

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

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Denton County Fresh Water Supply
District No. 1-G
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-G (the District), as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of September 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Audit Standards*, we have also issued our report dated March 30, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Denton County Fresh Water Supply
District No. 1-G

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents on page 31 and the supplementary information listed in the table of contents on pages 32 through 42 (required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide*) is not a required part of the basic financial statements. The accompanying supplementary information, excluding the portion marked "Unaudited" has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplementary information marked "Unaudited," has not been subject to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL L.L.P.

Dallas, Texas
March 30, 2012

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

Our discussion and analysis of Denton County Fresh Water Supply District No. 1-G's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2011. Please read it in conjunction with the District's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at September 30, 2011 by \$379,194. Of this amount, \$762,939 is invested in capital assets which do not directly generate revenue and are not available to generate liquid capital. Net assets restricted for a specific purpose total \$60. The remaining net assets balance of \$383,805 is classified as unrestricted and is currently in a deficit position.
- The District's net assets increased by \$137,641. The deficit in unrestricted net assets, which would be used to meet the District's ongoing obligations to residents and creditors, decreased by \$144,069.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$10,317, a net increase of \$144,129 in comparison to the prior year.
- The District's long-term liabilities had no change from the prior year balance of \$394,062.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

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

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

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

Government-wide financial statements (continued)

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

Fund financial statements

The 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 two governmental fund types. The General Fund accounts for resources not accounted for in another fund, and include customer service revenues, costs and general expenditures. The Capital Projects Fund accounts for financial resources segregated for acquisition or construction of facilities and related costs.

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

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The reconciliation of the governmental funds balance sheet to the statement of net assets on page 12 and the reconciliation of the governmental funds statement of revenues, expenditures and changes in fund balances to the statement of activities on page 14 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

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

Notes to the basic financial statements

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 30 in this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information. The District prepares a schedule of allocated costs to other governmental units on page 31 and information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* on pages 32 through 42.

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 \$379,194 as of September 30, 2011.

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

	Summary of Changes in the Statement of Net Assets		
	2011	2010	Change
Current and other assets	\$ 23,546	\$ 1,409	\$ 22,137
Capital assets (Net of accumulated depreciation)	762,939	769,427	(6,488)
Total assets	786,485	770,836	15,649
Noncurrent liabilities	394,062	394,062	-
Other liabilities	13,229	135,221	(121,992)
Total liabilities	407,291	529,283	(121,992)
Net assets			
Invested in capital assets	762,939	769,427	(6,488)
Restricted	60	-	60
Unrestricted	(383,805)	(527,874)	144,069
Total net assets	\$ 379,194	\$ 241,553	\$ 137,641

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the District's operations for the years ended September 30, 2011 and 2010. The District's net assets increased by \$137,641 or 57.0%. Expenses for services had a significant drop from the prior year of \$214,509 which was offset by the increase in payments to other governmental units of \$180,000. The majority of the payments were used to cover costs related to a cost sharing arrangement with another entity.

	Summary of Changes in the Statement of Activities		
	2011	2010	Change
Revenues:			
Property taxes	\$ 640,050	\$ 708,127	\$ (68,077)
Charges for services	1,950	19,753	(17,803)
Investment revenues	-	8	(8)
Other revenues	809	532	277
Total revenues	642,809	728,420	(85,611)
Expenses:			
Expenses for services	318,680	533,189	(214,509)
Depreciation	6,488	14,508	(8,020)
Payments to other governmental units	180,000	-	180,000
Total expenses	505,168	547,697	(42,529)
Change in net assets	137,641	180,723	(43,082)
Net assets, beginning of year	241,553	60,830	180,723
Net assets, end of year	\$ 379,194	\$ 241,553	\$ 137,641

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2011, was \$10,317, an increase of \$144,129 from the prior year.

The General Fund balance increased by \$141,905, primarily due to the District's goal to control operating costs.

