

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

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2012

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	8
STATEMENT OF ACTIVITIES	9
FUND FINANCIAL STATEMENTS	
GOVERNMENTAL FUNDS	
BALANCE SHEET	10
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS	12
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	13
RECONCILIATION OF GOVERNMENT FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	15
NOTES TO BASIC FINANCIAL STATEMENTS	16
OTHER SUPPLEMENTARY INFORMATION	
SCHEDULE OF REIMBURSED COSTS TO OTHER GOVERNMENTAL UNITS - GENERAL FUND	37

CONTENTS

SUPPLEMENTARY INFORMATION REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the basic financial statements)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS) - GENERAL FUND	38
SERVICES AND RATES	39
GENERAL FUND EXPENDITURES	42
INVESTMENTS	43
ANALYSIS OF TAXES RECEIVABLE	44
ANALYSIS OF TAXES LEVIED FOR THE LAST FIVE TAX YEARS	45
COMPARITIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND - FIVE YEARS	46
COMPARITIVE SCHEDULE OF REVENUES AND EXPENDITURES DEBT SERVICE FUND - FIVE YEARS	48
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	50



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Denton County Fresh Water Supply District No. 1-D (the District), as of and for the year ended September 30, 2012, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of September 30, 2012, 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.

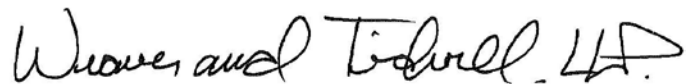
In accordance with *Government Audit Standards*, we have also issued our report dated October 15, 2013 on our consideration of the District's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other 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 7) and General Fund budgetary comparison information (on page 38) are 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-D

Page 2

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 37 and the supplementary information listed in the table of contents on pages 38 through 51 (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, are 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 subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink that reads "Weaver and Tidwell, L.L.P." with a stylized flourish at the end.

WEAVER AND TIDWELL L.L.P.

Dallas, Texas
October 15, 2013

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

Our discussion and analysis of Denton County Fresh Water Supply District No. 1-D's (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the District's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at September 30, 2012 by \$803,351. Of this amount, \$2,432,539 is invested in capital assets which do not directly generate revenue and are not available to generate liquid capital. Net assets restricted for specific purposes total \$3,835,669. The District has an unrestricted deficit balance of \$5,464,857.
- The District's net assets increased by \$898,739. Unrestricted net assets, which may be used to meet the District's ongoing obligations to residents and creditors, is currently an unrestricted net asset deficit. The deficit decreased in the current fiscal year by \$771,842.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$4,675,331, a net increase of \$312,177 in comparison to the prior year. The primary reason for the improvement is an increase in property tax and water service revenues.
- On a government-wide basis, the District's total liabilities decreased by \$643,323. The primary reason for the decrease is the repayment to the developer of approximately \$580,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The basic financial statements include: (1) government-wide financial statements and (2) fund financial statements and (3) notes to the financial statements. 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 8. 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-D
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

Government-wide financial statements (continued)

The statement of activities on page 9 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 statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, and includes customer service revenues, costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources accumulated for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources segregated for acquisition or construction of facilities and related costs.

Governmental funds are used to account for essentially the same functions 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 the fund balances to the statement of activities on page 15 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

Notes to the basic financial statements

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 36 in this report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

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 37 and information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* on pages 38 to 51.

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 \$803,351 as of September 30, 2012.

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

	Summary of Changes in the Statement of Net Assets		
	2012	2011	Change
Current and other assets	\$ 4,832,274	\$ 4,493,896	\$ 338,378
Capital assets (Net of accumulated depreciation)	2,432,539	2,515,501	(82,962)
Total assets	7,264,813	7,009,397	255,416
Non-current liabilities	6,390,929	6,974,433	(583,504)
Other liabilities	70,533	130,352	(59,819)
Total liabilities	6,461,462	7,104,785	(643,323)
Net assets			
Invested in capital assets	2,432,539	2,515,501	(82,962)
Restricted	3,835,669	3,625,810	209,859
Unrestricted	(5,464,857)	(6,236,699)	771,842
Total net assets (deficit)	\$ 803,351	\$ (95,388)	\$ 898,739

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the District's operations for the years ended September 30, 2012 and 2011. The District's net assets increased by \$898,739.

Summary of Changes in the Statement of Activities			
	2012	2011	Change
Revenues:			
Property taxes	\$ 3,472,843	\$ 3,228,303	\$ 244,540
Charges for services	2,017,767	1,962,993	54,774
Investment revenues	254	4,296	(4,042)
Other revenues	47,778	60,304	(12,526)
Total revenues	5,538,642	5,255,896	282,746
Expenses:			
Expenses for services	2,077,670	2,276,761	(199,091)
Debt service	2,348,893	2,347,905	988
Contribution to other governmental units	150,000	150,000	-
Depreciation	63,340	64,762	(1,422)
Total expenses	4,639,903	4,839,428	(199,525)
Change in net assets	898,739	416,468	482,271
Net assets, beginning of year	(95,388)	(511,856)	416,468
NET ASSETS, end of year	\$ 803,351	\$ (95,388)	\$ 898,739

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2012, were \$4,675,331, an increase of \$312,177 from the prior year.

The General Fund balance increased by \$107,471, which was primarily due to increased property taxes and waste water service revenues received during the current fiscal year.

The Debt Service Fund balance increased by \$204,706, despite an increase in contract tax obligation to the City of Lewisville.

There was no change in the Capital Projects Fund balance during the year.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012**

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual expenditures on a budgetary basis were \$2,061,629 compared to the amended budget of \$2,107,916. Actual revenue on a budgetary basis was \$2,882,982 compared to the amended budget of \$2,803,004. The \$79,978 positive revenue variance is primarily due to waste water services and property tax revenues being higher than expected. See the budget to actual comparison on page 38 for additional information.

CAPITAL ASSETS

A portion of the District's water, wastewater and drainage facilities were paid for from proceeds of the City of Lewisville – Castle Hills Public Improvement District No. 2 bond proceeds. The City of Lewisville has recorded these assets on the books of the City. The District also shares in the cost of the capital assets that Denton County Fresh Water Supply District No. 1-A purchases and records on its books.

