

**DENTON COUNTY EMERGENCY
SERVICES DISTRICT NO. 1**

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2010

**DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2010
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INDEPENDENT AUDITORS' REPORT

To the Commissioners of
Denton County Emergency Services District No. 1
Argyle, Texas 76226

We have audited the accompanying financial statements of the governmental activities and each major fund of Denton County Emergency Services District No. 1 (the "District"), as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 7 and 24, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hankins, Eastup, Deaton, Tonn & Seay

Hankins, Eastup, Deaton, Tonn & Seay
A Professional Corporation
Certified Public Accountants

June 17, 2011

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2010 (UNAUDITED)

As management of Denton County Emergency Services District No. 1, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended September 30, 2010. The District has implemented Government Accounting Standards Board Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". Please read this narrative in conjunction with the independent auditors' report on pages 1 and 2, and the District's Basic Financial Statements that begin on page 8.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the fiscal year by \$189,047 (Total Net Assets). All of this amount is unrestricted and may be used to meet the District's ongoing obligations and responsibilities to taxpayers and creditors.
- The District's net assets increased by \$54,087.
- At September 30, 2010, the District had a \$653,727 total fund balance in its General Fund. All of the fund balance is unreserved and undesignated, constituting 39.0% of the \$1,674,580 in General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements: The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Evaluation of the overall economic health of the District would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of District's infrastructure in addition to the financial information provided in this report.

The Statement of Activities presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. An important purpose of the design of the statement of activities is to show the financial reliance of the District's distinct activities or functions on revenues provided by the District's taxpayers.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2010 (UNAUDITED)

Both government-wide financial statements consist of one governmental activity, principally supported by taxes.

With many other governmental entities, the aforementioned government-wide financial statements normally identify and distinguish between either governmental activities supported by general revenues or business-type activities which are typically self-supported by user fees and charges. The District has no business-type activities.

The governmental-wide financial statements can be found on pages 8 and 9 of this report.

Fund Financial Statements: A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Depending upon their reporting needs and requirements, governmental entities utilize three types of funds, including governmental funds, proprietary funds, and fiduciary funds. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Since the District has no legitimate need or requirement to have either proprietary or fiduciary funds, all of its funds are maintained and reported as governmental funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains all of its activities in the General Fund. The General Fund is used to account for the acquisition and use of the District's unreserved and undesignated financial resources and the related liabilities.

The governmental fund financial statements can be found on pages 10 and 12 of this report.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. It can be found under the "Required Supplementary Information" section of this report.

Notes to the Basic Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-21 of this report.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(UNAUDITED)

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information. Other supplementary information follows the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets: As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of September 30, 2010, the District's assets exceeded liabilities by \$189,047.

At September 30, 2010, \$802,893 in total assets were recorded. Current and other non-capital assets (cash and receivables) represented 99.6% of that total.

Total liabilities at year end equaled \$613,846, the majority of which consisted of long-term debt.

All of the \$189,047 in total net assets are considered unrestricted and may be used to meet the District's ongoing obligations and responsibilities.

	Net Assets	
	<u>Governmental Activities</u>	
	2009	2010
Assets:		
Current and other assets	\$ 842,868	\$ 799,869
Capital assets	-0-	3,024
Total Assets	<u>842,868</u>	<u>802,893</u>
Liabilities:		
Current and other liabilities	151,104	120,879
Long-term liabilities	<u>556,804</u>	<u>492,967</u>
Total Liabilities	<u>707,908</u>	<u>613,846</u>
Net Assets:		
Unrestricted	134,960	189,047
Total Net Assets	<u>\$ 134,960</u>	<u>\$ 189,047</u>

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2010 (UNAUDITED)

Governmental Activities: The following table provides a summary of the District's operations for the years ended September 30, 2010 and 2009.

