

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

**DENTON COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2009**

**McCALL GIBSON SWEDLUND BARFOOT PLLC**  
Certified Public Accountants

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

**DENTON COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**SEPTEMBER 30, 2009**

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

## Independent Auditor's Report

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

We have conducted our audit in accordance with auditing standards generally accepted as promulgated within the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Management's Discussion and Analysis on pages 3 through 7 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants

February 10, 2010

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

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

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Assets and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. This report also includes other supplementary information in addition to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide portion of these statements provides both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

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

The government-wide portion of the Statement of Activities on page 10 reports how the District's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

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

**FUND FINANCIAL STATEMENTS**

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

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets on page 9, and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 11 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 12 through 23 in this report.

**OTHER INFORMATION**

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



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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$11,991 as of September 30, 2009.

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

	<u>Summary of Changes in the Statement of Net Assets</u>		
	<u>2009</u>	<u>2008</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	<u>\$ 64,250</u>	<u>\$ 16,697</u>	<u>\$ 47,553</u>
Total Assets	<u>\$ 64,250</u>	<u>\$ 16,697</u>	<u>\$ 47,553</u>
Due to Developer	\$ 37,715	\$ 37,715	\$
Other Liabilities	<u>14,544</u>	<u>12,383</u>	<u>(2,161)</u>
Total Liabilities	<u>\$ 52,259</u>	<u>\$ 50,098</u>	<u>\$ (2,161)</u>
Net Assets:			
Unrestricted	<u>\$ 11,991</u>	<u>\$ (33,401)</u>	<u>\$ 45,392</u>
Total Net Assets	<u>\$ 11,991</u>	<u>\$ (33,401)</u>	<u>\$ 45,392</u>
		(1)	

(1) As Adjusted, Note 11

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

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

The following table provides a summary of the District's operations for the years ended September 30, 2009, and September 30, 2008. The District's net assets increased by \$45,392, accounting for a 135.9% increase in net assets.

	Summary of Changes in the Statement of Activities		
	2009	2008	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 55,478	\$ 73,391	\$ (17,913)
Charges for Services	<u>102,135</u>	<u>78,791</u>	<u>23,344</u>
Total Revenues	\$ 157,613	\$ 152,182	\$ 5,431
Expenses for Services	<u>111,792</u>	<u>152,849</u>	<u>41,057</u>
Excess (Deficiency) of Revenues Over Expenses	\$ 45,821	\$ (667)	\$ 46,488
Contribution to Other Governmental Units	<u>(429)</u>	<u>(141)</u>	<u>(288)</u>
Change in Net Assets	45,392	(808)	46,200
Net Assets, Beginning of Year	<u>(33,401)</u>	<u>(32,593)</u>	<u>(808)</u>
Net Assets, End of Year	<u>\$ 11,991</u>	<u>\$ (33,401)</u>	<u>\$ 45,392</u>
		(1)	
As Adjusted, Note 11			

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

The District's fund balance as of September 30, 2009, was \$54,860, an increase of \$46,180 from the prior year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$35,236 more than budgeted revenues. Actual expenditures were \$5,158 less than budgeted expenditures. See the budget to actual comparison on page 25.

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

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

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

	General Fund	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash, Note 3	\$ 43,128	\$	\$ 43,128
Receivables:			
Other	3,890		3,890
Prepaid Costs	5,358		5,358
Due from Other Governmental Units	11,874		11,874
<b>TOTAL ASSETS</b>	<b>\$ 64,250</b>	<b>\$</b>	<b>\$ 64,250</b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 8,740	\$	\$ 8,740
Due to Other Governmental Unit, Note 10		5,154	5,154
Due to Developer, Note 8		37,715	37,715
Security Deposits	650		650
<b>TOTAL LIABILITIES</b>	<b>\$ 9,390</b>	<b>\$ 42,869</b>	<b>\$ 52,259</b>
<b>FUND BALANCES/NET ASSETS</b>			
<b>FUND BALANCES</b>			
Reserved for Prepaid Costs	\$ 5,358	\$ (5,358)	\$
Unreserved – Undesignated	49,502	(49,502)	
<b>TOTAL LIABILITIES</b>	<b>\$ 54,860</b>	<b>\$ (54,860)</b>	<b>\$</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 64,250</b>	<b>\$ (11,991)</b>	<b>\$ 52,259</b>
<b>NET ASSETS</b>			
Unrestricted		\$ 11,991	\$ 11,991
<b>TOTAL NET ASSETS</b>		<b>\$ 11,991</b>	<b>\$ 11,991</b>

