

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A

DENTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2014

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A

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ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Denton County Fresh Water
Supply District No. 1-A
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-A (the "District"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 7, the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 67 and the Schedule of Funding Progress – Pension Plan on page 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* and the other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

Management's discussion and analysis of Denton County Fresh Water Supply District No. 1-A's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2014. Please read it in conjunction with the District's financial statements, which begin on page 8.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The first of the government-wide statements is the Statement of Net Position. This information is found in the Statement of Net Position column on pages 8 through 11. The Statement of Net Position is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The government-wide portion of the Statement of Activities on pages 13 and 14 reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has two governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

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

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 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 15 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the 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 65 in this report.

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$2,105,854 as of September 30, 2014.

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2014	2013	Change Positive (Negative)
Current and Other Assets	\$ 11,759,875	\$ 8,515,001	\$ 3,244,874
Capital Assets (Net of Accumulated Depreciation)	<u>4,353,333</u>	<u>4,803,209</u>	<u>(449,876)</u>
Total Assets	<u>\$ 16,113,208</u>	<u>\$ 13,318,210</u>	<u>\$ 2,794,998</u>
Due to Developer	\$ 10,549,639	\$ 6,642,125	\$ (3,907,514)
Noncurrent Liabilities	2,600,000	2,765,000	165,000
Other Liabilities	<u>857,715</u>	<u>923,100</u>	<u>65,385</u>
Total Liabilities	<u>\$ 14,007,354</u>	<u>\$ 10,330,225</u>	<u>\$ (3,677,129)</u>
Net Position:			
Net Investment in Capital Assets	\$ 1,588,333	\$ 1,869,821	\$ (281,488)
Restricted	280,186	186,155	94,031
Unrestricted	<u>237,335</u>	<u>932,009</u>	<u>(694,674)</u>
Total Net Position	<u>\$ 2,105,854</u>	<u>\$ 2,987,985</u>	<u>\$ (882,131)</u>

*

The following table provides a summary of the District's operations for the years ended September 30, 2014, and September 30, 2013. The District's net position decreased by \$882,131, accounting for a 29.5% decrease in net position.

	Summary of Changes in the Statement of Activities		
	2014	2013	Change Positive (Negative)
Revenues:			
Project Management Fee	\$ 599,746	\$ 448,900	\$ 150,846
Contracted Services	3,385	854	2,531
Charges for Services	61,932	42,986	18,946
Other Revenue	59,689	101,750	(42,061)
Operating Contributions	<u> </u>	<u>180,000</u>	<u>(180,000)</u>
Total Revenues	<u>\$ 724,752</u>	<u>\$ 774,490</u>	<u>\$ (49,738)</u>
Expenses for Services	<u>1,606,883</u>	<u>5,537</u>	<u>(1,601,346)</u>
Change in Net Position	\$ (882,131)	\$ 768,953	\$ (1,651,084)
Net Position, Beginning of Year	<u>2,987,985</u>	<u>2,219,032</u>	<u>768,953</u>
Net Position, End of Year	<u>\$ 2,105,854</u>	<u>\$ 2,987,985</u>	<u>\$ (882,131)</u>

*

* As Adjusted, Note 20

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2014, were \$729,132, a decrease of \$466,386 from the prior year.

The General Fund fund balance decreased by \$560,417, primarily due to the transfer of reserve funds to the participants.

The Capital Projects Fund fund balance increased by \$94,031.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$269,072 more than budgeted revenues. Actual expenditures were \$225,472 more than budgeted. See the budget to actual comparison on page 67.

CAPITAL ASSETS

The District's capital assets as of September 30, 2014, amount to \$4,353,333 (net of accumulated depreciation). These capital assets include the lift station, ground storage tank, equipment, office equipment, vehicles and SCADA system.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2014	2013	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Construction in Progress	\$ 30,000	\$ 342,152	\$ (312,152)
Capital Assets, Net of Accumulated Depreciation:			
Lift Station	808,878	861,185	(52,307)
Ground Storage Tank	2,935,240	3,004,762	(69,522)
Equipment	154,838	166,935	(12,097)
Office Equipment	5,382	5,382	
Vehicles	101,954	89,802	12,152
SCADA System	317,041	332,991	(15,950)
Total Net Capital Assets	\$ 4,353,333	\$ 4,803,209	\$ (449,876)

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

CONTACTING THE DISTRICT'S 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-A, c/o Kelly Hart & Hallman LLP, 201 Main Street., Suite 2500, Fort Worth, TX 76102.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2014

	General Fund	Capital Projects Fund
ASSETS		
Cash, Note 3	\$ 610,331	\$ 212,849
Receivables:		
Service Accounts (Net of Allowance for Doubtful Accounts of \$-0-)	6,704	
Prepaid Costs	118,479	
Due from Other Government Units	355,306	67,337
Construction in Progress, Note 5		
Capital Assets (Net of Accumulated Depreciation), Note 5		
TOTAL ASSETS	\$ 1,090,820	\$ 280,186

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 823,180	\$	\$ 823,180
6,704		6,704
118,479		118,479
422,643	10,388,869	10,811,512
	30,000	30,000
	<u>4,323,333</u>	<u>4,323,333</u>
<u>\$ 1,371,006</u>	<u>\$ 14,742,202</u>	<u>\$ 16,113,208</u>

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2014

	General Fund	Capital Projects Fund
LIABILITIES		
Accounts Payable	\$ 477,113	\$
Compensated Absences, Note 21		
Due to Other Governmental Units	160,186	
Due to Developer, Note 14		
Security Deposits	4,575	
Long Term Liabilities:		
Due Within One Year		
Due After One Year		
TOTAL LIABILITIES	\$ 641,874	\$ -0-
 FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 118,479	\$
Restricted for Authorized Construction		280,186
Assigned to Reserves, Note 7	607,627	
Unassigned	(277,160)	
TOTAL FUND BALANCES	\$ 448,946	\$ 280,186
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,090,820	\$ 280,186
 NET POSITION		
Net Investment in Capital Assets		
Restricted for Capital Projects		
Unrestricted		
TOTAL NET POSITION		

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 477,113	\$	\$ 477,113
	50,841	50,841
160,186		160,186
4,575	10,549,639	10,549,639
		4,575
	165,000	165,000
	<u>2,600,000</u>	<u>2,600,000</u>
<u>\$ 641,874</u>	<u>\$ 13,365,480</u>	<u>\$ 14,007,354</u>
\$ 118,479	\$ (118,479)	\$
280,186	(280,186)	
607,627	(607,627)	
<u>(277,160)</u>	<u>277,160</u>	
<u>\$ 729,132</u>	<u>\$ (729,132)</u>	<u>\$ - 0 -</u>
<u>\$ 1,371,006</u>		
	\$ 1,588,333	\$ 1,588,333
	280,186	280,186
	<u>237,335</u>	<u>237,335</u>
	<u>\$ 2,105,854</u>	<u>\$ 2,105,854</u>

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

Total Fund Balances - Governmental Funds	\$	729,132
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Governmental funds do not record a long-term receivable from other governmental units for amounts contributed for construction projects. This amount is not a current financial resource, therefore, this amount is only recorded as a receivable in the Statement of Net Position.		10,388,869
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		4,353,333
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Compensated Absences	\$ (50,841)	
Due to Developer	(10,549,639)	
Bonds Payable	<u>(2,765,000)</u>	<u>(13,365,480)</u>

Total Net Position - Governmental Activities	\$	<u><u>2,105,854</u></u>
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The accompanying notes to the financial statements are an integral part of this report.

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**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>General Fund</u>	<u>Capital Projects Fund</u>
REVENUES		
Project Management Fee	\$ 599,746	\$
Charges for Service	61,932	
Penalty and Interest	1,435	
Permit and Inspection Fees	1,950	
Investment Revenues	26,692	287
Miscellaneous Revenues	32,710	
	<u>724,465</u>	<u>287</u>
TOTAL REVENUES	\$ 724,465	\$ 287
EXPENDITURES/EXPENSES		
Service Operations:		
Personnel Expenditures	\$ 1,639,504	\$
Professional Fees	349,028	
Contracted Services	77,073	
Purchased Water and Wastewater Services	1,758,258	
Utilities	346,220	
Repairs and Maintenance	952,849	
Depreciation, Note 5		
Other	617,118	
Allocated Costs	(5,268,119)	
Capital Outlay	40,274	30,000
Debt Service:		
Capital Lease - Principal, Note 6	3,388	
Capital Lease - Interest, Note 6	13	
TWDB ARRA Payment	165,000	
	<u>680,606</u>	<u>30,000</u>
TOTAL EXPENDITURES/EXPENSES	\$ 680,606	\$ 30,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 43,859	\$ (29,713)
OTHER FINANCING SOURCES (USES)		
Contributed from (to) Other Governmental Units	\$ (604,276)	\$
Developer Contributions		123,744
	<u>(604,276)</u>	<u>123,744</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (604,276)	\$ 123,744
NET CHANGE IN FUND BALANCES	\$ (560,417)	\$ 94,031
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - OCTOBER 1, 2013, AS ADJUSTED, NOTE 20	<u>1,009,363</u>	<u>186,155</u>
FUND BALANCES/NET POSITION - SEPTEMBER 30, 2014	<u>\$ 448,946</u>	<u>\$ 280,186</u>

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

Total	Adjustments	Statement of Activities
\$ 599,746	\$	\$ 599,746
61,932		61,932
1,435		1,435
1,950		1,950
26,979		26,979
32,710		32,710
<u>\$ 724,752</u>	<u>\$ - 0 -</u>	<u>\$ 724,752</u>
\$ 1,639,504	\$ 10,513	\$ 1,650,017
349,028		349,028
77,073		77,073
1,758,258		1,758,258
346,220		346,220
952,849	342,152	1,295,001
	177,998	177,998
617,118	604,276	1,221,394
(5,268,119)		(5,268,119)
70,274	(70,274)	
3,388	(3,388)	
13		13
<u>165,000</u>	<u>(165,000)</u>	
<u>\$ 710,606</u>	<u>\$ 896,277</u>	<u>\$ 1,606,883</u>
\$ 14,146	\$ (896,277)	\$ (882,131)
\$ (604,276)	\$ 604,276	\$
<u>123,744</u>	<u>(123,744)</u>	
<u>\$ (480,532)</u>	<u>\$ 480,532</u>	<u>\$ -0-</u>
\$ (466,386)	\$ 466,386	\$
	(882,131)	(882,131)
<u>1,195,518</u>	<u>1,792,467</u>	<u>2,987,985</u>
<u>\$ 729,132</u>	<u>\$ 1,376,722</u>	<u>\$ 2,105,854</u>