Changes in Net Assets

	<u>2009</u>	<u>2010</u>
General Revenues:		
Property Taxes	\$1,188,558	\$1,384,654
Earned Income – Leases	-	26,668
Investment Income	639	484
Total Revenues	<u>1,189,197</u>	<u>1,411,806</u>
Expenditures By Governmental Activity:		
General Government	44,274	53,595
Public Safety	1,111,325	1,273,359
Debt Service – Interest	2,257	30,765
Total Expenditures	<u>1,157,856</u>	<u>1,357,719</u>
Change In Net Assets	31,341	54,087
Net Assets – Beginning	<u>103,619</u>	<u>134,960</u>
Net Assets – Ending	<u>\$ 134,960</u>	<u>\$ 189,047</u>

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Governmental Funds: The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing and budgeting requirements. In particular, the unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

At September 30, 2010, the District's total governmental fund balances were \$653,727. All of the fund balance is unreserved and undesignated.

General Fund Budgetary Highlights: There were no amendments to the originally adopted budget. Actual expenditures for the year ended September 30, 2010 were \$1,674,580, which was \$349,721 or 26.4% more than the \$1,324,859 budgeted for the year. The difference consisted of capital outlay and debt service expenditures not included in the original budget.

Actual revenues for the year were \$1,402,425 or 105.9% of the budgeted revenues for the year.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2010 (UNAUDITED)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: During the year ended September 30, 2009 the District purchased an ambulance and fire engine for immediate lease to one of the emergency service districts serviced by the District. The transaction was reflected in the fund statements as a capital outlay purchase and related sale of assets under terms of the direct financing capital leases. The District had no capital assets at September 30, 2009. During the year ended September 30, 2010, the District purchased furniture and equipment for its leased office space. More detailed information about the District's capital assets is presented in Note 6 to the financial statements.

Debt Administration: At September 30, 2010 the District had \$492,967 in loans outstanding with Northstar Bank related to the purchase of the ambulance and fire engine sold under capital lease during the prior year. All of this debt was incurred in a prior fiscal year. The only current year debt activity was monies borrowed and repaid under short-term loan agreements. More detailed information about the District's short-term loans and long-term debt activity is presented in Notes 3 and 4 to the financial statements.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances, comply with finance-related laws and regulations, and demonstrate the District's commitment to public accountability. If you have any questions about this report or would like to request additional information, contact the District's Commissioners at P.O. Box 85, Argyle, Texas 76226-0085.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO.1

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ 160,297
Property Taxes Receivable	25,263
Minimum Lease Payments Receivable	611,085
Prepaid Expenses	3,224
Capital Assets:	
Furniture and Equipment, net	<u>3,024</u>
 Total Assets	 <u>802,893</u>
 <u>Liabilities</u>	
Accounts Payable	2,761
Unearned Income-Leases	118,118
Noncurrent Liabilities:	
Due Within One Year	65,441
Due In More Than One Year	<u>427,526</u>
 Total Liabilities	 <u>613,846</u>
 <u>Net Assets</u>	
Unrestricted	<u>189,047</u>
 Total Net Assets	 <u>\$ 189,047</u>

The accompanying notes are an integral part of this statement.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO.1

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

<u>Expenses By Function</u>	<u>Governmental Activities</u>
Primary Government:	
Governmental Activities:	
General Government	\$ 53,595
Public Safety	1,273,359
Debt Service - Interest	<u>30,765</u>
Total Primary Government Expenses	<u>1,357,719</u>
General Revenues	
Taxes:	
Property	1,384,654
Earned Income - Leases	26,668
Investment Income	<u>484</u>
Total General Revenues	<u>1,411,806</u>
Change in Net Assets	54,087
Net Assets at Beginning of Year	<u>134,960</u>
Net Assets at End of Year	<u>\$ 189,047</u>

The accompanying notes are an integral part of this statement.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO.1

BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	<u>General Fund</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ 160,297
Property Taxes Receivable	25,263
Minimum Lease Payments Receivable	611,085
Prepaid Costs	<u>3,224</u>
Total Assets	<u>\$ 799,869</u>
<u>Liabilities and Fund Balances</u>	
Liabilities:	
Accounts Payable	2,761
Deferred Property Taxes	25,263
Unearned Income-Leases	<u>118,118</u>
Total Liabilities	<u>146,142</u>
Fund Balance:	
Unreserved, Undesignated	<u>653,727</u>
Total Fund Balances	<u>653,727</u>
Total Liabilities and Fund Balances	<u>\$ 799,869</u>

The accompanying notes are an integral part of this statement.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

