

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

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-F
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-F (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 10 and 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 35 through 47 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-F
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-F'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 11.

FINANCIAL HIGHLIGHTS

- The liabilities of the District exceeded its assets at September 30, 2010 by \$590,085. Of this amount, \$2,361,639 is invested in capital assets which do not directly generate revenue and are not available to generate liquid capital. A deficit balance of \$4,507,539 is unrestricted.
- The District's net assets increased by \$1,047,305 including a prior period adjustment of \$683,329. Unrestricted net assets, which may be used to meet the District's ongoing obligations to residents and creditors, decreased by \$283,558 to the District's additions in capital assets.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,736,855, a net increase of \$1,238,385 in comparison to the prior year including the prior period adjustment increase of \$683,329. The increase was primarily due to an increase in permits and inspection revenues.
- On a government-wide basis, the District's long-term liabilities increased \$635,292 or 14.8%. The cause for the increase were advances from the Developer passed thru Denton County Fresh Water Supply District No. 1-A.

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 11 and 12. The statement of net assets is

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

Government-wide financial statements

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 14 and 15 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.

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 13 and the reconciliation of the governmental funds statement of revenues, expenditures and changes in the fund balances to the statement of activities on page 16 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 17 through 33 in this report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
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, liabilities exceeded assets by \$590,085 as of September 30, 2010.

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

	Summary of Changes in the Statement of Net Assets		
	2010	2009	Change
Current and other assets	\$ 2,219,505	1,087,158	\$ 1,132,347
Capital assets (Net of accumulated depreciation)	2,361,639	1,928,039	433,600
Total assets	4,581,144	3,015,197	1,565,947
Long-term liabilities	4,935,049	4,299,757	635,292
Other liabilities	236,180	352,830	(116,650)
Total liabilities	5,171,229	4,652,587	518,642
Net assets			
Invested in capital assets	2,361,639	1,928,039	433,600
Restricted	1,555,815	658,552	897,263
Unrestricted	(4,507,539)	(4,223,981)	(283,558)
Total net assets	\$ (590,085)	\$ (1,637,390)	\$ 1,047,305

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
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 change in net assets was an increase of \$1,047,305 or 64.0%. Normal operations accounted for \$350,225 of the increase and the remainder of the increase of \$683,329 related to prior period adjustments.

	Summary of Changes in the Statement of Activities		
	2010	2009	Change
Revenues:			
Property taxes	\$ 1,179,750	\$ 1,124,207	\$ 55,543
Charges for services	2,379,141	1,970,077	409,064
Investment revenues	577	1,362	(785)
Other revenues	345,884	23,820	322,064
Total revenues	3,905,352	3,119,466	785,886
Expenses for services	3,541,376	2,520,774	1,020,602
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	363,976	598,692	(234,716)
OTHER FINANCING SOURCES (USES)	-	(457,497)	457,497
Change in net assets	363,976	141,195	222,781
Net assets, beginning of year (as previously stated)	(1,637,390)	(1,778,585)	141,195
Prior Period Adjustment	683,329	-	683,329
NET ASSETS, beginning of year (as restated)	(954,061)	(1,778,585)	824,524
NET ASSETS, end of year	\$ (590,085)	\$ (1,637,390)	\$ 1,047,305

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2010, were \$1,736,855, an increase of \$1,238,385 from the prior year including a prior period adjustment of \$683,329.

The General Fund balance increased by \$341,511 including a \$20,479 prior period adjustment, primarily due to a significant increase in permits and inspections revenue in fiscal year end 2010.

The Debt Service Fund balance increased by \$887,327 including a prior period adjustment of \$662,850, primarily due to an increase in property tax revenues in Fiscal year 2010 and the prior period adjustment to increase cash held in escrow for prior year interest earnings.

The Capital Projects Fund balance increased \$9,547.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual expenditures on a budgetary basis were \$1,292,336 compared to the amended budget of \$1,322,689. The positive budget variance of \$30,353 was primarily due to favorable purchased water services. Actual Revenue on a budgetary basis was \$2,597,230 compared to the amended budget of \$1,944,933. The \$652,297 variance is primarily due to the receipt of additional building permits and miscellaneous revenues. See the budget to actual comparison on page 34 for additional information.

CAPITAL ASSETS

A portion of the District's water, wastewater and drainage facilities were paid for from proceeds of the City of Lewisville – Castle Hills Public Improvement District No. 4 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 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, 2010, amounts to \$2,361,639 (net of accumulated depreciation).

