

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

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2011

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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, 2011, 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, 2011, 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 30, 2012 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.

Management's Discussion and Analysis (on pages 3 through 8) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Denton County Fresh Water
Supply District No. 1-F

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents on page 36 and the supplementary information listed in the table of contents on pages 37 through 50 (required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide*) 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 30, 2012

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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, 2011. Please read it in conjunction with the District's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The liabilities of the District exceeded its assets at September 30, 2011 by \$480,303. Of this amount, \$3,283,068 is invested in capital assets which do not directly generate revenue and are not available to generate liquid capital. A deficit balance of \$5,621,967 is unrestricted.
- The District's net assets increased by \$109,782. Unrestricted net assets, which may be used to meet the District's ongoing obligations to residents and creditors, decreased by \$1,114,428. The decrease was primarily due to additions to fixed assets that were funded by operations.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,864,577, a net increase of \$127,722 in comparison to the prior year. The increase was primarily due to contributions from other governmental units.
- On a government-wide basis, the District's long-term liabilities increased \$817,144 or 16.6%. 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) government-wide financial statements and (2) fund financial statements and (3) notes to the financial statements. The combined fund financial statements and government wide financial statements include 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 composing the government-wide financial statements. The government-wide statements provide 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.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Government-wide financial statements – continued

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

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

Fund financial statements

The 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 used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-time inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 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 15 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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 16 through 36 in this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information. The District prepares a schedule of allocated costs to other governmental units on page 36 and information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* on pages 37 through 50.

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 \$480,303 as of September 30, 2011.

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

Summary of Changes in the Statement of Net Assets			
	2011	2010	Change
Current and other assets	\$ 2,399,840	\$ 2,219,505	\$ 180,335
Capital assets (Net of accumulated depreciation)	3,283,068	2,361,639	921,429
Total assets	5,682,908	4,581,144	1,101,764
Noncurrent liabilities	5,752,193	4,935,049	817,144
Other liabilities	411,018	236,180	174,838
Total liabilities	6,163,211	5,171,229	991,982
Net assets			
Invested in capital assets	3,283,068	2,361,639	921,429
Restricted	1,858,596	1,555,815	302,781
Unrestricted	(5,621,967)	(4,507,539)	(1,114,428)
Total net assets	\$ (480,303)	\$ (590,085)	\$ 109,782

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the District's operations for the years ended September 30, 2011 and 2010. The District's change in net assets was an increase of \$109,782 or 18.6%.

	Summary of Changes in the Statement of Activities		
	2011	2010	Change
Revenues:			
Property taxes	\$ 1,671,292	\$ 1,179,750	\$ 491,542
Charges for services	2,133,646	2,379,141	(245,495)
Investment revenues	452	577	(125)
Contributions from other governmental units	4,200	-	4,200
Other revenues	172,126	345,884	(173,758)
Total revenues	3,981,716	3,905,352	76,364
Expenses:			
Expenses for services	1,572,077	1,559,672	12,405
Debt service	1,791,925	1,971,989	(180,064)
Contribution to other governmental units	450,000	-	450,000
Depreciation	57,932	9,715	48,217
Total expenses	3,871,934	3,541,376	330,558
Change in net assets	109,782	363,976	(254,194)
Net assets, beginning of year (as previously stated)	(590,085)	(1,637,390)	1,047,305
Prior Period Adjustment	-	683,329	(683,329)
NET ASSETS, beginning of year (as restated)	(590,085)	(954,061)	363,976
NET ASSETS, end of year	\$ (480,303)	\$ (590,085)	\$ 109,782

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2011, were \$1,864,577, an increase of \$127,722 from the prior year.

The General Fund balance decreased by \$6,656, primarily due to cost sharing arrangements with the District and District No. 1-G.

The Debt Service Fund balance increased by \$309,494, primarily due to an increase in property tax revenues.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS(Continued)

The Capital Projects Fund balance decreased \$175,116, primarily due to planned capital expenditures, exceeding resources collected during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual expenditures on a budgetary basis were \$1,387,931, compared to the amended budget of \$1,458,067. Actual revenues on a budgetary basis were \$2,471,899 compared to the amended budget of \$2,375,719. The positive variance of \$96,180 in budgeted to actual revenues falls within the District's expectations considering the total revenues collected. See the budget to actual comparison on page for additional information.

The District maintained property tax rates at 1.00 per \$100 assessed value.

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, 2011, amounts to \$3,283,068 (net of accumulated depreciation).

Capital Assets at Year-End, Net of Accumulated Depreciation			
	2011	2010	Increase (Decrease)
Construction in progress	\$ 846,057	\$ -	\$ 846,057
Investment in shared lift station	133,304	-	133,304
Wastewater system	692,276	708,793	(16,517)
Roads	1,611,431	1,652,846	(41,415)
Total net capital assets	\$ 3,283,068	\$ 2,361,639	\$ 921,429

Additional information on the District's capital assets can be found in Note 5 on pages 24 through 25 of this report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For the next fiscal year, budgeted revenues are anticipated to decrease by approximately \$22,543 while expenses are anticipated to increase by approximately \$182,661 . 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 being less than revenues.

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.