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
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, 2014**

Net Change in Fund Balances - Governmental Funds	\$ (466,386)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.</p>	(177,998)
<p>Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.</p>	(271,878)
<p>Governmental funds report capital lease and bond principal payments as expenditures. However, in the Statement of Net Position, capital lease and bond principal payments are reported as decreases in long-term liabilities.</p>	168,388
<p>Compensated Absences are reported as a liability in the Statement of Net Position. Therefore, an expense is recored in the Statement of Activities.</p>	(10,513)
<p>Governmental funds report developer contributions as other financing sources. However, in the Statement of Net Position, developer contributions, net any amount paid to the developer, are recorded as a liability.</p>	<u>(123,744)</u>
Change in Net Position - Governmental Activities	<u>\$ (882,131)</u>

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

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

At an election held within the boundaries of the District on May 6, 1995, voters approved the division of the District into two new districts of which Denton County Fresh Water Supply District No. 1-A was one. The District held its first meeting on July 13, 1995. 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, and to construct 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 firefighting activities within the District. The District and its operations are part of the eight Districts which make up the community referred to as Castle Hills. The District has contracted to operate the Districts included in the Castle Hills Development, including Denton County Fresh Water Supply District No. 1-B, 1-C, 1-D 1-E, 1-F, 1-G and 1-H.

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.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District's financial statement as component units.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting.

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets — This component of net position 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 Position — This component of net position consists of external constraints placed on the use of 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 Position — This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

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

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

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Governmental Funds

The District has two governmental funds and considers each to be a major fund.

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

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means 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 collectable within 60 days of 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.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

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

	Years
Pump Station Equipment	7-20
Office Equipment	3-5
Vehicles	5
Ground Storage Tank	45
Lift Station	45

Budgeting

In compliance with governmental accounting principles and the Operating Agreement (Note 12), the Board of Directors annually adopts an unappropriated budget for the General Fund.

Pensions

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 for the directors. A plan has been established for the District’s employees other than directors. (See Note 17).

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Position 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 position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

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

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

Committed: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has assigned \$607,627 as reserve funds. See Note 7.

Unassigned: all other spendable amounts in the General Fund.

When expenditures are incurred for which restricted, committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of restricted funds, then committed funds, then assigned funds, and finally unassigned funds.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allocated Costs

Pursuant to the Operating Agreement (Note 12), the District pays all expenses required to maintain, operate and manage the facilities of District 1-B through 1-H and all expenses related to management of the District. On a monthly basis, the District allocates to District 1-B through 1-H their allocate shares of expenses, which is reflected as reimbursements from other governmental units in 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.

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, 2014, the District's deposits that were in excess of FDIC limits were fully covered by collateral.

The District is the custodian of a pooled cash account. The consolidated cash account is allocated between districts with operations within the Castle Hills development. At September 30, 2014, pooled cash bank balance consisted of \$4,164,992 in cash and \$466,074 in certificates of deposit. The book balance of the entire pooled cash account was \$4,466,493. The book balance of the District's share of pooled cash was a deficit of \$795,400.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The District also had deposits in non-pooled cash accounts. As of September 30, 2014, the bank balance of these deposits were \$1,618,580 and the book balance was \$1,618,580.

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.

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-I or P-I 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, 2014, the District had no investments; however, when possible the District's bank deposits are placed in interest bearing accounts.

Restrictions

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 4. DUE TO OR FROM OTHER GOVERNMENTAL UNITS

As a part of the normal course of operations which include transactions with other Districts within Castle Hills and other governments, the District may owe or be owed funds from other governmental entities. At September 30, 2014, the amounts reflected on the Statement of Net Position and the Governmental Funds Balance Sheet as due from and to other governments included amounts due to and due from Districts 1-B through 1-H.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014:

	October 1, 2013	Increases	Decreases	September 30, 2014
Capital Assets Not Being Depreciated				
Construction in Progress	\$ 342,152	\$ 70,274	\$ 382,426	\$ 30,000
Capital Assets Subject to Depreciation				
Lift Station	\$ 1,081,766	\$	\$	\$ 1,081,766
Ground Storage Tank	3,173,000			3,173,000
Equipment	596,583		63,390	533,193
Office Equipment	124,233			124,233
Vehicles	454,291	40,274	35,063	459,502
SCADA System	342,343			342,343
Total Capital Assets Subject to Depreciation	\$ 5,772,216	\$ 40,274	\$ 98,453	\$ 5,714,037
Less Accumulated Depreciation				
Lift Station	\$ 220,581	\$ 52,307	\$	\$ 272,888
Ground Storage Tank	168,238	69,522		237,760
Equipment	429,648	12,097	63,390	378,355
Office Equipment	118,851			118,851
Vehicles	364,489	28,122	35,063	357,548
SCADA System	9,352	15,950		25,302
Total Accumulated Depreciation	\$ 1,311,159	\$ 177,998	\$ 98,453	\$ 1,390,704
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 4,461,057	\$ (137,724)	\$ - 0 -	\$ 4,323,333
Total Capital Assets, Net of Accumulated Depreciation	\$ 4,803,209	\$ (67,450)	\$ 382,426	\$ 4,353,333

On April 19, 2006, a Cost Sharing Agreement was executed between Denton County Fresh Water Supply District Nos. 1-B, 1-C, 1-D, 1-E and the District. The agreement provided for a cost sharing of the cost of construction of certain Lift Station Facilities. The District 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-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, District No. 1-G, and District No. 1-H.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 5. CAPITAL ASSETS (Continued)

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 connection as of September 2014. Capacity in the facilities is allocated as follows:

District No. 1-B	21.48%
District No. 1-C	0.30
District No. 1-D	23.40
District No. 1-E	26.54
District No. 1-F	27.77
District No. 1-G	0.48
District No. 1-H	<u>0.03</u>
Total	<u>100.00%</u>

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

NOTE 6. LONG-TERM DEBT

Texas Water Development Bonds

The contract revenue bonds are serial obligations with zero interest rate and scheduled to mature annually through 2030 when the full \$3,335,000 has been issued. The District closed the bonds at \$3,260,000. The District is obligated for \$2,765,000 at year end.

The revenue bonds are payable from the net revenues of the District. Gross revenues are to be used for operating and maintenance expense of the system, and second to maintain revenue bond funds in accordance with the bond covenants. The District is in compliance with the revenue bond debt covenants as of September 30, 2014. Remaining revenues may then be used for any lawful purpose.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 6. LONG-TERM DEBT (Continued)

Texas Water Development Bonds (Continued)

Debt service requirements of the revenue bonds for the years subsequent to September 30, 2014 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 165,000	\$	\$ 165,000
2016	165,000		165,000
2017	165,000		165,000
2018	165,000		165,000
2019	165,000		165,000
2020-2024	825,000		825,000
2025-2029	850,000		850,000
2030-2031	265,000		265,000
	<u>\$ 2,765,000</u>	<u>\$ - 0 -</u>	<u>\$ 2,765,000</u>

Capital Lease Agreement

On November 11, 2008, the District entered into a Capital Lease Agreement with Caterpillar Financial for the purchase of a 420E Caterpillar Backhoe Loader. The purchase price of the equipment was \$92,185. The leased assets and related obligations are accounted for in the Statement of Net Position. The lease payments are split between all Participating Districts in accordance with each individual operating contract.

During the current fiscal year, the capital lease was paid in full with capital lease payments of \$3,388 for principal and \$13 for interest.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 7. RESERVE PAYMENTS TO OTHER GOVERNMENTAL UNITS

Beginning in fiscal year 2011, the District 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 Castle Hills Development. The District accounts for the other districts' deposits in a separate reserve account and will only utilize the funds in accordance with the District's 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. During the current fiscal year, the District transferred the reserve balance to a bank account in the name of each participant. The schedule below recaps the reserve activity for the current fiscal year.

	No. 1-A	No. 1-B	No. 1-D	No. 1-E	No. 1-F	No. 1-G	Total
Beginning Balance at October 1, 2013	\$ 183,365	\$ 258,239	\$ 338,240	\$ 111,295	\$ 261,295	\$ 115,648	\$ 1,268,082
Contributions	343,459	838					344,297
Distributions	(165,000)	(13,274)	(338,240)	(111,295)	(261,295)	(115,648)	(1,004,752)
Ending Balance as of September 30, 2014	<u>\$ 361,824</u>	<u>\$ 245,803</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 607,627</u>

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS

On July 15, 1996, the District, Denton County Fresh Water Supply District No. 1-B (District No.1-B), and the City of Lewisville (Lewisville) executed an Amended and Restated Joint Utility Contract. On November 13, 1997, Amendment No.1 to the amended and Restated Joint Utility Contract was approved. The contract states that Lewisville will proceed with financing utility and road facilities within District No.1-B through the sale of \$20,992,740 in Public Improvement District (PID) bonds, now referred to as PID 1. The District will have primary responsibility as Project Manager and shall perform its duties in accordance with an agreement dated March 14, 1997, (see Note 9). The District is responsible for designating the consulting engineer on the project and will approve the projects along with Lewisville.

The District 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 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-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, the District and District 1-B 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 1 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 1 and Lewisville, District No.1-B agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 1 Bonds as they mature. District No.1-B will commit each year to levy, assess and collect a tax on all taxable property within District No.1-B, unlimited by rate or amount, sufficient to service the debt and other costs incidental to the PID 1 Bonds. Lewisville will calculate the total amount of payments to be made on the PID 1 Bonds on the following March 1, after application of the available reserves from proceeds of the PID 1 Bonds and, if needed, will calculate an assessment on all assessable property within the PID 1, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville. Lewisville will notify District No.1-B of the calculation of the Annual Assessment by September 1 of each year following the above referenced March 1.