Capital Assets at Year-End, Net of Accumulated Depreciation			
	2012	2011	Increase (Decrease)
Water system	\$ 690,137	\$ 707,562	\$ (17,425)
Wastewater system	615,593	631,158	(15,565)
Drainage system	844,816	846,929	(2,113)
Road system	2,815	11,624	(8,809)
Investment in shared lift station	279,178	318,228	(39,050)
Total net capital assets	\$ 2,432,539	\$ 2,515,501	\$ (82,962)

Additional information on the District's capital assets can be found in Note 4 on pages 24 and 25 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For the year ending September 30, 2013 budget, revenues are anticipated to decrease by approximately \$81,532 while expenses are anticipated to decrease by approximately \$72,991. The General Fund, which is comprised of the District's General Fund, Operating Fund, and Utility Fund, is budgeted to operate next year with expenditures less than revenues. The District maintained property tax rates at .90 per \$100 assessed value.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Denton County Fresh Water Supply District No. 1-D, c/o Kelly Hart & Hallman, LLP, 201 Main Street, Suite 2500, Fort Worth, TX 76102.

THIS PAGE INTENTIONALLY LEFT BLANK

BASIC FINANCIAL STATEMENTS

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

	Governmental Activities
ASSETS	
Cash	\$ 1,025,679
Investments	300,566
Cash with other governmental unit	3,051,498
Receivables:	
Property taxes	7,353
Service accounts (net of allowance for doubtful accounts of \$0)	201,143
Franchise fee	79,057
Accrued interest	-
Other	867
Due from other governmental unit	166,111
Capital assets (net of accumulated depreciation)	2,432,539
TOTAL ASSETS	\$ 7,264,813
LIABILITIES	
Accounts payable	\$ 32,441
Payroll withholdings	567
Accrued wages	425
Security deposits	37,100
Non-current liabilities	
Due to other governmental units	2,327,508
Due to developer	4,063,421
Total liabilities	6,461,462
NET ASSETS	
Invested in capital assets	2,432,539
Restricted for:	
Capital projects	2,363
Debt service	3,833,306
Unrestricted	(5,464,857)
TOTAL NET ASSETS	\$ 803,351

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Governmental Activities
EXPENSES:	
Service operations:	
Administrative expenditures	\$ 108,832
Director expenditures	9,518
Reimbursements to other governmental units	1,391,549
Contracted services	196,093
Purchased water service	181,190
Purchased wastewater service	190,488
Joint Utility Contract- contractual payments	2,348,893
Depreciation	63,340
Contributions to other governmental units	150,000
Total expenses	4,639,903
REVENUES:	
Program revenues:	
Water service	1,059,251
Wastewater service	502,723
Solid waste revenue	128,651
Permits and inspections	230,945
Total program revenues	1,921,570
Net (expense)	(2,718,333)
General revenues	
Property taxes	3,472,843
Penalty and interest	11,727
Franchise fees	80,233
Strategic partnership revenue	4,237
Investment revenues	254
Miscellaneous revenues	47,778
Total general revenues and transfers	3,617,072
CHANGE IN NET ASSETS	898,739
NET ASSETS, AT OCTOBER 1, 2011	(95,388)
NET ASSETS, AT SEPTEMBER 30, 2012	\$ 803,351

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 848,882	\$ 174,434
Investments	-	300,566
Cash with other governmental unit	-	3,051,498
Receivables:		
Property taxes	1,893	5,460
Service accounts (net of allowance for doubtful accounts of \$0)	201,143	-
Other	867	-
Franchise fee	79,057	-
Due from other governmental unit	166,111	-
Due from other funds	-	301,348
	\$ 1,297,953	\$ 3,833,306
TOTAL ASSETS		
LIABILITIES		
Accounts payable	\$ 32,441	\$ -
Payroll withholdings	567	-
Accrued wages	425	-
Due to other funds	301,348	-
Security deposits	37,100	-
Deferred revenue	80,950	5,460
	452,831	5,460
Total liabilities		
FUND BALANCES		
Restricted		
Net investment revenues for authorized construction	-	-
PID 2 Reserve Fund	-	776,348
Contract debt obligations	-	3,051,498
Unassigned	845,122	-
	845,122	3,827,846
Total fund balances		
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,297,953	\$ 3,833,306

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

<u>Capital Projects Fund</u>	<u>Total</u>
\$ 2,363	\$ 1,025,679
-	300,566
-	3,051,498
-	7,353
-	201,143
-	867
-	79,057
-	166,111
-	301,348
<u>\$ 2,363</u>	<u>\$ 5,133,622</u>
\$ -	\$ 32,441
-	567
-	425
-	301,348
-	37,100
-	86,410
<u>-</u>	<u>458,291</u>
2,363	2,363
-	776,348
-	3,051,498
-	845,122
<u>2,363</u>	<u>4,675,331</u>
<u>\$ 2,363</u>	<u>\$ 5,133,622</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

Total Fund Balances - Governmental Funds	\$ 4,675,331
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.	2,432,539
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.	(2,327,508)
Governmental funds do not record a long term liability to the Developer for the advances made to the District for operations and project costs; however, in the statement of net assets, the liability for these advances is recorded.	(4,063,421)
Revenue reported as deferred revenue in the governmental fund financial statements was recorded as revenue in the government-wide financial statements.	86,410
Total Net Assets - Governmental Activities	<u><u>\$ 803,351</u></u>