BASIC FINANCIAL STATEMENTS

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 117,407
Cash with other governmental unit	2,031,015
Receivables:	
Service accounts (net of allowance for doubtful accounts of \$0)	100,784
Other	4,175
Prepaid costs	1,454
Due from other governmental unit	145,005
Construction in progress	846,057
Capital assets (net of accumulated depreciation)	<u>2,437,011</u>
TOTAL ASSETS	<u><u>\$ 5,682,908</u></u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 220,130
Payroll deductions	2,865
Accrued wages	12,510
Due to other governmental units	138,125
Retainage payable	8,313
Security deposits	<u>29,075</u>
Total current liabilities	411,018
Non current liabilities	
Due to other governmental units	5,647,660
Due to developer	<u>104,533</u>
Total noncurrent liabilities	5,752,193
TOTAL LIABILITIES	<u>6,163,211</u>
NET ASSETS	
Invested in capital assets	3,283,068
Restricted for:	
Capital projects	3,079
Debt service	1,855,517
Unrestricted	<u>(5,621,967)</u>
TOTAL NET ASSETS	<u><u>\$ (480,303)</u></u>

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>Statement of Activities</u>
REVENUES:	
Property taxes	\$ 1,671,292
Water service	583,534
Wastewater service	181,932
Solid waste revenue	74,201
Penalty and interest	6,350
Permits and inspections	1,158,804
Franchise fees	60,558
Strategic partnership revenue	68,267
Investment revenues	452
Miscellaneous revenues	172,126
Contributions from other governmental units	<u>4,200</u>
Total revenues	<u>3,981,716</u>
EXPENSES:	
Service operations:	
Administrative expenditures	164,623
Director expenditures	5,651
Reimbursements to other governmental units	1,025,354
Contracted services	87,591
Purchased water service	91,541
Purchased wastewater service	80,763
Repairs and maintenance	98,867
Supplies and other charges	<u>17,687</u>
Total service expenses	<u>1,572,077</u>
Debt service:	
Contract tax obligation - City of Lewisville	1,791,925
Depreciation	57,932
Contributions to other governmental units	<u>450,000</u>
Total expenses	<u>3,871,934</u>
CHANGE IN NET ASSETS	109,782
NET ASSETS, AT OCTOBER 1, 2010	<u>(590,085)</u>
NET ASSETS AT SEPTEMBER 30, 2011	<u>\$ (480,303)</u>

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011**

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash	\$ 117,127	\$ 10
Cash with other governmental unit	-	2,031,015
Receivables:		
Service accounts (net of allowance for doubtful accounts of \$0)	100,784	-
Other	4,175	-
Prepaid costs	1,454	-
Due from other governmental unit	-	-
Due from other fund	175,897	-
TOTAL ASSETS	<u>\$ 399,437</u>	<u>\$ 2,031,025</u>
LIABILITIES		
Accounts payable	\$ 42,089	\$ -
Payroll deductions	2,865	-
Accrued wages	12,510	-
Due to other governmental units	138,125	-
Retainage payable		
Due to other fund	-	175,897
Security deposits	29,075	-
Total liabilities	<u>224,664</u>	<u>175,897</u>
FUND BALANCES		
Nonspendable		
Prepaid costs	1,454	-
Restricted		
PID 1 Reserve Fund	-	1,299,869
Contract debt obligations	-	555,259
Assigned		
Capital projects		
Unassigned	174,773	-
Total fund balances	<u>174,773</u>	<u>1,855,128</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 399,437</u>	<u>\$ 2,031,025</u>

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

<u>Capital Projects Fund</u>	<u>Total</u>
\$ 270	\$ 117,407
-	2,031,015
-	100,784
-	4,175
-	1,454
20,760	20,760
-	175,897
<u>\$ 21,030</u>	<u>\$ 2,451,492</u>
\$ 186,354	\$ 228,443
-	2,865
-	12,510
-	138,125
-	175,897
-	29,075
<u>186,354</u>	<u>586,915</u>
-	1,454
-	1,299,869
-	555,259
(165,324)	(165,324)
<u>(165,324)</u>	<u>174,773</u>
<u>(165,324)</u>	<u>1,864,577</u>
<u>\$ 21,030</u>	<u>\$ 2,451,492</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, 2011**

Total Fund Balances - Governmental Funds	\$ 1,864,577
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.	2,437,011
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.	(5,647,660)
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.	<u>(104,533)</u>
Total Net Assets - Governmental Activities	<u>\$ (480,303)</u>