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

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

Total Fund Balances – Governmental Funds	\$ 54,860
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Governmental funds do not record a long-term liability to the Developer for the advances made to the District for operations. However, in the Statement of Net Assets, the liability for these advances is recorded.	(37,715)
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>(5,154)</u>
Total Net Assets – Governmental Activities	<u>\$ 11,991</u>

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

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

	General Fund	Adjustments	Statement of Activities
<b>REVENUES</b>			
Property Taxes	\$ 55,478	\$	\$ 55,478
Water Service	91,883		91,883
Wastewater Service	1,261		1,261
Penalty and Interest	12		12
Permits and Inspections			
Franchise Fees	3,928		3,928
Miscellaneous Revenues	<u>5,051</u>		<u>5,051</u>
<b>TOTAL REVENUES</b>	<u>\$ 157,613</u>	<u>\$ -0-</u>	<u>\$ 157,613</u>
<b>EXPENDITURES/EXPENSES</b>			
Service Operations:			
Salaries	\$ 21,324	\$	\$ 21,324
Professional Fees	23,801		23,801
Contracted Services	13,288		13,288
Purchased Water Service	31,989		31,989
Purchased Wastewater Service	1,943		1,943
Utilities	1,470		1,470
Repairs and Maintenance	4,930		4,930
Other	11,380		11,380
Capital Outlay	<u>1,667</u>		<u>1,667</u>
<b>TOTAL EXPENDITURES/EXPENSES</b>	<u>\$ 111,792</u>	<u>\$ -0-</u>	<u>\$ 111,792</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES</b>	<u>\$ 45,821</u>	<u>\$ -0-</u>	<u>\$ 45,821</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Contribution to Other Governmental Unit	\$ (429)	\$	\$ (429)
Contribution from Other Governmental Unit	<u>788</u>	<u>(788)</u>	<u></u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ 359</u>	<u>\$ (788)</u>	<u>\$ (429)</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 46,180	\$ (46,180)	\$
<b>CHANGE IN NET ASSETS</b>		45,392	45,392
<b>FUND BALANCE/NET ASSETS – OCTOBER 1, 2008, As Adjusted, Note 11</b>	<u>8,680</u>	<u>(42,081)</u>	<u>(33,401)</u>
<b>FUND BALANCE/NET ASSETS – SEPTEMBER 30, 2009</b>	<u>\$ 54,860</u>	<u>\$ (42,869)</u>	<u>\$ 11,991</u>

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-C  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

Net Change in Fund Balance – Governmental Fund \$ 46,180

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report contributions from other governmental units as other financing sources. However, in the Statement of Net Assets, this contribution for the District’s share of lift station capacity is recorded as a liability.

(788)

Change in Net Assets – Governmental Activities

\$ 45,392

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

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

**NOTE 1. CREATION OF DISTRICT**

By the terms of an election held on January 17, 1983 voters approved the creation of the Denton County Fresh Water Supply District No. 1, now known as Denton County Fresh Water Supply District No. 1-A (District No. 1-A). As a result of another election held on August 8, 1987, the voters approved the District's assumption of certain rights, authority, privileges and functions of a road district and approved for the District to purchase, construct, acquire, own, operate, repair, improve and extend sanitary sewer systems. On December 21, 1993, following a hearing, the governing board of the District approved the conversion of the District to a Water Control and Improvement District and conversion to operating under Chapter 51 of the Texas Water Code and specifically reserved certain rights under Sections 53.029, 53.030 through 53.035, 53.037 through 53.041, 53.111, 53.112, 53.121, and 53.125 of the Texas Water Code.

At an election held within the boundaries of the District on May 1, 1999, voters approved the division of the District into two new districts of which Denton County Fresh Water Supply District No. 1-C (the "District") was one. The District held its first meeting on July 13, 1995. At a subsequent election held within the boundaries of the District on May 1, 1999, voters approved the division of the District into two Districts, District No. 1-D and the District. Pursuant to the provisions of Chapters 49, 51 and 53 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The District has contracted with District No. 1-A to operate the facilities within the District.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

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



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

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Governmental Accounting Standards Board has established the criteria for determining whether or not a given entity is a component unit. The criteria are: (1) is the potential component unit a legally separate entity, (2) does the primary government appoint a voting majority of the potential component unit's board, (3) is the primary government able to impose its will on the potential component unit, (4) is there a financial benefit or burden relationship. The District was created as an independent municipality. The District does not meet the criteria for inclusion as a component unit of any entity nor does any other entity meet the component unit criteria for inclusion in the District's basic financial statements.

