

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H

DENTON COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2019

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H

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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-H
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-H (the "District"), as of and for the year ended September 30, 2019, 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.

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

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, 2019, 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 the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund 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.

Others 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* 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. The supplementary 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.

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

January 21, 2020

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Management's discussion and analysis of Denton County Fresh Water Supply District No. 1-H's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2019. Please read it in conjunction with the District's financial statements.

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 Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and 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 financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position 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 Statement of Activities 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-H
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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 three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. 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 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities 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.

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 \$3,857,868 as of September 30, 2019.

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

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 5,366,389	\$ 3,851,174	\$ 1,515,215
Capital Assets (Net of Accumulated Depreciation)	<u>5,542,705</u>	<u>1,759,165</u>	<u>3,783,540</u>
Total Assets	<u>\$ 10,909,094</u>	<u>\$ 5,610,339</u>	<u>\$ 5,298,755</u>
Noncurrent Liabilities	\$ 6,051,283	\$ 1,646,141	\$ (4,405,142)
Other Liabilities	<u>999,943</u>	<u>1,234,970</u>	<u>235,027</u>
Total Liabilities	<u>\$ 7,051,226</u>	<u>\$ 2,881,111</u>	<u>\$ (4,170,115)</u>
Net Position:			
Net Investment in Capital Assets	\$ 6,281,121	\$ 1,866,904	\$ 4,414,217
Restricted	4,329,220	3,213,239	1,115,981
Unrestricted	<u>(6,752,473)</u>	<u>(2,350,915)</u>	<u>(4,401,558)</u>
Total Net Position	<u>\$ 3,857,868</u>	<u>\$ 2,729,228</u>	<u>\$ 1,128,640</u>

The following table provides a summary of the District's operations for the years ended September 30, 2019, and September 30, 2018.

	Summary of Changes in the Statement of Activities		
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,332,816	\$ 1,302,692	\$ 30,124
Special Assessments	79,800	34,356	45,444
Charges for Services	969,957	580,650	389,307
Franchise Fees	28,466	24,837	3,629
Other Revenue	<u>3,389,447</u>	<u>432,701</u>	<u>2,956,746</u>
Total Revenues	<u>\$ 5,800,486</u>	<u>\$ 2,375,236</u>	<u>\$ 3,425,250</u>
Expenses for Services	<u>4,671,846</u>	<u>2,868,234</u>	<u>(1,803,612)</u>
Change in Net Position	\$ 1,128,640	\$ (492,998)	\$ 1,621,638
Net Position, Beginning of Year	<u>2,729,228</u>	<u>3,222,226</u>	<u>(492,998)</u>
Net Position, End of Year	<u>\$ 3,857,868</u>	<u>\$ 2,729,228</u>	<u>\$ 1,128,640</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2019, were \$4,348,678, an increase of \$1,732,474 from the prior year.

The General Fund fund balance increased by \$2,886 primarily due to service revenue, permit and inspection fees exceeding operating expenditures.

The Debt Service Fund fund balance increased by \$1,098,911, primarily due to property tax revenues and PID contributions exceeding current year contract tax payment to the City of Lewisville.

The Capital Projects Fund fund balance increased by \$630,677, primarily due to PID 6 contributions and developer advances exceeding developer reimbursements and capital costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$326,064 more than budgeted revenues. Actual expenditures were \$1,496 more than budgeted.

CAPITAL ASSETS

A portion of the District's water, wastewater, drainage and roadway facilities were paid for from proceeds of the City of Lewisville – Lewisville Castle Hills Public Improvement District No. 6 bond proceeds. The City of Lewisville has recorded these assets on the books of the City. A portion of the District's assets were also funded by Denton County per an agreement with Denton County Fresh Water Supply District No. 1-A (District No. 1-A). Per the agreement, Denton County funded construction costs of the Windhaven Parkway West project which lies partially within the District. The District also shares in the cost of the capital assets that District No. 1-A purchases and records on its books. The District's capital assets as of September 30, 2019, amount to \$5,542,705 (net of accumulated depreciation). Additional information on the District's capital assets can be found in Note 4 of this report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

CAPITAL ASSETS (Continued)

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Construction in Progress	\$ 3,954,462	\$ 117,706	\$ 3,836,756
Capital Assets, Net of Accumulated Depreciation:			
Water System	589,189	605,447	(16,258)
Wastewater System	12,648	13,012	(364)
Drainage System	228,423	235,000	(6,577)
Road System	707,926	731,735	(23,809)
Landscaping Improvements	48,751	55,716	(6,965)
Investment in Shared Lift Station	1,306	549	757
Total Net Capital Assets	\$ 5,542,705	\$ 1,759,165	\$ 3,783,540

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-H, c/o Winstead PC, 2728 N. Harwood Street, Suite 500, Dallas, Texas 75201.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2019