During the current fiscal year, District No. 1-B made contract tax payments of \$1,571,106 to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement at September 30, 2014, is \$1,574,760 and District No. 1-B has fully satisfied that requirement at year end. The City of Lewisville at September 30, 2014 is holding \$2,576,720 in trust for District No. 1-B, including reserve funds. The amount held in trust in excess of the reserve is available to cover debt service requirements of PID 1. The Reserve Fund is maintained by the City of Lewisville for PID 1.

The following is an amortization schedule of the existing outstanding debt District No. 1-B's contract tax is expected to amortize.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

PID 1 S E R I E S - 1 9 9 8				
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total	
2015	\$ 850,000	\$ 722,838	\$	1,572,838
2016	895,000	677,150		1,572,150
2017	945,000	625,240		1,570,240
2018	1,000,000	570,430		1,570,430
2019	1,060,000	512,430		1,572,430
2020	1,120,000	450,950		1,570,950
2021	1,185,000	385,990		1,570,990
2022	1,250,000	317,260		1,567,260
2023	1,330,000	244,760		1,574,760
2024	1,405,000	167,620		1,572,620
2025	1,485,000	86,130		1,571,130
	\$ 12,525,000	\$ 4,760,798	\$	17,285,798

On February 1 following the date of receipt of written notification of the Annual Assessment, District No.1-B will certify to Lewisville the amount of all taxes collected. Lewisville will then impose an assessment, if needed, with the PID 1 sufficient to pay the debt service requirement on the PID 1 Bonds as they come due. The parties to the agreement acknowledge that the tax levy is contingent upon a one-time approval by the voters within District No.1-B. Such election occurred on August 10, 1996, and approved the levy and collection of said tax. For the fiscal year ending September 30, 2014, District No. 1-B levied a contract tax at the rate of \$0.672414 per \$100 of assessed valuation on taxable property within District No. 1-B, which resulted in a tax levy of \$1,648,357. The term of the agreement is forty (40) years.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

On October 14, 1999, the District, Denton County Fresh Water Supply District No. 1-D (District No. 1-D), 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 District No. 1-D 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. During the 2013 fiscal year, refunding bonds were issued in the amount of \$14,300,000 and were used to refund \$13,140,000 of the outstanding balance of the Series 2002 bonds. 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.

The District 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 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.

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, the District and District No. 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 District No. 1-D of the calculation of the Annual Assessment by September 1 of each year preceding the above-referenced March 1.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

During the current fiscal year, District No. 1-D made contract tax payments to the City of Lewisville in the amount of \$2,165,750 in accordance with the bond covenants. The reserve fund requirement as of September 30, 2014, is \$2,359,065 and District No. 1-D has fully satisfied that requirement at year end. The City of Lewisville is holding \$3,761,626 in trust for District No. 1-D at September 30, 2014, including reserve funds. The amounts held in trust in excess of the reserve requirement are available to cover debt service required of PID 2.

The following is an amortization schedule of the existing outstanding debt District No. 1-D's contract tax is expected to amortize.

PID 2 REFUNDING SERIES - 2002			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2015	\$ 705,000	\$ 81,563	\$ 786,563
2016	745,000	41,906	786,906
	\$ 1,450,000	\$ 123,469	\$ 1,573,469

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

PID 2 S E R I E S - 2 0 0 5			
Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/ April 1	Total
2015	\$ 240,000	\$ 564,300	\$ 804,300
2016	250,000	549,600	799,600
2017	265,000	534,150	799,150
2018	285,000	517,650	802,650
2019	300,000	500,100	800,100
2020	320,000	481,500	801,500
2021	340,000	461,700	801,700
2022	360,000	440,700	800,700
2023	380,000	418,500	798,500
2024	400,000	395,100	795,100
2025	425,000	370,350	795,350
2026	450,000	344,100	794,100
2027	480,000	316,200	796,200
2028	510,000	286,500	796,500
2029	540,000	255,000	795,000
2030	570,000	221,700	791,700
2031	605,000	186,450	791,450
2032	640,000	149,100	789,100
2033	680,000	109,500	789,500
2034	720,000	67,500	787,500
2035	765,000	22,950	787,950
	\$ 9,525,000	\$ 7,192,650	\$ 16,717,650

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

PID 2			
REFUNDING SERIES - 2013			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2015	\$ 155,000	\$ 420,250	\$ 575,250
2016	160,000	417,150	577,150
2017	950,000	413,950	1,363,950
2018	980,000	385,450	1,365,450
2019	1,005,000	356,050	1,361,050
2020	1,040,000	325,900	1,365,900
2021	1,070,000	294,700	1,364,700
2022	1,100,000	262,600	1,362,600
2023	1,130,000	229,600	1,359,600
2024	1,165,000	195,700	1,360,700
2025	1,200,000	160,750	1,360,750
2026	1,240,000	123,250	1,363,250
2027	1,280,000	84,500	1,364,500
2028	1,320,000	42,900	1,362,900
2029			
2030			
2031			
2032			
2033			
2034			
2035			
	\$ 13,795,000	\$ 3,712,750	\$ 17,507,750

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

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. For the fiscal year ending September 30, 2014, District No. 1-D levied a contract tax at the rate of \$0.6026 per \$100 of assessed valuation upon property with District No. 1-D. The term of the agreement is forty (40) years.

On April 26, 2001 the District, Denton County Fresh Water Supply District No. 1-E (District No. 1-E), and the City of Lewisville (Lewisville) executed a 2001 Joint Utility Contract. The contract states that Lewisville will proceed with financing utility and road facilities within District No. 1-E through the sale of \$28,500,000 of Public Improvement District No. 3 (PID 3) bonds; the first installment of these bonds were sold in the amount of \$14,000,000. In 2004, PID 3 sold \$25,000,000 in Combination Contract Revenue and Special Assessment Refunding and Capital Improvement Bonds to refund the previously sold \$14,000,000 in bonds. In 2012, PID 3 sold an additional \$2,840,000 in Combination Contract Revenue and Special Assessment Refunding and Utility System Bonds Series 2011. The District will have primary responsibility as Project Manager and shall perform its duties in accordance with an agreement dated July 1, 2001. The District is responsible for designating the consulting engineer on the project and will approve the projects along with Lewisville.

The District 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 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.

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, the District and District No. 1 -E 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 3 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.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

In order to finance the facilities being constructed with bond proceeds being issued by the PID 3 and Lewisville, District No. 1-E agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 3 Bonds as they mature. District No. 1-E committed each year to levy, assess and collect a tax on all taxable property within District No. 1-E, unlimited by rate or amount, sufficient to service the debt and other costs incidental to the PID 3 Bonds. Lewisville will calculate the total amount of payments to be made on the PID 3 Bonds on the following March 1, after application of the available reserves from proceeds of the PID 3 Bonds and, if needed, will calculate an assessment on all assessable property within the PID 3, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville. Lewisville will notify District No. 1-E of the calculation of the Annual Assessment by September 1 of each year following the above-referenced March 1.

During the fiscal year, District No. 1-E made contract tax payments of \$2,091,375 to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement at September 30, 2014, is \$2,203,263 and District No. 1-E has fully satisfied that requirement at year end. The City of Lewisville is holding \$2,828,226 in trust for District No. 1-E at September 30, 2014, including reserve funds. The amounts held in trust in excess of the reserve requirement are available to cover debt service required of PID 3.

The following is an amortization schedule of the existing outstanding debt District No. 1 -E's contract tax is expected to amortize.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

PID 3 SERIES - 2004			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2015	\$ 900,000	\$ 1,298,500	\$ 2,198,500
2016	955,000	1,243,375	2,198,375
2017	1,015,000	1,184,882	2,199,882
2018	1,080,000	1,122,712	2,202,712
2019	1,145,000	1,056,562	2,201,562
2020	1,215,000	986,432	2,201,432
2021	1,290,000	912,012	2,202,012
2022	1,370,000	833,000	2,203,000
2023	1,450,000	749,088	2,199,088
2024	1,540,000	660,275	2,200,275
2025	1,635,000	565,950	2,200,950
2026	1,735,000	465,806	2,200,806
2027	1,840,000	359,538	2,199,538
2028	1,955,000	246,838	2,201,838
2029	2,075,000	127,094	2,202,094
2030			
2031			
	\$ 21,200,000	\$ 11,812,064	\$ 33,012,064

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

PID 3 S E R I E S - 2 0 1 1			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2015	\$	\$ 134,900	\$ 134,900
2016		134,900	134,900
2017		134,900	134,900
2018		134,900	134,900
2019		134,900	134,900
2020		134,900	134,900
2021		134,900	134,900
2022		134,900	134,900
2023		134,900	134,900
2024		134,900	134,900
2025		134,900	134,900
2026		134,900	134,900
2027		134,900	134,900
2028		134,900	134,900
2029		134,900	134,900
2030	1,250,000	134,900	1,384,900
2031	1,590,000	75,525	1,665,525
	\$ 2,840,000	\$ 2,233,925	\$ 5,073,925

On February 1 following the date of receipt of written notification of the Annual Assessment, District No. 1-E will certify to Lewisville the amount of all taxes collected. Lewisville will then impose an assessment, if needed, with the PID 3 sufficient to pay the debt service requirement on the PID 3 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-E. Such election occurred on November 7, 2000, and approved the levy and collection of said tax. For the fiscal year ending September 30, 2014, District No. 1-E levied a contract tax of \$0.8041 per \$100 of assessed valuation on property within District No. 1-E. The term of this contract is forty (40) years.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

On May 21, 2007, the District, Denton County Fresh Water Supply District No. 1-F (District No. 1-F), and the City of Lewisville (Lewisville) executed a 2007 Joint Utility Contract. On January 7, 2008, the Amended and Restated 2007 Joint Utility Contract was approved. The agreement became effective on the date executed by Lewisville and District No. 1-F in accordance with the Amended and Restated 2007 Joint Utility Contract. The contract states that Lewisville will proceed with financing utility and road facilities within the District through the sale of \$32,000,000 of Public Improvement District No. 4 (PID 4) bonds; the first installment of these bonds were sold in the amount of \$20,000,000 in 2008. In fiscal year ending 2012, a second and third installment were sold for a combined \$8,320,000. During the current fiscal year, a fourth installment was sold in the amount of \$3,680,000. The District will have primary responsibility as Project Manager and shall perform its duties in accordance with an agreement dated October 1, 2006. The District is responsible for designating the consulting engineer on the project and approves the projects along with Lewisville.