Financial Statement Presentation

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

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

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

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

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

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the District as a whole. The District's Statement of Net Assets and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

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

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

Fund Financial Statements

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

Governmental Funds

The District has one major governmental fund.

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

Basis of Accounting

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

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

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting (Continued)

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

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

Budgeting

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

Pensions

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

Measurement Focus

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

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

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus (Continued)

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

Reserved:

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

Unreserved:

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

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

Accounting Estimates

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

**NOTE 3. DEPOSITS AND INVESTMENTS**

Deposits

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

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

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

**NOTE 3. DEPOSITS AND INVESTMENTS (Continued)**

Deposits (Continued)

cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District’s deposits in the pooled cash account maintained by District No. 1-A was \$43,128. Any balance in the pooled cash account exceeding federal depository insurance are secured with collateral pledged to District No. 1-A.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Assets at September 30, 2009, as listed below:

TOTAL DEPOSITS	<u>43,128</u>
----------------	---------------

- (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.

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

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

**NOTE 3. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

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.

**NOTE 4. MAINTENANCE TAX**

On November 4, 1997, 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 current fiscal year, the District levied an ad valorem maintenance tax rate of \$0.90 per \$100 of assessed valuation which resulted in a tax levy of \$55,478 on the adjusted taxable valuation of \$6,164,232 for the 2008 tax year. The maintenance tax will be used for maintenance purposes to include funds for planning, maintaining, repairing and operating all necessary plants, properties, facilities and improvements of the District and for proper services, engineering and legal fees, and operational and administrative costs in accordance with Section 49.107 of the Texas Water Code.

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 5. WATER SUPPLY AGREEMENTS**

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

On May 7, 1992, Denton County Fresh Water Supply District No. 1 executed an agreement with the Upper Trinity Regional Water District to provide treated water to participants in the UTRWD. Denton County Fresh Water Supply District No. 1-A has assumed the obligations of District No. 1 under the terms of this agreement and the District has ratified that assumption of the agreement. The UTRWD has agreed to use its best efforts to build the facilities called for in this agreement and to issue debt to fund the cost of the facilities.

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

**NOTE 5. WATER SUPPLY AGREEMENTS (Continued)**

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

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

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

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

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

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

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

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

**NOTE 5. 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)

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. District No. 1-A will pay its annual payment including facilities charges and charges for the actual volume of water taken. The agreement is in effect for thirty (30) years from the effective date of the agreement.

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

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

District No. 1-A will be charged a two-part rate, consisting of a volume rate and a demand rate (Charges), based on the City Wholesale Service Area's treated water consumption and Maximum Day Demand. The initial demand capacity requested from the City is 300,000 gallons per day. Effective the date of this agreement, the initial volume rate is \$1.49 per 1,000 gallons and demand rate of \$299,160 per million gallons per day, paid monthly.

The term of this agreement ends the earlier of August 18, 2032, or such date specified for District 1-A's annexation by the City.

**NOTE 6. OPERATING AGREEMENT**

On July 15, 1999, the District entered into an Amended and Restated Operating Agreement with Denton County Fresh Water Supply District No. 1-A (District No. 1-A) with an effective date of August 13, 1997. This agreement was further amended on September 18, 2001, to be effective October 1, 2001. District No. 1-A is responsible for operating, maintaining, and managing the



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

**NOTE 6. OPERATING AGREEMENT (Continued)**

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 costs based on customer usage, if the total actual costs do not exceed the FOMB by more than 12%, the District's revision requests are only advisory. If the reverse is true, the new budget will not take effect until approved by the Board of Directors of 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 rates for 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.

District No. 1-A agreed to provide construction and contract management services for the District. The District has agreed to fund the cost of such services. District No. 1-A further agreed to maintain and operate the roads and bridges.

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 allocated such costs among the districts and shall be recalculated as of the first of each succeeding fiscal year thereafter.