The Capital Projects Fund increased by \$2,224, the change from the prior year is the result of capital outlays that were offset by transfers in from the General Fund.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual expenditures on a budgetary basis were \$309,684 compared to the amended budget of \$315,297. The District incurred a slight positive variance of \$5,613. Actual revenue on a budgetary basis was \$642,809 compared to the amended budget of \$614,695. The District incurred a minor positive variance of \$28,114 as a result of property taxes. See the budget to actual comparison on page 32 for additional information.

CAPITAL ASSETS

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

The District's investment in capital assets as of September 30, 2011 amounts to \$762,939 (net of accumulated depreciation).

Capital Assets at Year-End, Net of Accumulated Depreciation			
	2011	2010	Increase (Decrease)
Capital assets not being depreciated			
Construction in progress	\$ 167,325	\$ 167,325	\$ -
Capital assets, net of accumulated depreciation:			
Water system	140,064	140,920	(856)
Wastewater system	155,115	158,728	(3,613)
Drainage system	71,465	71,902	(437)
Roads	228,970	230,552	(1,582)
Total net capital assets	\$ 762,939	\$ 769,427	\$ (6,488)

Additional information on the District's capital assets can be found in Note 5 on pages 23 and 24 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

For the year ended September 30, 2011 budgeted revenues are anticipated to increase by approximately \$7,748 while expenses are anticipated to decrease by approximately \$23,502. 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 \$1.0000 per \$100 assessed value.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities
ASSETS	
Cash	\$ 60
Other receivables	24
Prepaid costs	1,453
Due from other governmental units	22,009
Construction in progress	167,325
Capital assets (net of accumulated depreciation)	595,614
TOTAL ASSETS	\$ 786,485
LIABILITIES	
Accounts payable	\$ 4,991
Payroll withholdings	1,054
Accrued wages	4,549
Due to other governmental units	2,635
Noncurrent liabilities	
Due to other governmental units	357,394
Due to developer	36,668
TOTAL LIABILITIES	407,291
NET ASSETS	
Invested in capital assets	762,939
Restricted for:	
Capital projects	60
Unrestricted	(383,805)
TOTAL NET ASSETS	\$ 379,194

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

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

	Governmental Activities
REVENUES:	
Property taxes	\$ 640,050
Permits and inspections	1,950
Other revenues	809
TOTAL REVENUES	642,809
EXPENSES	
Service operations:	
Director expenses	4,017
Administrative expenses	49,986
Allocated costs to District 1-A	249,930
Contracted services	14,747
Total service expenses	318,680
Depreciation	6,488
Contributions to other governmental units	180,000
TOTAL EXPENSES	505,168
CHANGE IN NET ASSETS	137,641
NET ASSETS - OCTOBER 1, 2010	241,553
NET ASSETS - SEPTEMBER 30, 2011	\$ 379,194

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

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

	General Fund	Capital Projects Fund	Total
ASSETS			
Cash	\$ -	\$ 60	\$ 60
Receivables:			
Other	24	-	24
Prepaid costs	1,453	-	1,453
Due from other governmental units	22,009	-	22,009
TOTAL ASSETS	\$ 23,486	\$ 60	\$ 23,546
LIABILITIES			
Accounts payable	\$ 4,991	\$ -	\$ 4,991
Payroll deductions	1,054	-	1,054
Accrued wages	4,549	-	4,549
Due to other governmental units	2,635	-	2,635
TOTAL LIABILITIES	13,229	-	13,229
FUND BALANCES			
Non-spendable			
Prepaid costs	1,453	-	1,453
Restricted			
Net investment revenues authorized for construction	-	60	60
Unassigned	10,257	-	10,257
TOTAL FUND BALANCES	10,257	60	10,317
TOTAL LIABILITIES AND FUND BALANCES	\$ 23,486	\$ 60	\$ 23,546

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

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

Total Fund Balances - Governmental Funds	\$	10,317
Amounts reported for governmental activities in the statement of net assets are different because:		
Construction in progress in governmental activities is not a financial resource and therefore is not reported as an asset in the governmental funds.		167,325
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		595,614
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.		(357,394)
Governmental funds do not record a long term liability to the developer for the advances made to the District for operations and project costs; however, in the statement of net assets, the liability for these advances is recorded.	\$	<u>(36,668)</u>
Total Net Assets - Governmental Activities	\$	<u>379,194</u>

