	\$
Penalty and Interest			
Investment Revenues	777	12,622	
Miscellaneous Revenues	<u>1,832</u>		
TOTAL REVENUES	<u>\$ 768,226</u>	<u>\$ 12,622</u>	<u>\$</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 4,615	\$ 6,124	\$
Contract Tax Obligation – City of Lewisville	1,156,903		
Payment to Refund Bond Escrow			
TOTAL EXPENDITURES	<u>\$ 1,161,518</u>	<u>\$ 6,124</u>	<u>\$</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (393,292)</u>	<u>\$ 6,498</u>	<u>\$</u>
OTHER FINANCING SOURCES (USES)			
Transfer In	<u>\$ 746,256</u>	<u>\$ 298,845</u>	<u>\$</u>
NET CHANGE IN FUND BALANCE	\$ 352,964	\$ 305,343	\$
BEGINNING FUND BALANCE	<u>305,343</u>		
ENDING FUND BALANCE	<u>\$ 658,307</u>	<u>\$ 305,343</u>	<u>\$ N/A</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>154</u>	<u>22</u>	<u>-0-</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>47</u>	<u>3</u>	<u>-0-</u>

* First Year Audit

See accompanying independent auditor's report.

		Percent of Total Revenues				
<u>2006</u>	<u>2005</u>	<u>2009</u>	<u>2008</u>	<u>2007*</u>	<u>2006</u>	<u>2005</u>
\$	\$	99.7%	%			
		0.1	100.0			
		<u>0.2</u>				
\$	\$	100.0%	100.0%			
\$	\$	0.6%	48.5%			
		150.6				
\$	\$	<u>151.2%</u>	<u>48.5%</u>			
\$	\$	<u>(51.2)%</u>	<u>51.5%</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
\$	\$					
\$	\$					
\$	\$					
<u>\$ N/A</u>	<u>\$ N/A</u>					
<u>N/A</u>	<u>N/A</u>					
<u>N/A</u>	<u>N/A</u>					

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2009

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

District Telephone Number - (972) 899-4000

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended <u>September 30, 2009</u>	Expense Reimbursements for the year ended <u>September 30, 2009</u>	<u>Title</u>
Paul Miller	05/06 05/10 (Elected)	\$ 1,650	\$ 221	President
James David Danielson	05/08 05/12 (Elected)	\$ 1,050	\$ 84	Vice President
Brian Gary Carlton	05/08 05/12 (Elected)	\$ 1,800	\$ 54	Secretary
C.S. Kelso	05/06 05/10 (Elected)	\$ 1,350	\$ 35	Treasurer/ Assistant Secretary
Cheryl Mabery	02/09 05/10 (Appointed)	\$ 1,200	\$ 33	Assistant Secretary

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): January 12, 2009.

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 January 17, 2007, the District formally adopted a resolution setting the limit for its Directors at \$3,500. Fees of office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2009

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2009</u>	<u>Title</u>
Kelly Hart & Hallman LLP 201 Main Street, Suite 2500 Fort Worth, TX 76102	06/03/08	\$ 58,621	Attorney
McCall Gibson Swedlund Barfoot PLLC Certified Public Accountants 13100 Wortham Center Drive, Suite 235 Houston, TX 77065-5610	08/21/07	\$ 11,000	Auditor
TRC Engineers, Inc. 8140 Walnut Hill Lane, Suite 500 Dallas, TX 75231	02/05/04	\$ -0-	Engineer
Zane Miller 2540 King Arthur, Suite 220 Lewisville, TX 75056	09/18/07	\$ -0-	Investment Officer
Denton County Appraisal District 3911 Morse Denton, TX 76208	Legislative Action	\$ 4,612	Property Tax Appraisals
Denton County Tax Collector c/o Steve Mossman P. O. Box 90223 Denton, TX 76202	05/15/07	\$ 5,290	Tax Assessor/ Collector

See accompanying independent auditor's report.