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

THIS PAGE INTENTIONALLY LEFT BLANK

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES:		
Property taxes	\$ 896,561	\$ 2,569,319
Water service	1,059,251	-
Wastewater service	502,723	-
Solid waste revenue	128,651	-
Penalty and interest	11,727	-
Permits and inspections	230,945	-
Franchise fees	1,176	-
Strategic partnership revenue	4,237	-
Investment revenues	-	254
Other revenues	47,711	67
Total revenues	<u>2,882,982</u>	<u>2,569,640</u>
EXPENDITURES		
Service operations:		
Contracted services	196,093	-
Director expenditures	9,518	-
Administrative expenditures	92,791	16,041
Allocated costs to District 1-A	1,391,549	-
Purchased water service	181,190	-
Purchased wastewater service	190,488	-
Joint Utility Contract- contractual payments	-	2,348,893
Total expenditures	<u>2,061,629</u>	<u>2,364,934</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>821,353</u>	<u>204,706</u>
OTHER FINANCING SOURCES (USES)		
Contributions to other governmental units	(150,000)	-
Contributions from other governmental units	19,622	-
Repayments to developer	(583,504)	-
Total other financing uses	<u>(713,882)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	107,471	204,706
FUND BALANCES - OCTOBER 1, 2011	<u>737,651</u>	<u>3,623,140</u>
FUND BALANCES - SEPTEMBER 30, 2012	<u>\$ 845,122</u>	<u>\$ 3,827,846</u>

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

<u>Capital Projects Fund</u>	<u>Total</u>
\$ -	\$ 3,465,880
-	1,059,251
-	502,723
-	128,651
-	11,727
-	230,945
-	1,176
-	4,237
-	254
-	47,778
-	5,452,622
-	196,093
-	9,518
-	108,832
-	1,391,549
-	181,190
-	190,488
-	2,348,893
-	4,426,563
-	1,026,059
-	(150,000)
-	19,622
-	(583,504)
-	(713,882)
-	312,177
2,363	4,363,154
<u>\$ 2,363</u>	<u>\$ 4,675,331</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
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, 2012**

Net Change in Fund Balances - Governmental Funds	\$ 312,177
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	86,020
Governmental funds report payments to developers as other financing uses. However, in the statement of net assets, developer advances, net any amount paid to the developer, are recorded as liabilities.	583,504
Sale of capacity is recognized as a other financing source in the governmental funds. However, in the government-wide financial statements it is recognized as a reduction of capital assets.	(19,622)
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.	<u>(63,340)</u>
Change in Net Assets - Governmental Activities	<u><u>\$ 898,739</u></u>

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

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

NOTE 1. CREATION OF DISTRICT

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

At an election held within the boundaries of District No. 1-A on April 8, 1999, voters approved the division of District No. 1-A into two new districts of which Denton County Fresh Water Supply District No. 1-D (the District) was one. The District held its first meeting on May 27, 1999. Pursuant to the provisions of Chapters 49, 51 and 53 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The District has contracted with District No. 1-A to operate the utility system within the District. The District and its operations is part of the eight Districts which make up the community referred to as Castle Hills.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (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-D
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 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-D
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 three major governmental funds:

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Financial Statements – Continued

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

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

Budgeting

Pursuant to the Operating Agreement, District No. 1-A will prepare and submit to the District for its review on or about September 1 of each year an annual operating and maintenance budget. During fiscal year 2012, the District's Board acknowledged the receipt of the annual budget provided by District 1-A.

Cash and Cash Equivalents

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

Capital Assets

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets – Continued

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

	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

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. The District has no nonspendable fund balance.

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

Committed Fund Balance – Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) or by law (through constitutional provisions or enabling legislation). The District has no committed fund balance at September 30, 2012.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Assets / Fund Balances – Continued

Assigned Fund Balance – Amounts that are constrained by the District’s intent to be used for specific purposes but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. The District has no assigned fund balance at September 30, 2012.

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

Accounting Estimates

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

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

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. As of September 30, 2012, the District's deposits that were in excess of FDIC limits were fully covered by collateral.

The District participates in a pooled cash account. The pooled cash account is allocated between districts with operations within the Castle Hills development. At September 30, 2012, the bank balance of pooled cash consisted of \$2,202,540 in cash and cash equivalents and \$461,863 in certificates of deposit. The book balance of the entire pooled cash account was \$1,580,525. The book balance of the District's share of pooled cash was \$848,882.

The District also had deposits in non-pooled cash accounts. As of September 30, 2012, the bank balance of these deposits was \$176,797 and the book balance was \$176,797.

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.

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

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

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, 2012, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years		
		Less Than 1	1 - 5	6 - 10
Debt Service Fund - Certificates of deposit	\$ 300,566	\$ 300,566	\$ -	\$ -
Total investments	<u>\$ 300,566</u>	<u>\$ 300,566</u>	<u>\$ -</u>	<u>\$ -</u>

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

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

Investments – Continued

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes.

All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

NOTE 4. CAPITAL ASSETS

The District's water, wastewater and drainage facilities were funded from proceeds of the City of Lewisville — Castle Hills Public Improvement District No. 2 bond proceeds, (see Note 6). The City of Lewisville has recorded these assets in its records. The District also shares in the cost of capital assets that District No. 1-A purchases and records in its records.

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

Capital asset activity for the year ended September 30, 2012:

	<u>October 01, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>September 30, 2012</u>
Capital assets at historical cost subject to depreciation				
Water system	\$ 784,140	\$ -	\$ -	\$ 784,140
Wastewater system	700,441	-	-	700,441
Drainage system	858,281	-	-	858,281
Road system	63,391	-	-	63,391
Investment in shared lift station facilities	403,571	-	(19,622)	383,949
Total capital assets at historical cost subject to depreciation	<u>2,809,824</u>	<u>-</u>	<u>(19,622)</u>	<u>2,790,202</u>
Less accumulated depreciation				
Water system	76,578	17,425	-	94,003
Wastewater system	69,283	15,565	-	84,848
Drainage system	85,343	19,428	-	104,771
Road system	11,352	2,113	-	13,465
Investment in shared lift station facilities	51,767	8,809	-	60,576
Total accumulated depreciation	<u>294,323</u>	<u>63,340</u>	<u>-</u>	<u>357,663</u>
Total capital assets, net of accumulated depreciation	<u>\$ 2,515,501</u>	<u>\$ (63,340)</u>	<u>\$ (19,622)</u>	<u>\$ 2,432,539</u>

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

NOTE 4. 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-E, District No. 1-F, District No. 1-G, and District No. 1-H. This agreement reallocates the shared cost for the construction of the lift station facilities based on capacity. 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	36.69 %
District No. 1-C	0.22
District No. 1-D	42.97
District No. 1-E	20.12
District No. 1-F	0.00
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. Revenue for sale of excess capacity to District No. 1-F for the year ended September 30, 2012 was \$19,622 and the related receivable included in due from other governmental units was \$19,622 as of September 30, 2012.