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**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
REVENUES:				
Property taxes	\$ 166,127	\$ 1,627,390	\$ -	\$ 1,793,517
Water service	583,534	-	-	583,534
Wastewater service	181,932	-	-	181,932
Solid waste revenue	74,201	-	-	74,201
Penalty and interest	6,350	-	-	6,350
Permits and inspections	1,158,804	-	-	1,158,804
Franchise fees	60,558	-	-	60,558
Strategic partnership revenue	68,267	-	-	68,267
Investment revenues	-	451	1	452
Miscellaneous revenues	172,126	-	-	172,126
Total revenues	<u>2,471,899</u>	<u>1,627,841</u>	<u>1</u>	<u>4,099,741</u>
EXPENDITURES				
Service operations:				
Administrative expenditures	96,491	15,367	52,765	164,623
Director expenditures	5,651	-	-	5,651
Reimbursements to other governmental units	1,025,354	-	-	1,025,354
Contracted services	86,648	943	-	87,591
Purchased water service	91,541	-	-	91,541
Purchased wastewater service	80,763	-	-	80,763
Repairs and maintenance	-	-	98,867	98,867
Supplies and other charges	1,483	16,204	-	17,687
Capital outlay	-	-	846,057	846,057
Debt service:				
Contract tax obligation - City of Lewisville	-	1,791,925	-	1,791,925
Total expenditures	<u>1,387,931</u>	<u>1,824,439</u>	<u>997,689</u>	<u>4,210,059</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,083,968</u>	<u>(196,598)</u>	<u>(997,688)</u>	<u>(110,318)</u>
OTHER FINANCING SOURCES (USES)				
Transfer in (out)	(507,320)	506,092	1,228	-
Contributions to other governmental units	(583,304)	-	-	(583,304)
Contributions from other governmental units	-	-	821,344	821,344
Total other financing sources (uses)	<u>(1,090,624)</u>	<u>506,092</u>	<u>822,572</u>	<u>238,040</u>
NET CHANGE IN FUND BALANCES	(6,656)	309,494	(175,116)	127,722
FUND BALANCE AT OCTOBER 1, 2010	<u>181,429</u>	<u>1,545,634</u>	<u>9,792</u>	<u>1,736,855</u>
FUND BALANCES AT SEPTEMBER 30, 2011	<u>\$ 174,773</u>	<u>\$ 1,855,128</u>	<u>\$ (165,324)</u>	<u>\$ 1,864,577</u>

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

**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, 2011**

Net Change in Fund Balances - Governmental Funds	\$ 127,722
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	(122,225)
Governmental funds report capital expenditures in the period purchased. However, in the government-wide financial statements, capital assets are increased by new purchases or contributed assets.	846,057
Purchase of capacity is recognized as a other financing use in the governmental funds. However, in the government-wide financial statements the amount is shown as an addition to capital assets.	133,304
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.	(57,932)
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>(817,144)</u>
Change in Net Assets - Governmental Activities	<u><u>\$ 109,782</u></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, now known as Denton County Fresh Water Supply District No. 1-A (District No. 1-A). As a result of another election held on August 8, 1987, the voters approved District No. 1-A's assumption of certain rights, authority, privileges and functions of a road district and approved for District No. 1-A to purchase, construct, acquire, own, operate, repair, improve and extend sanitary sewer systems. On December 21, 1993, following a hearing, the governing board of District No. 1-A approved the conversion of District No. 1-A 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 District No. 1-A on April 8, 1999, voters approved the division of District No. 1-A into two new districts of which Denton County Fresh Water Supply District No. 1-F (the District) was one. The District held its first meeting on May 27, 1999. Pursuant to the provisions of Chapters 49, 51 and 53 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The District has contracted with District No. 1-A to operate the utility system within the District. The District and its operations is part of the 8 Districts which make up the community referred to as Castle Hills.

The District receives funding from local and state government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity," as defined in pronouncements by the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Reporting Entity*. The District implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*, and it was determined that there are no component units and the pronouncement has no effect on the financial statements.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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 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.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the District as a whole. The statement of net assets is reported by adjusting the governmental fund types to report on the full accrual basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the statement of net assets. The statement of activities is reported by adjusting the governmental fund types to the accrual basis of accounting. 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 on the government-wide statement of activities.

Fund Financial Statements

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

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. 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.

The fund statements include a balance sheet and statement of revenues, expenditures and changes in fund balances. 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.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Financial Statements – Continued

Debt Service Fund – To account for ad valorem taxes and financial resources accumulated for servicing bonded 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.

Budgeting

Pursuant to the Operating Agreement, District No. 1-A will prepare and submit to the District for its review on or about September 1 of each year an annual operating and maintenance budget. During fiscal year 2011 the District's Board acknowledged the receipt of the annual budget provided by District 1-A.

Cash and Cash Equivalents

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

Prepaid Items

Prepaid balances are for payments made by the District for which benefits extend beyond September 30, 2011, and the reserve for prepaid items has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide statement of net assets. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as 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.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets – Continued

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

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

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.

Net Assets / Fund Balances

In the fiscal year ended September 30, 2011, the District has implemented GASB No. 54, *Fund Balance, Reporting and Governmental Fund Type Definitions*, for its governmental funds. Under GASB No. 54, fund balances are required to be reported according to the following classifications:
costs.

Nonspendable Fund Balance – Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes prepaid costs.

Restricted Fund Balance – Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation).

Committed Fund Balance – Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) or by law (through constitutional provisions or enabling legislation). The District has no committed fund balance at September 30, 2011.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Assets / Fund Balances – Continued

Assigned Fund Balance – Amounts that are constrained by the District’s intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. The District has no assigned fund balance at September 30, 2011.

Unassigned Fund Balance – This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance.

The District policy is to use restricted resources first, then unrestricted resources as they are needed. Within unrestricted fund balance, the committed amount should be used first, the assigned amount used next and the unassigned amount used last.

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as capital assets (net of related debt), restricted for debt service, and unrestricted net assets.

Allocated Costs

Pursuant to the Operating Agreement (Note 10), District No. 1-A pays all expenses required to maintain, operate and manage the facilities of the District and all expenses related to management of the District. On a monthly basis District No. 1-A allocates to the District its allocable share of expenses which is reflected as allocated cost on the statement of activities and governmental fund revenues, expenditures, and changes in fund balances.