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

**NOTE 6. OPERATING AGREEMENT (Continued)**

On September 16, 2008, the District approved the Amended and Restated Operating Agreement. This agreement is to become effective on October 1, 2008. All other provisions remained the same, with the exception of the allocation of the maintenance costs. In accordance with the agreement, costs of the maintenance of the facilities within the districts of the Castle Hills Subdivision shall be allocated to each district on the basis of projected property values. Projected property values are defined as the combined total value of all property that is existing 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 7. 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 from 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 8. DUE TO DEVELOPER**

On May 19, 2009, the District executed an Agreement for Construction and Purchase of Facilities and Reimbursements for Cost with Castle Hills Development Corporation to provide for the advancement of monies to facilitate the operations of the District and or construction costs of the District. The Developer has indicated that \$37,715 has been advanced to the District as of September 30, 2009, that remains unreimbursed. This amount has been recorded as a liability in the Statement of Net Assets of the District.

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

**NOTE 9. 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), and Denton No. 1-A, the District, Denton No. 1-D, Denton No. 1-E, Denton No. 1-F, Denton No. 1-G, and Denton No. 1-H (collectively “the Districts”). For advances made by Bright Entities on or before November 20, 2006, the Districts will reimburse the relevant Bright Entity for 100% of such advance. 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 redeployment 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 10. DUE TO DISTRICT NO. 1-A**

The District has recorded a liability in the amount of \$2,203 for their share of capacity in the lift station, \$54 for their share of the pump station costs, and \$1,897 for general operations of District No. 1-A. In addition, the District has recorded a liability of \$1,000 for developer advances due of District No. 1-A in accordance with the agreement noted in Note 9. The total amount due to District No. 1-A of \$5,154 has been recorded in the Statement of Net Assets.

**NOTE 11. PRIOR PERIOD ADJUSTMENT**

During the current fiscal year, the District adjusted its beginning Net Assets to increase the amount previously recorded as a due to Developer. In addition, the District recorded an additional amount due to District No. 1-A for its share of prior year lift station and pump station costs and operations costs of District No. 1-A, see Note 10. The effect of these changes resulted in a decrease in the beginning net assets of \$10,081.

Net Assets Balance – October 1, 2008	\$ (23,320)
Less: Effect of recording additional amounts due to the Developer and recording additional amounts due to District No. 1-A	(10,081)
Net Assets Balance – October 1, 2008, As Adjusted	\$ (33,401)

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2009**

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

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 52,704	\$ 55,478	\$ 2,774
Water Service	67,540	91,883	24,343
Wastewater Service		1,261	1,261
Penalty and Interest	141	12	(129)
Permit and Inspections	1,667		(1,667)
Franchise Fees	190	3,928	3,738
Miscellaneous Revenues	135	5,051	4,916
<b>TOTAL REVENUES</b>	<u>\$ 122,377</u>	<u>\$ 157,613</u>	<u>\$ 35,236</u>
<b>EXPENDITURES</b>			
Service Operations:			
Salaries	\$ 25,098	\$ 21,324	\$ 3,774
Professional Fees	13,226	23,801	(10,575)
Contracted Services	11,948	13,288	(1,340)
Purchased Water Service	41,830	31,989	9,841
Purchased Wastewater Service	2,078	1,943	135
Utilities	1,401	1,470	(69)
Repairs and Maintenance	4,822	4,930	(108)
Other	15,412	11,380	4,032
Capital Outlay	1,135	1,667	(532)
<b>TOTAL EXPENDITURES</b>	<u>\$ 116,950</u>	<u>\$ 111,792</u>	<u>\$ 5,158</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 5,427</u>	<u>\$ 45,821</u>	<u>\$ 40,394</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Contribution to Other Governmental Units	\$	\$ (429)	\$ (429)
Contribution from Other Governmental Units	<u>                    </u>	<u>788</u>	<u>788</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ -0-</u>	<u>\$ 359</u>	<u>\$ 359</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 5,427	\$ 46,180	\$ 40,753
<b>FUND BALANCE – OCTOBER 1, 2008</b>	<u>8,680</u>	<u>8,680</u>	<u>                    </u>
<b>FUND BALANCE – SEPTEMBER 30, 2009</b>	<u>\$ 14,107</u>	<u>\$ 54,860</u>	<u>\$ 40,753</u>

See accompanying independent auditor's report.

