

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

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-H
Denton County, Texas

We have audited the accompanying financial statements of the governmental activities and the major fund of Denton County Fresh Water Supply District No. 1-H (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 the 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-H

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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 30 and the supplementary information listed in the table of contents on pages 31 through 39 (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" has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplementary information marked "Unaudited," has not been subject to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

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-H
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-H'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 assets of the District exceeded its liabilities at September 30, 2011 by \$1,013,415. Of this amount, \$1,910,771 is invested in capital assets which do not directly generate revenue and are not available to generate liquid capital. A deficit balance of \$897,356 remains as unrestricted.
- The District's net assets increased by \$331,592. The primary cause of the increase was a contribution from other governmental units to assist in covering the costs of the District.
- At the close of the current fiscal year, the District's governmental funds reported an ending deficit fund balances of \$537,070, a net decrease in the deficit balance of \$343,187 in comparison to the prior year.

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, (2) fund financial statements and (3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements themselves.

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.

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

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

Government-wide financial statements (continued)

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.

Fund financial statements

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has one governmental fund type. The General Fund accounts for resources not accounted for in another fund, and include customer service revenues, costs and general expenditures.

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 12 and the reconciliation of the governmental funds statement of revenues, expenditures and changes in fund balances to the statement of activities on page 14 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

Notes to the basic financial statements

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 29 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 30 and information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* on pages 31 through 39.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$1,013,415 as of September 30, 2011.

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

	Summary of Changes in the Statement of Net Assets		
	2011	2010	Change
Current and other assets	\$ 2,511	\$ 1,408	\$ 1,103
Capital assets (Net of accumulated depreciation)	<u>1,910,771</u>	<u>1,922,366</u>	<u>(11,595)</u>
Total assets	<u>1,913,282</u>	<u>1,923,774</u>	<u>(10,492)</u>
Noncurrent liabilities	360,286	360,286	-
Other liabilities	<u>539,581</u>	<u>881,665</u>	<u>(342,084)</u>
Total liabilities	<u>899,867</u>	<u>1,241,951</u>	<u>(342,084)</u>
Net assets			
Invested in capital assets	1,910,771	1,922,366	(11,595)
Unrestricted	<u>(897,356)</u>	<u>(1,240,543)</u>	<u>343,187</u>
Total net assets	<u><u>\$ 1,013,415</u></u>	<u><u>\$ 681,823</u></u>	<u><u>\$ 331,592</u></u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
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 net assets decreased by \$331,592, accounting for a 48.6% decrease in net assets.

	Summary of Changes in the Statement of Activities		
	2011	2010	Change
Revenues:			
Charges for services	\$ 4,815	\$ 8,472	\$ (3,657)
Contributions from other governmental units	450,000	-	450,000
Total revenues	454,815	8,472	446,343
Expenses:			
Expenses for services	123,223	267,568	(144,345)
Depreciation	11,595	43,638	(32,043)
Total expenses	123,223	267,568	(144,345)
Change in net assets	331,592	(259,096)	590,688
Net assets, beginning of year	681,823	940,919	(259,096)
Net assets, end of year	\$ 1,013,415	\$ 681,823	\$ 331,592

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2011, were a deficit \$537,070, a decrease in the deficit balance of \$343,187.

The General Fund balance increased by \$343,187, primarily due to contributions from other governmental units.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual expenditures on a budgetary basis were \$111,628 compared to the amended budget of \$115,549. The positive budget variance of \$3,921 was primarily due to administrative expenditures. Actual revenue on a budgetary basis was \$4,815 compared to the amended budget of \$3,524. The \$1,291 positive variance is primarily due permits and inspections revenue. See the budget to actual comparison on page 31 for additional information.

CAPITAL ASSETS

A portion of the District's assets were funded by Denton County per an agreement with Denton County Fresh Water Supply District No. 1-A (District 1-A). Per the agreement, Denton County funded construction costs of the Windhaven Parkway West project which lies partially within the District. The District also shares in the cost of the capital assets that District 1-A purchases and records on its books.

The District's investment in capital assets as of September 30, 2011 amounts to \$1,910,771 (net of accumulated depreciation).