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.

Implementation of New Standard

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. The implementation of GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. The District has reclassified the fund balances of its governmental funds following the implementation of GASB 54 in fiscal year 2011.

**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 \$117,407 and the bank balance was \$125,453. 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, 2011, as listed below:

General fund (1)	\$	117,127
Debt service fund		10
Capital projects fund		270
 Total deposits	 \$	 117,407

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

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.

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

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. DUE TO OR FROM OTHER GOVERNMENTAL UNITS

As part of the normal course of operations which include transactions with other Districts within Castle Hills and other governments the District may owe or be owed funds from other governmental entities. At September 30, 2011 the amounts reflected on the statement of net assets and balance sheet as due from and to other government included amounts due to and from District No. 1-A.

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

NOTE 5. 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 8. 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.

Capital asset activity for the year ended September 30, 2011:

	October 1, 2010	Additions	September 30, 2011
Capital assets not being depreciated			
Construction in progress	\$ -	\$ 846,057	\$ 846,057
Capital assets at historical costs			
Subject to depreciation			
Wastewater system	\$ 742,820	\$ -	\$ 742,820
Roads	1,656,989	-	1,656,989
Investment in shared lift station facilities	-	133,304	133,304
Total capital assets at historical cost subject to depreciation	<u>2,399,809</u>	<u>133,304</u>	<u>2,533,113</u>
Less accumulated depreciation			
Wastewater system	34,037	16,507	50,544
Roads	4,133	41,425	45,558
Total less accumulated depreciation	<u>38,170</u>	<u>57,932</u>	<u>96,102</u>
Total depreciable capital assets, net of accumulated depreciation	<u>2,361,639</u>	<u>75,372</u>	<u>2,437,011</u>
Total capital assets, net of accumulated depreciation	<u>\$ 2,361,639</u>	<u>\$ 921,429</u>	<u>\$ 3,283,068</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 23, 2009, 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 5. CAPITAL ASSETS – CONTINUED

The capacity allocated to each participant was based upon the estimated total sewer connection as of September 30, 2011. Capacity in the facilities is allocated as follows:

District No. 1-B	32.16%
District No. 1-C	0.18%
District No. 1-D	37.69%
District No. 1-E	17.66%
District No. 1-F	<u>12.31%</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. Expense for purchase of excess capacity for the year ended September 30, 2011 was \$133,304 and the related receivable included in due from other governmental units as of September 30, 2011 was as follows:

District No. 1-B	\$ 48,893
District No. 1-C	273
District No. 1-D	57,295
District No. 1-E	<u>26,843</u>
 Total due to other governmental units for purchase of excess capacity	 <u><u>\$ 133,304</u></u>

NOTE 6. MAINTENANCE TAX

On August 14, 1999, voters of the District approved the levy and collection of a maintenance tax in an unlimited amount per \$100 of assessed valuation of taxable property within the District. During the fiscal year ended September 30, 2011, the District levied a maintenance tax rate of \$0.1032 per \$100 of assessed valuation, which resulted in a tax levy of \$185,068 on an adjusted taxable valuation of \$179,329,432 for the 2010 tax year. The maintenance tax will be used for maintenance purposes including planning, maintaining, repairing and operating all necessary plants, properties, facilities and improvements of the District and for proper services, engineering and legal fees, and operational and administrative costs in accordance with Section 49.107 of the Texas Water Code.

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

NOTE 7. RESERVE PAYMENTS TO OTHER GOVERNMENTAL UNITS

In fiscal year 2011 District 1-A recognized the need to develop a fund balance to be used for one-time expenditures which are necessary to operate and maintain the facilities of the District. District 1-A accounts for the Districts' deposits into a separate reserve account and will only utilize the funds in accordance with the District 1-A Reserve Expense Policy, and in accordance with the allocation percentages authorized in the operating agreement with the District and adopted in the budgeting process on an annual basis.

The schedule below recaps the reserve activity for the current period.

Comitted Fund balance held by District No. 1-A	District No. 1-F
Balance at 9/30/2010	\$ -
Contributions 2011	150,000
Distributions 2011	-
Balance at 9/30/2011	\$ 150,000

NOTE 8. AMENDED AND RESTATED 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.

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.

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

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS – CONTINUED

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 regular contract tax payments of \$1,791,925 to the City of Lewisville in accordance with the bond covenants including additional payments of \$505,000. The reserve fund requirement at September 30, 2011 is \$1,854,750. To date, the District has funded \$1,299,870 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 \$454,101 was collected and remitted to Lewisville.

The City of Lewisville at September 30, 2011 including reserve funds is holding \$2,031,015 in trust for the District. The amounts held in trust in excess of the reserve requirement are available to cover debt service required of PID 4.