Capital Assets at Year-End, Net of Accumulated Depreciation			
	2010	2009	Increase (Decrease)
Construction in progress	\$ -	\$ 1,530,602	\$ (1,530,602)
Wastewater system	708,793	305,325	403,468
Roads	1,652,846	92,112	1,560,734
Total net capital assets	\$ 2,361,639	\$ 1,928,039	\$ 433,600

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
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 \$558,400 from the 2009-10 budget year, primarily to water/sewer sales and property tax revenue. Expenses for the FY 2010-11 are anticipated to increase by approximately \$415,900 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 1.00 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-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, 2010**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
ASSETS			
Cash	\$ 24,074	\$ 336	\$ 335
Cash with other governmental unit	-	1,721,195	-
Receivables:			
Property taxes	-	389	-
Service accounts (net of allowance for doubtful accounts of \$0)	61,618	-	-
Other	139,813	-	-
Prepaid costs	1,408	-	-
Due from other governmental unit	132,341	-	13,751
Due from other fund	175,897	-	-
Capital assets (net of accumulated depreciation)	-	-	-
TOTAL ASSETS	<u><u>\$ 535,151</u></u>	<u><u>\$ 1,721,920</u></u>	<u><u>\$ 14,086</u></u>
LIABILITIES			
Accounts payable	\$ 75,834	\$ -	\$ 4,294
Payroll deductions	2,085	-	-
Accrued wages	12,510	-	-
Due to other governmental units	124,207	-	-
Due to other fund	-	175,897	-
Due to developer	-	-	-
Security deposits	17,250	-	-
Deferred property tax revenue	121,836	389	-
Total liabilities	<u><u>353,722</u></u>	<u><u>176,286</u></u>	<u><u>4,294</u></u>
FUND BALANCES/NET ASSETS			
FUND BALANCES			
Reserved for authorized construction:			
Net investment revenues	-	-	9,792
Reserved for contract debt obligations	-	1,545,634	-
Reserved for prepaid costs	1,468	-	-
Unreserved - undesignated	179,961	-	-
Total fund balances	<u><u>181,429</u></u>	<u><u>1,545,634</u></u>	<u><u>9,792</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 535,151</u></u>	<u><u>\$ 1,721,920</u></u>	<u><u>\$ 14,086</u></u>
NET ASSETS			
Invested in capital assets			
Restricted for:			
Capital projects			
Debt service			
Unrestricted			
TOTAL NET ASSETS			

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$ 24,745	\$ -	\$ 24,745
1,721,195	-	1,721,195
389	-	389
61,618	-	61,618
139,813	-	139,813
1,408	-	1,408
146,092	124,245	270,337
175,897	(175,897)	-
-	2,361,639	2,361,639
<u>\$ 2,271,157</u>	<u>\$ 2,309,987</u>	<u>\$ 4,581,144</u>
\$ 80,128	\$ -	\$ 80,128
2,085	-	2,085
12,510	-	12,510
124,207	4,830,516	4,954,723
175,897	(175,897)	-
-	104,533	104,533
17,250	-	17,250
122,225	(122,225)	-
<u>534,302</u>	<u>4,636,927</u>	<u>5,171,229</u>
9,792	(9,792)	-
1,545,634	(1,545,634)	-
1,468	(1,468)	-
179,961	(179,961)	-
<u>1,736,855</u>	<u>(1,736,855)</u>	<u>-</u>
<u>\$ 2,271,157</u>		
	\$ 2,361,639	\$ 2,361,639
	9,792	9,792
	1,546,023	1,546,023
	<u>(4,507,539)</u>	<u>(4,507,539)</u>
	<u>\$ (590,085)</u>	<u>\$ (590,085)</u>

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

Total Fund Balances - Governmental Funds	\$ 1,736,855
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	2,361,639
Governmental funds do not record a long term receivable from other governmental units 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.	124,245
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.	(4,830,516)
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)
Revenue reported as unearned revenue in the governmental fund financial statements was recorded as revenue in the government-wide financial statements.	<u>122,225</u>
Total Net Assets - Governmental Activities	<u><u>\$ (590,085)</u></u>