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 637	\$ 6,040
Cash with Other Governmental Entities		4,960,798
Receivables:		
Property Taxes	698	17,070
Service Accounts	20,358	
Franchise Fees	8,830	
Due from Developer		
Due from Other Funds	189,817	
Prepaid Costs	9,511	
Due from Other Government Units	7,628	
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 237,479	\$ 4,983,908
LIABILITIES		
Accounts Payable	\$ 5,768	\$ 30,151
Due to Other Governmental Units	932,901	624,537
Due to Other Funds		
Long-Term Liabilities:		
Due to Other Governmental Units		
TOTAL LIABILITIES	\$ 938,669	\$ 654,688
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 698	\$ 17,070
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 9,511	\$
Restricted for Authorized Construction		
Restricted for Debt Service		4,312,150
Unassigned	(711,399)	
TOTAL FUND BALANCES	\$ (701,888)	\$ 4,312,150
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 237,479	\$ 4,983,908
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 36,776	\$ 43,453	\$	\$ 43,453
	4,960,798		4,960,798
	17,768		17,768
	20,358		20,358
	8,830		8,830
10,395	10,395		10,395
607,399	797,216	(797,216)	
	9,511		9,511
287,648	295,276		295,276
		3,954,462	3,954,462
		1,588,243	1,588,243
<u>\$ 942,218</u>	<u>\$ 6,163,605</u>	<u>\$ 4,745,489</u>	<u>\$ 10,909,094</u>
\$	\$ 5,768	\$	\$ 5,768
31,123	994,175		994,175
172,679	797,216	(797,216)	
		6,051,283	6,051,283
<u>\$ 203,802</u>	<u>\$ 1,797,159</u>	<u>\$ 5,254,067</u>	<u>\$ 7,051,226</u>
<u>\$ - 0 -</u>	<u>\$ 17,768</u>	<u>\$ (17,768)</u>	<u>\$ - 0 -</u>
\$	\$ 9,511	\$ (9,511)	\$
738,416	738,416	(738,416)	
	4,312,150	(4,312,150)	
	(711,399)	711,399	
<u>\$ 738,416</u>	<u>\$ 4,348,678</u>	<u>\$ (4,348,678)</u>	<u>\$ - 0 -</u>
<u>\$ 942,218</u>	<u>\$ 6,163,605</u>		
		\$ 6,281,121	\$ 6,281,121
		4,329,220	4,329,220
		(6,752,473)	(6,752,473)
		<u>\$ 3,857,868</u>	<u>\$ 3,857,868</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2019**

Total Fund Balances - Governmental Funds	\$ 4,348,678
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets and construction in progress used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	5,542,705
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Deferred tax revenues and deferred penalty and interest revenues on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District.	17,768
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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:

Due to Other Governmental Units	<u>(6,051,283)</u>
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Total Net Position - Governmental Activities	<u>\$ 3,857,868</u>
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**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$	\$ 1,315,048
Special Assessments	79,800	
Water Service	137,604	
Wastewater Service	29,455	
Permit and Inspection Fees	802,898	
Franchise Fees	28,466	
Investment Revenues		74,626
Miscellaneous Revenues	35,469	
TOTAL REVENUES	\$ 1,113,692	\$ 1,389,674
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 44,611	\$
Contracted Services	36	36,459
Allocated Costs to District 1-A	689,721	
Purchased Water and Wastewater Services	11,681	
Depreciation		
Other	18,438	
Capital Outlay		
Debt Service:		
Contract Tax Obligation - City of Lewisville		3,139,885
Bond Issuance Costs		677,006
TOTAL EXPENDITURES/EXPENSES	\$ 764,487	\$ 3,853,350
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 349,205	\$ (2,463,676)
OTHER FINANCING SOURCES (USES)		
Transfers In(Out)	\$ (1,096,319)	\$ 1,040,621
Contribution by PID 6		2,521,966
Developer Contributions	750,000	
TOTAL OTHER FINANCING SOURCES (USES)	\$ (346,319)	\$ 3,562,587
NET CHANGE IN FUND BALANCES	\$ 2,886	\$ 1,098,911
CHANGE IN NET POSITION		
FUND BALANCES (DEFICIT)/NET POSITION - OCTOBER 1, 2018	(704,774)	3,213,239
FUND BALANCES (DEFICIT)/NET POSITION - SEPTEMBER 30, 2019	\$ (701,888)	\$ 4,312,150

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$	\$ 1,315,048	\$ 17,768	\$ 1,332,816
	79,800		79,800
	137,604		137,604
	29,455		29,455
	802,898		802,898
	28,466		28,466
	74,626		74,626
	35,469	3,279,352	3,314,821
<u>\$ - 0 -</u>	<u>\$ 2,503,366</u>	<u>\$ 3,297,120</u>	<u>\$ 5,800,486</u>
\$	\$ 44,611	\$	\$ 44,611
	36,495		36,495
	689,721		689,721
	11,681		11,681
	18,438	54,009	54,009
3,836,756	3,836,756	(3,836,756)	18,438
	3,139,885		3,139,885
	677,006		677,006
<u>\$ 3,836,756</u>	<u>\$ 8,454,593</u>	<u>\$ (3,782,747)</u>	<u>\$ 4,671,846</u>
<u>\$ (3,836,756)</u>	<u>\$ (5,951,227)</u>	<u>\$ 7,079,867</u>	<u>\$ 1,128,640</u>
\$ 55,698	\$	\$	\$
7,386	2,529,352	(2,529,352)	
4,404,349	5,154,349	(5,154,349)	
<u>\$ 4,467,433</u>	<u>\$ 7,683,701</u>	<u>\$ (7,683,701)</u>	<u>\$ -0-</u>
\$ 630,677	\$ 1,732,474	\$ (1,732,474)	\$
		1,128,640	1,128,640
107,739	2,616,204	113,024	2,729,228
<u>\$ 738,416</u>	<u>\$ 4,348,678</u>	<u>\$ (490,810)</u>	<u>\$ 3,857,868</u>

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Net Change in Fund Balances - Governmental Funds	\$ 1,732,474
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	17,768
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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.	(54,009)
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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.	3,836,756
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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.	<u>(4,404,349)</u>
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Change in Net Position - Governmental Activities	<u>\$ 1,128,640</u>
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DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1. CREATION OF DISTRICT

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

At an election held within the boundaries of District No. 1-A on May 10, 2008, voters approved the division of District No. 1-A into two new districts of which Denton County Fresh Water Supply District No. 1-H (the District) was one. The District held its first meeting on June 17, 2008. Pursuant to the provisions of Chapters 49, 51 and 53 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, roadways, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The District has contracted with District No. 1-A to operate the utility system within the District. The District and its operations is part of the eight Districts which make up the community referred to as Castle Hills.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying 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-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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 (“GASB Codification”).