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

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS – CONTINUED

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

PID 4 SERIES - 2008			
Fiscal Year Ending September 30	Principal Due October 1	Interest Due October 1/ April 1	Total
2012	\$ -	\$ 1,251,113	\$ 1,251,113
2013	500,000	1,251,113	1,751,113
2014	535,000	1,217,362	1,752,362
2015	570,000	1,181,250	1,751,250
2016	610,000	1,142,775	1,752,775
2017	650,000	1,101,600	1,751,600
2018	695,000	1,057,725	1,752,725
2019	740,000	1,010,812	1,750,812
2020	795,000	960,863	1,755,863
2021	845,000	907,200	1,752,200
2022	905,000	850,162	1,755,162
2023	965,000	789,075	1,754,075
2024	1,030,000	723,938	1,753,938
2025	1,100,000	654,412	1,754,412
2026	1,170,000	580,162	1,750,162
2027	1,250,000	501,188	1,751,188
2028	1,335,000	416,812	1,751,812
2029	1,425,000	326,700	1,751,700
2030	1,520,000	230,513	1,750,513
2031	1,625,000	127,912	1,752,912
2032	270,000	18,225	288,225
Total	\$ 18,535,000	\$ 16,300,912	\$ 34,835,912

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

NOTE 8. AMENDED AND RESTATED 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, 2011, the District levied a contract tax at the rate of \$0.8968 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 9. 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 (UTRWD) 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 Denton 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 (Council) of the UTRWD. The Council will consult with and advise the UTRWD and Board on all pertinent matters related to operation of UTRWD.

The supply of water on a minimum demand, on an interim basis, is for half a 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.

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

NOTE 9. WATER SUPPLY AGREEMENTS – CONTINUED

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

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 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 UTRWD agreed to provide such a water source. District No. 1-A has agreed to make sufficient payments to assure adequate funds to fulfill its obligations under the contract terms. The minimum capacity reserved for 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 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 9. WATER SUPPLY AGREEMENTS – CONTINUED

Wholesale Water Supply Agreement with the City of Lewisville

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

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

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 10. OPERATING AGREEMENTS

On June 14, 2000, the District entered in to an Amended and Restated Operating Agreement with Denton County Fresh Water Supply District No. 1-A (District No. 1-A) effective October 1, 1997. On September 18, 2001, effective October 1, 2001, the District executed an Amended Operating Agreement. District No. 1-A is responsible for operating, maintaining, and managing the Facilities to be constructed within the boundaries of the once defined Denton County Fresh Water Supply District No. 1 which now includes Districts 1-A, 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H.

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

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

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

NOTE 10. OPERATING AGREEMENT – CONTINUED

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

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

On September 17, 2008, the District approved the Amended and Restated Operating Agreement. This agreement was effective on October 1, 2008. All other provisions remain the same, with the exception of the allocation of the maintenance costs. In accordance with the agreement, costs of the maintenance of the facilities within the districts of the Castle Hills Subdivision shall be allocated to each district on the basis of projected property values. Projected property values are defined as the combined total value of all property that exists on January 1 of the current fiscal year plus that which is projected to be added during the next succeeding fiscal year for the districts.

Each district's cost will be calculated based upon a fraction that is calculated by dividing the total projected property value on January 1 the year immediately following the completion of the fiscal year being budgeted within each district divided by the total projected property value on January 1 the year immediately following the completion of the fiscal year being budgeted within all of the districts. Such fraction shall be calculated as of the first day of the fiscal year in which such fraction is to be used to allocate such costs among the districts and shall be recalculated as of the first day of each succeeding fiscal year thereafter. This agreement terminates on the fortieth (40th) anniversary of October 1, 2008.

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

NOTE 11. 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.

The District only recognizes revenue for the allocated surplus as strategic partnership revenue. The District's share of public safety cost that was offset directly from sales tax collected from Lewisville was \$55,661.

NOTE 12. 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 8, 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, 2011, the District's government-wide financial statements reflect a \$480,303 net asset deficit. The District anticipates being able to alleviate this deficit in the course of their normal operations within a few years.

NOTE 13. 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 (Developer). 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. The Developer has the right to charge interest at the contract rate of 6% on the remaining balance of advances owed accruing from October 1, 2008. Since this amount is unknown at this time, this has not been reflected as a liability in the statement of net assets.

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

NOTE 14. 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 15. 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 16. REIMBURSEMENT AGREEMENT

Effective May 20, 2009, the District entered into a reimbursement agreement between Castle Hills Development Corporation Bright Realty, Ltd., Bright Farm Partnership, Bright & Company, Inc., Castle Hills Property Company (collectively Bright Entities), District No. 1-A, District No. 1-C, the District, District No. 1-E, District No. 1-F, District No, 1-G, and District No. 1-H (collectively the Districts).

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 17. DUE TO 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 \$4,680,409 for developer advances due to District No. 1-A in accordance with the reimbursement agreement (Note 16). During the current year, an additional \$817,144 was advanced to 1-A for the benefit of 1-F for Phase 6 Improvements, as well as an additional \$1,408 for administrative expenditures. The total amount due to District 1-A of \$5,649,096 has been recorded in the financial statements. The remaining balance of \$136,717 is due to other districts other than 1-A.

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

NOTE 18. 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 9, 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. The remaining balance of \$124,245 at September 30, 2011 has been recorded as a receivable in the statement of net assets.

NOTE 19. LITIGATION

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

NOTE 20. SUBSEQUENT EVENTS

The District has evaluated all events or transactions that occurred after September 30, 2011 up through March 30, 2012, the date the financial statements were available to be issued. On November 1, 2011 the District issued its second and third installments of PID 4 bonds in the amounts of \$2,965,000 and \$5,355,000 respectively, in relation to the Lewisville Castle Hills Public Improvement District No. 4 Project. The proceeds of the Bonds will be applied to pay the costs of acquiring and constructing certain water, sewer, and drainage facilities, and streets and roads within the Improvement District, as well as to fund Debt Service Reserve Funds for the Bonds and to pay certain costs of the issuance of the Bonds.