The District’s purchase of the share of capacity in the lift station was partially funded by District 1-A in the amount of \$460,866. During fiscal year ended September 30, 2012, the District made payments in the amount of \$57,295. The remaining balance of \$308,524 is recorded as a long term liability to District 1-A and is included in the statement of net assets as due to other governmental units. This asset is recorded as a capital asset of the District and is being amortized over the term of the Cost Sharing Agreement.

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

NOTE 5. NONCURRENT LIABILITIES

Developer Liability

On May 27, 1997, the District executed an Agreement for Construction and Purchase of Facilities and Reimbursements for Cost with Castle Hills Development Corporation (the Developer) to provide the advancement of monies to facilitate the operations of the District. Advances from the developer are reported as non-current liabilities on the statement of net assets. The activity in the developer liability for the year ended September 30, 2012 was:

	Beginning Balance	Additions	Repayments	Ending Balance
Due to developer	\$ 4,646,924		\$ (583,503)	\$ 4,063,421
Total	<u>\$ 4,646,924</u>	<u>\$ -</u>	<u>\$ (583,503)</u>	<u>\$ 4,063,421</u>

Due to District No. 1-A

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

For advances made by Bright Entities on or before November 20, 2006, the Districts will reimburse the relevant Bright Entity for 100% of such advances. For advances made by a Bright Entity after November 20, 2006, the Districts will transfer reimbursement funds to District No. 1-A. District No. 1-A will act as a clearinghouse for receipt of reimbursement proceeds and for the deployment of such proceeds to any District that would otherwise require an advance from a Bright Entity. Any reimbursement for advances received by District No. 1-A will be considered as a full complete release of that particular District's obligation pursuant to existing developer reimbursement agreements. Such amounts due to District No. 1-A under this agreement are reported as non-current liabilities on the statement of net assets. Activity in this liability for the year ended September 30, 2012 was:

	Beginning Balance	Additions	Repayments	Ending Balance
Due to 1-A	\$ 2,327,508		\$ -	\$ 2,327,508
Total	<u>\$ 2,327,508</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,327,508</u>

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

NOTE 6. MAINTENANCE TAX

On August 14, 1999, voters of the District approved the levy and collection of a maintenance tax in an unlimited amount per \$100 of assessed valuation of taxable property within the District. During the fiscal year ended September 30, 2012, the District levied a maintenance tax rate of \$0.23 per \$100 of assessed valuation, which resulted in a tax levy of \$859,436 on an adjusted taxable valuation of \$370,926,257 for the 2011 tax year. The maintenance tax will be used for maintenance purposes including planning, maintaining, repairing and operating all necessary plants, properties, facilities and improvements of the District and for proper services, engineering and legal fees, and operational and administrative costs in accordance with Section 49.107 of the Texas Water Code.

NOTE 7. RESERVE PAYMENTS TO OTHER GOVERNMENTAL UNITS

In fiscal year 2011, District 1-A recognized the need to develop a fund balance to be used for one-time expenditures which are necessary to operate and maintain the facilities of the District. District 1-A accounts for the Districts' deposits in a separate reserve account and will only utilize the funds in accordance with the District 1-A Reserve Expense Policy, and in accordance with the allocation percentages authorized in the operating agreement with the District and adopted in the budgeting process on an annual basis. For the year ended September 30, 2012, the District made \$150,000 in contributions to this reserve.

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACT

On October 14, 1999, the District, Denton County Fresh Water Supply District No. 1-A (District No. 1-A), and the City of Lewisville (Lewisville) executed a Joint Utility Contract. The contract states that Lewisville will proceed with financing utility and road facilities within the District through the sale of \$28,500,000 of Public Improvement District No. 2 (PID 2) bonds; the first installment of these bonds were sold in the amount of \$14,000,000. The first installment of bonds was followed by a refunding and capital improvement bond series in the amount of \$18,150,000. During the 2006 fiscal year, the final installment of bonds was sold in the amount of \$10,350,000. The District will have primary responsibility as Project Manager and shall perform its duties in accordance with an agreement dated June 14, 2000. This agreement was amended on June 11, 2002. The District is responsible for designating the consulting engineer on the project and will approve the projects along with Lewisville.

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

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

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACT – CONTINUED

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, District Nos. 1-A and 1-D shall have the right to acquire the facilities at any time by paying to Lewisville the amount necessary to repay, redeem, refund or defease the PID 2 bonds allocable to the facilities being acquired. The parties to the agreement agree that the cost of operations and maintenance of the facilities being constructed will be borne by the districts and not Lewisville.

In order to finance the facilities being constructed with bond proceeds being issued by the PID and Lewisville, District No. 1-D agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 2 Bonds as they mature. District No. 1-D committed each year to levy, assess and collect a tax on all taxable property within the District, unlimited by rate or amount, sufficient to service the debt and other costs incidental to the PID 2 Bonds. Lewisville will calculate the total amount of payments to be made on the PID 2 Bonds on the following March 1, after application of the available reserves from proceeds of the PID 2 Bonds and will, if needed, calculate an assessment on all assessable property within the PID 2, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville.

Lewisville will notify the District of the calculation of the Annual Assessment by September 1 of each year proceeding the above-referenced March 1. During the current fiscal year, the District made contract tax payments of \$2,348,893 to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement at September 30, 2012 is \$2,359,065 and the District has fully satisfied that requirement at year end.

As of September 30, 2012, the City of Lewisville is holding \$3,051,498 in trust for the District, including reserve funds. The amounts held in trust in excess of the reserve requirement are available to cover debt service required of PID 2.