Capital Assets at Year-End, Net of Accumulated Depreciation

	2011	2010	Increase (Decrease)
Construction in progress	\$ 132,949	\$ 132,949	\$ -
Water system	915,880	922,207	(6,327)
Wastewater system	560,255	563,680	(3,425)
Drainage system	15,827	15,923	(96)
Roads	285,860	287,607	(1,747)
Total net capital assets	<u>\$ 1,910,771</u>	<u>\$ 1,922,366</u>	<u>\$ (11,595)</u>

Additional information on the District's capital assets can be found in Note 5 on pages 22 and 23 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

For the budget year ending September 31, 2012, revenues are anticipated to increase by approximately \$105,753 while expenses are anticipated to decrease by approximately \$6,273.

The General Fund, which is comprised of the District's General Fund, Operating Fund, and Utility Fund, is budgeted to operate next year with expenditures less than revenues.

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

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-H, 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-H
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011**

	Statement of Net Assets
ASSETS	
Receivables:	
Service Accounts (net of allowance for doubtful accounts of \$0)	\$ 168
Prepaid costs	2,343
Construction in progress	132,949
Capital assets (net of accumulated depreciation)	1,777,822
TOTAL ASSETS	\$ 1,913,282
LIABILITIES	
Accounts payable	\$ 12,898
Accrued Liabilities	36
Due to other governmental units	886,933
Total liabilities	899,867
NET ASSETS	
Invested in capital assets	1,910,771
Unrestricted	(897,356)
TOTAL NET ASSETS	\$ 1,013,415

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

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

REVENUES:	
Water service	\$ 1,918
Wastewater service	348
Permits and inspections	2,549
Contributions from other governmental units	<u>450,000</u>
 Total revenues	 <u>454,815</u>
 EXPENSES	
Service operations:	
Personnel expenses	90
Administrative expenses	29,605
Director expenses	5,739
Allocated costs to District 1-A	70,120
Contracted services	5,917
Purchased water service	96
Purchased wastewater service	<u>61</u>
Total service expense	111,628
Depreciation	<u>11,595</u>
 Total expenses	 <u>123,223</u>
 CHANGE IN NET ASSETS	 331,592
NET ASSETS - OCTOBER 1, 2010	<u>681,823</u>
 NET ASSETS - SEPTEMBER 30, 2011	 <u><u>\$ 1,013,415</u></u>

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

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

	General Fund
ASSETS	
Receivables:	
Accounts receivable (net)	\$ 168
Prepaid costs	2,343
	2,343
TOTAL ASSETS	\$ 2,511
LIABILITIES	
Accounts payable	\$ 12,898
Accrued liabilities	36
Due to other governmental units	526,647
	526,647
Total liabilities	539,581
FUND BALANCES	
Nonspendable	
Prepaid costs	2,343
Unassigned	(539,413)
	(539,413)
Total fund balances	(537,070)
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,511

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011**

Total Fund Balances - Governmental Funds	\$ (537,070)
Amounts reported for governmental activities in the statement of net assets are different because:	
Construction in progress in governmental activities is not a financial resource and therefore is not reported as an asset in the governmental funds.	132,949
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	1,777,822
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.	<u>(360,286)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 1,013,415</u></u>

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

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

	General Fund
REVENUES:	
Water service	\$ 1,918
Wastewater service	348
Permits and inspections	2,549
Total revenues	4,815
EXPENDITURES	
Service operations:	
Personnel expenditures	90
Administrative expenditures	29,605
Director expenditures	5,739
Allocated costs to District 1-A	70,120
Contracted services	5,917
Purchased water service	96
Purchased wastewater service	61
Total expenditures	111,628
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(106,813)
OTHER FINANCING SOURCES (USES)	
Contributions from other governmental units	450,000
Total other financing sources (uses)	450,000
NET CHANGE IN FUND BALANCE	343,187
FUND BALANCE AT OCTOBER 1, 2010	(880,257)
FUND BALANCE AT SEPTEMBER 30, 2011	\$ (537,070)

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
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 \$ 343,187

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. (11,595)

Change in Net Assets - Governmental Activities \$ 331,592

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
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 the District to a Water Control and Improvement District and conversion to operating under Chapter 51 of the Texas Water Code and specifically reserved certain rights under Sections 53.029, 53.030 through 53.035, 53.037 through 53.041, 53.111, 53.112, 53.121, and 53.125 of the Texas Water Code.