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

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

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
REVENUES:			
Property taxes	\$ 640,050	\$ -	\$ 640,050
Permits and inspections	1,950	-	1,950
Miscellaneous revenues	809	-	809
TOTAL REVENUES	<u>642,809</u>	<u>-</u>	<u>642,809</u>
EXPENDITURES			
Service operations:			
Director expenditures	4,017	-	4,017
Administrative expenditures	40,990	8,996	49,986
Allocated costs to District 1-A	249,930	-	249,930
Contracted services	14,747	-	14,747
TOTAL EXPENDITURES	<u>309,684</u>	<u>8,996</u>	<u>318,680</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>333,125</u>	<u>(8,996)</u>	<u>324,129</u>
OTHER FINANCING SOURCES (USES)			
Transfer in (out)	(11,220)	11,220	-
Contributions to other governmental units	(180,000)	-	(180,000)
Payment to developer	(250,000)	-	(250,000)
Developer contribution	250,000	-	250,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(191,220)</u>	<u>11,220</u>	<u>(180,000)</u>
NET CHANGE IN FUND BALANCES	141,905	2,224	144,129
FUND BALANCES - OCTOBER 1, 2010	<u>(131,648)</u>	<u>(2,164)</u>	<u>(133,812)</u>
FUND BALANCES - SEPTEMBER 30, 2011	<u>\$ 10,257</u>	<u>\$ 60</u>	<u>\$ 10,317</u>

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

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

Net Change in Fund Balances - Governmental Funds	\$	144,129
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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>(6,488)</u>
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Change in Net Assets - Governmental Activities	\$	<u><u>137,641</u></u>
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**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G
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 May 3, 2003 voters approved the division of District No. 1-A into two new districts of which Denton County Fresh Water Supply District No. 1-G (the District) was one. The District held its first meeting on June 3, 2003. Pursuant to the provisions of Chapters 49, 51 and 53 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The District and its operations are part of the 8 Districts which make up the community referred to as Castle Hills. The District has contracted with District No. 1-A to operate the utility system within the District.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments*.

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

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

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

Measurement Focus

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

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G
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 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 two major governmental funds:

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budgeting

Pursuant to the Operating Agreement (Note 9), 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 2010 the District's Board acknowledged the receipt of the annual budget provided by District No. 1-A.

Cash and Cash Equivalents

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

Prepaid Items

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

Capital Assets

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

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:

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Pensions

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

Net Assets / Fund Balances

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

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

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

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

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

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

Allocated costs

Pursuant to the Operating Agreement (Note 9), 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.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accounting Estimates

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

Implementation of New Standard

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

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the District had no deposits.

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

NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

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

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

NOTE 4. DUE TO OR FROM OTHER GOVERNMENTAL UNITS

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

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

NOTE 5. CAPITAL ASSETS

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

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

	October 1, 2010	Additions	September 30, 2011
Capital assets not being depreciated			
Construction in progress	\$ 167,325	\$ -	\$ 167,325
Capital assets at historical cost subject to depreciation			
Water system	144,999	-	144,999
Wastewater system	166,030	-	166,030
Drainage system	73,983	-	73,983
Road system	238,086	-	238,086
Total capital assets at historical cost subject to depreciation	<u>623,098</u>	<u>-</u>	<u>623,098</u>
Less accumulated depreciation			
Water system	4,079	856	4,935
Wastewater system	7,302	3,613	10,915
Drainage system	2,081	437	2,518
Road system	7,534	1,582	9,116
Total less accumulated depreciation	<u>20,996</u>	<u>6,488</u>	<u>27,484</u>
Total depreciable capital assets			
Net of accumulated depreciation	<u>602,102</u>	<u>(6,488)</u>	<u>595,614</u>
Total capital assets, net of accumulated depreciation	<u>\$ 769,427</u>	<u>\$ (6,488)</u>	<u>\$ 762,939</u>

On April 19, 2006, a Cost Sharing Agreement was executed between Denton County Fresh Water Supply District Nos. 1-A, 1-B, 1-C, 1-D and 1-E. The agreement provided for a cost sharing of the cost of construction of certain Lift Station Facilities. District No. 1-A will own the facilities for the benefit of the residents and the property located within the original boundaries of Denton County Fresh Water Supply District No. 1, which includes District No. 1-B, District No. 1-C, District No. 1-D and District No. 1-E. On September 23, 2009, the District executed an Excess Capacity Purchase Agreement (ECPA) with District No. 1-A, District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, and District No. 1-H. This agreement reallocates the shared cost for the construction of the lift station facilities based on capacity.