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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, 2010**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
REVENUES:			
Property taxes	\$ -	\$ 1,199,974	\$ -
Water service	382,731	-	-
Wastewater service	80,663	-	-
Solid waste revenue	43,946	-	-
Penalty and interest	6,679	1,379	-
Permits and inspections	1,785,080	-	-
Franchise fees	45,246	-	-
Sales tax revenues	33,417	-	-
Investment revenues	-	576	1
Miscellaneous revenues	219,468	3,380	1,200
Total revenues	<u>2,597,230</u>	<u>1,205,309</u>	<u>1,201</u>
EXPENDITURES/EXPENSES			
Service operations:			
Personnel	261,698	-	-
Professional fees	68,012	-	49,185
Contracted services	181,628	10,784	-
Purchased water service	299,724	-	-
Purchased wastewater service	112,482	-	-
Purchased non-potable water service	47,471	-	-
Utilities	40,890	-	-
Repairs and maintenance	120,214	-	187,160
Other	160,217	20,207	-
Capital outlay	-	-	443,315
Debt service:			
Contract tax obligation - City of Lewisville	-	1,936,794	35,195
Depreciation	-	-	-
Total expenditures/expenses	<u>1,292,336</u>	<u>1,967,785</u>	<u>714,855</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,304,894</u>	<u>(762,476)</u>	<u>(713,654)</u>
OTHER FINANCING SOURCES (USES)			
Transfer in (out)	(413,509)	325,600	87,909
Contributions to other governmental units	(661,353)	-	-
Contributions from other governmental units	91,000	661,353	600,097
Developer contribution	-	-	35,195
Total other financing sources (uses)	<u>(983,862)</u>	<u>986,953</u>	<u>723,201</u>
NET CHANGE IN FUND BALANCES	321,032	224,477	9,547
CHANG IN NET ASSETS			
NET FUND BALANCES/NET ASSETS AT			
OCTOBER 1, 2009 (as previously stated)	<u>(160,082)</u>	<u>658,307</u>	<u>245</u>
Prior Period Adjustment	<u>20,479</u>	<u>662,850</u>	<u>-</u>
FUND BALANCES/NET ASSETS, AT			
OCTOBER 1, 2009 (as restated)	<u>(139,603)</u>	<u>1,321,157</u>	<u>245</u>
FUND BALANCES/NET ASSETS -			
SEPTEMBER 30, 2010	<u>\$ 181,429</u>	<u>\$ 1,545,634</u>	<u>\$ 9,792</u>

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ 1,199,974	\$ (20,224)	\$ 1,179,750
382,731	-	382,731
80,663	-	80,663
43,946	-	43,946
8,058	-	8,058
1,785,080	-	1,785,080
45,246	-	45,246
33,417	-	33,417
577	-	577
224,048	121,836	345,884
<u>3,803,740</u>	<u>101,612</u>	<u>3,905,352</u>
261,698	-	261,698
117,197	-	117,197
192,412	-	192,412
299,724	-	299,724
112,482	-	112,482
47,471	-	47,471
40,890	-	40,890
307,374	-	307,374
180,424	-	180,424
443,315	(443,315)	-
1,971,989	-	1,971,989
-	9,715	9,715
<u>3,974,976</u>	<u>(433,600)</u>	<u>3,541,376</u>
<u>(171,236)</u>	<u>535,212</u>	<u>363,976</u>
-	-	-
(661,353)	661,353	-
1,352,450	(1,352,450)	-
35,195	(35,195)	-
<u>726,292</u>	<u>(726,292)</u>	<u>-</u>
555,056	(555,056)	
	363,976	363,976
<u>498,470</u>	<u>(2,135,860)</u>	<u>(1,637,390)</u>
<u>683,329</u>	<u>-</u>	<u>683,329</u>
<u>1,181,799</u>	<u>(2,135,860)</u>	<u>(954,061)</u>
<u>\$ 1,736,855</u>	<u>\$ (2,326,940)</u>	<u>\$ (590,085)</u>

**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, 2010**

Net Change in Fund Balances - Governmental Funds	\$	555,056
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.		101,612
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.		443,315
Governmental funds report developer advances and payments as other financing sources and uses. However, in the statement of net assets, developer advances are recorded as an increase in the amount owed to the developer.		(35,195)
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.		(9,715)
Governmental funds report repayments to other governmental units as other financing uses. However, in the statement of net assets, repayments on long-term liabilities are recorded as a reduction of the liability.		661,353
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>(1,352,450)</u>
Change in Net Assets - Governmental Activities	\$	<u>363,976</u>

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
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 of Denton County, Texas (the District). 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 the District into two new districts of which Denton County Fresh Water Supply 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, and to construct 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 firefighting activities within the District. The District has contracted with District 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. 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 Governmental Accounting Standards Board 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**

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**

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.

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.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting – Continued

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.

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 a 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:

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

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.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Pensions

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

Measurement Focus

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

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

Reserved:

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

Unreserved:

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

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

Accounting Estimates

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

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

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the 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 \$24,745 and the bank balance was \$25,962. 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, 2010, as listed below:

General fund	\$	24,074
Debt service fund		336
Capital projects fund		335
		335
 Total deposits	 \$	 24,745
		24,745

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-F
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

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

As of September 30, 2010, the District 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.

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.