At an election held within the boundaries of the District on May 10, 2008 voters approved the division of District No. 1-A into two new districts of which Denton County Fresh Water Supply District No. 1-H (the District) was one. The District held its first meeting on June 17, 2008. 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 and its operations are part of the 8 Districts which make up the community referred to as Castle Hills. The District has contracted with District No. 1-A to operate the utility system within the District.

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 the District has 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 (GASB). In addition, the accounting records of the District are maintained 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-H
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

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 resources 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-H
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 collectable 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 one major governmental funds:

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budgeting

Pursuant to the Operating Agreement (Note 8), 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 No. 1-A.

Cash and Cash Equivalents

The District's 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 non-spendable fund balance has been established 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 expenditures in the governmental fund when incurred and as an expense in the government-wide statement of activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$10,000 and a useful life over two years.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets – Continued

Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

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

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:

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). The District has no restricted fund balance at September 30, 2011.

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-H
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 Districts 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.

Allocated costs

Pursuant to the Operating Agreement (Note 8), 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.

Deposits

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

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

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits – Continued

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the 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.

As of September 30, 2011, the District does not have any cash deposits.

Investments

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

The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

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

As of September 30, 2011, the District does not own any investments.

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

NOTE 4. DUE TO OR FROM OTHER GOVERNMENTAL UNITS

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

NOTE 5. CAPITAL ASSETS

A portion of the District's assets were funded by Denton County per an agreement with District No. 1-A. Per the agreement, Denton County funded construction costs of the Windhaven Parkway West project which lies partially within the District. The District also shares in the cost of the capital assets that District 1-A purchases and records in its records.

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

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

	October 1, 2010	Increases	September 30, 2011
Capital assets not being depreciated			
Construction in progress	\$ 132,949	\$ -	\$ 132,949
Capital assets at historical cost subject to depreciation			
Water system	579,994	-	579,994
Wastewater system	16,384	-	16,384
Drainage system	295,931	-	295,931
Road system	952,343	-	952,343
Total capital assets at historical cost subject to depreciation	1,844,652	-	1,844,652
Less accumulated depreciation			
Water system	16,314	3,425	19,739
Wastewater system	461	96	557
Drainage system	8,324	1,747	10,071
Road system	30,136	6,327	36,463
Total less accumulated depreciation	55,235	11,595	66,830
Total depreciable capital assets			
Net of accumulated depreciation	1,789,417	(11,595)	1,777,822
Total capital assets, net of accumulated depreciation	\$ 1,922,366	\$ (11,595)	\$ 1,910,771

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

NOTE 5. CAPITAL ASSETS – CONTINUED

On April 19, 2006, the District executed a Cost Sharing Agreement with Denton County Fresh Water Supply District Nos. 1-A, 1-B, 1-C and 1-E. The agreement provided for the sharing of costs for the construction of certain lift station facilities. District No. 1-A owns the facilities for the benefit of the residents and the property located within the original boundaries of Denton County Fresh Water Supply District No. 1, which includes the District, District No. 1-B, District No. 1-C and District No. 1-E. On September 23, 2009, the District executed an Excess Capacity Purchase Agreement (ECPA) with District No. 1-A, District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, and District No. 1-G. This agreement reallocates the shared cost for the construction of the lift station facilities based on capacity. The capacity allocated to each participant was based upon the estimated total sewer connections as of September 30, 2009. Capacity in the facilities is allocated as follows:

District No. 1-B	32.16 %
District No. 1-C	0.18
District No. 1-D	37.69
District No. 1-E	17.66
District No. 1-F	12.31
Total	100.00 %

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

As of September 30, 2011, the District does not own capacity in the Lift Station Facilities.

NOTE 6. MAINTENANCE TAX

On November 4, 2008, 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 did not levy a maintenance tax. The maintenance tax, when levied, will be used for maintenance purposes to include funds for planning, maintaining, repairing and operating all necessary plants, properties, facilities and improvements of the District and for proper services, engineering and legal fees, and operational and administrative costs in accordance with Section 49.107 of the Texas Water Code.

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

NOTE 7. WATER SUPPLY AGREEMENTS

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

On May 7, 1992 Denton County Fresh Water Supply District No. 1 executed an agreement with the Upper Trinity Regional Water District (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 the 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 the 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. 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 UTRWD 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).