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

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACT – CONTINUED

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

PID 2
REFUNDING SERIES - 2002

Years Ending September 30	Principal September 1	Interest Due March 1/September 1	Total
2013	\$ 635,000	\$ 911,555	\$ 1,546,555
2014	670,000	875,836	1,545,836
2015	705,000	838,149	1,543,149
2016	745,000	798,492	1,543,492
2017	790,000	756,586	1,546,586
2018	835,000	712,149	1,547,149
2019	880,000	663,093	1,543,093
2020	935,000	611,392	1,546,392
2021	990,000	556,462	1,546,462
2022	1,045,000	498,299	1,543,299
2023	1,105,000	436,904	1,541,904
2024	1,170,000	373,920	1,543,920
2025	1,235,000	307,230	1,542,230
2026	1,310,000	236,835	1,546,835
2027	1,385,000	162,165	1,547,165
2028	1,460,000	83,220	1,543,220
	<u>\$ 15,895,000</u>	<u>\$ 8,822,287</u>	<u>\$ 24,717,287</u>

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

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACT – CONTINUED

PID 2 SERIES - 2005			
Fiscal Year Ending September 30	Principal Due October 1	Interest Due April 1/ October 1	Total
2013	\$ 225,000	\$ 585,000	\$ 810,000
2014	240,000	571,500	811,500
2015	250,000	557,100	807,100
2016	265,000	542,100	807,100
2017	285,000	526,200	811,200
2018	300,000	509,100	809,100
2019	320,000	491,100	811,100
2020	340,000	471,900	811,900
2021	360,000	451,500	811,500
2022	380,000	429,900	809,900
2023	400,000	407,100	807,100
2024	425,000	383,100	808,100
2025	450,000	357,600	807,600
2026	480,000	330,600	810,600
2027	510,000	301,800	811,800
2028	540,000	271,200	811,200
2029	570,000	238,800	808,800
2030	605,000	204,600	809,600
2031	640,000	168,300	808,300
2032	680,000	129,900	809,900
2033	720,000	89,100	809,100
2034	765,000	45,900	810,900
Total	<u>\$ 9,750,000</u>	<u>\$ 8,063,400</u>	<u>\$ 17,813,400</u>

On February 1 following the date of receipt of written notification of the Annual Assessment, District No. 1-D will certify to Lewisville the amount of all taxes collected. Lewisville will then impose an assessment, if needed, with the PID 2 sufficient to pay the debt service requirement on the PID 2 Bonds as they come due. The parties to the agreement acknowledged that the tax levy would be contingent upon a one-time approval by the voters within District No. 1-D. Such election occurred on May 6, 2000, and approved the levy and collection of said tax. The term of the agreement is forty (40) years.

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

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACT – CONTINUED

During the fiscal year ended September 30, 2012, the District levied an ad valorem contract tax of \$2,478,901 computed at the rate of \$0.67 per \$100 assessed valuation based upon an appraised taxable valuation of \$370,926,257 for the 2011 tax year. The Debt Service Fund Balance of \$3,827,846 is reserved to meet the contract debt obligations.

The Districts tax calendar is as follows:

Levy Date - October 1, or as soon thereafter as practicable.

Lien Date - January 1.

Due Date - Not later than January 31.

Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 9. WATER SUPPLY AGREEMENTS

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

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

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

The supply of water on a minimum demand, on an interim basis, is for half a million gallons of water per day (MGD) and 3.0 MGD for regular service. Each member can adjust the regular service amount upon mutual agreement of the members. A determination of demand on an annual basis that takes into account actual usage for the most recent five (5) water years and projected needs for the next water year will be made. 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.

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

NOTE 9. WATER SUPPLY AGREEMENTS – CONTINUED

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

On March 8, 1995, the Upper Trinity Regional Water District executed an agreement with the Denton County Fresh Water Supply District No. 1 (District No. 1) to provide for the supply of non-potable water to District No. 1. Denton County Fresh Water Supply District No. 1-A has assumed the obligations of District No. 1 under the terms of this agreement.

District No. 1 desired to develop the ability to have a dual delivery system to provide non-potable water and UTRWD agreed to provide such a water source. District No. 1-A has agreed to make sufficient payments to assure adequate funds to fulfill its obligations under the contract terms. The minimum capacity reserved for the District is 3.35 million gallons per day (MGD).

The UTRWD agreed to provide the necessary equipment and devices of standard type required for measuring the quantity of non-potable water delivered. Sixty (60) days after the end of a fiscal year, the District will report to UTRWD the number of gallons of non-potable raw water and non-potable treated wastewater effluent used for irrigation, make-up water for lakes and ponds and other purposes. Also reported would be the estimated annual water requirements for each of the next five (5) years for both types of water and an estimate of demand for the next year.

The UTRWD will choose the consulting engineers and provide for the construction of the system to provide the non-potable water. The sale of bonds by the UTRWD will be considered for funding the facilities. Payments will be comprised of three components including an Operation and Maintenance Component, a Capital Component and a special reserve for operation and maintenance cost of the system. Annual budgets will be prepared for the system. The District will pay its annual payment including facilities charges and charges for the actual volume of water taken. The agreement is in effect for thirty (30) years from the effective date of the agreement. On October 1, 1997, the District started funding the cost of the agreement with the UTRWD.

Wholesale Water Supply Agreement with the City of Lewisville

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

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

NOTE 9. WATER SUPPLY AGREEMENTS – CONTINUED

Wholesale Water Supply Agreement with the City of Lewisville – Continued

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

The initial volume rate is \$1.49 per 1,000 gallons and demand rate of \$299,160 per million gallons per day, paid monthly. The term of this agreement ends the earlier of August 18, 2032, or such date specified for District 1-A's annexation by the City.

NOTE 10. OPERATING AGREEMENT

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

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

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

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.

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

NOTE 10. OPERATING AGREEMENT – CONTINUED

The District agreed to fund a pro-rata portion of overhead cost incurred by District No. 1-A from proceeds of the water, sewer and solid waste collection revenues.