The District 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 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.

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, the District and District No. 1-F shall have the right to acquire the facilities at any time by paying to Lewisville the amount necessary to repay, redeem, refund or defease the PID 4 bonds allocable to the facilities being acquired. The parties to the agreement agree that the cost of operations and maintenance of the facilities being constructed will be borne by the districts and not Lewisville.

In order to finance the facilities being constructed with bond proceeds being issued by the PID 4 and Lewisville, District No. 1-F agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 4 Bonds as they mature. District No. 1-F committed each year to levy, assess and collect a tax on all taxable property within District No. 1-F, unlimited by rate or amount, sufficient to service up to ninety percent (90%) of the debt and other costs incidental to the PID 4 Bonds.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

The additional ten percent (10%) of the debt and other costs included to the PID 4 Bonds will be paid from the special assessment as outlined in the agreement. Lewisville will calculate the total amount of payments to be made on the PID 4 Bonds on the following February 1, after application of the available reserves from proceeds of the PID 4 Bonds and will calculate an assessment on all assessable property within the PID 4, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville. Lewisville will notify District No. 1-F of the calculation of the Annual Assessment by September 1 of each year proceeding the above-referenced February 1.

During the fiscal year, District No. 1-E made contract tax payments of \$3,172,631 to the City of Lewisville in accordance with the bond covenants. As of the fiscal year end, the reserve fund requirement is \$2,686,720. District No. 1-F has fully funded the reserve. The Reserve Fund is maintained by PID 4. As of September 30, 2014, District No. 1-F had \$4,418,044 in trust with the City of Lewisville.

The following is an updated amortization schedule on the existing outstanding debt District No 1-F's contract tax and assessments are expected to amortize as of September 30, 2014:

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

PID 4 S E R I E S - 2 0 0 8			
Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/ April 1	Total
2015	\$ 535,000	\$ 1,113,919	\$ 1,648,919
2016	570,000	1,076,625	1,646,625
2017	610,000	1,036,800	1,646,800
2018	650,000	994,275	1,644,275
2019	695,000	948,881	1,643,881
2020	740,000	900,450	1,640,450
2021	795,000	848,643	1,643,643
2022	845,000	793,294	1,638,294
2023	905,000	734,231	1,639,231
2024	965,000	671,119	1,636,119
2025	1,030,000	603,788	1,633,788
2026	1,100,000	531,900	1,631,900
2027	1,170,000	455,287	1,625,287
2028	1,250,000	373,613	1,623,613
2029	1,335,000	286,369	1,621,369
2030	1,425,000	193,219	1,618,219
2031	1,520,000	93,825	1,613,825
2032	630,000	21,262	651,262
2033			
2034			
2035			
2036			
2037			
	\$ 16,770,000	\$ 11,677,500	\$ 28,447,500

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

PID 4			
SERIES - 2011 UTILITY			
Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/ April 1	Total
2015	\$	\$ 155,662	\$ 155,662
2016		155,663	155,663
2017		155,662	155,662
2018		155,663	155,663
2019		155,662	155,662
2020		155,663	155,663
2021		155,662	155,662
2022		155,663	155,663
2023		155,662	155,662
2024		155,663	155,663
2025		155,662	155,662
2026		155,663	155,663
2027		155,662	155,662
2028		155,663	155,663
2029		155,662	155,662
2030		155,663	155,663
2031		155,662	155,662
2032		155,663	155,663
2033	200,000	150,413	350,413
2034	715,000	126,393	841,393
2035	750,000	87,938	837,938
2036	790,000	47,512	837,512
2037	510,000	13,387	523,387
	\$ 2,965,000	\$ 3,227,568	\$ 6,192,568

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

PID 4 SERIES - 2011 ROAD			
Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/ April 1	Total
2015	\$	\$ 281,138	\$ 281,138
2016		281,138	281,138
2017		281,138	281,138
2018		281,138	281,138
2019		281,138	281,138
2020		281,138	281,138
2021		281,138	281,138
2022		281,138	281,138
2023		281,138	281,138
2024		281,138	281,138
2025		281,138	281,138
2026		281,138	281,138
2027		281,138	281,138
2028		281,138	281,138
2029		281,138	281,138
2030		281,138	281,138
2031		281,138	281,138
2032		281,138	281,138
2033	980,000	255,413	1,235,413
2034	1,065,000	201,731	1,266,731
2035	1,125,000	144,244	1,269,244
2036	1,185,000	83,606	1,268,606
2037	1,000,000	26,250	1,026,250
	\$ 5,355,000	\$ 5,771,728	\$ 11,126,728

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

PID 4			
SERIES - 2014 UTILITY			
Due During Fiscal Years Ending September 30	Principal Due October 1	Interest Due October 1/ April 1	Total
2015	\$	\$ 99,805	\$ 99,805
2016	50,000	136,913	186,913
2017	80,000	134,962	214,962
2018	80,000	132,563	212,563
2019	85,000	130,087	215,087
2020	85,000	127,538	212,538
2021	90,000	124,912	214,912
2022	95,000	122,138	217,138
2023	95,000	119,287	214,287
2024	100,000	116,363	216,363
2025	100,000	113,300	213,300
2026	105,000	109,966	214,966
2027	110,000	106,269	216,269
2028	110,000	102,419	212,419
2029	115,000	98,409	213,409
2030	120,000	94,075	214,075
2031	125,000	89,325	214,325
2032	130,000	84,225	214,225
2033	685,000	67,925	752,925
2034	180,000	50,625	230,625
2035	185,000	43,209	228,209
2036	190,000	35,475	225,475
2037	765,000	15,778	780,778
	<u>\$ 3,680,000</u>	<u>\$ 2,255,568</u>	<u>\$ 5,935,568</u>

On February 1 following the date of receipt of written notification of the Annual Assessment, District No. 1-F will certify to Lewisville the amount of all taxes collected. If necessary, Lewisville will then impose an assessment with the PID 4 sufficient to pay the debt service requirement on the PID 4 Bonds as they come due. The parties to the agreement acknowledged that the tax levy would be contingent upon a one-time approval by the voters within District No. 1-F. Such election occurred on May 12, 2007, and approved the levy and collection of said tax.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

For the fiscal year ending September 30, 2014, District No. 1-F levied a contract tax at the rate of \$0.7026 per \$100 of assessed valuation upon property with District No. 1-F. The term of the agreement is forty (40) years.

On May 19, 2014, the District, District No. 1-G and the City of Lewisville (Lewisville) executed a 2008 Joint Utility Contract and a 2008 Joint Road Contract. The contracts state that Lewisville will proceed with financing utility and road facilities within District 1-G through the sale of \$25,600,000 of Public Improvement District No. 5 (PID 5) utility bonds and \$10,400,000 of PID 5 road bonds; the first installment of these bonds were sold in the amount of \$3,255,000 in Combination Contract Revenue and Special Assessment Utility System Bonds and \$4,495,000 in Combination Contract Revenue and Special Assessment Road System Bonds. The District will have primary responsibility as Project Manager and shall perform its duties in accordance with the agreements dated May 19, 2014. The District is responsible for designating the consulting engineer on the project and will approve the projects along with Lewisville. The term of the contracts is 40 years.

The District 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 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.

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, the District and District No. 1-G 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 5 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 5 and Lewisville, District 1-G agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID Bonds as they mature. District 1-G committed each year to levy, assess and collect a tax on all taxable property within District 1-G, unlimited by rate or amount, sufficient to service up to ninety-nine percent (99%) of the debt and other costs incidental to the PID 5 Bonds.

The additional one percent (1%) of the debt and other costs included to the PID 5 Bonds will be paid from the special assessment as outlined in the agreement. Lewisville will calculate the total amount of payments to be made on the PID 5 Bonds on the following February 1, after application of the available reserves from proceeds of the PID 5 Bonds and will calculate an

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

assessment on all assessable property within the PID 5, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville.

As of fiscal year end, the reserve fund requirement is \$726,575. District 1-G has fully satisfied the reserve. The Reserve Fund is maintained by PID 5. At September 30, 2014, the City of Lewisville is holding \$726,591 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 5.

The following is an amortization schedule of the existing outstanding debt District No. 1 -G's contract tax is expected to amortize.

PID 5			
SERIES - 2014 UTILITY			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2015	\$	\$ 258,004	\$ 258,004
2016	90,000	211,575	301,575
2017	100,000	205,725	305,725
2018	105,000	199,224	304,224
2019	110,000	192,400	302,400
2020	120,000	185,250	305,250
2021	125,000	177,450	302,450
2022	135,000	169,325	304,325
2023	145,000	160,550	305,550
2024	150,000	151,125	301,125
2025	160,000	141,375	301,375
2026	170,000	130,975	300,975
2027	185,000	119,925	304,925
2028	195,000	107,900	302,900
2029	210,000	95,225	305,225
2030	220,000	81,575	301,575
2031	235,000	67,275	302,275
2032	250,000	52,000	302,000
2033	265,000	35,750	300,750
2034	285,000	18,525	303,525
	\$ 3,255,000	\$ 2,761,153	\$ 6,016,153

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

PID 5			
SERIES - 2014 ROADS			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2015	\$	\$ 356,291	\$ 356,291
2016	125,000	292,175	417,175
2017	135,000	284,050	419,050
2018	145,000	275,275	420,275
2019	155,000	265,850	420,850
2020	160,000	255,775	415,775
2021	175,000	245,375	420,375
2022	185,000	234,000	419,000
2023	195,000	221,975	416,975
2024	210,000	209,300	419,300
2025	225,000	195,650	420,650
2026	235,000	181,025	416,025
2027	255,000	165,750	420,750
2028	270,000	149,175	419,175
2029	285,000	131,625	416,625
2030	305,000	113,100	418,100
2031	325,000	93,275	418,275
2032	345,000	72,150	417,150
2033	370,000	49,725	419,725
2034	395,000	25,675	420,675
	\$ 4,495,000	\$ 3,817,216	\$ 8,312,216

On February 1 following the date of receipt of written notification of the Annual Assessment, District No. 1-G will certify to Lewisville the amount of all taxes collected. If necessary, Lewisville will then impose an assessment with the PID 5 sufficient to pay the debt service requirement on the PID 5 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-G. Such election occurred on March 4, 2008, and approved the levy and collection of said tax. For the fiscal year ending September 30, 2014, District No. 1-G did not levy a contract tax rate.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

On August 18, 2014, the District, District No. 1-H and the City of Lewisville (Lewisville) executed a 2008 Joint Utility Contract and a 2008 Joint Road Contract. The contracts state that Lewisville will proceed with financing utility and road facilities within District 1-H through the sale of \$46,100,000 of Public Improvement District No. 6 (PID 6) utility bonds and \$13,900,000 of PID 6 road bonds; the first installment of these bonds were sold in the amount of \$7,310,000 in Combination Contract Revenue and Special Assessment Utility System Bonds and \$1,200,000 in Combination Contract Revenue and Special Assessment Road System Bonds. The District will have primary responsibility as Project Manager and shall perform its duties in accordance with the agreements dated August 18, 2014. The District is responsible for designating the consulting engineer on the project and will approve the projects along with Lewisville. The term of the contract is 40 years.