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

NOTE 7. WATER SUPPLY AGREEMENTS – CONTINUED

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

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.

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 (the 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.

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

NOTE 8. OPERATING AGREEMENT

Effective October 1, 2008, the District entered into an Operating Agreement with Denton County Fresh Water Supply District No. 1-A (District No. 1-A). District No. 1-A is responsible for operating, maintaining, and managing the Facilities to be constructed within the boundaries of the once defined Denton County Fresh Water Supply District No. 1 which includes Districts 1-A, 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H (Participating Districts).

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

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

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

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

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

NOTE 8. OPERATING AGREEMENT – CONTINUED

Projected property values are defined as the combined total value of all property that exists on January 1 of the current fiscal year plus that which is projected to be added during the next succeeding fiscal year for the districts.

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

NOTE 9. STRATEGIC PARTNERSHIP AGREEMENT

In June, 2009, District No. 1-A, District No. 1-B, District No. 1-C, District 1-D, District 1-E, District 1-F, District 1-G, and District 1-H, approved a Strategic Partnership Agreement (SPA) with the City of Lewisville. The Agreement allowed the City of Lewisville to annex certain properties for the limited purpose of imposing a sales and use tax on certain properties within each District. The sales and use tax collected will be used first to cover the cost of the City of Lewisville providing public safety services to the Districts. If, after all public safety costs are covered, there are surplus funds, then those funds are split 50%/50% between the City of Lewisville and District 1-A.

Upon receipt of surplus funds, District 1-A will allocate those funds to the District(s) that generated the sales and use tax. The Agreement specifies that a District that receives funds from the SPA must first use those funds to repay any outstanding Developer Debt. If no outstanding Developer debt exists, the funds can be used for any lawful purpose. The Agreement will expire June, 2019 unless the City of Lewisville either 1) renews the agreement, or 2) fully annexes the District.

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 the City of Lewisville was \$7,599.

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

NOTE 10. ECONOMIC DEPENDENCY AND DEFICIT FUND BALANCE

The District is contractually obligated to levy sufficient contract taxes to fund the City of Lewisville's Public Improvement District bonds 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 General Fund had a deficit fund balance of \$537,070. The District anticipates being able to alleviate this deficit by the sale of water, sewer, drainage and road utilities to a public improvement district.

NOTE 11. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, error and omission and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 12. BOND ELECTION

On November 4, 2008, voters within the District approved for the District to issue bonds in the maximum amount of \$54,000,000 for utilities and \$13,900,000 for roads. In addition, refunding bonds were approved in the amount of \$67,500,000 and road refunding bonds were approved in the amount of \$17,375,000. As of September 30, 2011, the District has not issued any bonds.

NOTE 13. REIMBURSEMENT AGREEMENT

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

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

NOTE 14. DUE TO DISTRICT OTHER GOVERNMENTAL UNITS

As of September 30, 2011 the District has a liability outstanding to District No. 1-A of \$360,286 for developer advances as well as a fund level liability of \$229,585 for a deficit pooled cash claim. The total liability due to District No. 1-A is \$589,871. In addition, the District has an outstanding liability of \$297,062 to districts other than District No. 1-A, also related to the deficit claim on pooled cash, for a total of \$886,933 due to other governmental units reflected on the Statement of Net Assets.

NOTE 15. 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 16. 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. During this period there were no subsequent events requiring disclosure.

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OTHER SUPPLEMENTARY INFORMATION

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

	District No. 1-H
Allocated costs to (from)	
other governmental units:	
Office supplies	\$ 295
Utilities	13,367
Landscape Maintenance	8,255
Public Safety	7,599
Public Safety revenue allocations	(7,599)
Purchased water services	27,738
Non-potable	6,521
Capital purchases	769
Bond payment funding	3,519
Equipment rental	1,909
Supplies	244
Maintenance	7,203
Other	300
Total allocated costs to (from)	
other governmental units	\$ 70,120