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

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

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

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

**2. RETAIL SERVICE PROVIDERS**

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

Based on the rate order approved September 16, 2008.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 18.74	2,000	N	\$ 3.44	2,001 to 15,000
				\$ 3.64	15,001 to 25,000
				\$ 4.59	25,001 to 35,000
				\$ 5.59	35,001 to 45,000
				\$ 6.59	45,001 to 55,000
				\$ 7.59	55,001 and up
WASTEWATER:	\$ 7.75	2,000	N	\$ 3.20	2,001 not to exceed 15,000 gallons
SURCHARGE:					
Solid Waste/ Garbage	\$ 15.75		Y		
Commission Regulatory Assessments	0.5% 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: \$46.16 Wastewater: \$33.35 Surcharge: \$15.88

See accompanying independent auditor's report.



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

**2. RETAIL SERVICE PROVIDERS (Continued)**

**b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)**

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered			x 1.0	
≤¾"	1	1	x 1.0	1
1"	2	2	x 2.5	5
1½"			x 5.0	
2"	1	1	x 8.0	8
3"	1	1	x 15.0	15
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>5</u>	<u>5</u>		<u>29</u>
Total Wastewater Connections	<u>5</u>	<u>5</u>	x 1.0	<u>5</u>

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

Gallons billed to customers:	1,249,000	Water Accountability Ratio: (Gallons billed and sold/Gallons pumped and purchased)
		<u>97.8%</u>
Gallons purchased:	1,277,000	From: <u>Our water suppliers, see Note 5</u>

See accompanying independent auditor's report.

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

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

Does the District have Debt Service standby fees? Yes \_\_\_ No 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

See accompanying independent auditor's report.

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

PERSONNEL EXPENDITURES (Including Benefits)	\$ <u>21,324</u>
PROFESSIONAL FEES:	
Legal	\$ 17,192
Auditing	6,500
Engineering	<u>109</u>
TOTAL PROFESSIONAL FEES	\$ <u>23,801</u>
PURCHASED SERVICES FOR RESALE:	
Water Service	\$ 31,989
Wastewater Service	<u>1,943</u>
TOTAL PURCHASED SERVICES FOR RESALE	\$ <u>33,932</u>
CONTRACTED SERVICES:	
Appraisal District	\$ 347
Contract Labor	5,034
Management Fee	5,339
Fire and EMS Services	1,199
Police Service	753
Tax Collector	<u>616</u>
TOTAL CONTRACTED SERVICES	\$ <u>13,288</u>
UTILITIES:	
Electricity	\$ 841
Telephone	<u>629</u>
TOTAL UTILITIES	\$ <u>1,470</u>
REPAIRS AND MAINTENANCE	\$ <u>4,930</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 2,550
Dues	188
Insurance	3,447
Advertising	12
Direct Cost	269
Lease Office Equipment	210
Office Supplies and Postage	786
Payroll Taxes and Administration	158
Training and Education	200
Travel	57
Other	<u>        </u>
TOTAL ADMINISTRATIVE EXPENDITURES	\$ <u>7,877</u>

See accompanying independent auditor's report.

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

CAPITAL OUTLAY:			
Capitalized Assets		\$	
Expenditures not Capitalized			<u>1,667</u>
TOTAL CAPITAL OUTLAY		\$	<u>1,667</u>
TAP CONNECTIONS		\$	<u>-0-</u>
SOLID WASTE DISPOSAL		\$	<u>511</u>
FIRE FIGHTING		\$	<u>-0-</u>
PARKS AND RECREATION		\$	<u>-0-</u>
OTHER EXPENDITURES:			
Supply – Small Tools		\$	91
Supply – Uniforms			90
Supply - Medical			5
Supply – Gas and Fuel			365
Supply – Postage			52
Office Rental			1,826
Equipment Rental			275
State Certification			24
Other			<u>264</u>
TOTAL OTHER EXPENDITURES		\$	<u>2,992</u>
TOTAL EXPENDITURES		\$	<u><u>111,792</u></u>
Number of persons employed by the District	<u>-0-</u>	Full-Time	<u>-0-</u> Part-Time

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

See accompanying independent auditor's report.