The District 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 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.

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, the District and District No. 1-H 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 6 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 6 and Lewisville, District 1-H agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 6 Bonds as they mature. District 1-H committed each year to levy, assess and collect a tax on all taxable property within the District, unlimited by rate or amount, sufficient to service up to ninety-nine percent (99%) of the debt and other costs incidental to the PID 6 Bonds.

The additional one percent (1%) of the debt and other costs included to the PID 6 Bonds will be paid from the special assessment as outlined in the agreement. Lewisville will calculate the total amount of payments to be made on the PID 6 Bonds on the following February 1, after application of the available reserves from proceeds of the PID 6 Bonds and will calculate an assessment on all assessable property within the PID 6, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

As of fiscal year end, the District 1-H did not make any contract tax payments to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement at September 30, 2014, is \$836,575 and District 1-H has fully satisfied that requirement at year end. At September 30, 2014, the City of Lewisville is holding \$836,575 in trust for District 1-H, including reserve funds. The amounts held in trust in excess of the reserve requirement are available to cover debt service required of PID 6.

The following are the amortization schedules on the existing outstanding debt the District No. 1-H's contract tax is expected to amortize.

PID 6 SERIES - 2014 UTILITY			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2015	\$	\$ 463,271	\$ 463,271
2016	240,000	475,150	715,150
2017	255,000	459,550	714,550
2018	270,000	442,975	712,975
2019	290,000	425,425	715,425
2020	310,000	406,575	716,575
2021	330,000	386,425	716,425
2022	350,000	364,975	714,975
2023	370,000	342,225	712,225
2024	395,000	318,175	713,175
2025	320,000	292,500	612,500
2026	350,000	271,700	621,700
2027	380,000	248,950	628,950
2028	405,000	224,250	629,250
2029	435,000	197,925	632,925
2030	460,000	169,650	629,650
2031	485,000	139,750	624,750
2032	520,000	108,225	628,225
2033	555,000	74,425	629,425
2034	590,000	38,350	628,350
	\$ 7,310,000	\$ 5,850,471	\$ 13,160,471

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

PID 6			
SERIES - 2014 ROAD			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2015	\$	\$ 76,050	\$ 76,050
2016		78,000	78,000
2017		78,000	78,000
2018		78,000	78,000
2019		78,000	78,000
2020		78,000	78,000
2021		78,000	78,000
2022		78,000	78,000
2023		78,000	78,000
2024		78,000	78,000
2025	100,000	78,000	178,000
2026	100,000	71,500	171,500
2027	100,000	65,000	165,000
2028	105,000	58,500	163,500
2029	110,000	51,675	161,675
2030	120,000	44,525	164,525
2031	130,000	36,725	166,725
2032	135,000	28,275	163,275
2033	145,000	19,500	164,500
2034	155,000	10,075	165,075
	<u>\$ 1,200,000</u>	<u>\$ 1,241,825</u>	<u>\$ 2,441,825</u>

On February 1 following the date of receipt of written notification of the Annual Assessment, District No. 1-H will certify to Lewisville the amount of all taxes collected. If necessary, Lewisville will then impose an assessment with the PID 6 sufficient to pay the debt service requirement on the PID 6 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-H. Such election occurred on November 4, 2008, and approved the levy and collection of said tax. For the fiscal year ending September 30, 2014, District No. 1-H did not levy a contract tax rate.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

On May 19, 2014, the District, District No. 1-C and the City of Lewisville (Lewisville) executed a 2011 Joint Utility Contract and a 2011 Joint Road Contract. The contracts state that Lewisville will proceed with financing utility and road facilities within the District through the sale of \$3,050,000 of Public Improvement District No. 7 (PID 7) utility bonds and \$4,550,000 of PID 7 road bonds; the first installment of these bonds were sold in the amount of \$1,360,000 in Combination Contract Revenue and Special Assessment Utility System Bonds and \$1,405,000 in Combination Contract Revenue and Special Assessment Road System Bonds. The District will have primary responsibility as Project Manager and shall perform its duties in accordance with the agreements dated May 19, 2014. The District is responsible for designating the consulting engineer on the project and will approve the projects along with Lewisville. The term of the contract is 40 years.

The District 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 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.

The parties to the agreement agree that in accordance with Section 49.068 of the Texas Water Code, as amended, the District and District No. 1-C 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 7 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 7 and Lewisville, District 1-C agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 7 Bonds as they mature. District 1-C committed each year to levy, assess and collect a tax on all taxable property within District 1-C, unlimited by rate or amount, sufficient to service up to ninety-nine percent (99%) of the debt and other costs incidental to the PID 7 Bonds.

The additional one percent (1%) of the debt and other costs included in the PID 7 Bonds will be paid from the special assessment as outlined in the agreement. Lewisville will calculate the total amount of payments to be made on the PID 7 Bonds on the following February 1, after application of the available reserves from proceeds of the PID 7 Bonds and will calculate an assessment on all assessable property within the PID 7, which if 95% of such assessments are collected, would be sufficient to make the entire annual payment to Lewisville.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

As of fiscal year end, District 1-C did not make and contract tax payments to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement at September 30, 2014, is \$257,500 and District 1-C has fully satisfied that requirement at year end. At September 30, 2014, the City of Lewisville is holding \$257,505 in trust for District 1-C, including reserve funds. The amounts held in trust in excess of the reserve requirement are available to cover debt service required of PID 7.

The following are the amortization schedules on the existing outstanding debt the District No. 1-C's contract tax is expected to amortize.

PID 7 SERIES - 2014 UTILITY			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2015	\$	\$ 103,653	\$ 103,653
2016	40,000	85,000	125,000
2017	40,000	82,500	122,500
2018	45,000	80,000	125,000
2019	50,000	77,187	127,187
2020	50,000	74,063	124,063
2021	55,000	70,937	125,937
2022	55,000	67,500	122,500
2023	60,000	64,063	124,063
2024	65,000	60,313	125,313
2025	70,000	56,250	126,250
2026	70,000	51,875	121,875
2027	75,000	47,500	122,500
2028	80,000	42,813	122,813
2029	85,000	37,812	122,812
2030	90,000	32,500	122,500
2031	100,000	26,875	126,875
2032	105,000	20,624	125,624
2033	110,000	14,062	124,062
2034	115,000	7,188	122,188
	\$ 1,360,000	\$ 1,102,715	\$ 2,462,715

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 8. AMENDED AND RESTATED JOINT UTILITY CONTRACTS (Continued)

PID 7			
SERIES - 2014 ROAD			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2015	\$	\$ 107,082	\$ 107,082
2016	40,000	87,812	127,812
2017	45,000	85,313	130,313
2018	45,000	82,500	127,500
2019	50,000	79,688	129,688
2020	50,000	76,562	126,562
2021	55,000	73,438	128,438
2022	60,000	70,000	130,000
2023	60,000	66,250	126,250
2024	65,000	62,500	127,500
2025	70,000	58,438	128,438
2026	75,000	54,062	129,062
2027	80,000	49,375	129,375
2028	85,000	44,375	129,375
2029	90,000	39,062	129,062
2030	95,000	33,438	128,438
2031	100,000	27,500	127,500
2032	105,000	21,250	126,250
2033	115,000	14,688	129,688
2034	120,000	7,500	127,500
	\$ 1,405,000	\$ 1,140,833	\$ 2,545,833

On February 1 following the date of receipt of written notification of the Annual Assessment, District 1-C will certify to Lewisville the amount of all taxes collected. Lewisville will then, if necessary, impose an assessment with the PID 7 sufficient to pay the debt service requirement on the PID 7 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 1-C. Such election occurred on November 8, 2011, and approved the levy and collection of said tax. For the fiscal year ending September 30, 2014, District No. 1-C did not levy a contract tax rate.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 9. PROJECT MANAGEMENT AGREEMENTS

The District and the City of Lewisville (Lewisville) executed a Project Management Agreement dated March 14, 1997, for District No. 1-B. On November 1, 1999, and July 1, 2001, the District executed additional Project Management Agreements with Denton County Fresh Water Supply Districts Nos. 1-D and 1-E, respectively. On October 1, 2006, the District entered into a Project Management Agreement with Denton County Fresh Water Supply Districts Nos. 1-F and 1-G.

The agreements provide for the District to prepare a proposed development plan titled the “Project Management Plan” (Plan). The Plan provides for the recommended time sequence in which construction and acquisition of the Facilities should be completed, including completion of the streets and highways planned for the Project, installation of water, sewer, drainage and other public utilities on the Project, and completion of off-site development. In addition, the agreements provide for the estimated cost of the facilities and recommendations for the issuance of bonds, notes and other obligations.