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OTHER SUPPLEMENTARY INFORMATION

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
SCHEDULE OF REIMBURSEMENTS TO OTHER
GOVERNMENTAL UNITS - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	District No. 1-F
Allocated costs to (from)	
other governmental units:	
Personnel	\$ 320,214
Contracted labor	24,262
Insurance	52,508
Office supplies	7,702
Office rental	43,937
Utilities	97,909
Landscape maintenance	60,463
Public safety	55,661
Public safety revenue allocations	(55,661)
Purchased water services	203,161
Non-potable	47,762
Dues and subscriptions	7,168
Communication	12,252
Training	3,085
Capital purchases	12,561
Bond payment funding	25,776
Equipment rental	17,019
Supplies	28,006
Maintenance	57,205
Other	4,364
 Total allocated costs to (from)	
other governmental units	\$ 1,025,354

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

**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, 2011**

	Budget Original	Budget Amended	Actual	Variance Positive (Negative)
REVENUES:				
Property taxes	\$ 177,498	\$ 177,498	\$ 166,127	\$ (11,371)
Water service	558,736	558,736	583,534	24,798
Wastewater service	216,900	216,900	181,932	(34,968)
Solid waste revenue	123,863	123,863	74,201	(49,662)
Penalty and interest	6,000	6,000	6,350	350
Permits and inspections	1,130,686	1,130,686	1,158,804	28,118
Franchise fees	62,021	62,021	60,558	(1,463)
Sales tax revenues	94,965	94,965	68,267	(26,698)
Miscellaneous revenues	5,050	5,050	172,126	167,076
Total revenues	2,375,719	2,375,719	2,471,899	96,180
EXPENDITURES				
Service operations:				
Administrative expenditures	81,372	81,372	96,491	(15,119)
Director expenditures	7,767	7,767	5,651	2,116
Allocated costs to District 1-A	1,082,515	1,082,515	1,025,354	57,161
Contracted services	84,033	84,033	86,648	(2,615)
Purchased water service	91,101	91,101	91,541	(440)
Purchased wastewater service	111,279	111,279	80,763	30,516
Supplies and other charges	-	-	1,483	(1,483)
Total expenditures	1,458,067	1,458,067	1,387,931	70,136
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	917,652	917,652	1,083,968	26,044
OTHER FINANCING SOURCES (USES)				
Transfer in (out)	(310,767)	(310,767)	(507,320)	(196,553)
Contributions to other governmental units	(286,672)	(286,672)	(583,304)	(296,632)
Contributions from other governmental units	127,613	127,613	-	(127,613)
Payment to developer	(94,965)	(94,965)	-	94,965
Total other financing sources (uses)	(564,791)	(564,791)	(1,090,624)	(525,833)
NET CHANGE IN FUND BALANCES	352,861	352,861	(6,656)	(499,789)
FUND BALANCE AT OCTOBER 1, 2010	181,429	181,429	181,429	-
FUND BALANCES SEPTEMBER 30, 2011	\$ 534,290	\$ 534,290	\$ 174,773	\$ (499,789)

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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 27, 2010

	<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 4.24 5.06 6.06 7.06 8.06	2,001 to 15,000 15,001 to 25,000 25,001 to 35,000 35,001 to 45,000 45,001 to 55,000 55,001 and up
Wastewater:					
Residential	10.7		N	4.90	2,001 not to exceed 15,000 gallons
Residential	42.41		Y		New Customers
Commercial	10.7		N	4.90	2,001 and up
Surcharge:					
Solid waste/garbage	16.58		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, 2011**

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"	179	179	X 1.0	179
1"	328	328	X 2.5	820
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	534	534		1203
Total wastewater connections	431	431	X 1.0	431

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:	93,688,600	<u>94.1%</u>
Gallons purchased:	99,558,796	From: Our water suppliers

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

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, 2011**

Administrative expenditures	
Auditing	\$ 14,536
Engineering	4,221
Legal	36,266
Tax collector	1
Insurance	2,970
Tap connection expenditures	<u>38,497</u>
Total administrative expenditures	<u>96,491</u>
Direct expenditures	
Personnel expenditures	59
Directors costs	541
Director fees	4,800
Payroll taxes and administration	<u>251</u>
Total direct expenditures	<u>5,651</u>
Purchased services for resale:	
Water service	91,541
Wastewater service	<u>80,763</u>
Total purchased services for resale	<u>172,304</u>
Allocated costs to District 1-A	<u>1,025,354</u>
Contracted services:	
Management fee	43,322
Solid waste disposal	<u>43,326</u>
Total contracted services	<u>86,648</u>
Supplies and other charges	
Bank fees	675
Other and miscellaneous	808
Total other expenditures	<u>1,483</u>
Total expenditures	<u><u>\$ 1,387,931</u></u>

(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, 2011**

	Maintenance Tax		Contract Tax	
Taxes receivable -				
October 1, 2010	\$ -		\$ 389	
Adjustments to beginning balance	89	89	777	1,166
Original 2010 tax levy	\$186,905		\$1,624,189	
Adjustment to 2010 tax levy	(1,837)	185,068	(15,963)	1,608,226
Total to be accounted for		185,157		1,609,392
Tax collections:				
Prior years	\$ 90		\$ 1,165	
Current year	185,067	185,157	1,608,227	1,609,392
Taxes receivable -				
September 30, 2011		\$ 0		\$ (0)