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

	Maintenance Tax	
TAXES RECEIVABLE – OCTOBER 1, 2008	\$ -0-	
Adjustments to Beginning Balance	_____	\$ -0-
Original 2008 Tax Levy	\$ 55,478	
Adjustment to 2008 Tax Levy	_____	55,478
TOTAL TO BE ACCOUNTED FOR		\$ 55,478
TAX COLLECTIONS:		
Prior Years	\$	
Current Year	55,478	55,478
TAXES RECEIVABLE – SEPTEMBER 30, 2009		\$ -0-

See accompanying independent auditor's report.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>PROPERTY VALUATIONS</b>				
Land	\$ 2,810,797	\$ 3,370,486	\$ 2,318,477	\$ 2,328,881
Improvements	2,261,148	3,644,628	5,005,234	4,291,459
Personal Property	1,093,079	1,150,559	1,171,529	1,238,193
Exemptions	<u>(792)</u>	<u>(473)</u>	<u>                    </u>	<u>                    </u>
<b>TOTAL PROPERTY VALUATIONS</b>	<u><b>\$ 6,164,232</b></u>	<u><b>\$ 8,165,200</b></u>	<u><b>\$ 8,495,240</b></u>	<u><b>\$ 7,858,533</b></u>
<b>TAX RATES PER \$100 VALUATION:</b>				
Contract	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Maintenance	<u>0.90</u>	<u>0.90</u>	<u>0.95</u>	<u>0.54</u>
<b>TOTAL TAX RATES PER \$100 VALUATION</b>	<u><b>\$ 0.90</b></u>	<u><b>\$ 0.90</b></u>	<u><b>\$ 0.95</b></u>	<u><b>\$ 0.54</b></u>
<b>ADJUSTED TAX LEVY*</b>	<u><b>\$ 55,478</b></u>	<u><b>\$ 73,487</b></u>	<u><b>\$ 80,705</b></u>	<u><b>\$ 42,436</b></u>
<b>PERCENT OF TAXES COLLECTED TO TAXES LEVIED</b>				
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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

Maintenance Tax – Maximum tax rate in unlimited amount per \$100 of assessed valuation approved by voters on November 4, 1997.

See accompanying independent auditor's report.

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

	Amounts		
	2009	2008	2007
<b>REVENUES</b>			
Property Taxes	\$ 55,478	\$ 73,465	\$ 80,858
Water Service	91,883	75,631	91,834
Wastewater Service	1,261	987	1,091
Penalty Interest	12	733	179
Permits and Inspections		921	955
Franchise Fees	3,928	519	795
Miscellaneous	5,051		251
<b>TOTAL REVENUES</b>	<b>\$ 157,613</b>	<b>\$ 152,256</b>	<b>\$ 175,963</b>
<b>EXPENDITURES</b>			
Salaries	\$ 21,324	\$ 4,199	\$ 3,928
Professional Fees	23,801	30,182	15,916
Contracted Services	13,288	3,110	2,742
Purchased Water Service	31,989	99,918	144,376
Purchased Wastewater Service	1,943	710	733
Utilities	1,470	407	417
Repairs and Maintenance	4,930	1,390	1,100
Other	11,380	12,874	9,455
Capital Outlay	1,667	59	37
<b>TOTAL EXPENDITURES</b>	<b>\$ 111,792</b>	<b>\$ 152,849</b>	<b>\$ 178,704</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 45,821</b>	<b>\$ (593)</b>	<b>\$ (2,741)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Contribution to Other Governmental Unit	\$ (429)	\$ (141)	\$
Contribution from Other Governmental Unit	788		
Developer Contributions		1,000	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 359</b>	<b>\$ 859</b>	<b>\$ -0-</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 46,180</b>	<b>\$ 266</b>	<b>\$ (2,741)</b>
<b>BEGINNING FUND BALANCE</b>	<b>8,680</b>	<b>8,414</b>	<b>11,155</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 54,860</b>	<b>\$ 8,680</b>	<b>\$ 8,414</b>

See accompanying independent auditor's report.