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-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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 three 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.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting debt service taxes.

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 inflows of resources related to property 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.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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.

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. 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
Buildings	40
Water system	10-45
Wastewater system	10-45
Drainage system	10-45
Road system	10-50
All Other equipment	3-20

Budgeting

Pursuant to the Operating Agreement (Note 8), District No. 1-A will prepare and submit to the District for its review on or about September 1 of each year an annual operating and maintenance budget. For fiscal year ending September 30, 2019, the District's Board acknowledged the receipt of the annual budget provided by District No. 1-A.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

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

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 does not have any assigned fund balances.

Unassigned: all other spendable amounts in the General Fund.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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.

Allocated Costs

Pursuant to the Operating Agreement (Note 8), District No. 1-A pays all expenses required to maintain, operate and manage the facilities of the District and all expenses related to management of the District. On a monthly basis District No. 1-A allocates to the District its allocable share of expenses which is reflected as allocated cost on the statement of activities and governmental fund revenues, expenditures, and changes in fund balances.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and 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, 2019, the District deposits were fully covered by FDIC.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The District is a participant of a pooled cash account. The consolidated cash account is allocated between districts with operations within the Castle Hills development. At September 30, 2019, total bank balance of pooled cash consisted of \$105,651 in cash and \$481,156 in certificates of deposit. The book balance of the total pooled cash account was \$104,281. The book balance of the District's share of pooled cash was a deficit of \$826,270.

The District also had deposits in non-pooled cash accounts. As of September 30, 2019, the bank balance of these deposits was \$646,990 and the book balance was \$43,453.

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

During the current fiscal year, the District had no investments as described above; however, when possible the District's bank deposits are placed in interest bearing accounts.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 4. CAPITAL ASSETS

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

The District's water, wastewater, drainage and roadway facilities were funded from proceeds of the City of Lewisville — Castle Hills Public Improvement District No. 6 bond proceeds, (see Note 13). The City of Lewisville has recorded these assets in its records.

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

Capital asset activity for the year ended September 30, 2019:

	October 1, 2018	Increases	Decreases	September 30, 2019
Capital Assets Not Being Depreciated				
Construction in Progress	\$ 117,706	\$ 3,836,756	\$ - 0 -	\$ 3,954,462
Capital Assets Subject to Depreciation				
Water System	\$ 731,611	\$	\$	\$ 731,611
Wastewater System	16,384			16,384
Drainage System	295,931			295,931
Road System	952,343			952,343
Landscaping Improvements	69,646			69,646
Investment in Shared Lift Station	809	793		1,602
Total Capital Assets Subject to Depreciation	<u>\$ 2,066,724</u>	<u>\$ 793</u>	<u>\$ - 0 -</u>	<u>\$ 2,067,517</u>
Less Accumulated Depreciation				
Water System	\$ 126,164	\$ 16,258	\$	\$ 142,422
Wastewater System	3,372	364		3,736
Drainage System	60,931	6,577		67,508
Road System	220,608	23,809		244,417
Landscaping Improvements	13,930	6,965		20,895
Investment in Shared Lift Station	260	36		296
Total Accumulated Depreciation	<u>\$ 425,265</u>	<u>\$ 54,009</u>	<u>\$ - 0 -</u>	<u>\$ 479,274</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 1,641,459</u>	<u>\$ (53,216)</u>	<u>\$ - 0 -</u>	<u>\$ 1,588,243</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 1,759,165</u>	<u>\$ 3,783,540</u>	<u>\$ - 0 -</u>	<u>\$ 5,542,705</u>

On April 19, 2006, a Cost Sharing Agreement was executed between Denton County Fresh Water Supply District Nos. 1-A, 1-B, 1-C and 1-E. The agreement provided for the sharing of costs for the construction of certain lift station facilities. District No. 1-A owns the facilities for the benefit

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 4. CAPITAL ASSETS (Continued)

of the residents and the property located within the original boundaries of Denton County Fresh Water Supply District No. 1, which includes the District No. 1-B, District No. 1-C, District No. 1-D and District No. 1-E. On September 23, 2009, the District executed an Excess Capacity Purchase Agreement (ECPA) with District No. 1-A, District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, and District No. 1-G. This agreement reallocates the shared cost for the construction of the lift station facilities based on capacity. The capacity allocated to each participant was based upon the estimated total sewer connections as of September 30, 2019. Capacity in the facilities is allocated as follows:

District No. 1-B	16.63%
District No. 1-C	7.89
District No. 1-D	21.31
District No. 1-E	20.45
District No. 1-F	29.33
District No. 1-G	4.24
District No. 1-H	<u>0.15</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 5. NONCURRENT LIABILITIES

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

For advances made by Bright Entities on or before November 20, 2006, the Districts will reimburse the relevant Bright Entity for 100% of such advances. For advances made by a Bright Entity after November 20, 2006, the Districts will transfer reimbursement funds to District No. 1-A. District No. 1-A will act as a clearinghouse for receipt of reimbursement proceeds and for the deployment of such proceeds to any District that would otherwise require an advance from a Bright Entity. Any reimbursement for advances received by District No. 1-A will be considered as a full complete release of that particular District’s obligation pursuant to existing developer