Total fund balances – governmental funds	\$ 653,727
Amounts reported for governmental activities in the statement of net asset are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental fund financial statements.	3,277
Accumulated depreciation has not been included in the governmental fund financial statements.	(253)
Long-term debt balances are not reported in the fund financial statements, but are shown as liabilities in the government-wide financial statements.	(492,967)
Property taxes receivable are deferred in the fund financial statements and not recognized as revenue until collected, but are shown as revenue when assessed in the government-wide financial statements.	<u>25,263</u>
Net assets of governmental activities	<u>\$ 189,047</u>

The accompanying notes are an integral part of this statement.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO.1

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>General Funds</u>
Revenues:	
Property Taxes	\$ 1,375,273
Earned Income - Leases	26,668
Investment Income	484
Total Revenues	<u>1,402,425</u>
Expenditures:	
General Government	53,342
Public Safety	1,273,359
Capital Outlay	3,277
Debt Service - Principal	313,837
Debt Service - Interest	30,765
Total Expenditures	<u>1,674,580</u>
Excess (deficit) of revenues over expenditures	<u>(272,155)</u>
Other Financing Sources (Uses):	
Loan Proceeds	<u>250,000</u>
Total Other Financing Sources (Uses)	<u>250,000</u>
Change in fund balance	(22,155)
Fund balance at beginning of year	<u>675,882</u>
Fund balance at end of year	<u>\$ 653,727</u>

The accompanying notes are an integral part of this statement.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Total net change in fund balances – governmental funds	\$ (22,155)
Amounts reported for governmental activities in the statement of activities are different because:	
Current year capital outlays are expenditures in the fund financial statements but are shown as an increase in capital assets in the government-wide financial statements.	3,277
Depreciation is not recognized as an expense in the governmental funds since it does not require the use of current financial resources.	(253)
Current year proceeds from short-term loans are reported as other financing sources in the fund financial statements but are shown as liabilities in the government-wide financial statements.	(250,000)
Current year debt principal payments on short-term loans and long-term debt are expenditures in the fund financial statements, but are shown as reductions in liabilities in the government-wide financial statements.	313,837
The effect of the current year increase in deferred property taxes is to increase net assets	<u>9,381</u>
Change in net assets of governmental activities	<u>\$ 54,087</u>

The accompanying notes are an integral part of this statement.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

NOTES TO BASIC FINANCIAL STATEMENTS SEPTEMBER 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Denton County Emergency Services District No. 1 (the "District") is a political subdivision of the State of Texas. It was created under Texas Health and Safety Code, Chapter 775 as a means to better provide public funding for suburban and rural emergency services organizations. The District was created in May, 2006 but did not begin operations until October, 2008.

The District is empowered, among other things, to support or provide local emergency services, including emergency medical services, emergency ambulance services, rural fire prevention and control services, and other emergency services as authorized by the Texas Legislature. The District may impose a sales and use tax and/or property tax to support or provide these services. In addition to other powers, the District may also own real or personal property, enter into contracts, adopt and enforce a fire code, and provide a fire marshal.

District tax revenues may be used to hire full-time emergency personnel, contract with other entities that have full-time fire and emergency medical departments, and/or purchase new equipment and facilities. The District can also contract with volunteer fire and emergency medical services departments and provide a stable funding source for those entities as well.

The District's present activities consist primarily of the levy of property taxes to generate funds that are provided under contract to emergency services departments in the areas of Argyle, Roanoke and Justin in Denton County.

Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision not to include a potential component unit in the reporting entity was made by applying the criterion set forth by the Governmental Accounting Standards Board. The basic, but not the only criterion, for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, no potential component units have been included in this report. The District has no ability to exercise influence or control over any other government unit's operations, budgets, or funding. There are no entities that are potential component units based on the above criteria.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are reported in government-wide financial statements. 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 expenses. Renewals and betterments are capitalized.

Assets capitalized have an original cost of \$500 or more and over one year of useful life. Depreciation is calculated on each class of depreciable property using the straight-line method. During the year ended September 30, 2009 the District purchased an ambulance and fire engine for immediate lease to the Argyle Volunteer Fire District under terms of a direct financing capital lease (see Note 5), and it was treated as a related sale of assets at that time under terms of the leases.