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

NOTE 5. CAPITAL ASSETS – CONTINUED

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

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

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

As of September 30, 2011, the District does not own capacity in the lift station facilities.

NOTE 6. MAINTENANCE TAX

On November 7, 2006, voters of the District approved the levy and collection of a maintenance tax in an unlimited amount per \$100 of assessed valuation of taxable property within the District. During the fiscal year ended September 30, 2011, the District levied a maintenance tax at the rate of \$1.0000 of assessed valuation, which resulted in a tax levy of \$640,050 on an adjusted valuation of \$64,005,035. 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.

NOTE 7. RESERVE PAYMENTS TO OTHER GOVERNMENTAL UNITS

In fiscal year 2011, District 1-A recognized the need to develop a reserve 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.

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

NOTE 7. RESERVE PAYMENTS TO OTHER GOVERNMENTAL UNITS – CONTINUED

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

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

In addition, the District participates in a cost sharing agreement with District No. 1-H. As part of the arrangement, the District made a \$150,000 payment to District No. 1-H.

NOTE 8. 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 the UTRWD.

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

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

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

NOTE 8. 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 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, 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 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-G
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. 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 9. OPERATING AGREEMENT

Effective April 1, 2008, the District entered into an Operating Agreement with Denton County Fresh Water Supply District No. 1-A (District No. 1-A). District No. 1-A is responsible for operating, maintaining, and managing the Facilities to be constructed within the boundaries of the once defined Denton County Fresh Water Supply District No. 1 which 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. 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.

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

NOTE 9. OPERATING AGREEMENT – CONTINUED

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 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 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 10. STRATEGIC PARTNERSHIP AGREEMENT

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

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

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

NOTE 10. STRATEGIC PARTNERSHIP AGREEMENT – CONTINUED

The District only recognizes revenue for the allocated surplus as strategic partnership revenue. The District's share of public safety cost that was offset directly from sales tax collected from the City of Lewisville was \$18,930.

NOTE 11. ECONOMIC DEPENDENCY

The District has contracted with Denton County Fresh Water Supply District No. 1-A to conduct District operations. The District is further obligated for significant water supply commitments. The ability to meet all these obligations may require the Developer to advance monies to the District from time to time to meet all the financial obligations and to cover any operating deficits of the District.

NOTE 12. UNREIMBURSED DEVELOPER COST

On May 20, 2009, the District executed an Agreement for Construction and Purchase of Facilities and Reimbursements for Cost with Castle Hills Property Company (the Developer) to provide the advancement of monies to facilitate the operations of the District.

In 2008, the District contracted with the prior Auditor to complete a Report on Applying Agreed-Upon Procedures to Construction, Engineering and Related Costs Reimbursable to Bright Farm Partnership, Castle Hills Property Company, and Bright Realty, Ltd., (collectively, the Developer). In May 2009, the report was presented to the District 1-G Board of Directors which indicated that \$36,668 of costs were documented in accordance with the terms of the analysis. This amount is reflected as a liability in the Statement of Net Assets of the District. The Developer has also indicated that District No. 1-G owes interest at the contract rate of 6% on the remaining balance of advances owed accruing from October 1, 2008. Since this amount is unknown at this time, this has not been reflected as a liability in the statement of net assets.

NOTE 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.

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

NOTE 14. BOND ELECTION

On November 4, 2008, voters within the District approved for the District to issue bonds in the maximum amount of \$30,000,000 for utilities and \$10,400,000 for roads. In addition, refunding bonds were approved in the amount of \$37,500,000 and road refunding bonds were approved in the amount of \$13,000,000. As of September 30, 2011, the District has not issued any bonds.