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 5. NONCURRENT LIABILITIES (Continued)

reimbursement agreements. Such amounts due to District No. 1-A under this agreement are reported as a liability on the Statement of Net Position. Activity in this liability for the year ended September 30, 2019 was:

	Beginning Balance	Additions	Repayments	Ending Balance
Due to 1-A	\$ 1,646,141	\$ 4,405,142	\$ - 0 -	\$ 6,051,283

NOTE 6. MAINTENANCE TAX

On November 4, 2008, voters of the District approved the levy and collection of a maintenance tax in an unlimited amount per \$100 of assessed valuation of taxable property within the District. During the fiscal year ended September 30, 2019, the District did not levy a maintenance tax rate for the 2018 tax year. The maintenance tax will be used for maintenance purposes to include funds for planning, maintaining, repairing and operating all necessary plants, properties, facilities and improvements of the District and for proper services, engineering and legal fees, and operational and administrative costs in accordance with Section 49.107 of the Texas Water Code.

NOTE 7. WATER SUPPLY AGREEMENTS

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

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

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 7. 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 0.50 million gallons of water per day (MGD) and 3.0 MGD for regular service. Each member can adjust the regular service amount upon mutual agreement of the members. A determination of demand on an annual basis that takes into account actual usage for the most recent five (5) water years and projected needs for the next water year will be made. Payments will be comprised of three components including an Operation and Maintenance Component, a Capital Component and a special reserve for operation and maintenance cost of the system. Annual budgets will be prepared for the system. District No. 1-A 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 Upper Trinity Regional Water District executed an agreement with the Denton County Fresh Water Supply District No. 1 (District No. 1) to provide for the supply of non-potable water to District No. 1. District No. 1-A has assumed the obligations of District No. 1 under the terms of this agreement.

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

The UTRWD agreed to provide the necessary equipment and devices of standard type required for measuring the quantity of non-potable water delivered. Sixty (60) days after the end of a fiscal year, District No. 1-A will report to UTRWD the number of gallons of non-potable raw water and non-potable treated wastewater effluent used for irrigation, make-up water for lakes and ponds and other purposes. Also reported would be the estimated annual water requirements for each of the next five (5) years for both types of water and an estimate of demand for the next year.

The UTRWD will choose the consulting engineers and provide for the construction of the system to provide the non-potable water. The sale of bonds by the UTRWD will be considered for funding the facilities. Payments will be comprised of three components including an Operation and Maintenance Component, a Capital Component and a special reserve for operation and

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 7. WATER SUPPLY AGREEMENTS (Continued)

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

maintenance cost of the system. Annual budgets will be prepared for the system. The District will pay its annual payment including facilities charges and charges for the actual volume of water taken. The agreement is in effect for thirty (30) years from the effective date of the agreement. On October 1, 1997, the District started funding the cost of the agreement with the UTRWD.

Wholesale Water Supply Agreement with the City of Lewisville

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

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

The initial volume rate 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 No. 1-A's annexation by the City.

NOTE 8. OPERATING AGREEMENT

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

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 8. OPERATING AGREEMENT (Continued)

in the FOMB if, 1.) Immediately required by law or, 2.) Not in excess of \$5,000, with notification efforts being made to the applicable District.

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

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

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

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

Each district's cost will be calculated based upon a fraction that is calculated by dividing the total projected property value on January 1 the year immediately following the completion of the fiscal year being budgeted within each district divided by the total projected property value on January 1 the year immediately following the completion of the fiscal year being budgeted within all of the districts. Such fraction shall be calculated as of the first day of the fiscal year in which such fraction is to be used to allocate such costs among the districts and shall be recalculated as of the

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 8. OPERATING AGREEMENT (Continued)

first day of each succeeding fiscal year thereafter. This agreement terminates on the fortieth (40th) anniversary of October 1, 2008.

NOTE 9. STRATEGIC PARTNERSHIP AGREEMENT

In June, 2009, District No. 1-A, District No. 1-B, District No. 1-C, District No. 1-D, District No. 1-E, District No. 1-F, District No. 1-G, and the District 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. On March 20, 2017, the SPA was amended to include additional land.

The SPA was again amended on June 17, 2019 to incorporate additional commercial property; to remove certain property no longer being used for commercial purposes; and to provide that District No. 1-A will use its best efforts to ensure any agreements it enters into with a primary term extending past January 31, 2022 include language allowing the agreement to be terminable immediately upon full-purpose annexation.

The District only recognizes revenue for the allocated surplus as strategic partnership revenue.

NOTE 10. ECONOMIC DEPENDENCY

The District is contractually obligated to levy sufficient contract taxes to fund the City of Lewisville's Lewisville Castle Hills Public Improvement District No. 6 bonds and the District has contracted with Denton County Fresh Water Supply District No. 1-A to conduct District operations. The District is further obligated for significant water supply commitments. The ability to meet all these obligations may require the Developer to advance monies to the District from time to time to meet all the financial obligations and to cover any operating deficits of the District. As of September 30, 2019, the District's General Fund had a deficit fund balance of \$701,888. The District anticipates being able to alleviate this deficit by the sale of water and wastewater services.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 11. RISK MANAGEMENT

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

NOTE 12. BOND ELECTION

In November 2015, voters within the District approved for the District to issue bonds in the maximum amount of \$128,640,000 for utilities, \$25,690,000 for roads, \$165,824,000 for utility refunding and \$33,397,000 for road refunding.