Cash and Cash Equivalents

The District's cash and cash equivalents consist of demand deposits, money market accounts, and short-term investments with original maturities of three months or less from the date of acquisition. At September 30, 2010, the District's only account was a demand deposit checking account.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS

The District's funds are required to be deposited and invested under the terms of a depository agreement. The depository bank should deposit for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the agreement. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2010

NOTE 2 – DEPOSITS AND INVESTMENTS WITH FINANCIAL INSTITUTIONS
(Continued)

1. Cash Deposits:

At September 30, 2010, the carrying amount of the District's deposits in checking accounts and interest-bearing accounts was \$160,297 and the bank balance was \$160,311. The District's cash deposits at September 30, 2010 were entirely covered by FDIC insurance. There were times during the year when the District's deposits and interest-bearing accounts exceeded the amount covered by FDIC insurance, but the excess was secured by a letter of credit pledged by the District's depository bank.

2. Investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptance, (7) mutual funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds.

At September 30, 2010, the District had no investments.

NOTE 3 – SHORT-TERM LOANS

The District has secured a \$250,000 revolving line of credit at Northstar Bank that can be drawn on as needed to provide funds prior to the receipt of property tax collections each year.

The following is a summary of the changes in the District's short-term loans for the year ended September 30, 2010.

Amounts outstanding September 30, 2009	\$ -0-
Loan proceeds	250,000
Loan principal payments	<u>(250,000)</u>
Amounts outstanding September 30, 2010	<u>\$ -0-</u>

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2010

NOTE 4 – LONG-TERM DEBT

In conjunction with the purchase and subsequent lease of the ambulance and fire engine described in Note 5, the District obtained financing for those purchases through loans at Northstar Bank. The following is a summary of the changes in the District's long-term debt activity for the year ended September 30, 2010:

Description	Interest Rate	Balance 10/1/2009	Additions	Retirements	Balance 9/30/2010	Due Within One Year
Ambulance note	5.00%	\$ 119,998	\$ 0	\$ 27,805	\$ 92,193	\$ 29,219
Fire engine note	5.00%	436,806	0	36,032	400,774	36,222
TOTAL		\$ 556,804	\$ 0	\$ 63,837	\$ 492,967	\$ 65,441

All long-term debt represents transactions in the District's governmental activities. Payments on the long-term debt will be made from related amounts received from lease of the vehicles.

Debt service requirements to maturity are as follows:

Year Ended September 30	Principal	Interest	Total Requirements
2011	\$ 65,441	\$ 25,064	\$ 90,505
2012	68,768	21,737	90,505
2013	72,266	18,239	90,505
2014	42,031	14,564	56,595
2015	44,168	12,427	56,595
2016-2019	200,293	26,087	226,380
	\$ 492,967	\$ 118,118	\$ 611,085

NOTE 5 – DIRECT FINANCING LEASES

During the year ended September 30, 2009 the District entered into two direct financing leases with the Argyle Volunteer Fire District ("Argyle") to provide Argyle with an ambulance and fire engine. The District purchased each vehicle and subsequently leased them to Argyle under terms that classify the lease as a capital lease. The ambulance is leased to Argyle for four years at an annual lease payment of \$33,910. The fire engine is leased for ten years at an annual lease payment of \$56,595. The terms of both leases were structured to agree to the financing terms payable by the District to Northstar Bank on loans related to the initial purchase of the vehicles by the District. Both leases have a bargain purchase option at the end of the initial lease term.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2010

NOTE 5 – DIRECT FINANCING LEASES (Continued)

The following lists the components of the net investment in the District's direct financing leases as of September 30, 2010:

	Ambulance	Fire Engine	Total
Total minimum lease payments to be received	\$101,730	\$509,355	\$611,085
Less: amounts representing estimated executory costs (such as taxes, insurance, maintenance) included in total minimum lease payments	<u>0</u>	<u>0</u>	<u>0</u>
Minimum lease payments receivable	101,730	509,355	611,085
Less: allowance for uncollectibles	<u>0</u>	<u>0</u>	<u>0</u>
Net minimum lease payments receivable	101,730	509,355	611,085
Less: unearned income	<u>(9,537)</u>	<u>(108,581)</u>	<u>(118,118)</u>
Net investment in direct financing leases	<u>\$ 92,193</u>	<u>\$400,774</u>	<u>\$492,967</u>