NOTE 15. 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), Denton No. 1-A, Denton No. 1-C, Denton No. 1-D, Denton No. 1-E, Denton No. 1-F, the District 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 advances. For advances made by a Bright Entity after November 20, 2006, the Districts will transfer reimbursement funds to District No. 1-A. District No. 1-A will act as a clearinghouse for receipt of reimbursement proceeds and for the deployment of such proceeds to any District that would otherwise require an advance from a Bright Entity. Any reimbursement for advances received by District No. 1-A will be considered as a full complete release of that particular District's obligation pursuant to existing developer reimbursement agreements.

NOTE 16. DUE TO DISTRICT NO. 1-A

In 2008, District 1-A contracted with the prior Auditor to complete a Report on Applying Agreed-Upon Procedures to Construction, Engineering and Related Costs Reimbursable to Bright Farm Partnership (Developer). In May 2009 the report was presented to the District 1-A Board of Directors that indicated that \$92,913 was due to District 1-A for its share of costs associated with Windhaven West (\$20,313) and for General Operations (\$72,600). In addition, the District has recorded a liability of \$92,986 for developer advances due to District No. 1-A in accordance with the agreement noted in Note 12.

An additional \$47,250 has been received by District 1-A from the Developer for the benefit of District 1-G after the completion of the agreed upon procedures.

At September 30, 2011 the District had an outstanding liability due to District No. 1-A of \$233,149 for developer advances and \$2,635 due to District No. 1-A at the fund level for other advances. The total liability of \$360,029 is reflected in the statement of net assets.

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

NOTE 17. LITIGATION

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

NOTE 18. SUBSEQUENT EVENTS

The District has evaluated all events or transactions that occurred after September 30, 2011 up through March 30, 2012, the date the financial statements were available to be issued. During this period there were no subsequent events requiring disclosure.

OTHER SUPPLEMENTARY INFORMATION

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

	<u>District No. 1-G</u>
Allocated costs to (from)	
other governmental units:	
Personnel	\$ 49,597
Contracted labor	3,438
Insurance	7,543
Office supplies	1,488
Office rental	5,446
Utilities	33,298
Landscape maintenance	20,563
Public safety	18,930
Public safety revenue allocations	(18,930)
Purchased water services	69,093
Non-potable	16,244
Dues and subscriptions	1,307
Communication	1,363
Training	521
Capital purchases	3,407
Bond payment funding	8,766
Equipment rental	5,110
Supplies	3,224
Maintenance	18,162
Other	<u>1,360</u>
 Total allocated costs to (from)	
other governmental units	 <u><u>\$249,930</u></u>

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

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

	<u>Budget Original</u>	<u>Budget Amended</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES:				
Property taxes	\$ 613,295	\$ 613,295	\$ 640,050	\$ 26,755
Permits and inspections	1,400	1,400	1,950	550
Miscellaneous revenues	-	-	809	809
TOTAL REVENUES	<u>614,695</u>	<u>614,695</u>	<u>642,809</u>	<u>28,114</u>
EXPENDITURES				
Service operations:				
Director expenditures	5,345	5,345	4,017	1,328
Administrative expenditures	38,097	38,097	40,990	(2,893)
Allocated costs to District 1-A	259,118	259,118	249,930	9,188
Contracted services	12,737	12,737	14,747	(2,010)
TOTAL EXPENDITURES	<u>315,297</u>	<u>315,297</u>	<u>309,684</u>	<u>5,613</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>299,398</u>	<u>299,398</u>	<u>333,125</u>	<u>33,727</u>
OTHER FINANCING SOURCES (USES)				
Transfer in (out)	-	-	(11,220)	(11,220)
Payments to developer	-	(250,000)	(250,000)	-
Contributions to other governmental units	(154,245)	(154,245)	(180,000)	(25,755)
Developer contribution	-	-	250,000	250,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(154,245)</u>	<u>(404,245)</u>	<u>(191,220)</u>	<u>213,025</u>
NET CHANGE IN FUND BALANCES	145,153	(104,847)	141,905	246,752
FUND BALANCES - OCTOBER 1, 2010	-	-	(131,648)	(131,648)
FUND BALANCES - SEPTEMBER 30, 2011	<u>\$ 145,153</u>	<u>\$ (104,847)</u>	<u>\$ 10,257</u>	<u>\$ 115,104</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(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
	Participates in joint venture, regional system and/or wastewater service				
<u> X </u>	(other than emergency interconnect)				
<u> </u>	Other (specify): _____				