NOTE 13. JOINT UTILITY AND ROAD CONTRACTS

On August 18, 2014, the District, District No. 1-A and the City of Lewisville (Lewisville) executed a 2008 Joint Utility Contract and a 2008 Joint Road Contract. On July 17, 2017, the District approved an Amended 2015 Joint Utility Contract and an Amended 2015 Joint Road Contract with the City. The amended contracts state that Lewisville will proceed with financing utility and road facilities within the District through the sale of \$112,750,000 of Lewisville Castle Hills Public Improvement District No. 6 (PID 6) utility bonds and \$23,250,000 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 second installment of these bonds were sold in the amount of \$7,690,000 in Combination Contract Revenue and Special Assessment Utility System Bonds and \$15,310,000 in Combination Contract Revenue and Special Assessment Road System Bonds. The third installment of these bonds were sold in the amount of \$5,865,000 in Combination Contract Revenue and Special Assessment Utility System Bonds and \$4,965,000 in Combination Contract Revenue and Special Assessment Road System Bonds. District No. 1-A will have primary responsibility as Project Manager and shall perform its duties in accordance with the agreements dated August 18, 2014. District No. 1-A 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.

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

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 13. JOINT UTILITY AND ROAD CONTRACTS (Continued)

The parties to the agreements agree that in accordance with Section 49.068 of the Texas Water Code, as amended, the District and District No. 1-A 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 agreements 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, the District agreed to pay Lewisville the amount necessary to repay the debt service requirements and costs of the PID 6 Bonds as they mature. The District 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.

Lewisville will notify the District of the calculation of the Annual Assessment by September 1 of each year proceeding the above-referenced February 1. During the current fiscal year, the District made contract tax payments of \$3,139,885 to the City of Lewisville in accordance with the bond covenants. The reserve fund requirement at September 30, 2019, is \$4,068,000 and the District has fully satisfied that requirement at year end. At September 30, 2019, the City of Lewisville is holding \$4,960,798 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 6.

On February 1 following the date of receipt of written notification of the Annual Assessment, the District will certify to Lewisville the amount of all taxes collected. The parties to the agreement acknowledged that the tax levy would be contingent upon a one-time approval by the voters within the District. Such election occurred on November 4, 2008, and approved the levy and collection of said tax. During the fiscal year ended September 30, 2019, the District levied an ad valorem contract tax of \$1,315,048 computed at the rate of \$1.00 per \$100 assessed valuation based upon an appraised taxable valuation of \$131,504,830 for the 2018 tax year. The Debt Service Fund Balance of \$4,312,150 is reserved to meet the contract debt obligations.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 13. JOINT UTILITY AND ROAD CONTRACTS (Continued)

The Districts tax calendar is as follows:

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

Lien Date - January 1.

Due Date - Not later than January 31.

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

The following are the amortization schedules on the existing outstanding debt the District'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
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
	\$ 6,255,000	\$ 3,584,100	\$ 9,839,100

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 13. JOINT UTILITY AND ROAD 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
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
	\$ 1,200,000	\$ 853,775	\$ 2,053,775

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 13. JOINT UTILITY AND ROAD CONTRACTS (Continued)

PID 6 SERIES - 2017 UTILITY			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2020	\$ 125,000	\$ 454,200	\$ 579,200
2021	130,000	446,700	576,700
2022	140,000	438,900	578,900
2023	155,000	430,500	585,500
2024	160,000	421,200	581,200
2025	270,000	411,600	681,600
2026	280,000	395,400	675,400
2027	290,000	378,600	668,600
2028	305,000	361,200	666,200
2029	320,000	342,900	662,900
2030	340,000	323,700	663,700
2031	365,000	303,300	668,300
2032	385,000	281,400	666,400
2033	410,000	258,300	668,300
2034	435,000	233,700	668,700
2035	1,085,000	207,600	1,292,600
2036	1,155,000	142,500	1,297,500
2037	1,220,000	73,200	1,293,200
	\$ 7,570,000	\$ 5,904,900	\$ 13,474,900

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 13. JOINT UTILITY AND ROAD CONTRACTS (Continued)

PID 6			
SERIES - 2017 ROAD			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2020	\$ 515,000	\$ 889,500	\$ 1,404,500
2021	550,000	858,600	1,408,600
2022	580,000	825,600	1,405,600
2023	615,000	790,800	1,405,800
2024	650,000	753,900	1,403,900
2025	590,000	714,900	1,304,900
2026	635,000	679,500	1,314,500
2027	680,000	641,400	1,321,400
2028	720,000	600,600	1,320,600
2029	765,000	557,400	1,322,400
2030	810,000	511,500	1,321,500
2031	855,000	462,900	1,317,900
2032	910,000	411,600	1,321,600
2033	965,000	357,000	1,322,000
2034	1,020,000	299,100	1,319,100
2035	1,245,000	237,900	1,482,900
2036	1,320,000	163,200	1,483,200
2037	1,400,000	84,000	1,484,000
	\$ 14,825,000	\$ 9,839,400	\$ 24,664,400

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 13. JOINT UTILITY AND ROAD CONTRACTS (Continued)

PID 6			
SERIES - 2019 UTILITY			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2020	\$	\$ 322,575	\$ 322,575
2021	85,000	322,575	407,575
2022	90,000	317,900	407,900
2023	95,000	312,950	407,950
2024	105,000	307,725	412,725
2025	110,000	301,950	411,950
2026	110,000	295,900	405,900
2027	115,000	289,850	404,850
2028	125,000	283,525	408,525
2029	130,000	276,650	406,650
2030	140,000	269,500	409,500
2031	150,000	261,800	411,800
2032	155,000	253,550	408,550
2033	160,000	245,025	405,025
2034	170,000	236,225	406,225
2035	185,000	226,875	411,875
2036	190,000	216,700	406,700
2037	205,000	206,250	411,250
2038	1,725,000	194,975	1,919,975
2039	1,820,000	100,100	1,920,100
	\$ 5,865,000	\$ 5,242,600	\$ 11,107,600