		Percent of Total Revenues						
<u>2006</u>	<u>2005</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>		
\$ 40,721	\$ 43,778	35.2%	48.3%	46.0%	33.0%	36.1%		
80,704	69,244	58.3	49.7	52.2	65.5	57.2		
781	1,031	0.8	0.6	0.6	0.6	0.9		
515	112		0.5	0.1	0.4	0.1		
50	40		0.6	0.5	0.1			
498	2,792	2.5	0.3	0.5	0.4	2.3		
42	4,161	3.2		0.1		3.4		
<u>\$ 123,311</u>	<u>\$ 121,158</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>		
\$ 6,237	\$ 5,692	13.5%	2.8%	2.2%	5.1%	4.7%		
15,361	12,348	15.1	19.8	9.0	12.5	10.2		
2,146	5,949	8.8	2.0	1.6	1.7	4.9		
97,664	48,857	20.3	65.6	82.0	79.2	40.3		
871	6,499	1.2	0.5	0.4	0.7	5.4		
528	2,554	0.9	0.3	0.2	0.4	2.1		
1,210	9,668	3.1	0.9	0.6	1.0	8.0		
10,527	13,752	6.4	8.5	5.4	8.5	11.4		
25	943	1.1				0.8		
<u>\$ 134,569</u>	<u>\$ 106,262</u>	<u>70.4%</u>	<u>100.4%</u>	<u>101.4%</u>	<u>109.1%</u>	<u>87.8%</u>		
\$ (11,258)	\$ 14,896	<u>29.6%</u>	<u>(0.4)%</u>	<u>(1.4)%</u>	<u>(9.1)%</u>	<u>12.2%</u>		
\$	\$							
<u>\$ -0-</u>	<u>\$ -0-</u>							
\$ (11,258)	\$ 14,896							
<u>22,413</u>	<u>7,517</u>							
<u>\$ 11,155</u>	<u>\$ 22,413</u>							

See accompanying independent auditor's report.



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

	<u>Amounts</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>REVENUES</b>			
Property Taxes	\$	\$	\$
Investment Revenues			
<b>TOTAL REVENUES</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$	\$	\$
Contract Tax Obligation Castlehills Public Improvement District			
<b>TOTAL EXPENDITURES</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$	\$	\$
<b>BEGINNING FUND BALANCE</b>			
<b>ENDING FUND BALANCE</b>	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ N/A</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>5</u>	<u>6</u>	<u>6</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>5</u>	<u>5</u>	<u>5</u>

See accompanying independent auditor's report.

		Percent of Total Revenues				
2006	2005	2009	2008	2007	2006	2005
\$	\$					
\$	\$					
\$	\$					
\$	\$					
\$	\$	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<u>\$ N/A</u>	<u>\$ N/A</u>					
<u>4</u>	<u>2</u>					
<u>3</u>	<u>1</u>					

See accompanying independent auditor's report.

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

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

District Telephone Number - (972) 899-4000

<b>Board Members</b>	Term of Office (Elected or Appointed)	Fees of Office for the year ended September 30, 2009	Expense Reimbursements for the year ended September 30, 2009	Title
David R. Moore	05/2008 – 05/2012 (Elected)	\$ 750	\$ -0-	President
Preston D. Freeman	05/2006 – 05/2010 (Elected)	\$ 450	\$ -0-	Vice President
Debra Caskey	05/2006 – 05/2010 (Elected)	\$ 600	\$ 44	Secretary/ Treasurer
Lori Holstrom	06/2009 – 05/2010 (Appointed)	\$ -0-	\$ -0-	Treasurer /Assistant Secretary
Robert L. Brown	02/2009 – 05/2012 (Appointed)	\$ 750	\$ 55	Assistant Secretary

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

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

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by the Texas Water Code Section 49.060. The District has not formally adopted a resolution setting the limits for its directors. Fees of Office are the amounts paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

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

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2009</u>	<u>Title</u>
Kelly Hart & Hallman, LLP 201 Main Street, Suite 2500 Fort Worth, TX 76102	06/03/08	\$ 17,192	Attorney
McCall Gibson Swedlund Barfoot PLLC Certified Public Accountants 13100 Wortham Center Dr., Suite 235 Houston, TX 77065-5610	03/31/99	\$ 6,500	Auditor
Denton County Appraisal District P. O. Box 2816 Denton, TX 76202-7816	Legislative Action	\$ 347	Central Appraisal District
TRC Engineers, Inc. 6136 Frisco Square Blvd Suite 375 Frisco, TX 75034	09/11/97	\$ -0-	Engineer
Zane Miller 2540 King Arthur, Suite 220 Lewisville, TX 75056	09/18/07	\$ -0-	Investment Officer
Steve Mossman Denton County Tax Collector 1505 E. McKinney Street Denton, Texas 76209	10/01/00	\$ 616	Tax Assessor/ Collector

See accompanying independent auditor's report.