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

NOTE 4. CAPITAL ASSETS – CONTINUED

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

	September 30, 2009	Additions	Transfers	September 30, 2010
Capital assets not being depreciated				
Construction in progress	\$ 1,530,602	\$ 443,315	\$ (1,973,917)	\$ -
Capital assets at historical costs				
Subject to depreciation				
Wastewater system	331,985	-	410,835	742,820
Roads	93,907	-	1,563,082	1,656,989
Total capital assets at historical cost subject to depreciation	425,892	-	1,973,917	2,399,809
Less accumulated depreciation				
Wastewater system	26,660	7,377	-	34,037
Roads	1,785	2,348	-	4,133
Total less accumulated depreciation	28,445	9,725	-	38,170
Total depreciable capital assets, net of accumulated depreciation	397,447	(9,725)	1,973,917	2,361,639
Total capital assets, net of accumulated depreciation	<u>\$ 1,928,049</u>	<u>\$ 433,590</u>	<u>\$ -</u>	<u>\$ 2,361,639</u>

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, 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 30, 2010, the District executed an Excess Capacity Purchase Agreement (ECPA) with District No. 1-A, No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, 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.

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

NOTE 4. CAPITAL ASSETS – CONTINUED

The capacity allocated to each participant was based upon the estimated total sewer connection 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-D	42.97%
District No. 1-E	<u>20.12%</u>
Total	<u><u>100.00%</u></u>

District Nos. 1-B, 1-C, 1 -D and 1-E are defined in the ECPA as “Selling Districts”. It is the intent of the Selling Districts to sell excess capacity to District Nos. 1-F, 1-G and 1-H based on the actual capacity needed as development occurs within their respective district. The cost of capacity to District Nos. 1-F, 1-G and 1-H will be calculated based upon the provisions outlined in the ECPA.

As of September 30, 2010, the District does not own capacity in the lift station facilities.

NOTE 5. MAINTENANCE TAX

On November 7, 1995, 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 for 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.

NOTE 6. JOINT UTILITY CONTRACTS

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 the District 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 Public Improvement District No. 4 (PID 4) bonds; the first installment of these bonds were sold in the amount of \$20,000,000 in 2008 and the remaining balance of \$12,000,000 in the future.

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

NOTE 6. JOINT UTILITY CONTRACTS – CONTINUED

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, the District No.'s 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 PID 4 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 4 and Lewisville, the District agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 4 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 PID 4 Bonds.

The additional ten percent (10%) of the debt and other costs included to the PID 4 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 PID 4 Bonds on the following February 1, after application of the available reserves from proceeds of the PID 4 Bonds and will calculate an assessment on all assessable property within the PID 4, 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. During the current fiscal year, the District made contract tax payments of \$1,936,794 to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement at September 30, 2010 is \$1,854,750. To date, the District has funded \$929,875 of the reserve and a letter of credit covers the remaining reserve requirement. The Reserve Fund is maintained by the City of Lewisville for PID 4. During the current fiscal year, PID 4 assessment revenue in the amount of \$661,352 was collected and remitted to Lewisville.

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

NOTE 6. JOINT UTILITY CONTRACTS – CONTINUED

These monies are maintained in an escrow account under the oversight of Lewisville. During the current fiscal year, available PID 4 assessment revenue was used to pay down outstanding principal on the PID 4 bonds in the amount of \$600,000. As of September 30, 2010, \$30,628 remained in the escrow account. As funds are accumulated in the escrow account, these monies will be used to retire additional outstanding PID 4 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, 2010:

PID 4 SERIES - 2008			
Fiscal Year Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2011	\$ -	\$ 1,277,775	\$ 1,277,775
2012	-	1,277,775	1,277,775
2013	500,000	1,244,025	1,744,025
2014	535,000	1,207,912	1,742,912
2015	570,000	1,169,437	1,739,437
2016	610,000	1,128,262	1,738,262
2017	650,000	1,084,387	1,734,387
2018	695,000	1,037,475	1,732,475
2019	740,000	987,525	1,727,525
2020	795,000	933,863	1,728,863
2021	845,000	876,825	1,721,825
2022	905,000	815,738	1,720,738
2023	965,000	750,600	1,715,600
2024	1,030,000	681,075	1,711,075
2025	1,100,000	606,825	1,706,825
2026	1,170,000	527,850	1,697,850
2027	1,250,000	443,475	1,693,475
2028	1,335,000	353,363	1,688,363
2029	1,425,000	257,175	1,682,175
2030	1,520,000	154,575	1,674,575
2031	1,625,000	44,888	1,669,888
2032	665,000	-	665,000
Total	<u>\$ 18,930,000</u>	<u>\$ 16,860,825</u>	<u>\$ 35,790,825</u>

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

NOTE 6. JOINT UTILITY CONTRACTS – CONTINUED

On February 1 following the date of receipt of written notification of the Annual Assessment, the District will certify to Lewisville the amount of all taxes collected. If necessary, Lewisville will then impose an assessment with the PID 4 sufficient to pay the debt service requirement on the PID 4 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 collation of said tax. For the fiscal year ending September 30, 2010, the District levied a contract tax at the rate of \$1.00 per \$100 of assessed valuation upon property with the District. The term of the agreement is forty (40) years.