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved September 27, 2010

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Usage</u>	<u>Usage Levels</u>
Water:	34.75	2,000	N	3.74	2,001 to 15,000
				4.24	15,001 to 25,000
				5.06	25,001 to 35,000
				6.06	35,001 to 45,000
				7.06	45,001 to 55,000
				8.06	55,001 and up
Wastewater:					
Residential	10.7		N	4.90	2,001 not to exceed 15,000 gallons
Residential	42.41		Y		New Customers
Commercial	10.7		N	4.90	2,001 and up
Surcharge:					
Solid waste/garbage	16.58		Y		
Commission	.5% of actual				
Regulatory Assessments	water and sewer bill				

District employs winter averaging for wastewater usage? X Yes No

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(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"			X 1.0	0
1"			X 2.5	0
1 1/2"			X 5.0	0
2"			X 8.0	0
3"			X 15.0	0
4"			X 25.0	0
6"			X 50.0	0
8"			X 80.0	0
10"			X 115.0	0
Total water connections	0	0		0
Total wastewater connections	0	0	X 1.0	0

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:	-	<u>N/A</u>
Gallons purchased:	-	From our water suppliers

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

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

Does the District have Debt Service standby fees? Yes ___ No X

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county? Yes X No ___

County or Counties in which District is located:

Denton County, Texas

Is the District located within a city?

Entirely ___ Partly ___ Not at all X

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

Entirely X Partly ___ Not at all ___

ETJ's in which District is located:

City of Lewisville, Texas.

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

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

Director expenditures	
Personnel expenditures	\$ 43
Directors costs	151
Director fees	3,600
Payroll taxes and administration	<u>223</u>
Total director expenditures	4,017
 Administrative expenditures	
Auditing	12,500
Engineering	907
Legal	17,748
Tax collector	21
Insurance	4,170
Appraisal district	<u>5,644</u>
Total administrative services	40,990
Allocated costs to District 1-A	<u>249,930</u>
 Contracted services:	
Management fee	<u>14,747</u>
Total contracted services	<u>14,747</u>
 Total expenditures	 <u><u>\$ 309,684</u></u>

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

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-G
ANALYSIS OF TAXES RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Maintenance Tax	
Taxes receivable -		
October 1, 2010	\$ -	
Adjustments to beginning balance	-	-
Original 2010 tax levy	613,294	
Adjustment to 2010 tax levy	26,756	640,050
Total to be accounted for		640,050
Tax collections:		
Prior years	-	
Current year	640,050	640,050
Taxes receivable -		
September 30, 2011		\$ -

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
PROPERTY VALUATIONS			
Land	\$ 64,007,551	\$ 71,564,471	\$ 89,300,888
Improvements	202	202	204
Personal property	-	90	-
Exemptions	<u>(2,718)</u>	<u>(2,718)</u>	<u>(1,100,727)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 64,005,035</u>	<u>\$ 71,562,045</u>	<u>\$ 88,200,365</u>
TAX RATES PER \$100 VALUATION			
Contract	\$ -	\$ -	\$ -
Maintenance	<u>1.0000</u>	<u>1.0000</u>	<u>1.0000</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>
ADJUSTED TAX LEVY*	<u>\$ 640,050</u>	<u>\$ 708,127</u>	<u>\$ 882,004</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>100.00%</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 10, 1996.