The District’s development duties include and are not limited to contracting for professional services, entering into construction contracts, coordinating with other municipalities, reviewing invoices for payment by Lewisville, verifying the appropriate insurance with each contractor and supervising the performance of each contract. The District further agreed to keep the Project in compliance with the applicable laws, ordinances, regulations and orders relative to the use, operation, leasing, repair, and maintenance of the Project and with all the terms of the Trust Agreements.

The cost of the project includes employees and consultants necessary for implementation of the contract, which shall be billed to Lewisville on a monthly basis and funded from proceeds of the PID Bonds. Other costs to be billed to Lewisville and paid from the PID Bonds are premiums for insurance, all taxes, assessments and special assessments and all costs of facilities. The District will take no action in connection with the development of the Projects unless such action either is in accordance with the development plans and the project budgets or is approved in writing by Lewisville.

Monthly fees under Project Management Agreements for District No. 1-B, 1-D and 1-E have ceased under the terms of the respective Project Management Agreements. The term of the agreements will terminate thirty (30) days after the issuance of completion certificates by the Engineer for the District on all Facilities unless sooner terminated or unless extended by mutual agreement of Lewisville and the District.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 10. SEWAGE TREATMENT SERVICE CONTRACT

The District and the City of Lewisville (Lewisville) executed a Sewage Treatment Service Agreement dated August 18, 1997. The District agrees to provide for the conveyance of sewage from its facilities and residents to Lewisville's wastewater collection system and Lewisville agreed to treat the wastewater once received from the District. Lewisville agreed to charge the District the same rate for treatment of its sewage as the rate charged the City of Highland Village. Annually a cost of service study will be performed to determine the rate to be charged the District.

The District's maximum daily volume of sewage delivered to Lewisville shall be 10.5 Million Gallons Per Day (MGD). If wastewater entering Lewisville's system causes Lewisville's system to exceed capacity, the District shall be liable for all penalties assessed to Lewisville regarding the overflow and spillage caused by the District.

On or before June 1 of each year the District will furnish Lewisville with the number of active residential sewer connections, the number of commercial/industrial sewer connections and the number of active educational institutions, hospitals or similar institutions served, all as of May 1. Additionally the District shall notify Lewisville of all non-residential establishments planned to be constructed. The term of the agreement is thirty (30) years from its effective date, which was 30 days after the agreement was executed.

NOTE 11. 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. The District 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.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 11. WATER SUPPLY AGREEMENTS (Continued)

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

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

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

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

On March 8, 1995, the UTRWD executed an agreement with the Denton County Fresh Water Supply District No. 1 (District No. 1) to provide for the supply of non-potable water to District No. 1. The District 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. The District 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 the 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.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 11. WATER SUPPLY AGREEMENTS (Continued)

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

The UTRWD 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, the District entered into a wholesale water supply agreement with the City of Lewisville (City). The City agrees to provide wholesale water supply to the District for the City Wholesale Service Area. Within the City Wholesale Service Area, the District 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. The District agrees, at its sole expense, to design and construct the infrastructure necessary to enable the City to connect the City system to the District's system.

The District 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 was \$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's annexation by the City.

NOTE 12. OPERATING AGREEMENT

On July 15, 1999, the District entered in to an Amended and Restated Operating Agreement with Denton County Fresh Water Supply District No. 1-B (District No. 1-B) with an effective date of October 1, 1997, and a separate Amended and Restated Operating Agreement with Denton County Fresh Water Supply District No. 1-C (District No. 1-C) with an effective date of August

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 12. OPERATING AGREEMENT (Continued)

13, 1997. On June 14, 2000, the District executed an Operating Agreement with Denton County Fresh Water Supply District No. 1-D (District No. 1-D). The agreement was effective November 1, 1999.

On September 18, 2001, effective October 1, 2001, the District executed an operating agreement with Denton County Fresh Water Supply District No. 1-E (District No. 1-E). The District also executed amended operating agreements with Districts 1-B, 1-C and 1-D on September 18, 2001, effective October 1, 2001. On November 15, 2007, the District executed an operating agreement with Denton County Fresh Water Supply District No. 1-F (District No. 1-F). On February 19, 2008, effective March 1, 2008, the District executed amended operating agreements with District Nos. 1-B, 1-C, 1-D, 1-E and 1-F. On March 18, 2008, the District executed an operating agreement with Denton County Fresh Water Supply District No. 1-G (District No. 1-G). On September 16, 2008, the District executed an operating agreement with Denton County Fresh Water Supply District No. 1-H (District No. 1-H). On September 16, 2008, effective October 1, 2008, the District executed amended and restated operating agreements with District Nos. 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H. The termination on all agreements is the fortieth (40th) anniversary date of the agreements.

The District is responsible for operating, maintaining, and managing the Facilities, as defined in the joint utility contract, to be constructed within the boundaries of the once defined Denton County Fresh Water Supply District No. 1, which now includes District Nos. 1-A, 1-B, 1-C, 1-D, 1-E, 1-F, 1-G and 1-H (Participating Districts).

The District is responsible for preparing and submitting to the Participating Districts a Facilities Operating and Maintenance Budget (FOMB) by September 1 of each year for the next fiscal year expected to start October 1. With the exception of costs based on customer usage, if the total actual costs do not exceed the FOMB by more than 12% the Participating Districts' 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 Participating Districts. The District 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.

The District agreed to handle all aspects of operating the Participating Districts 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. The District will employ personnel as required.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 12. OPERATING AGREEMENT (Continued)

The respective districts being operated by the District agreed to institute a rate order containing, water, sewer, solid waste collection, building permits and inspection fees in an amount sufficient to cover expenses. The District 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 Participating Districts agreed to fund a pro-rata portion of overhead cost incurred by the District from proceeds of the water, sewer and solid waste collection revenues.

The District agreed to provide construction and contract management services for the districts and has agreed to maintain and operate the roads and bridges. The Participating Districts have agreed to fund the cost of such services as required.

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

On September 17, 2008, the Participating Districts approved the Amended and Restated Operating Agreement. This agreement was effective on October 1, 2008. All other provisions 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 exists on January 1 of the current fiscal year plus that which is projected to be added during the next succeeding fiscal year for the districts.

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 13. STRATEGIC PARTNERSHIP AGREEMENT

In June, 2009, the District, District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, District No. 1-G, and District No. 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 No. 1-A. Upon receipt of surplus funds, District No. 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.

NOTE 14. UNREIMBURSED DEVELOPER COST

On November 1, 1996, the District ratified participation in an Agreement for Construction and Purchase of Facilities and Reimbursements for Cost dated April 24, 1995, with Bright Farm Partnership (the Developer) to provide the advancement of monies to facilitate the operations of the District.

In 2008, the District 1-A contracted with a consultant 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 Board of Directors of the District that indicated that a combined amount of \$1,278,717 was due to the District from District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, District No. 1-G and District No. 1-H. The following table outlines the activity in the amounts by District for the year ended September 30, 2014:

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 14. UNREIMBURSED DEVELOPER COST (Continued)

District	Beginning Balance Due to 1-A	Additions	Repayments	Ending Balance Due to 1-A
District 1-C	\$ 3,365	\$	\$	\$ 3,365
District 1-D	583,602			583,602
District 1-E	143,180			143,180
District 1-F	150,108			150,108
District 1-G	92,913			92,913
District 1-H	305,549			305,549
Total	<u>\$ 1,278,717</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,278,717</u>

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-C, District No. 1-D, 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 the District. The District 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 the District will be considered as a full complete release of that particular district's obligation pursuant to existing developer reimbursement agreements.

In addition to the \$1,278,717 shown above, the District has recorded \$9,110,152 as an additional receivable from the other governmental units in accordance with this agreement in the Statement of Net Position. The following table outlines the activity in the balances due to the District from the other districts for the year ended September 30, 2014.

District	Beginning Balance Due to 1-A	Additions	Repayments	Ending Balance Due to 1-A
District 1-C	\$ 2,470,286	\$ 1,696,001	\$ 2,942,648	\$ 1,223,639
District 1-D	1,762,034		130,848	1,631,186
District 1-E	457,779	105,419	213,078	350,120
District 1-F	611,818	4,910,734	2,789,241	2,733,311
District 1-G	140,236	3,594,185	2,059,472	1,674,949
District 1-H	71,471	1,425,476		1,496,947
Total	<u>\$ 5,513,624</u>	<u>\$ 11,731,815</u>	<u>\$ 8,135,287</u>	<u>\$ 9,110,152</u>

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 14. UNREIMBURSED DEVELOPER COST (Continued)

The following table outlines the activity in the balances due by the District to the Developer for the year ended September 30, 2014.

	Beginning Balance	Additions	Repayments	Ending Balance
Due to Developer	\$ 6,829,367	\$ 11,855,559	\$ 8,135,287	\$ 10,549,639

During the current fiscal year, \$123,744 was contributed by the developer that was not transferred to other governmental units for construction projects.

NOTE 15. 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 16. EXCESS CAPACITY PURCHASE AGREEMENT

On August 31, 1999, the District executed an agreement with Denton County Fresh Water Supply District No. 1-B (District No. 1-B). In accordance with the agreement, District No. 1-B agreed to sell excess capacity it has either purchased or constructed to the District. The capacity sold included drainage capacity constructed for the drainage basins, offsite water facilities, offsite sewer facilities, metering man holes and major water lines, thoroughfares and entrances and certain bridge and structural road facilities.

The District agreed to pay District No. 1-B \$4,100,000 for the excess capacity. On November 19, 1999, the District received \$1,875,158 from Denton County Fresh Water Supply District No. 1-D for a portion of the excess capacity purchased from District No. 1-B and \$75,006 from District No. 1-C. These amounts were forwarded to District No. 1-B in satisfaction of a portion of the amount due District No. 1-B. In addition, during the September 30, 2000, fiscal year, the Developer advanced \$1,211,415 to the District which was also paid to District No. 1-B in partial satisfaction of the amount due District No. 1-B. District No. 1-B subsequently repaid this amount to the Developer. In the September 30, 2001, fiscal year, the District received \$2,147,684 from PID 3 on behalf of District No. 1-E. The District continues to own \$2,152 in capacity previously constructed by PID No. 1 within the boundaries of District No. 1-B.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 17. PENSION PLAN

Plan Description

The District provides retirement, disability, and death benefits for all of its full-time employees through a non-traditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 656 non-traditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the District, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the District.