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. 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-F
NOTES TO BASIC FINANCIAL STATEMENTS**

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.

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-F
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 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 AGREEMENTS

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-F
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.

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.

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

NOTE 8. OPERATING AGREEMENT – CONTINUED

Such fraction shall be calculated as of the first day of the fiscal year in which such fraction is to be used to allocate such costs among the districts and shall be recalculated as of the first 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 AND DEFICIT NET ASSETS

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, 2010, the District's government-wide financial statements reflect a \$590,085 net asset deficit. The District anticipates being able to alleviate this deficit in the course of their normal operations within a few years.

NOTE 11. 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 (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, Castle Hills Property Company, and Bright Realty, Ltd., (collectively the Developer).

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

NOTE 11. UNREIMBURSED DEVELOPER COST – CONTINUED

In May, 2009, the report was presented to the District 1-F Board of Directors which indicated that \$104,533 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-F 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 of claims exceeding coverage in the last 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, District No. 1-E, the District, 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 OTHER GOVERNMENTAL UNITS

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 \$150,108 was due to 1-A for its share of costs associated with Windhaven East (\$44,485), Windhaven West (\$9,298) and for General Operations (\$96,325). 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 13 for prior years. During the current year, an additional \$635,292 was advanced to 1-A for the benefit of 1-F for Phase 6 Improvements. The total amount due to District No. 1-A of \$4,830,516 has been recorded as a liability in the statement of net assets of the District.

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

NOTE 14. DUE TO DISTRICT OTHER GOVERNMENTAL UNITS - CONTINUED

The remaining balance of \$137,958 is due to other Districts for the District's negative claim on pooled cash. This has been recognized as a liability on the governmental balance sheet since cash shortfalls are anticipated to be repaid within one year.

NOTE 15. PRIOR PERIOD ADJUSTMENT

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 \$20,479.

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 4 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 \$662,850.

NOTE 16. EXCESS CAPACITY PURCHASE AGREEMENT

The District entered into an Excess Capacity Purchase Agreement (the Agreement) with District No. 1-G. In accordance with the Agreement, District 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 \$91,000. The remaining balance of \$124,245 at September 30, 2010 has been recorded as a receivable in the statement of net assets.

NOTE 17. 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.

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.

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

NOTE 18. LITIGATION – CONTINUED

Under the Operating Agreements that the other named Districts have with District No. 1-A, District No. 1-A performs a variety of administrative services necessary to operate the Districts' facilities which includes defending all claims, administrative proceedings and lawsuits brought by third parties against the Districts which have any effect on the Districts' facilities, or the construction, maintenance or operation of the Districts' facilities. Pursuant to the Operating Agreement and on behalf of all of the above-listed entities, Denton County Fresh Water Supply District No. 1-A filed a response to the petitions asserting that TCEQ does not have appellate jurisdiction over all or some of the listed water districts' rates. On June 14, 2010, an Administrative Law Judge (ALJ) for the State Office of Administrative Hearings (SOAH) accepted provisional jurisdiction over the rate appeal petitions subject to briefing by the Parties on certain jurisdictional issues. Such briefing to date has not been submitted due to on-going settlement discussions.

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

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REQUIRED SUPPLEMENTARY INFORMATION