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

	Amounts		
	2011	2010	2009
REVENUES:			
Property taxes	\$ 640,050	\$ 708,127	\$ 882,004
Water service	-	-	944
Penalty and interest	-	-	2,682
Permits and inspections	1,950	5,352	136
Franchise fees	-	-	331
Sales tax revenues	-	14,401	-
Miscellaneous revenues	809	532	3
TOTAL REVENUES	642,809	728,412	886,100
EXPENDITURES			
Service operations:			
Personnel	57,140	101,532	100,648
Director expenditures	4,017	4,703	5,678
Administrative expenditures	40,990	44,159	59,026
Contracted services	38,748	87,213	96,441
Purchased water service	69,093	81,901	114,884
Purchased wastewater service	-	44,296	26,105
Purchased non-potable water service	16,244	20,444	-
Utilities	34,661	37,881	31,694
Repairs and maintenance	18,162	26,891	25,442
Supplies and other charges	27,222	37,842	37,475
Capital outlay	3,407	-	456,082
TOTAL EXPENDITURES	309,684	486,862	953,475
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	333,125	241,550	(67,375)
OTHER FINANCING SOURCES (USES)			
Transfer out	(11,220)	(208,600)	-
Contributions to other governmental units	(180,000)	(91,000)	(3,462)
Payment to developer	(250,000)	-	-
Developer contribution	250,000	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(191,220)	(299,600)	(3,462)
NET CHANGE IN FUND BALANCES	141,905	(58,050)	(70,837)
BEGINNING FUND BALANCE	(131,648)	(73,598)	(2,761)
ENDING FUND BALANCE	\$ 10,257	\$ (131,648)	\$ (73,598)
TOTAL ACTIVE RETAIL WATER CONNECTIONS	-	-	1

Percent of Total Revenues		
2011	2010	2009
99.6 %	97.3 %	99.6 %
0.0	0.0	0.1
0.0	0.0	0.3
0.3	0.7	0.0
0.0	0.0	0.0
0.0	2.0	0.0
0.1	0.1	0.0
<u>100.0</u>	<u>100.1</u>	<u>100.0</u>
8.9	13.9	11.4
0.6	0.6	0.6
6.4	6.1	6.7
6.0	12.0	10.9
10.7	11.2	13.0
0.0	6.1	2.9
2.5	2.8	0.0
5.4	5.2	3.6
2.8	3.7	2.9
4.2	5.2	4.2
0.5	0.0	51.5
<u>48.0</u>	<u>66.8</u>	<u>107.7 %</u>
<u><u>52.0 %</u></u>	<u><u>33.3 %</u></u>	<u><u>-7.7 %</u></u>

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

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

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

District Telephone No. - (972) 899-4000

<u>Board Members</u>	<u>Term of Office (Elected)</u>	<u>Fees of Office for the Year Ended September 30, 2011</u>	<u>Expense Reimbursements for the Year Ended September 30, 2011</u>	<u>Title</u>
Mark Crouch	5/08-5/12	\$ 750	\$ 26	President
Michael Raquet	3/09-5/14	\$ 600	\$ 7	Vice President
Melissa Brand-Vokey	5/08-5/12	\$ 900	\$ 33	Secretary
Carol Upchurch	8/08- 5/14 (Appointed)	\$ 750	\$ 8	Treasurer/ Assistant Secretary
Bobbie Mack	5/08- 5/14 (Appointed)	\$ 600	\$ 42	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-G
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2011
(UNAUDITED)**

<u>Consultants</u>	<u>Date Hired</u>	<u>Fees for the Year Ended September 30, 2011</u>	<u>Title</u>
Kelly Hart & Hallman LLP 201 Main Street, Suite 2500 Fort Worth, TX 76102	6/3/08	\$ 16,935	Attorney
Pate Engineers, Inc. 8150 Brookriver Drive, Suite S-700 Dallas, Texas 75247	11/16/09	\$ 8,708	Engineer
Zane Miller 2540 King Arthur, Suite 220 Lewisville, TX 75056	9/18/2007	\$ -	Investment Officer
Denton County Appraisal District 3911 Morse Denton, TX 76208	Legislative Action	\$ 5,644	Property Tax Appraisals
Denton County Tax Collector c/o Steve Mossman P.O. Box 90223 Denton, TX 76202	5/15/2007	\$ -	Tax Assessor/ Collector