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

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

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

NOTE 11. STRATEGIC PARTNERSHIP AGREEMENT

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

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

NOTE 11. STRATEGIC PARTNERSHIP AGREEMENT – CONTINUED

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 Lewisville was \$108,606.

NOTE 12. ECONOMIC DEPENDENCY

The District is contractually obligated to levy sufficient contract taxes to fund the City of Lewisville, Texas Castle Hills Public Improvement District No. 2 bonds. The ability to meet these obligations may require the Developer to advance monies to the District from time to time.

NOTE 13. 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 14. BOND ELECTION

On August 14, 1999, voters within the District approved for the District to issue bonds in the maximum amount of \$28,500,000.

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.

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

NOTE 16. SUBSEQUENT EVENTS

The District has evaluated all events or transactions that occurred after September 30, 2012 up through October 15, 2013, the date the financial statements were available to be issued. In January 2013, the District issued PID 2 bonds in the amount of \$14,300,000, in relation to the Lewisville Castle Hills Public Improvement District No. 2 Project. The proceeds of the bonds, together with available funds of the District, will be used (1) to refund and defease a portion of the outstanding Combination Contract Revenue and Improvement Bonds Series 2002 which were issued by the City of Lewisville pursuant to the Joint Utility Contract and in the original aggregate principal amount of \$18,150,000, (2) to pay the costs of issuance of the bonds.

OTHER SUPPLEMENTARY INFORMATION

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
SCHEDULE OF REIMBURSED COSTS TO OTHER
GOVERNMENTAL UNITS - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	District No. 1-D
Reimbursed costs to (from) other governmental units:	
Personnel	\$ 299,953
Contracted labor	10,185
Insurance	50,744
Office supplies	10,036
Office rental	45,400
Utilities	146,411
Landscape maintenance	118,003
Public safety	99,460
Public safety revenue allocations	(99,460)
Purchased water services	378,619
Non-potable	84,425
Dues and subscriptions	5,622
Communication	13,704
Training	4,084
Bond payment funding	46,750
Equipment rental	20,799
Supplies	27,791
Maintenance	108,341
Other	20,682
Total allocated costs to (from) other governmental units	\$1,391,549

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS) - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Original</u>	<u>Amended</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES:				
Property taxes	\$ 832,970	\$ 832,970	\$ 896,561	\$ 63,591
Water service	1,079,726	1,079,726	1,059,251	(20,475)
Wastewater service	378,648	378,648	502,723	124,075
Solid waste revenue	133,704	133,704	128,651	(5,053)
Penalty and interest	8,100	8,100	11,727	3,627
Permits and inspections	255,857	255,857	230,945	(24,912)
Franchise fees	87,915	87,915	1,176	(86,739)
Strategic partnership revenues	6,884	6,884	4,237	(2,647)
Investment revenues	1,000	1,000	-	(1,000)
Miscellaneous revenues	18,200	18,200	47,711	29,511
Total revenues	<u>2,803,004</u>	<u>2,803,004</u>	<u>2,882,982</u>	<u>79,978</u>
EXPENDITURES				
Service operations:				
Contracted services	144,387	144,387	196,093	(51,706)
Director expenditures	10,189	10,189	9,518	671
Administrative expenditures	83,036	83,036	92,791	(9,755)
Allocated costs to District 1-A	1,452,405	1,452,405	1,391,549	60,856
Purchased water service	201,452	201,452	181,190	20,262
Purchased wastewater service	216,447	216,447	190,488	25,959
Repairs and maintenance	-	-	-	-
Total expenditures	<u>2,107,916</u>	<u>2,107,916</u>	<u>2,061,629</u>	<u>46,287</u>
EXCESS OF REVENUES OVER EXPENDITURES	695,088	695,088	821,353	126,265
OTHER FINANCING SOURCES (USES)				
Contributions to other governmental units	(150,000)	(150,000)	(150,000)	-
Contributions from other governmental units	23,439	23,439	19,622	(3,817)
Developer contribution	(500,000)	(500,000)	(583,504)	(83,504)
Total other financing uses	<u>(626,561)</u>	<u>(626,561)</u>	<u>(713,882)</u>	<u>(87,321)</u>
NET CHANGE IN FUND BALANCE	68,527	68,527	107,471	38,944
FUND BALANCE - OCTOBER 1, 2011	<u>737,651</u>	<u>737,651</u>	<u>737,651</u>	<u>-</u>
FUND BALANCE - SEPTEMBER 30, 2012	<u>\$ 806,178</u>	<u>\$ 806,178</u>	<u>\$ 845,122</u>	<u>\$ 38,944</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(UNAUDITED)**

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
<u> X </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> </u>	Other (specify): _____				

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved September 23, 2011

	<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	10.70		N	4.90	All
Residential	54.35		Y		New Customers
Commercial	10.70		N	4.90	All
Surcharge:					
Solid waste/garbage	15.43		Y		
Commission	.5% of actual				
Regulatory Assessments	water and sewer bill				

District employs winter averaging for wastewater usage? X Yes No

Total monthly charges per 10,000 gallons usage: Water: \$64.67 Wastewater: \$54.35 Solid Waste: \$16.59

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(UNAUDITED)**

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"	126	126	X 1.0	126
1"	580	580	X 2.5	1450
1 1/2"	0	0	X 5.0	0
2"	14	14	X 8.0	112
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	<u>720</u>	<u>720</u>		<u>1688</u>
Total wastewater connections	<u>692</u>	<u>692</u>	X 1.0	<u>692</u>

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

		Water Accountability Ratio: (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	181,762,400	<u>94.1%</u>
Gallons purchased:	193,200,000	From: Our water suppliers

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(UNAUDITED)**

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county? Yes No

County or Counties in which District is located:

Denton County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ's in which District is located:

City of Lewisville, Texas.