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

	Budget Original	Budget Amended	Actual	Variance Positive (Negative)
REVENUES:				
Water service	\$ 290,191	\$ 290,191	\$ 382,731	\$ 92,540
Wastewater service	121,304	121,304	80,663	(40,641)
Solid waste revenue	21,982	21,982	43,946	21,964
Penalty and interest	2,200	2,200	6,679	4,479
Permits and inspections	1,457,375	1,457,375	1,785,080	327,705
Franchise fees	46,331	46,331	45,246	(1,085)
Sales tax revenues	-	-	33,417	33,417
Miscellaneous revenues	5,550	5,550	219,468	213,918
Total revenues	1,944,933	1,944,933	2,597,230	652,297
EXPENDITURES/EXPENSES				
Service operations:				
Personnel	262,924	262,845	261,698	1,147
Professional fees	38,500	38,500	68,012	(29,512)
Contracted services	167,055	167,055	181,628	(14,573)
Purchased water service	311,852	381,394	299,724	81,670
Purchased wastewater service	71,537	71,537	112,482	(40,945)
Purchased non-potable water service	47,592	47,592	47,471	121
Utilities	35,409	35,409	40,890	(5,481)
Repairs and maintenance	138,756	138,756	120,214	18,542
Other	179,601	179,601	160,217	19,384
Total expenditures/expenses	1,253,226	1,322,689	1,292,336	30,353
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	691,707	622,244	1,304,894	621,944
OTHER FINANCING SOURCES (USES)				
Transfer in (out)	-	(459,541)	(413,509)	46,032
Contributions to other governmental units	(486,694)	(661,353)	(661,353)	-
Contributions from other governmental units	-	91,000	91,000	-
Total other financing sources (uses)	(486,694)	(1,029,894)	(983,862)	46,032
NET CHANGE IN FUND BALANCES	205,013	(407,650)	321,032	667,976
FUND BALANCE AT OCTOBER 1, 2009 (as previously stated)	(139,603)	(139,603)	(160,082)	(20,479)
PRIOR PERIOD ADJUSTMENT	-	-	20,479	20,479
FUND BALANCE AT OCTOBER 1, 2009 (as restated)	(139,603)	(139,603)	(139,603)	-
FUND BALANCES SEPTEMBER 30, 2010	\$ 65,410	\$ (547,253)	\$ 181,429	\$ 667,976

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

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

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved September 22, 2009

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Usage</u>	<u>Usage Levels</u>
Water:	34.75	2,000	N	3.74	2,001 to 15,000
				4.24	15,001 to 25,000
				5.06	25,001 to 35,000
				6.06	35,001 to 45,000
				7.06	45,001 to 55,000
				8.06	55,001 and up
Wastewater:					
Residential	8.75		N	3.70	2,001 not to exceed 15,000 gallons
Residential	37.04		Y		New Customers
Commercial	8.75		N	3.70	2,001 and up
Surcharge:					
Solid waste/garbage	16.07		Y		
Commission	.5% of actual				
Regulatory Assessments	water and sewer bill				

District employs winter averaging for wastewater usage? X Yes No

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

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

2. RETAIL SERVICE PROVIDERS – CONTINUED

b. WATER AND WASTEWATER RETAIL CONNECTIONS (Unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC's</u>
Unmetered			X 1.0	0
≤ 3/4"	134	134	X 1.0	134
1"	224	224	X 2.5	560
1 1/2"	4	4	X 5.0	20
2"	23	23	X 8.0	184
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	385	385		898
Total wastewater connections	275	275	X 1.0	275

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:	62,730,500	<u>93.3%</u>
Gallons purchased:	67,206,635	From: Our water suppliers

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

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, TX.

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

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

Personnel (including benefits)	<u>\$ 261,698</u>
Professional fees:	
Auditing	14,800
Legal	<u>53,212</u>
Total professional fees	<u>68,012</u>
Purchased services for resale:	
Water service	299,724
Non-potable water service	47,471
Wastewater service	<u>112,482</u>
Total purchased services for resale	<u>459,677</u>
Contracted services:	
Police department	17,335
Fire protection and EMS	41,089
Solid waste disposal	24,655
Contract labor	49,309
Management fee	<u>49,240</u>
Total contracted services	<u>181,628</u>
Utilities:	
Electricity	27,974
Telephone	<u>12,916</u>
Total utilities	<u>40,890</u>
Repairs and maintenance	<u>120,214</u>

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

Other expenditures:

Director fees	4,950
Directors costs	880
Tap connection expenditures	37,026
Insurance	23,107
Supplies - postage	8,784
State certification	240
Office rental	34,010
Equipment rental	3,254
Supplies- medical	19
Supplies- small tools	2,516
Supplies- uniforms	1,838
Supplies- gas and oil	14,323
Other	29,270

Total other expenditures	160,217
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Total expenditures	\$ 1,292,336
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(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-F
ANALYSIS OF TAXES RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>Maintenance Tax</u>		<u>Contract Tax</u>	
Taxes receivable -				
October 1, 2009	\$ 20,613		\$ -	
Adjustments to beginning balance	<u>(20,613)</u>	-	<u>20,613</u>	20,613
Original 2009 tax levy			\$ 1,178,929	
Adjustment to 2009 tax levy	<u>-</u>	<u>-</u>	<u>821</u>	<u>1,179,750</u>
Total to be accounted for		-		1,200,363
Tax collections:				
Prior years			\$ 20,613	
Current year		<u>-</u>	<u>1,179,361</u>	<u>1,199,974</u>
Taxes receivable -				
September 30, 2010		<u>\$ -</u>		<u>\$ 389</u>
Taxes receivable by year:				
2009		<u>\$ -</u>		<u>\$ 389</u>
		<u>\$ -</u>		<u>\$ 389</u>