Future minimum lease payments to be received under the terms of the District's direct financing lease as of September 30, 2010 are as follows:

Year Ended September	Amount
2011	\$ 90,505
2012	90,505
2013	90,505
2014	56,595
2015	56,595
2016-2019	<u>226,380</u>
Total	<u>\$ 611,085</u>

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010 was as follows:

	Balance October 1, 2009	Additions	Retirements	Balance September 30, 2010
Governmental Activities:				
Capital assets being depreciated:				
Furniture and equipment	\$ -	\$ 3,277	\$ -	\$ 3,277
Total capital assets being depreciated	<u>-</u>	<u>3,277</u>	<u>-</u>	<u>3,277</u>
Less accumulated depreciation for:				
Furniture and equipment	<u>-</u>	<u>(253)</u>	<u>-</u>	<u>(253)</u>
Total accumulated depreciation	<u>-</u>	<u>(253)</u>	<u>-</u>	<u>(253)</u>
Total capital assets being depreciated, net	<u>\$ -</u>	<u>\$ 3,024</u>	<u>\$ -</u>	<u>\$ 3,024</u>

Depreciation expense was charged as a general government expense of the District.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)
SEPTEMBER 30, 2010

NOTE 7 – PROPERTY TAX REVENUE

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. A receivable is created on October 1 and is recorded at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year. The District records revenue from current property taxes in the year in which the tax collections are measurable and available.

During the year ended September 30, 2010, the District levied an ad valorem debt service tax at the rate of \$.091648 per \$100 of assessed valuation, which resulted in a tax levy of \$1,357,131 on the adjusted taxable valuation of \$1,480,808,092 for the 2009 tax year.

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2010, the District did not carry commercial insurance to cover general liabilities.

NOTE 9 – CONTRACTS FOR EMERGENCY SERVICES

In October, 2007, the District entered into agreements with the Argyle Volunteer Fire District, the City of Roanoke and the Justin Volunteer Fire Department for fire and emergency medical services protection. The term of each agreement was one year, with a provision for automatic renewal for two additional one year terms. Under the terms of each agreement, the emergency services provider agreed to provide fire services and EMS services to the District. In return, the District agreed to provide funding for such services on a quarterly basis from the tax revenues generated by the District.

NOTE 10 – COMMITMENTS UNDER LEASES

In February, 2010 the District entered into an agreement for the lease of office space. Commitments under this operating (noncapitalized) lease agreement provide for minimum future rental payments as follows:

<u>Year Ended</u>	
9/30/11	\$ 13,293
9/30/12	13,976
9/30/13	<u>5,942</u>
Total Minimum Rentals	<u>\$ 33,211</u>
Rental Expenditures in Fiscal Year 2010	<u>\$ 7,522</u>

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REQUIRED SUPPLEMENTARY INFORMATION

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO.1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budget		Actual	Variance Positive/ (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$ 1,324,859	\$ 1,324,859	\$ 1,375,273	\$ 50,414
Earned Income - Leases	-	-	26,668	26,668
Investment Income	-	-	484	484
Total Revenues	<u>1,324,859</u>	<u>1,324,859</u>	<u>1,402,425</u>	<u>77,566</u>
Expenditures:				
General Government	51,500	51,500	53,342	(1,842)
Public Safety	1,273,359	1,273,359	1,273,359	-
Capital Outlay	-	-	3,277	(3,277)
Debt Service - Principal	-	-	313,837	(313,837)
Debt Service - Interest	-	-	30,765	(30,765)
Total Expenditures	<u>1,324,859</u>	<u>1,324,859</u>	<u>1,674,580</u>	<u>(349,721)</u>
Excess (Deficit) of revenues over expenditures	-	-	(272,155)	(272,155)
Other Financing Sources (Uses):				
Loan Proceeds	-	-	250,000	250,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>250,000</u>	<u>250,000</u>
Change in fund balance	-	-	(22,155)	(22,155)
Fund balance at beginning of year	<u>675,882</u>	<u>675,882</u>	<u>675,882</u>	<u>-</u>
Fund balance at end of year	<u>\$ 675,882</u>	<u>\$ 675,882</u>	<u>\$ 653,727</u>	<u>\$ (22,155)</u>

See accompanying auditors' report.