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
PROPERTY VALUATIONS				
Land	\$ 115,188,102	\$ 103,821,948	\$ 110,478,657	\$ 90,296,322
Improvements	54,151,587	13,900,895		159,042
Personal property	10,474,964	321,680		45,870
Exemptions	(485,221)	(26,190)		(2,061,305)
TOTAL PROPERTY VALUATIONS	<u>\$ 179,329,432</u>	<u>\$ 118,018,333</u>	<u>\$ 110,478,657</u>	<u>\$ 88,439,929</u>
TAX RATES PER \$100 VALUATION:				
Contract	\$ 0.8968	\$ -	0.6930	\$ -
Maintenance	0.1032	1.000	0.3070	1.000
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 1.000</u>	<u>\$ 2.000</u>	<u>\$ 1.000</u>	<u>\$ 1.000</u>
ADJUSTED TAX LEVY	<u>\$ 1,793,294</u>	<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>	<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 – FIVE YEARS**

	Amounts				
	2011	2010	2009	2008	2007*
REVENUES:					
Property taxes	\$ 166,127	\$ -	\$ 337,977	\$ 884,399	\$ -
Water service	583,534	382,731	130,198	9,350	-
Wastewater service	181,932	80,663	7,676	-	-
Solid waste revenue	74,201	43,946	4,900	-	-
Penalty and interest	6,350	6,679	1,789	331	-
Permits and inspections	1,158,804	1,785,080	1,136,946	271,098	46
Franchise fees	60,558	45,246	23,323	26,138	-
Sales tax revenues	68,267	33,417	-	-	-
Investment revenues	-	-	557	1,454	-
Miscellaneous revenues	172,126	219,468	21,988	-	-
Total revenues	2,471,899	2,597,230	1,665,354	1,192,770	46
EXPENDITURES					
Service operations:					
Personnel	372,722	280,339	202,730	305,056	-
Professional fees	-	-	-	167,897	117,264
Administrative expenditures	96,491	109,557	110,773	-	-
Director expenditures	5,651	6,493	8,561	-	-
Contracted services	171,373	239,352	236,078	188,008	-
Purchased water service	294,702	251,375	296,167	189,977	-
Purchased wastewater service	80,763	112,482	69,106	31,921	8,589
Purchased non-potable water service	47,762	47,471	-	-	-
Utilities	110,161	89,239	81,031	20,940	-
Repairs and maintenance	57,205	62,490	60,034	65,547	-
Supplies and other charges	138,540	93,538	67,028	-	-
Other	-	-	-	59,988	16,603
Capital outlay	12,561	-	12,258	2,633	-
Debt service:					
Contract tax obligation - City of Lewisville	-	-	-	-	-
Total expenditures	1,387,931	1,292,336	1,143,766	1,031,967	142,456
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,083,968	1,304,894	521,588	160,803	(142,410)
OTHER FINANCING SOURCES (USES)					
Transfer out	(507,320)	(413,509)	(746,256)	(298,845)	-
Contributions to other governmental units	(583,304)	(661,353)	(7,497)	(6,342)	-
Contributions from other governmental units	-	91,000	-	-	-
Developer contribution	-	-	-	235,359	127,800
Total other financing sources (uses)	(1,090,624)	(983,862)	(753,753)	(69,828)	127,800
NET CHANGE IN FUND BALANCES	(6,656)	321,032	(232,165)	\$ 90,975	(14,610)
BEGINNING FUND BALANCES (As previously stated)	181,429	(160,082)	72,083	(18,892)	(4,282)
PRIOR PERIOD ADJUSTMENT	-	20,479	-	-	-
BEGINNING FUND BALANCES (As restated)	181,429	(139,603)	72,083	(18,892)	(4,282)
ENDING FUND BALANCE	\$ 174,773	\$ 181,429	\$ (160,082)	\$ 72,083	\$ (18,892)
FUND BALANCES AT OCTOBER 1, 2010	181,429	(139,603)	72,083	(18,892)	(4,282)
FUND BALANCES AT SEPTEMBER 30, 2011	\$ 174,773	\$ 181,429	\$ (160,082)	\$ 72,083	\$ (18,892)
TOTAL ACTIVE RETAIL WATER CONNECTIONS	534	385	154	22	-
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	431	275	47	3	-