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Personnel expenditures

Contract services:

Management fee	\$	106,369
Contract labor		9
Solid waste disposal		89,715
Total contract services		196,093

Director expenditures:

Personnel expenditures		107
Directors costs		1,005
Director fees		7,950
Payroll taxes and administration		456
Total director expenditures		9,518

Administrative expenditures:

Auditing		2,965
Engineering		1,592
Legal		65,578
Tax collector		1,665
Insurance		6,988
Election costs		75
Appraisal district		7,200
Tap connection expenditures		6,728
Other contract services		-
Total administrative expenditures		92,791

Allocated costs to District 1-A		1,391,549
--	--	------------------

Purchased services for resale:

Water service		181,190
Wastewater service		190,488
Total purchased services for resale		371,678

Total expenditures		\$ 2,061,629
---------------------------	--	---------------------

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-D
INVESTMENTS
SEPTEMBER 30, 2012**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
Debt Service Fund Certificate of Deposit	10495	0.75%	5/20/2013	<u>\$ 300,566</u>	<u>\$ -</u>
Total - all funds				<u><u>\$ 300,566</u></u>	<u><u>\$ -</u></u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
ANALYSIS OF TAXES RECEIVABLE
SEPTEMBER 30, 2012**

	Maintenance Tax		Contract Tax	
Taxes receivable -				
October 1, 2011	\$	83	\$	307
Adjustments to beginning balance	31,294	\$ 31,377	90,261	\$ 90,568
Original 2011 tax levy	858,732		2,476,869	
Adjustment to 2011 tax levy	704	859,436	2,032	2,478,901
Total to be accounted for		890,813		2,569,469
Tax collections:				
Prior years	31,021		89,474	
Current year	857,917	888,938	2,474,517	2,563,991
Taxes receivable -				
September 30, 2012		\$ 1,875		\$ 5,478
Taxes receivable by year:				
2011		\$ 1,875		\$ 4,026
2010				964
2009				446
2008				42
		\$ 1,875		\$ 5,478

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
ANALYSIS OF TAXES LEVIED
FOR THE LAST FIVE YEARS**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
PROPERTY VALUATIONS					
Land	\$ 118,208,449	\$ 119,721,875	\$ 119,688,771	\$ 112,325,231	\$ 108,628,976
Improvements	257,768,468	241,661,677	237,723,361	192,548,997	138,278,980
Personal property	1,550,741	1,366,631	1,770,715	790,463	226,652
Exemptions	<u>(6,601,401)</u>	<u>(6,438,213)</u>	<u>(5,762,793)</u>	<u>(6,164,575)</u>	<u>(5,746,906)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 370,926,257</u>	<u>\$ 356,311,970</u>	<u>\$ 353,420,054</u>	<u>\$ 299,500,116</u>	<u>\$ 241,387,702</u>
TAX RATES PER \$100 VALUATION					
Contract	\$ 0.6683	\$ 0.7083	\$ 0.7549	\$ 0.8307	\$ 0.8575
Maintenance	<u>0.2317</u>	<u>0.1917</u>	<u>0.1451</u>	<u>0.0693</u>	<u>0.0425</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.9000</u>	<u>\$ 0.9000</u>	<u>\$ 0.9000</u>	<u>\$ 0.9000</u>	<u>\$ 0.9000</u>
ADJUSTED TAX LEVY*	<u>\$ 3,338,336</u>	<u>\$ 3,206,808</u>	<u>\$ 3,180,780</u>	<u>\$ 2,695,506</u>	<u>\$ 2,172,978</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>99.82%</u>	<u>99.68%</u>	<u>99.99%</u>	<u>100.00%</u>	<u>100.00%</u>

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

Maintenance Tax — Maximum tax rate in unlimited amount per \$100 of assessed valuation approved by voters on August 14, 1999.

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

	Amounts				
	2012	2011	2010	2009	2008
REVENUES:					
Property taxes	\$ 896,561	\$ 689,585	\$ 507,344	\$ 207,077	\$ 101,971
Water service	1,059,251	1,147,265	929,471	780,866	626,522
Wastewater service	502,723	357,472	246,059	208,463	159,818
Solid waste revenue	128,651	121,813	112,652	100,210	79,025
Penalty and interest	11,727	12,470	11,208	10,957	22,548
Permits and inspections	230,945	243,974	323,196	350,829	905,825
Franchise fees	1,176	83,596	77,609	85,190	118,475
Sales tax revenues	4,237	3,563	68,033	-	-
Investment revenues	-	1,323	1,613	4,546	5,627
Miscellaneous revenues	47,711	60,743	34,398	50,472	-
Total revenues	2,882,982	2,721,804	2,311,583	1,798,610	2,019,811
EXPENDITURES					
Service operations:					
Personnel expenditures	350,697	-	319,857	282,846	218,625
Professional fees	-	-	-	-	68,849
Administrative expenditures	92,791	165,439	91,862	68,796	-
Director expenditures	9,518	9,660	6,011	4,481	-
Contracted services	324,281	1,649,971	482,863	389,449	258,911
Purchased water service	559,809	205,254	562,746	526,367	409,559
Purchased wastewater service	190,488	175,303	234,876	109,446	133,982
Purchased non-potable water service	84,425	-	96,548	-	-
Utilities	160,115	-	169,999	128,945	59,205
Repairs and maintenance	108,341	29,687	192,125	201,429	262,328
Supplies and other charges	181,164	-	138,248	88,651	-
Other	-	-	-	-	154,426
Capital outlay	-	-	-	20,814	11,048
Total expenditures	2,061,629	2,235,314	2,295,135	1,821,224	1,576,933
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	821,353	486,490	16,448	(22,614)	442,878
OTHER FINANCING SOURCES (USES)					
Transfer out	-	-	(23,600)	(37,296)	-
Contributions from other governmental units	19,622	57,295	-	-	-
Contributions to other governmental units	(150,000)	(150,000)	(95,046)	(12,564)	(26,604)
Developer contribution	(583,504)	(210,617)	-	-	-
Total other financing sources (uses)	(713,882)	(303,322)	(118,646)	(49,860)	(26,604)
NET CHANGE IN FUND BALANCE	107,471	183,168	(102,198)	(72,474)	416,274
BEGINNING FUND BALANCE (as previously stated)	737,651	554,483	573,259	645,733	229,459
PRIOR PERIOD ADJUSTMENT	-	-	83,422	-	-
BEGINNING FUND BALANCE (as restated)	737,651	554,483	656,681	645,733	229,459
ENDING FUND BALANCE	\$ 845,122	\$ 737,651	\$ 554,483	\$ 573,259	\$ 645,733
TOTAL ACTIVE RETAIL WATER CONNECTIONS	721	721	691	655	587
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	671	671	635	584	489