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS) - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>Budget Original</u>	<u>Budget Amended</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Water service	\$ 1,636	\$ 1,636	\$ 1,918	\$ 282
Wastewater service	488	488	348	(140)
Permits and inspections	<u>1,400</u>	<u>1,400</u>	<u>2,549</u>	<u>1,149</u>
Total revenues	<u>3,524</u>	<u>3,524</u>	<u>4,815</u>	<u>1,291</u>
EXPENDITURES/EXPENSES				
Service operations:				
Personnel	-	-	90	(90)
Administrative expenditures	34,204	34,204	29,605	4,599
Director expenditures	5,345	5,345	5,739	(394)
Allocated costs to District 1-A	70,416	70,416	70,120	296
Contracted services	5,408	5,408	5,917	(509)
Purchased water service	90	90	96	(6)
Purchased wastewater service	<u>87</u>	<u>86</u>	<u>61</u>	<u>25</u>
Total expenditures/expenses	<u>115,550</u>	<u>115,549</u>	<u>111,628</u>	<u>3,921</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(112,026)</u>	<u>(112,025)</u>	<u>(106,813)</u>	<u>(2,630)</u>
OTHER FINANCING SOURCES (USES)				
Contributions from other governmental units	<u>-</u>	<u>-</u>	<u>450,000</u>	<u>450,000</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>450,000</u>	<u>450,000</u>
NET CHANGE IN FUND BALANCES	<u>(112,026)</u>	<u>(112,025)</u>	<u>343,187</u>	<u>447,370</u>
FUND BALANCES AT OCTOBER 1, 2010	<u>(880,257)</u>	<u>(880,257)</u>	<u>(880,257)</u>	<u>-</u>
FUND BALANCES AT SEPTEMBER 30, 2011	<u><u>\$ (992,283)</u></u>	<u><u>\$ (992,282)</u></u>	<u><u>\$ (537,070)</u></u>	<u><u>\$ 447,370</u></u>

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

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

Services provided by the district during the fiscal year:

<u> X </u>	Retail Water	<u> </u>	Wholesale Water	<u> X </u>	Drainage
<u> X </u>	Retail Wastewater	<u> </u>	Wholesale Wastewater	<u> </u>	Irrigation
<u> X </u>	Parks/Recreation	<u> X </u>	Fire Protection	<u> </u>	Security
<u> X </u>	Solid Waste/Garbage	<u> X </u>	Flood Control	<u> X </u>	Roads
	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> X </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	2,001 to 15,000
				4.24	15,001 to 25,000
				5.06	25,001 to 35,000
				6.06	35,001 to 45,000
				7.06	45,001 to 55,000
				8.06	55,001 and up
Wastewater:					
Residential	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					
Regulatory Assessments	.5% of actual 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-H
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"	4	4	X 1.0	4
1"			X 2.5	0
1 1/2"			X 5.0	0
2"			X 8.0	0
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	4	4		4
Total wastewater connections	2	2	X 1.0	2

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:	70,600	94.1%
Gallons purchased:	75,024	<u>From: Upper Trinity Regional Water District</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
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, Texas

Is the District located within a city?

Entirely ___ Partly ___ Not at all X

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

Entirely X Partly ___ Not at all

ETJ's in which District is located:

City of Lewisville, Texas.

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Personnel (including benefits)	\$	<u>90</u>
Purchased services for resale:		
Water service		96
Wastewater service		<u>61</u>
Total purchased services for resale		<u>157</u>
Administrative expenditures:		
Auditing		9,800
Engineering		135
Legal		16,700
Insurance		<u>2,970</u>
Total administrative expenditures		<u>29,605</u>
Contracted services:		
Management fee		<u>5,917</u>
Total contracted services		<u>5,917</u>
Director expenditures:		
Personnel expenditures		321
Director costs		708
Director fees		<u>4,710</u>
Total director expenditures		<u>5,739</u>
Allocated cost to District 1-A		<u>70,120</u>
Total expenditures	\$	<u><u>111,628</u></u>

Number of persons employed by the District -0- Full-Time -0- Part-Time

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
COMPARITIVE SCHEDULE OF REVENUES
AND EXPENDITURES GENERAL FUND – THREE YEARS**