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
PROPERTY VALUATIONS			
Land	\$ 103,821,948	\$ 110,478,657	\$ 90,296,322
Improvements	13,900,895		\$ 159,042
Personal property	321,680		\$ 45,870
Exemptions	<u>(26,190)</u>		<u>\$ (2,061,305)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 118,018,333</u>	<u>\$ 110,478,657</u>	<u>\$ 88,439,929</u>
TAX RATES PER \$100 VALUATION:			
Contract	\$ -	\$ 0.693	\$ -
Maintenance	<u>1.000</u>	<u>0.307</u>	<u>1.000</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 1.000</u>	<u>\$ 1.000</u>	<u>\$ 1.000</u>
ADJUSTED TAX LEVY	<u>\$ 1,179,750</u>	<u>\$ 1,104,786</u>	<u>\$ 884,399</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>100%</u>	<u>100%</u>	<u>100%</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.

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

	Amounts			
	2010	2009	2008	2007*
REVENUES:				
Property taxes	\$ -	\$ 337,977	\$ 884,399	\$ -
Water service	382,731	130,198	9,350	-
Wastewater service	80,663	7,676	-	-
Solid waste revenue	43,946	4,900	-	-
Penalty and interest	6,679	1,789	331	-
Permits and inspections	1,785,080	1,136,946	271,098	46
Franchise fees	45,246	23,323	26,138	-
Sales tax revenues	33,417	-	-	-
Investment revenues	-	557	1,454	-
Miscellaneous revenues	219,468	21,988	-	-
Total revenues	<u>2,597,230</u>	<u>1,665,354</u>	<u>1,192,770</u>	<u>46</u>
EXPENDITURES/EXPENSES				
Service operations:				
Personnel	261,698	174,022	305,056	-
Professional fees	68,012	84,460	167,897	117,264
Contracted services	181,628	167,279	188,008	-
Purchased water service	299,724	342,771	189,977	-
Purchased wastewater service	112,482	69,106	31,921	8,589
Purchased non-potable water service	47,471	-	-	-
Utilities	40,890	34,427	20,940	-
Repairs and maintenance	120,214	134,120	65,547	-
Other	160,217	125,323	59,988	16,603
Capital outlay	-	12,258	2,633	-
Total expenditures/expenses	<u>1,292,336</u>	<u>1,143,766</u>	<u>1,031,967</u>	<u>142,456</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,304,894</u>	<u>521,588</u>	<u>160,803</u>	<u>(142,410)</u>
OTHER FINANCING SOURCES (USES)				
Transfer out	(413,509)	(746,256)	(298,845)	-
Contributions to other governmental units	(661,353)	(7,497)	(6,342)	-
Contributions from other governmental units	91,000	-	-	-
Developer contribution	-	-	235,359	127,800
Total other financing sources (uses)	<u>(983,862)</u>	<u>(753,753)</u>	<u>(69,828)</u>	<u>127,800</u>
NET CHANGE IN FUND BALANCES	321,032	(232,165)	\$ 90,975	(14,610)
BEGINNING FUND BALANCES (As previously stated)	(160,082)	72,083	(18,892)	(4,282)
PRIOR PERIOD ADJUSTMENT	20,479	-	-	-
BEGINNING FUND BALANCES (As restated)	<u>(139,603)</u>	<u>72,083</u>	<u>(18,892)</u>	<u>(4,282)</u>
ENDING FUND BALANCE	<u>\$ 181,429</u>	<u>\$ (160,082)</u>	<u>\$ 72,083</u>	<u>\$ (18,892)</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>385</u>	<u>154</u>	<u>22</u>	<u>-</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>275</u>	<u>47</u>	<u>3</u>	<u>-</u>

* First Year Audit

Percent of Total Revenues

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
0.0 %	20.3 %	74.2 %	0.0 %	0.0
14.7	7.8	0.8	0.0	0.0
3.1	0.5	0.0	0.0	0.0
1.7	0.3	0.0	0.0	0.0
0.3	0.1	0.0	0.0	0.0
68.6	68.3	22.7	100.0	0.0
1.7	1.4	2.2	0.0	0.0
1.3	0.0	0.0	0.0	0.0
0.0	0.0	0.1	0.0	0.0
8.5	1.3	0.0	0.0	0.0
99.9	100.0	100.0	100.0	0.0
10.1	10.4	25.6	0.0	0.0
2.6	5.1	14.1	254,921.7	0.0
7.0	10.0	15.8	0.0	0.0
11.5	20.6	15.9	0.0	0.0
4.3	4.1	2.7	18,671.7	0.0
1.8	0.0	0.0	0.0	0.0
1.6	2.1	1.8	0.0	0.0
4.6	8.1	5.5	0.0	0.0
6.2	7.5	5.0	36,093.5	0.0
0.0	0.7	0.2	0.0	0.0
49.7	68.6	86.6 %	309,687 %	0.0
50.2 %	31.4 %	13.4 %	-309586.9 %	0.0