Benefit amounts are determined by the sum of the employee's deposits to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The District has elected the annually determined contribution rate (Variable-Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the District is actuarially determined annually. The District contributed using the actuarially determined rate of 8.99% for the months of the calendar year in 2013, and 8.99% for the months of the calendar year in 2014.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 17. PENSION PLAN (Continued)

Funding Policy (Continued)

The deposit rate payable by the employee members for 2013 and 2014 is the rate of 7% as adopted by the District. The employee deposit rate and the employer contribution rate may be changed by the District within the options available in the TCDRS Act.

Annual Pension Cost

The required contribution was determined as part of the December 31, 2013, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2013, included (a) 8.0 percent investment rate of return (net of administrative expenses), and (b) projected salary increases of 4.9 percent. Both (a) and (b) included an inflation component of 3.0 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2013 was 30 years.

	Actuarial Valuation Information		
	12/31/11	12/31/12	12/31/13
Actuarial valuation date	12/31/11	12/31/12	12/31/13
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, opened
Amortization period in years	4.5	1.3	30.0
Asset Valuation Method	SAF: 10-year smoothed value ESF: Fund Value	SAF: 10-year smoothed value ESF: Fund Value	SAF: 5-year smoothed value ESF: Fund Value
Actuarial Assumptions:			
Investment return ¹	8.00%	8.00%	8.00%
Projected salary increases ¹	5.40%	5.40%	4.90%
Inflation	3.50%	3.50%	3.00%
Cost-of-living adjustments	0.00%	0.00%	0.00%

¹ Includes inflation at the stated rate

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 17. PENSION PLAN (Continued)

**Trend Information for the
Retirement Plan for the Employees of the District**

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2014	\$ 117,616	100%	\$ -0-
September 30, 2013	\$ 110,916	100%	\$ -0-
September 30, 2012	\$ 99,438	100%	\$ -0-

Funding Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was 110.20% funded. The actuarial accrued liability for benefits was \$841,911 and the actuarial value of the assets was \$927,797, resulting in an overfunded actuarial accrued liability (UAAL) of \$85,886. The covered payroll (annual payroll of active employees covered by the plan) was \$1,225,075, and the ratio of the UAAL to the covered payroll was (7.01)%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements on page 68, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Group Term Life Fund

The District participates in a cost-sharing multiple-employer defined-benefit group-term life insurance plan operated by the Texas County & District Retirement System (TCDRS). This plan is referred to as the Group Term Life Fund (GTLF). This optional plan provides group term life insurance coverage to current eligible employees and, if elected by employers, to retired employees.

The GTLF is a separate trust administered by the TCDRS board of trustees. TCDRS issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the GTLF. This report is available at www.tcdrs.org. TCDRS' CAFR may also be obtained by writing to the Texas County & District Retirement System; P.O. Box 2034, Austin, TX 78768-2034, or by calling 800~823-7782.

Funding Policy: Each participating employer contributes to the GTLF at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is determined using the unit credit method for providing one-year term life insurance. The District's contribution to the GTLF for the year ending September 30, 2014, was \$2,010, which equaled the contractually required contribution.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 18. OFFICE SPACE LEASE AGREEMENT

On September 5, 2008, the District executed an operating lease for office space. On September 23, 2013, the District executed the First Amendment to the Office Lease. The lease is extended for 60 months with a base rent of \$11,546 per month for fiscal years 2014 and 2015, \$12,008 per month for fiscal years 2016 and 2017, and \$12,239 per month for fiscal year 2018. In the current year, the expense for this lease totaled \$138,552. These lease payments are split between all Participating Districts in accordance with each individual operating contract.

NOTE 19. OPERATING LEASES

On August 22, 2010, the District executed a new operating lease for a copy machine. The agreement provides for the District to lease the copy machine for 60 months at the rate of \$186 per month. In the current year the expense for this lease totaled \$2,228. These lease payments are split between all Participating Districts in accordance with each individual operating contract. Currently, the future lease payments are as follows:

2015	\$	1,485
Total Base Future Lease Obligations	\$	<u>1,485</u>

NOTE 20. PRIOR PERIOD ADJUSTMENT

During the current fiscal year, it was determined that an error had been calculated in relation to the amounts due from District No. 1-B. In addition, the District wrote off old operating cost dated prior to fiscal year 2003 that had been recorded as due from Denton 1-B. The effect of these changes are as follows:

General Fund Fund Balance - October 1, 2013	\$	1,308,172
Effect of Adjustment		<u>(298,809)</u>
General Fund Fund Balance - October 1, 2013, As Adjusted		<u>\$ 1,009,363</u>
Net Position - October 1, 2013	\$	3,286,794
Effect of Adjustment		<u>(298,809)</u>
Net Position - October 1, 2013, As Adjusted		<u>\$ 2,987,985</u>

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE 21. COMPENSATED ABSENCES

In addition to other benefits provided, the District compensates eligible employees for vacation, compensatory time and sick leave. Vacation time is accrued biweekly based upon the term of employment. This vacation time can be carried over to subsequent years with a maximum accrual of 37.5 days. The District accrues any overtime as compensatory time at a rate of one and one half times the approved hours worked. Compensatory time may be used or sold back to the District at the discretion of the General Manager. A maximum balance of 30 days of compensatory time may be accrued. This time can be carried over to subsequent years. Sick leave is accrued at the rate of 4 hours biweekly with a maximum accumulation of 200 days. This time can be carried over to subsequent years. The sick leave time can be used for future illnesses, or employees are entitled to receive compensation for the accrued sick leave upon termination if their balance is over 24 days up to 72 days. At September 30, 2014, total amounts accrued for vacation and sick leave were \$50,841.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2014

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Project Management Fee	\$ 455,393	\$ 599,746	\$ 144,353
Charges for Service		61,932	61,932
Penalty and Interest		1,435	1,435
Permit and Inspection Fees		1,950	1,950
Investment Revenues		26,692	26,692
Miscellaneous Revenues		32,710	32,710
TOTAL REVENUES	<u>\$ 455,393</u>	<u>\$ 724,465</u>	<u>\$ 269,072</u>
EXPENDITURES			
Services Operations:			
Personnel Expenditures	\$ 1,626,450	\$ 1,639,504	\$ (13,054)
Professional Fees	167,500	349,028	(181,528)
Contracted Services	94,000	77,073	16,927
Purchased Water and Wastewater Services	1,710,795	1,758,258	(47,463)
Utilities	212,500	346,220	(133,720)
Repairs and Maintenance	1,209,700	952,849	256,851
Other	605,394	617,118	(11,724)
Allocated Costs	(5,422,605)	(5,268,119)	(154,486)
Capital Outlay	81,400	40,274	41,126
Debt Service:			
Capital Leases		3,401	(3,401)
TWDB ARRA Payment	170,000	165,000	5,000
TOTAL EXPENDITURES	<u>\$ 455,134</u>	<u>\$ 680,606</u>	<u>\$ (225,472)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 259</u>	<u>\$ 43,859</u>	<u>\$ 43,600</u>
OTHER FINANCING SOURCES(USES)			
Contributed to Other Governmental Units	\$ -0-	\$ (604,276)	\$ (604,276)
NET CHANGE IN FUND BALANCE	\$ 259	\$ (560,417)	\$ (560,676)
FUND BALANCE - OCTOBER 1, 2013	<u>1,009,363</u>	<u>1,009,363</u>	
FUND BALANCE - SEPTEMBER 30, 2014	<u>\$ 1,009,622</u>	<u>\$ 448,946</u>	<u>\$ (560,676)</u>

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SCHEDULE OF FUNDING PROGRESS – PENSION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability as a Percentage of Covered Payroll</u>
12/31/11	\$ 587,743	\$ 667,701	\$ 79,958	88.02%	\$ 1,106,075	7.23%
12/31/12	\$ 717,658	\$ 749,232	\$ 31,574	95.79%	\$ 1,168,907	2.70%
12/31/13	\$ 927,797	\$ 841,911	\$ (85,886)	110.20%	\$ 1,225,075	(7.01)%

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A

OTHER SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2014

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**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SCHEDULE OF REIMBURSEMENTS TO (FROM) OTHER
GOVERNMENTAL UNITS – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	District 1-A	District 1-B	District 1-C
Reimbursement To (From) Other Governmental Units:			
Personnel	\$ (1,425,927)	\$ 321,976	\$ 92,034
Contract Labor	(77,073)	16,843	5,523
Purchased Water Services	(1,132,454)	176,446	14,047
Non-Potable Water	(307,000)	47,462	3,838
Purchased Wastewater Services	(299,910)	44,356	17,688
Public Safety	(556,448)	86,027	6,956
Public Safety Revenue	556,448	(86,027)	(6,956)
Utilities	(288,822)	44,652	3,610
Landscaping Maintenance	(456,885)	70,634	5,711
Repair and Maintenance	(371,975)	59,455	7,503
Office Rental	(191,878)	35,977	19,188
Supplies	(136,846)	23,574	4,001
Insurance - Personnel	(213,577)	48,982	12,916
ARRA Payment	(170,000)	26,282	2,125
Other Operating Expenditures	(195,772)	36,133	14,409
Total Reimbursements To (From) Other Governmental Units:	\$ (5,268,119)	\$ 952,772	\$ 202,593

See accompanying independent auditor's report.

District 1-D	District 1-E	District 1-F	District 1-G	District 1-H
\$ 343,892	\$ 308,908	\$ 296,859	\$ 62,258	\$
18,446	15,869	16,055	4,337	
313,773	202,371	280,984	108,983	35,850
85,039	54,922	76,504	29,626	9,609
78,701	51,036	70,640	27,977	9,512
154,136	99,548	138,667	53,697	17,417
(154,136)	(99,548)	(138,667)	(53,697)	(17,417)
80,004	51,670	71,975	27,871	9,040
126,557	81,737	113,856	44,089	14,301
100,120	67,528	90,586	34,982	11,801
35,977	35,977	35,977	19,188	9,594
35,822	25,907	32,305	11,448	3,789
51,597	47,431	44,843	7,808	
47,090	30,413	42,364	16,405	5,321
42,133	37,331	40,225	17,673	7,868
<u>\$ 1,359,151</u>	<u>\$ 1,011,100</u>	<u>\$ 1,213,173</u>	<u>\$ 412,645</u>	<u>\$ 116,685</u>

See accompanying independent auditor's report.