	Amounts		
	2011	2010	2009
REVENUES:			
Water service	\$ 1,918	\$ 1,168	\$ 726
Wastewater service	348	123	-
Penalty and interest	-	3	-
Permits and inspections	2,549	2,429	-
Franchise fees	-	-	585
Strategic partnership arrangement	-	4,749	-
Miscellaneous revenues	-	-	4
Total revenues	<u>4,815</u>	<u>8,472</u>	<u>1,315</u>
EXPENDITURES			
Service operations:			
Personnel expenditures	90	554	91,625
Administrative expenditures	29,605	98,765	50,318
Director expenditures	5,739	4,749	5,897
Supplies and other charges	6,267	4,725	38,157
Contracted services	14,172	23,563	136,867
Purchased water service	27,834	26,758	188,967
Purchased wastewater service	61	14,642	46,211
Purchased non-potable water service	6,521	6,741	-
Utilities	13,367	10,845	53,813
Repairs and maintenance	7,203	8,427	40,832
Capital outlay	769	-	8,296
Total expenditures	<u>111,628</u>	<u>199,769</u>	<u>660,983</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(106,813)</u>	<u>(191,297)</u>	<u>(659,668)</u>
OTHER FINANCING SOURCES (USES)			
Transfer out	-	(24,161)	-
Contributions to other governmental units	-	-	(5,010)
Contributions from other governmental units	450,000	-	-
Total other financing sources (uses)	<u>450,000</u>	<u>(24,161)</u>	<u>(5,010)</u>
NET CHANGE IN FUND BALANCES	343,187	(215,458)	(664,678)
FUND BALANCES AS ADJUSTED, OCTOBER 1, 2010	<u>(880,257)</u>	<u>(664,799)</u>	<u>(121)</u>
FUND BALANCES SEPTEMBER 30, 2011	<u>\$ (537,070)</u>	<u>\$ (880,257)</u>	<u>\$ (664,799)</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>4</u>	<u>3</u>	<u>3</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>2</u>	<u>2</u>	<u>-</u>

Percent of Total Revenues

<u>2011</u>	<u>2010</u>	<u>2009</u>
39.7	13.8	55.2
7.2	1.5	0.0
0.0	0.0	0.0
52.9	28.7	0.0
0.0	0.0	44.5
0.0	56.1	0.0
0.0	0.0	0.3
<u>99.8</u>	<u>100.1</u>	<u>100.0</u>
1.9	6.5	6967.7
614.8	1165.8	3826.5
119.2	56.1	448.4
130.2	55.8	2901.7
294.3	278.1	10408.1
578.1	315.8	14370.1
1.3	172.8	3514.1
135.4	79.6	0.0
277.6	128.0	4092.2
149.6	99.5	3105.1
16.0	0.0	630.9
<u>2318.4</u>	<u>2358.0</u>	<u>50264.8</u>
<u><u>-2218.6 %</u></u>	<u><u>-2257.9 %</u></u>	<u><u>-50164.8 %</u></u>

Note District No. 1-A changed its 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-H
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2011**

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

District Telephone No. - (972) 899-4000

<u>Board Members</u>	<u>Term of Office (Elected or Appointed)</u>	<u>Fees of Office for the year ended September 30, 2011</u>	<u>Expense Reimbursements for the year ended September 30, 2011</u>	<u>Title</u>
Ralph Hunter	05/12	\$ 1,050	\$ 180	President
Patti Brown	5/14/2011	\$ 750	\$ 11	Vice President
Michael Clarke	05/14	\$ 1,050	\$ 55	Treasurer/ Asst. Secretary
Corwin Snow	05/12	\$ 900	\$ 126	Secretary
John Lessner	05/12	\$ 1,050	\$ 79	Assistant Secretary

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

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

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

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

<u>Consultants</u>	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2011</u>	<u>Title</u>
Kelly Hart & Hallman, LLP 201 Main Street, Suite 2500 Fort Worth, TX 76102	6/3/2008	\$ 13,327	Attorney
Vinson & Elkins PO Box 200113 Houston, TX 77216	2/1/2011	\$ 2,465	Attorney
Pate Engineers, Inc. 8150 Brookriver Drive, Suite S-700 Dallas, Texas 75247	11/16/2009	\$ 130	Project Engineer
Zane Miller 2540 King Arthur, Suite 220 Lewisville, TX 75056	9/18/2007	\$ -	Investment Officer
Denton County Appraisal District 3911 Morse Denton, TX 76208	Legislative Action	\$ -	Property Tax Appraisals