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

	Amounts			
	2010	2009	2008	2007*
REVENUES:				
Property taxes	\$ 1,199,974	\$ 765,617	\$ -	\$ -
Penalty and interest	1,379	-	-	-
Investment revenues	576	777	12,622	-
Miscellaneous revenues	3,380	1,832		
Total revenues	<u>1,205,309</u>	<u>768,226</u>	<u>12,622</u>	<u>-</u>
EXPENDITURES				
Contracted services	10,784	4,615	6,124	-
Other	20,207	-	-	-
Contract tax obligation - City of Lewisville	1,936,794	1,156,903	-	-
Total expenditures	<u>1,967,785</u>	<u>1,161,518</u>	<u>6,124</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(762,476)</u>	<u>(393,292)</u>	<u>6,498</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Transfer in (out)	325,600	746,256	298,845	-
Contributions from other governmental units	661,353	-	-	-
Total other financing sources (uses)	986,953	746,256	298,845	-
NET CHANGE IN FUND BALANCES	224,477	352,964	305,343	-
BEGINNING FUND BALANCES (As previously stated)	658,307	305,343	-	-
PRIOR PERIOD ADJUSTMENT	662,850	-	-	-
BEGINNING FUND BALANCES (As restated)	<u>1,321,157</u>	<u>305,343</u>	<u>-</u>	<u>-</u>
ENDING FUND BALANCE	<u>\$ 1,545,634</u>	<u>\$ 658,307</u>	<u>\$ 305,343</u>	<u>\$ -</u>

* First Year Audit

Percent of Total Revenues

2010	2009	2008	2007
99.6 %	99.7 %	0.0 %	-
0.1	-	-	-
0.3	0.1	-	-
0.2	-	-	-
100.0	100.0	-	-
0.9	0.6	48.5	-
160.7	150.6	-	-
161.6	151.2	48.5	-
<u>(61.6) %</u>	<u>(51.2) %</u>	<u>(48.5) %</u>	<u>N/A</u>

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

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

District Telephone No. - (972) 899-4000

<u>Board Members</u>	<u>Term of Office (Elected)</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>
Paul Miller	5/06-7/10	\$ 1,050	\$ 171	President
James David Danielson	5/08-5/12	\$ 750	\$ 59	Vice President
Brian Gary Carlton	5/08-5/12	\$ 750	\$ 27	Secretary
C.S. Kelso	5/06-5/14	\$ 1,200	\$ 24	Treasurer/ Assistant Secretary
Cheryl Mabery	2/09- 5/14 (Appointed)	\$ 900	\$ 32	Assistant Secretary
Matthew Taylor	7/10-5/14	\$ 300	\$ -	President

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

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

Consultants	Date Hired	Fees for the Year Ended September 30, 2010	Title
Kelly Hart & Hallman LLP 201 Main Street, Suite 2500 Fort Worth, TX 76102	6/3/08	\$ 35,798	Attorney
Municap 8775 Cloudleap Court, Suite P89 Columbia, MO 21045	2/1/10	\$ 2,718	Consultant
Vinson Elkins P.O. Box 200113 Houston, TX 77216-0113	N/A	\$ 14,696	Attorney
McCall Gibson Swedlund Barfoot PLLC Certified Public Accountants 13100 Wortham Center Dr., Ste. 235 Houston, TX 77065-5610	8/21/07	\$ 14,800	Auditor
Pate Engineers, Inc. 8150 Brookriver Drive, Suite S-700 Dallas, Texas 75247	11/16/09	\$ 11,276	Engineer
TRC Engineers, Inc. 8140 Walnut Hill Lane, Suite 500 Dallas, TX 75231	2/5/04	\$ 35,941	Engineer
Zane Miller 2540 King Arthur, Suite 220 Lewisville, TX 75056	9/18/2007	\$ -	Investment Officer
Denton County Appraisal District 3911 Morse Denton, TX 76208	Legislative Action	\$ 5,041	Property Tax Appraisals
Denton County Tax Collector c/o Steve Mossman P.O. Box 90223 Denton, TX 76202	5/15/2007	\$ -	Tax Assessor/ Collector