OTHER SUPPLEMENTARY INFORMATION

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO.1

SCHEDULE OF EXPENDITURES - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

General Government	
Professional Fees:	
Legal Fees	\$ 6,685
Accounting and Audit	12,825
Contracted Services:	
Tax Appraisal and Collection	12,061
Other Administrative Expense:	
Computer and Internet Costs	557
Legal Notices and Advertising	7,381
Telephone and Utilities	2,517
Office Rent	7,522
Postage	96
Office Supplies	1,632
Insurance	1,875
Other Administrative Expenditures	191
	<hr/>
Total General Government	53,342
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Public Safety:	
Emergency Services Contracts:	
Argyle Fire District	1,153,214
Roanoke Fire Department	101,572
Justin Fire Department	18,573
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Total Public Safety	1,273,359
	<hr/>
Capital Outlay:	
Furniture and Equipment	3,277
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Total Capital Outlay	3,277
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Debt Service - Principal	63,837
Debt Service - Interest	30,765
	<hr/>
Total Debt Service	94,602
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Total General Fund Expenditures	\$ 1,424,580
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See accompanying auditors' report.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO.1

**TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	<u>Maintenance Taxes</u>
Taxes Receivable, Beginning of Year	\$ 15,882
2009 Adjusted Tax Levy	1,357,131
Prior Year Supplements and Adjustments	<u>17,919</u>
Total to be accounted for	1,390,932
Less Tax Collections:	
Current Tax Year	1,340,085
Prior Tax Years	25,584
Receivable, End of Year	<u>\$ 25,263</u>
Aging of Receivable by Years:	
2009	\$ 17,046
Prior to 2009	8,217
Receivable, End of Year	<u>\$ 25,263</u>
Property Valuations	<u>2009</u>
Total Property Valuations	\$ 1,480,808,092
Tax Rates per \$100 Valuation:	
Debt Service Tax Rates	0.00
Maintenance Tax Rates	<u>0.091648</u>
Total Tax Rates Per \$100 Valuation	<u>\$ 0.091648</u>
Adjusted Tax Levy	\$ 1,357,131
Percent of Current Taxes Collected to Taxes Levied	<u>98.74%</u>

See accompanying auditors' report.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO.1

COMMISSIONERS AND CONSULTANTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Complete District Mailing Address: P.O. Box 85
Argyle, TX 76226

District Business Telephone Number: (972)965-4027

Limit on Fees of Office that a Commissioner may receive during a fiscal year: \$3,000
(Set by Texas Health and Safety Code Section 775.038 (a))

Commissioners

<u>Name and Address</u>	<u>Term of Office Elected and Expires</u>	<u>Fees</u>	<u>Expense Reimbursement</u>	<u>Title at Year-End</u>	<u>Resident of District</u>
Mike Sanford 6325 Faught Rd Northlake, TX 76226	11/1/08 to 10/31/10	\$0	\$0	President	Yes
Jay Haynes 734 Harpole Rd Argyle, TX 76226	11/1/09 to 10/31/11	\$0	\$0	Vice President	Yes
Kim Cumings 827 Chinn Chapel Rd Copper Canyon, TX 75077	11/1/09 to 10/31/11	\$0	\$0	Secretary	Yes
Robert Downey 7370 Traux Circle Argyle, TX 76226	11/1/08 to 10/31/10	\$0	\$0	Treasurer	Yes
Steve Harris 240 Country Ct. Bartonville, TX 76226	11/1/09 to 10/31/11	\$0	\$0	Assistant Treasurer	Yes

Note: No commissioner is disqualified from serving on this board under the Texas Health and Safety Code.

See accompanying auditors' report.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO.1

COMMISSIONERS AND CONSULTANTS (CONT'D)
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Name and Address	Date Hired	Fees	Expense Reimbursement	Title at Year-End
Denton Central Appraisal District 3911 Morse St. P.O. Box 2816 Denton, TX 76202		\$11,535	\$0	Appraisal District
Denton County Tax Assessor Collector 1505 E. McKinney, Suite 128 Denton, TX 76209		\$526	\$0	Tax Collections
Debra Drayovitch Drayovitch, P.C. 620 W. Hickory St. Denton, TX 76201		\$6,685	\$0	Attorney

See accompanying auditors' report.