* First Year Audit

Percent of Total Revenues

2011	2010	2009	2008	2007
6.7 %	0.0 %	20.4 %	74.1 %	0.0 %
23.6	14.7	7.8	0.8	0.0
7.4	3.1	0.5	0.0	0.0
3.0	1.7	0.3	0.0	0.0
0.3	0.3	0.1	0.0	0.0
46.8	68.7	68.3	22.7	0.0
2.4	1.7	1.4	2.2	0.0
2.8	1.3	0.0	0.0	0.0
0.0	0.0	0.0	0.1	0.0
7.0	8.5	1.3	0.0	0.0
<u>100.0</u>	<u>100.0</u>	<u>100.1</u>	<u>100.0</u>	<u>0.0</u>
15.1	10.8	12.2	25.6	0.0
0.0	0.0	0.0	14.1	0.0
3.9	4.2	6.7	0.0	1.0
0.2	0.2	0.5	0.0	2.0
6.9	9.2	14.2	15.8	0.0
11.9	9.7	17.8	15.9	0.0
3.3	4.3	4.1	2.7	0.0
1.9	1.8	0.0	0.0	0.0
4.5	3.4	4.9	1.8	0.0
2.3	2.4	3.6	5.5	0.0
5.6	3.6	4.0	0.0	1.0
0.0	0.0	0.0	5.0	0.0
0.5	0.0	0.7	0.2	0.0
<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
<u>56.1</u>	<u>49.6</u>	<u>68.7 %</u>	<u>87 %</u>	<u>4.0 %</u>
<u>43.9 %</u>	<u>50.4 %</u>	<u>31.4 %</u>	<u>13.4 %</u>	<u>-4.0 %</u>

Note District No. 1-A changed it s method for allocating expenses to the District
 Allocated costs have been combined with related line item for comparison purposes.

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

	Amounts				
	2011	2010	2009	2008	2007*
REVENUES:					
Property taxes	\$ 1,627,390	\$ 1,199,974	\$ 765,617	\$ -	\$ -
Penalty and interest	-	1,379	-	-	-
Investment revenues	451	576	777	12,622	-
Miscellaneous revenues	-	3,380	1,832	-	-
Total revenues	<u>1,627,841</u>	<u>1,205,309</u>	<u>768,226</u>	<u>12,622</u>	<u>-</u>
EXPENDITURES					
Contracted services	16,310	10,784	4,615	6,124	-
Other	16,204	20,207	0	-	-
Contract tax obligation - City of Lewisville	1,791,925	1,936,794	1,156,903	-	-
Total expenditures	<u>1,824,439</u>	<u>1,967,785</u>	<u>1,161,518</u>	<u>6,124</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(196,598)</u>	<u>(762,476)</u>	<u>(393,292)</u>	<u>6,498</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)					
Transfer in (out)	506,092	325,600	746,256	298,845	-
Contributions from other governmental units	-	661,353	-	-	-
Total other financing sources (uses)	<u>506,092</u>	<u>986,953</u>	<u>746,256</u>	<u>298,845</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	309,494	224,477	352,964	305,343	-
BEGINNING FUND BALANCES (As previously stated)	1,545,634	658,307	305,343	-	-
PRIOR PERIOD ADJUSTMENT	-	662,850	-	-	-
BEGINNING FUND BALANCES (As restated)	<u>1,545,634</u>	<u>1,321,157</u>	<u>305,343</u>	<u>-</u>	<u>-</u>
ENDING FUND BALANCE	<u>\$ 1,855,128</u>	<u>\$ 1,545,634</u>	<u>\$ 658,307</u>	<u>\$ 305,343</u>	<u>\$ -</u>

* First Year Audit

Percent of Total Revenues

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
100.0 %	99.6 %	99.7 %	0.0 %	0.0 %
0.0	0.1	-	-	-
-	0.1	-	-	-
<u>-</u>	<u>0.3</u>	<u>0.2</u>	<u>-</u>	<u>-</u>
<u>100.0</u>	<u>100.1</u>	<u>99.9</u>	<u>-</u>	<u>-</u>
1.0	0.9	0.6	48.5	-
<u>110.1</u>	<u>160.7</u>	<u>150.6</u>	<u>-</u>	<u>-</u>
<u>111.1</u>	<u>161.6</u>	<u>151.2</u>	<u>48.5</u>	<u>-</u>
<u>(11.1) %</u>	<u>(61.5) %</u>	<u>(51.3) %</u>	<u>(48.5) %</u>	<u>0.0 %</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-F
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2011**

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, 2011</u>	<u>Expense Reimbursements for the Year Ended September 30, 2011</u>	<u>Title</u>
Matthew Taylor	7/10-5/14	\$ 1,050	\$ 52	President
James David Danielson	5/08-5/12	\$ 450	\$ 34	Vice President
Brian Gary Carlton	5/08-5/12	\$ 750	\$ 26	Secretary
C.S. Kelso	5/06-5/14	\$ 1,350	\$ 24	Treasurer/ Assistant Secretary
Cheryl Mabery	2/09- 5/14 (Appointed)	\$ 1,200	\$ 42	Assistant Secretary

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): 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, 2011**

Consultants	Date Hired	Fees for the Year Ended September 30, 2011	Title
Kelly Hart & Hallman LLP 201 Main Street, Suite 2500 Fort Worth, TX 76102	6/3/08	\$ 24,559	Attorney
Espey Consultants, Inc. 4801 Southwest Parkway Parkway 2 Suite 150 Austin, TX 78735	12/13/2010	\$ 7,630	Water Rate Study
Pate Engineers, Inc. 8150 Brookriver Drive, Suite S-700 Dallas, Texas 75247	11/16/09	\$ 19,821	Engineer
Hurt & Berry 10670 North Central Expwy Ste 450 Dallas, TX 75231		\$ 1,784	Attorney
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	\$ 15,367	Property Tax Appraisals
Denton County Tax Collector c/o Steve Mossman P.O. Box 90223 Denton, TX 76202	5/15/2007	\$ 943	Tax Assessor/ Collector