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DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
SEPTEMBER 30, 2014

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective October 1, 2013.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 34.75	2,000	N	\$ 3.74 \$ 4.24 \$ 5.06 \$ 6.06 \$ 7.06 \$ 8.06	2,001 to 15,000 15,001 to 25,000 25,001 to 35,000 35,001 to 45,000 45,001 to 55,000 55,001 and up
WASTEWATER:	\$ 15.39		N	\$ 5.60	0,001 and up
SURCHARGE:					
Solid Waste/ Garbage	\$ 15.43 per month plus sales tax		Y		
Commission	0.5% of				
Regulatory Assessments	actual water and sewer bill				

District employs winter averaging for wastewater usage? X
Yes
No

Total monthly charges per 10,000 gallons usage: Water: \$64.67 Wastewater: \$71.39 Surcharge: \$16.11

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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 ESFCs</u>
Unmetered	<u>1</u>	<u>1</u>	x 1.0	<u>1</u>
≤¾"			X 1.0	
1"			X 2.5	
1½"			X 5.0	
2"			x 8.0	
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u><u>1</u></u>	<u><u>1</u></u>		<u><u>1</u></u>
Total Wastewater Connections	<u><u>-0-</u></u>	<u><u>-0-</u></u>	x 1.0	<u><u>-0-</u></u>

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

Water Accountability Ratio: 97.5%
(Gallons billed and sold/Gallons
pumped and purchased)

Gallons billed to customers: 16,258,000

Gallons purchased: 16,676,000 From: Water Suppliers

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

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 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

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

PERSONNEL EXPENDITURES (Including Benefits)	<u>\$ 1,639,504</u>
PROFESSIONAL FEES:	
Auditing	\$ 57,430
Engineering	193,886
Legal	<u>97,712</u>
TOTAL PROFESSIONAL FEES	<u>\$ 349,028</u>
PURCHASED WATER AND WASTEWATER SERVICES:	
Purchased Water Services	\$ 1,432,564
Purchased Wastewater Services	18,695
Purchased Non-Potable Water	<u>306,999</u>
TOTAL PURCHASED WATER AND WASTEWATER SERVICES	<u>\$ 1,758,258</u>
CONTRACTED SERVICES:	
Contract Labor	<u>\$ 77,073</u>
TOTAL UTILITIES	<u>\$ 346,220</u>
REPAIRS AND MAINTENANCE	<u>\$ 952,849</u>
ADMINISTRATIVE EXPENDITURES:	
Advertisement	\$ 4,965
Director Fees	12,450
Dues	8,749
Insurance	73,551
Lease Payments	23,566
Office Supplies and Postage	51,136
Payroll Taxes	1,323
Travel and Meetings	3,524
Other	<u>61,261</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 240,525</u>

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

CAPITAL OUTLAY:	
Capitalized Assets	\$ 40,274
Expenditures Not Capitalized	<u> </u>
TOTAL CAPITAL OUTLAY	<u>\$ 40,274</u>
TAP CONNECTIONS	<u>\$ 64,470</u>
OTHER EXPENDITURES:	
Rental - Equipment	\$ 12,987
Rental - Office	191,876
Supplies - Gas and Fuel	50,837
Supplies - Small Tools	17,392
Supplies - Uniforms	13,411
Training and Education	21,553
Other	<u>4,067</u>
TOTAL OTHER EXPENDITURES	<u>\$ 312,123</u>
ALLOCATED COST - REIMBURSEMENT FROM OTHER GOVERNMENTAL UNITS	<u>\$ (5,268,119)</u>
DEBT SERVICE:	
Capital Lease Principal	\$ 3,388
Capital Lease Interest	13
TWDB ARRA Payment	<u>165,000</u>
TOTAL DEBT SERVICE	<u>\$ 168,401</u>
TOTAL EXPENDITURES	<u>\$ 680,606</u>

(Note: Personnel costs are allocated to the participating districts in the Castle Hills Development.)

Number of persons employed by the District \$ 28 Full-Time \$ -0- Part-Time

See accompanying independent auditor's report.

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

	Amounts		
	2014	2013	2012
REVENUES			
Project Management Fee	\$ 599,746	\$ 448,900	\$ 386,802
Property Tax Revenue			
Charges for Services	61,932	42,986	20,015
Penalty and Interest	1,435	502	7
Permit and Inspection Fees	1,950	352	100
Investment Revenues	26,692	20,872	20,750
Miscellaneous Revenues	32,710	80,207	19,299
TOTAL REVENUES	\$ 724,465	\$ 593,819	\$ 446,973
EXPENDITURES			
Personnel Expenditures	\$ 1,639,504	\$ 1,518,223	\$ 1,405,426
Professional Fees	349,028	244,378	282,662
Contracted Services	77,073	49,250	477,602
Purchased Water and Wastewater Services	1,758,258	1,749,650	1,712,332
Utilities	346,220	317,643	586,894
Repairs and Maintenance	952,849	804,387	395,540
Other	617,118	584,009	595,819
Allocated Costs	(5,268,119)	(5,532,654)	(5,239,473)
Capital Outlay	40,274	545,408	
Debt Service:			
Capital Lease	3,401	20,015	185,015
TWDB ARRA Payment	165,000	165,000	
TOTAL EXPENDITURES	\$ 680,606	\$ 465,309	\$ 401,817
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 43,859	\$ 128,510	\$ 45,156
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	\$	\$ (106,007)	\$ (224,300)
Proceeds from Disposal			33,000
Developer Reimbursement			
Contributed from Other Governmental Units	(604,276)	180,000	280,000
TOTAL OTHER FINANCING SOURCES (USES)	\$ (604,276)	\$ 73,993	\$ 88,700
NET CHANGE IN FUND BALANCE	\$ (560,417)	\$ 202,503	\$ 133,856
PRIOR PERIOD ADJUSTMENT	(298,809)	63,171	
BEGINNING FUND BALANCE	1,308,172	1,042,498	908,642
ENDING FUND BALANCE	\$ 448,946	\$ 1,308,172	\$ 1,042,498
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1	N/A	N/A
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	N/A	N/A	N/A

See accompanying independent auditor's report.

		Percentage of Total Revenue				
<u>2011*</u>	<u>2010</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011*</u>	<u>2010</u>
\$ 286,739	\$ 326,929	82.8 %	75.6 %	86.6 %	87.4 %	80.8 %
931					0.3	
24,701	58,017	8.5	7.2	4.5	7.5	14.3
5	2	0.2	0.1			
305	1,095	0.3	0.1		0.1	0.3
7,427	7,454	3.7	3.5	4.6	2.3	1.8
7,943	11,429	4.5	13.5	4.3	2.4	2.8
<u>\$ 328,051</u>	<u>\$ 404,926</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 1,380,376	\$ 3,432	226.3 %	255.7 %	314.4 %	420.8 %	0.8 %
158,501	245,547	48.2	41.2	63.2	48.3	60.6
482,152		10.6	8.3	106.9	147.0	
1,661,887	1,859	242.7	294.6	383.1	506.6	0.5
690,179		47.8	53.5	131.3	210.4	
366,404	2,152	131.5	135.5	88.5	111.7	0.5
730,303	73,988	85.2	98.3	133.3	222.6	18.3
(5,270,185)		(727.2)	(931.7)	(1,172.2)	(1,606.5)	
67,193		5.6	91.8		20.5	
20,015	58,011	0.5	3.4	41.4	6.1	14.3
		22.8	27.8			
<u>\$ 286,825</u>	<u>\$ 384,989</u>	<u>94.0 %</u>	<u>78.4 %</u>	<u>89.9 %</u>	<u>87.5 %</u>	<u>95.0 %</u>
\$ 41,226	\$ 19,937	<u>6.0 %</u>	<u>21.6 %</u>	<u>10.1 %</u>	<u>12.5 %</u>	<u>5.0 %</u>
\$	\$					
	(476,552)					
<u>710,000</u>	<u>476,552</u>					
\$ 710,000	\$ - 0 -					
\$ 751,226	\$ 19,937					
157,416	137,479					
<u>\$ 908,642</u>	<u>\$ 157,416</u>					
<u>N/A</u>	<u>N/A</u>					
<u>N/A</u>	<u>N/A</u>					

* Note: District changed its method for allocating expenses.

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2014**

District Mailing Address - Denton County Fresh Water Supply District No. 1-A
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 <u>September 30, 2014</u>	Expense Reimbursements for the year ended <u>September 30, 2014</u>	<u>Title</u>
Gaylord S. O'Con	05/12 05/16 (Elected)	\$ 2,100	\$ 325	President
John Phillip Brosseau	05/12 05/16 (Elected)	\$ 2,700	\$ 135	Vice President
Scott Beard	05/14 05/18 (Elected)	\$ 2,550	\$ 208	Treasurer/ Secretary
Kevin Egan	05/14 05/18 (Elected)	\$ 2,400	\$ 148	Assistant Treasurer
Jack Carlile	05/14 05/18 (Elected)	\$ 1,950	\$ 136	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): July 15, 2014.

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.

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-A
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2014

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2014</u>	<u>Title</u>
Kelly Hart & Hallman, LLP	06/03/08	\$ 97,712	Attorney
Hurt & Berry, LLP	05/03/10	\$ -0-	Attorney
Weaver and Tidwell, LLP		\$ 20,000	Bookkeeper
McCall Gibson Swedlund Barfoot PLLC	09/17/13	\$ 37,430	Auditor
IDS/Pate Engineers, Inc.	11/16/09	\$ -0-	Engineer
Land Designs, Inc	01/15/13	\$ -0-	Engineer
Charles Williams	03/30/09	\$ -0-	Investment Officer
Denton County Tax Collector	Legislative Action	\$ -0-	Tax Assessor/ Collector

See accompanying independent auditor's report.