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 13. JOINT UTILITY AND ROAD CONTRACTS (Continued)

PID 6 SERIES - 2019 ROAD			
Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2020	\$	\$ 273,075	\$ 273,075
2021	75,000	273,075	348,075
2022	80,000	268,950	348,950
2023	80,000	264,550	344,550
2024	85,000	260,150	345,150
2025	90,000	255,475	345,475
2026	95,000	250,525	345,525
2027	100,000	245,300	345,300
2028	105,000	239,800	344,800
2029	115,000	234,025	349,025
2030	120,000	227,700	347,700
2031	125,000	221,100	346,100
2032	130,000	214,225	344,225
2033	140,000	207,075	347,075
2034	150,000	199,375	349,375
2035	155,000	191,125	346,125
2036	165,000	182,600	347,600
2037	175,000	173,525	348,525
2038	1,450,000	163,900	1,613,900
2039	1,530,000	84,150	1,614,150
	\$ 4,965,000	\$ 4,429,700	\$ 9,394,700

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 14. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of September 30, 2019, the Capital Projects Funds owes the General Fund \$172,679 for capital construction cost paid by pooled cash and the Debt Service Fund owed the General Fund \$17,138 for maintenance tax collections. The Debt Service fund owes the Capital Projects Fund \$607,399 for PID contributions deposited in the Debt Service Fund.

During the current fiscal year, the General Fund transferred \$1,096,319 to the Debt Service Fund and Capital Projects Fund for debt service obligations and capital expenditures.

NOTE 15. DEBT SERVICE REPAYMENT AGREEMENT

Effective September 16, 2014, the District entered into a repayment agreement with Bright Reality Development, LLC (the "Developer"). The Developer deposited funds to the Utility Debt Service Reserve Fund in the amount of \$716,575 and into the Road Debt Service Reserve Fund in the amount of \$120,000 (the "Developer DSRF Advance"). The District agrees to repay the Developer DSRF Advance to the Developer in yearly installments in the amount of \$0.005 of the amount of Net Taxable Assessed Value above \$80,000,000 if the District approves a tax rate that supports the approved budget without incurring future debt. As of September 30, 2019, the District has not fully reimbursed the Developer for the Developer DSRF Advance. The amount due is recorded as Due to 1-A in Note 5.

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DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2019

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Original and Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES			
Special Assessments	\$	\$ 79,800	\$ 79,800
Water Service	210,000	137,604	(72,396)
Wastewater Service	46,283	29,455	(16,828)
Penalty and Interest	241		(241)
Permit and Inspection Fees	521,104	802,898	281,794
Franchise Fees	10,000	28,466	18,466
Miscellaneous Revenues		35,469	35,469
TOTAL REVENUES	<u>\$ 787,628</u>	<u>\$ 1,113,692</u>	<u>\$ 326,064</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 39,306	\$ 44,611	\$ (5,305)
Contracted Services	37,435	36	37,399
Allocated Costs to District 1-A	519,607	689,721	(170,114)
Purchased Water and Wastewater Services	148,836	11,681	137,155
Other	17,807	18,438	(631)
TOTAL EXPENDITURES	<u>\$ 762,991</u>	<u>\$ 764,487</u>	<u>\$ (1,496)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 24,637</u>	<u>\$ 349,205</u>	<u>\$ 324,568</u>
OTHER FINANCING SOURCES(USES)			
Transfers Out	\$	\$ (1,096,319)	\$ (1,096,319)
Developer Contributions		750,000	750,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -0-</u>	<u>\$ (346,319)</u>	<u>\$ (346,319)</u>
NET CHANGE IN FUND BALANCE	\$ 24,637	\$ 2,886	\$ (21,751)
FUND BALANCE - OCTOBER 1, 2018	<u>(704,774)</u>	<u>(704,774)</u>	
FUND BALANCE - SEPTEMBER 30, 2019	<u>\$ (680,137)</u>	<u>\$ (701,888)</u>	<u>\$ (21,751)</u>

See accompanying independent auditor's report.

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DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
SUPPLEMENTARY INFORMATION REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
SEPTEMBER 30, 2019

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective June 18, 2019.

	<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:	\$ 10.70		N	\$ 4.90	0,001 and up
SURCHARGE:					
Solid Waste/ Garbage	\$ 17.42 per month plus sales tax		Y		
Commission Regulatory Assessments	0.5% of actual water and sewer bill				

District employs winter averaging for wastewater usage?

<u> X </u>	_____
Yes	No

Total monthly charges per 10,000 gallons usage: Water: \$64.67 Wastewater: \$59.70 Surcharge: \$19.37

See accompanying independent auditor’s report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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>11</u>	<u>11</u>	x 1.0	<u>11</u>
≤ ³ / ₄ "			X 1.0	
1"	<u>2</u>	<u>2</u>	X 2.5	<u>5</u>
1½"			X 5.0	
2"	<u>4</u>	<u>4</u>	x 8.0	<u>32</u>
3"	<u>2</u>	<u>2</u>	x 15.0	<u>30</u>
4"	<u>1</u>	<u>1</u>	x 25.0	<u>25</u>
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u><u>20</u></u>	<u><u>20</u></u>		<u><u>103</u></u>
Total Wastewater Connections	<u><u>5</u></u>	<u><u>5</u></u>	x 1.0	<u><u>5</u></u>

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

Water Accountability Ratio: 67.6%
(Gallons billed and sold/Gallons
pumped and purchased)

Gallons billed to customers: 15,945,000

Gallons purchased: 23,579,000

From: Water Suppliers

See accompanying independent auditor's report.

**DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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-H
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2019

PROFESSIONAL FEES:	
Auditing	\$ 16,500
Engineering	6,000
Legal	22,111
TOTAL PROFESSIONAL FEES	<u>\$ 44,611</u>
ALLOCATED COSTS TO DISTRICT 1-A:	
Personnel	\$ 339,344
Purchased Water Services Demand Charge	9,306
COL Public Safety	41,241
Utilities	136,044
Repair and Maintenance	97,054
Other Operating Expenditures	3,984
Office Lease	29,704
Professional Services/Fees	19,649
Supplies	9,917
Rental Equipment	1,978
Capital Outlay	1,500
TOTAL ALLOCATED COSTS TO DISTRICT 1-A	<u>\$ 689,721</u>
PURCHASED WATER AND WASTEWATER SERVICES:	
Purchased Water Services	\$ 10,718
Purchased Wastewater Services	963
TOTAL PURCHASED WATER AND WASTEWATER SERVICES	<u>\$ 11,681</u>
CONTRACTED SERVICES:	
Appraisal District	<u>\$ 36</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 4,200
Insurance	10,365
Office Supplies and Postage	1,304
Payroll Taxes	321
Travel and Meetings	236
Other	1,900
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 18,326</u>
TAP CONNECTIONS	<u>\$ 112</u>
TOTAL EXPENDITURES	<u><u>\$ 764,487</u></u>

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

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
ANALYSIS OF TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Maintenance Tax		Contract Tax	
TAXES RECEIVABLE -				
OCTOBER 1, 2018	\$	-0-	\$	-0-
Adjustments to Beginning				
Balance		<u>698</u>	\$	<u>17,070</u>
		\$ 698		\$ 17,070
Original 2018 Tax Levy	\$		\$	758,656
Adjustment to 2018 Tax Levy				<u>556,392</u>
				<u>1,315,048</u>
TOTAL TO BE				
ACCOUNTED FOR		\$ 698		\$ 1,332,118
TAX COLLECTIONS:				
Prior Years	\$		\$	
Current Year				<u>1,315,048</u>
				<u>1,315,048</u>
TAXES RECEIVABLE -				
SEPTEMBER 30, 2019		<u>\$ 698</u>		<u>\$ 17,070</u>
TAXES RECEIVABLE BY				
YEAR:				
2018		\$		\$
2017				8,078
2016		478		2,752
2015				3,230
2014		<u>220</u>		<u>3,010</u>
TOTAL		<u>\$ 698</u>		<u>\$ 17,070</u>

See accompanying independent auditor's report.

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DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROPERTY VALUATIONS:				
Land	\$ 87,011,394	\$ 78,088,387	\$ 55,743,884	\$ 52,685,512
Improvements	46,959,871	52,903,474	42,517,784	215,560
Personal Property	169,208	123,085		210
Exemptions	<u>(2,635,643)</u>	<u>(845,748)</u>	<u>(322,975)</u>	<u>(982,767)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 131,504,830</u>	<u>\$ 130,269,198</u>	<u>\$ 97,938,693</u>	<u>\$ 51,918,515</u>
TAX RATES PER \$100 VALUATION:				
Contract	\$ 1.00	\$ 1.00	\$ 0.8521	\$ 1.00
Maintenance	<u>0.00</u>	<u>0.00</u>	<u>0.1479</u>	<u>0.00</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>
ADJUSTED TAX LEVY*	<u>\$ 1,315,048</u>	<u>\$ 1,302,692</u>	<u>\$ 979,387</u>	<u>\$ 519,185</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>100.00 %</u>	<u>99.38 %</u>	<u>99.67 %</u>	<u>99.38 %</u>

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

Maintenance Tax – Maximum tax rate in unlimited amount per \$100 of assessed valuation approved by voters on November 4, 2008.

See accompanying independent auditor's report.

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

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$	\$	\$ 144,851
Special Assessments	79,800	34,356	60,081
Water Service	137,604	190,499	141,531
Wastewater Service	29,455	62,597	56,188
Penalty and Interest		329	171
Permit and Inspection Fees	802,898	327,225	
Franchise Fees	28,466	24,837	21,103
Strategic Partnership Revenue			1,092
Miscellaneous Revenues	35,469	20,434	6,538
TOTAL REVENUES	\$ 1,113,692	\$ 660,277	\$ 431,555
EXPENDITURES			
Professional Fees	\$ 44,611	\$ 60,110	\$ 41,254
Contracted Services	36	24	899
Allocated Costs to District 1-A	689,721	414,693	324,244
Purchased Water and Wastewater Services	11,681	27,924	30,323
Repairs and Maintenance			
Other	18,438	17,777	14,745
TOTAL EXPENDITURES	\$ 764,487	\$ 520,528	\$ 411,465
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 349,205	\$ 139,749	\$ 20,090
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	\$ (1,096,319)	\$ (8,248)	\$ (80,495)
Developer Contribution	750,000		
TOTAL OTHER FINANCING SOURCES (USES)	\$ (346,319)	\$ (8,248)	\$ (80,495)
NET CHANGE IN FUND BALANCE	\$ 2,886	\$ 131,501	\$ (60,405)
BEGINNING FUND BALANCE	(704,774)	(836,275)	(775,870)
ENDING FUND BALANCE	\$ (701,888)	\$ (704,774)	\$ (836,275)