Percent of Total Revenues

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
31.1 %	25.3 %	21.9 %	11.5 %	5.0 %
36.7	42.2	40.2	43.4	31.0
17.4	13.1	10.6	11.6	7.9
4.5	4.5	4.9	5.6	3.9
0.4	0.5	0.5	0.6	1.1
8.0	9.0	14.0	19.5	44.8
0.0	3.1	3.4	4.7	5.9
0.1	0.1	2.9	0.0	0.0
0.0	0.0	0.1	0.3	0.3
1.7	2.2	1.5	2.8	0.0
<u>99.9</u>	<u>100.0</u>	<u>100.0</u>	<u>100.1</u>	<u>99.9</u>
12.2	0.0	13.8	15.7	10.8
0.0	0.0	0.0	0.0	3.4
3.2	6.1	4.0	3.8	0.0
0.3	0.4	0.3	0.2	0.0
11.2	60.6	20.9	21.7	12.8
19.4	7.5	24.3	29.3	20.3
6.6	6.4	10.2	6.1	6.6
2.9	0.0	4.2	0.0	0.0
5.6	0.0	7.4	7.2	2.9
3.8	1.1	8.3	11.2	13.0
6.3			4.9	0.0
0.0	0.0	0.0	0.0	7.6
0.0	0.0	0.0	1.2	0.5
<u>71.5</u>	<u>82.1</u>	<u>93.4</u>	<u>101.3</u>	<u>77.9</u>
<u>28.4 %</u>	<u>17.9 %</u>	<u>6.6 %</u>	<u>-1.3 %</u>	<u>22.0 %</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-D
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS**

	Amounts				
	2012	2011	2010	2009	2008
REVENUES:					
Property taxes	\$2,569,319	\$2,548,416	\$2,516,348	\$2,487,403	\$2,085,490
Penalty and interest	-	-	25,986	26,103	34,551
Investment revenues	254	2,973	17,144	94,482	17,424
	67	-	-	-	-
Total revenues	2,569,640	2,551,389	2,559,478	2,607,988	2,137,465
EXPENDITURES					
Tax collection expenditures	16,041	41,447	54,282	60,143	61,236
Contract tax obligation - City of Lewisville	2,348,893	2,347,905	2,161,340	2,164,668	1,639,667
Total expenditures	2,364,934	2,389,352	2,215,622	2,224,811	1,700,903
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	204,706	162,037	343,856	383,177	436,562
OTHER FINANCING SOURCES (USES)					
Transfer in (out)	-	-	23,600	-	-
Contributions to other governmental units	-	-	-	-	-
Developer contribution	-	-	-	-	301,348
Total other financing sources	-	-	23,600	-	301,348
NET CHANGE IN FUND BALANCE	204,706	162,037	367,456	383,177	737,910
BEGINNING FUND BALANCE (as previously stated)	3,623,140	3,461,103	2,780,215	2,397,038	1,659,128
PRIOR PERIOD ADJUSTMENT	-	-	313,432	-	-
BEGINNING FUND BALANCE (as restated)	3,623,140	3,461,103	3,093,647	2,397,038	1,659,128
ENDING FUND BALANCE	\$3,827,846	\$3,623,140	\$3,461,103	\$2,780,215	\$2,397,038

Percent of Total Revenues

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
100.0 %	99.9 %	98.3 %	95.4 %	97.6 %
-	-	1.0	1.0	1.6
-	0.1	0.7	3.6	0.8
-	-	-	-	-
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.6	1.6	2.1	2.3	2.9
<u>91.4</u>	<u>92.0</u>	<u>84.4</u>	<u>83.0</u>	<u>76.7</u>
<u>92.0</u>	<u>93.6</u>	<u>86.5</u>	<u>85.3</u>	<u>79.6</u>
<u><u>8.0 %</u></u>	<u><u>6.4 %</u></u>	<u><u>13.5 %</u></u>	<u><u>14.7 %</u></u>	<u><u>20 %</u></u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-D
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2012
(UNAUDITED)**

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

District Telephone No. - (972) 899-4000

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended September 30, 2012	Expense Reimbursements for the year ended September 30, 2012	Title
John A. Ehinger Jr.	5/14	\$ 1,500	\$ -	President
Mark Channels	6/16	\$ 1,050	\$ -	Vice President
Ulf Anderson	5/14	\$ 1,200	\$ -	Treasurer/ Secretary
Michael H. Keith	5/16	\$ 900	\$ -	Assistant Treasurer
Bruce E. Johnson	5/14	\$ 1,800	\$ -	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-D
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2012
(UNAUDITED)**

<u>Consultants</u>	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2012</u>	<u>Title</u>
Kelly Hart & Hallman, LLP 201 Main Street, Suite 2500 Fort Worth, TX 76102	6/3/2008	\$ 62,219	Attorney
Hurt & Berry, LLP 10670 North Central Expwy, Suite 450 Dallas, TX 75231	5/3/2010	\$ -	Attorney
IDS / Pate Engineers, Inc. 1333 Northwest Fwy, Suite 300 Houston, TX 77040	11/16/2009	\$ -	Project Engineer
Liz Standerfer 2540 King Arthur, Suite 220 Lewisville, TX 75056	3/30/2009	\$ -	Investment Officer
Denton County Appraisal District 3911 Morse Denton, TX 76208	Legislative Action	\$ 14,192	Property Tax Appraisals
Denton County Tax Collector 2540 King Arthur, Suite 220 Lewisville, TX 75056	Legislative Action	\$ 49,288	Investment Officer
Winstead PC 5400 Renaissance Tower/1201 Elm St Dallas, TX 75270-2199	7/19/2011	\$ 2,909	Attorney