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2016	2015	2019	2018	2017	2016	2015
\$	\$ 33,872	%	%	33.6 %	%	5.8 %
		7.2	5.2	13.9		
46,067	1,582	12.3	28.8	32.8	19.6	0.2
11,485	4	2.6	9.5	13.0	4.9	
215					0.1	
166,462	552,613	72.1	49.6		70.8	93.9
10,649	528	2.6	3.8	4.9	4.5	0.1
				0.3		
296	180	3.2	3.1	1.5	0.1	
<u>\$ 235,174</u>	<u>\$ 588,779</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 45,611	\$ 71,174	4.0 %	9.1 %	9.6 %	19.4 %	12.1 %
21,153	14,528			0.2	9.0	2.5
210,093	244,082	61.9	62.8	75.1	89.3	41.5
980	50	1.0	4.2	7.0	0.4	
8,133					3.5	
19,652	23,533	1.7	2.7	3.4	8.4	4.0
<u>\$ 305,622</u>	<u>\$ 353,367</u>	<u>68.6 %</u>	<u>78.8 %</u>	<u>95.3 %</u>	<u>130.0 %</u>	<u>60.1 %</u>
\$ (70,448)	\$ 235,412	31.4 %	21.2 %	4.7 %	(30.0) %	39.9 %
\$	\$ (46,309)					
80,712						
<u>\$ 80,712</u>	<u>\$ (46,309)</u>					
\$ 10,264	\$ 189,103					
(786,134)	(975,237)					
<u>\$ (775,870)</u>	<u>\$ (786,134)</u>					

See accompanying independent auditor's report.

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

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 1,315,048	\$ 1,302,692	\$ 834,536
Special Assessments			29,739
Interest on Investments	74,626	32,451	1,424
Miscellaneous Revenues		994	38
TOTAL REVENUES	\$ 1,389,674	\$ 1,336,137	\$ 865,737
EXPENDITURES			
Tax Collection Expenditures	\$ 36,459	\$ 34,574	\$ 34,087
Contract Tax Obligation - City of Lewisville	3,139,885	2,259,142	792,550
Bond Issuance Costs	677,006		825,250
TOTAL EXPENDITURES	\$ 3,853,350	\$ 2,293,716	\$ 1,651,887
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (2,463,676)	\$ (957,579)	\$ (786,150)
OTHER FINANCING SOURCES (USES)			
Developer Contributions	\$	\$	\$
Transfers In(Out)	1,040,621	8,248	80,495
Contribution by PID 6	2,521,966		4,026,000
TOTAL OTHER FINANCING SOURCES (USES)	\$ 3,562,587	\$ 8,248	\$ 4,106,495
NET CHANGE IN FUND BALANCE	\$ 1,098,911	\$ (949,331)	\$ 3,320,345
BEGINNING FUND BALANCE	3,213,239	4,162,570	842,225
ENDING FUND BALANCE	\$ 4,312,150	\$ 3,213,239	\$ 4,162,570
TOTAL ACTIVE RETAIL WATER CONNECTIONS	20	9	9
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	5	2	7

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2016	2015	2019	2018	2017	2016	2015
\$ 519,185	\$ 463,508	94.6 %	97.5 %	96.4 %	100.0 %	100.0 %
130	89	5.4	2.4	3.4		
22			0.1	0.2		
<u>\$ 519,337</u>	<u>\$ 463,597</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 10,842	\$ 17,123	2.6 %	2.6 %	3.9 %	2.1 %	3.7 %
793,150	539,321	225.9	169.1	91.5	152.7	116.3
		48.7		95.3		
<u>\$ 803,992</u>	<u>\$ 556,444</u>	<u>277.2 %</u>	<u>171.7 %</u>	<u>190.7 %</u>	<u>154.8 %</u>	<u>120.0 %</u>
<u>\$ (284,655)</u>	<u>\$ (92,847)</u>	<u>(177.2) %</u>	<u>(71.7) %</u>	<u>(90.7) %</u>	<u>(54.8) %</u>	<u>(20.0) %</u>
\$ 307,361	\$					
	46,309					
	29,482					
<u>\$ 307,361</u>	<u>\$ 75,791</u>					
\$ 22,706	\$ (17,056)					
819,519	836,575					
<u>\$ 842,225</u>	<u>\$ 819,519</u>					
<u>7</u>	<u>2</u>					
<u>6</u>	<u>-0-</u>					

See accompanying independent auditor's report.

DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 1-H
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2019

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

District Telephone No. - (972) 899-4000

Board Members	Term of Office (Elected or Appointed)	Fees of office for the year ended <u>September 30, 2019</u>	Expense Reimbursements for the year ended <u>September 30, 2019</u>	<u>Title</u>
Ralph Hunter	05/16 05/20 (Elected)	\$ 150	\$ 29	President
Patti Brown	05/18 05/22 (Elected)	\$ 1,200	\$ 18	Vice President
Corwin Snow	05/16 05/20 (Elected)	\$ 600	\$ 37	Secretary/ Treasurer
Michael Clark	05/18 05/22 (Elected)	\$ 1,050	\$ 60	Assistant Secretary
John Lessner	05/16 05/20 (Elected)	\$ 1,200	\$ 91	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: May 30, 2018

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-H
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2019**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2019</u>	<u>Title</u>
Winstead PC	09/22/15	\$ 23,415	Attorney
McCall Gibson Swedlund Barfoot PLLC	09/17/13	\$ 16,500	Auditor
Land Design, Inc.	01/16/13	\$ -0-	Engineer
Denton County Tax Collector	Legislative Action	\$ 36	Tax Assessor/ Collector
 Key Personnel:			
Robert Flint		\$ -0-	Investment Officer

See accompanying independent auditor's report.

