

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

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2011

**DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2011  
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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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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, 2011, 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 4, 2012

# DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2011 (UNAUDITED)

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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, 2011. 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 \$233,119 (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 \$44,072.
- At September 30, 2011, the District had a \$629,471 total fund balance in its General Fund. All of the fund balance is unreserved and undesignated, constituting 34.6% of the \$1,816,376 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, 2011 (UNAUDITED)

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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 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, 2011  
(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, 2011, the District's assets exceeded liabilities by \$233,119.

At September 30, 2011, \$761,551 in total assets were recorded. Current and other non-capital assets (cash and receivables) represented 99.4% of that total.

Total liabilities at year end equaled \$528,432, the majority of which consisted of long-term debt.

All of the \$233,119 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>	
	<u>2011</u>	<u>2010</u>
Assets:		
Current and other assets	\$ 756,936	\$ 799,869
Capital assets	<u>4,615</u>	<u>3,024</u>
Total Assets	<u>761,551</u>	<u>802,893</u>
Liabilities:		
Current and other liabilities	100,742	120,879
Long-term liabilities	<u>427,690</u>	<u>492,967</u>
Total Liabilities	<u>528,432</u>	<u>613,846</u>
Net Assets:		
Unrestricted	<u>233,119</u>	<u>189,047</u>
Total Net Assets	<u>\$ 233,119</u>	<u>\$ 189,047</u>

# DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2011 (UNAUDITED)

**Governmental Activities:** The following table provides a summary of the District's operations for the years ended September 30, 2011 and 2010.

### Changes in Net Assets

	<u>2011</u>	<u>2010</u>
General Revenues:		
Property Taxes	\$1,517,979	\$1,384,654
Earned Income – Leases	25,228	26,668
Investment Income	373	484
Total Revenues	<u>1,543,580</u>	<u>1,411,806</u>
 Expenditures By Governmental Activity:		
General Government	78,860	53,595
Public Safety	1,391,358	1,273,359
Debt Service – Interest	29,290	30,765
Total Expenditures	<u>1,499,508</u>	<u>1,357,719</u>
 Change In Net Assets	44,072	54,087
Net Assets – Beginning	189,047	134,960
Net Assets – Ending	<u>\$ 233,119</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 unassigned 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, 2011, the District's total governmental fund balances were \$629,471. All of the fund balance is unassigned except for \$3,191 of nonspendable prepaid items.

**General Fund Budgetary Highlights:** There were no amendments to the originally adopted budget. Actual expenditures for the year ended September 30, 2011 were \$1,816,376, which was \$339,818 or 23.0% more than the \$1,476,558 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 \$1,542,120 or 104.4% 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, 2011 (UNAUDITED)

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### **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. Since September 30, 2009, the District has 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, 2011 the District had \$427,690 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, 2011

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ 206,442
Property Taxes Receivable	26,723
Minimum Lease Payments Receivable	520,580
Prepaid Expenses	3,191
Capital Assets:	
Furniture and Equipment, net	<u>4,615</u>
 Total Assets	 <u>761,551</u>
 <u>Liabilities</u>	
Accounts Payable	7,852
Unearned Income-Leases	92,890
Noncurrent Liabilities:	
Due Within One Year	69,120
Due In More Than One Year	<u>358,570</u>
 Total Liabilities	 <u>528,432</u>
 <u>Net Assets</u>	
Unrestricted	<u>233,119</u>
 Total Net Assets	 <u>\$ 233,119</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, 2011

<u>Expenses By Function</u>	<u>Governmental Activities</u>
Primary Government:	
Governmental Activities:	
General Government	\$ 78,860
Public Safety	1,391,358
Debt Service - Interest	<u>29,290</u>
Total Primary Government Expenses	<u>1,499,508</u>
General Revenues	
Taxes:	
Property	1,517,979
Earned Income - Leases	25,228
Investment Income	<u>373</u>
Total General Revenues	<u>1,543,580</u>
Change in Net Assets	44,072
Net Assets at Beginning of Year	<u>189,047</u>
Net Assets at End of Year	<u><u>\$ 233,119</u></u>

The accompanying notes are an integral part of this statement.

DENTON COUNTY EMERGENCY SERVICES DISTRICT NO.1

BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2011

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	<u>General Fund</u>
<u>Assets</u>	
Cash and Cash Equivalents	\$ 206,442
Property Taxes Receivable	26,723
Minimum Lease Payments Receivable	520,580
Prepaid Costs	<u>3,191</u>
 Total Assets	 <u><u>\$ 756,936</u></u>
<u>Liabilities and Fund Balances</u>	
Liabilities:	
Accounts Payable	7,852
Deferred Property Taxes	26,723
Unearned Income-Leases	<u>92,890</u>
Total Liabilities	<u>127,465</u>
 Fund Balance:	
Nonspendable Fund Balance	
Prepaid Items	3,191
Unassigned Fund Balance	<u>626,280</u>
Total Fund Balances	<u>629,471</u>
 Total Liabilities and Fund Balances	 <u><u>\$ 756,936</u></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, 2011

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Total fund balances – governmental funds	\$ 629,471
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.	5,562
Accumulated depreciation has not been included in the governmental fund financial statements.	(947)
Long-term debt balances are not reported in the fund financial statements, but are shown as liabilities in the government-wide financial statements.	(427,690)
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>26,723</u>
Net assets of governmental activities	<u>\$ 233,119</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, 2011

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	<u>General Funds</u>
Revenues:	
Property Taxes	\$ 1,516,519
Earned Income - Leases	25,228
Investment Income	373
Total Revenues	<u>1,542,120</u>
Expenditures:	
General Government	78,166
Public Safety	1,391,358
Capital Outlay	2,285
Debt Service - Principal	315,277
Debt Service - Interest	29,290
Total Expenditures	<u>1,816,376</u>
Excess (deficit) of revenues over expenditures	<u>(274,256)</u>
Other Financing Sources (Uses):	
Loan Proceeds	250,000
Total Other Financing Sources (Uses)	<u>250,000</u>
Change in fund balance	(24,256)
Fund balance at beginning of year	<u>653,727</u>
Fund balance at end of year	<u>\$ 629,471</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, 2011

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Total net change in fund balances – governmental funds	\$ (24,256)
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.	2,285
Depreciation is not recognized as an expense in the governmental funds since it does not require the use of current financial resources.	(694)
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.	315,277
The effect of the current year increase in deferred property taxes is to increase net assets	<u>1,460</u>
Change in net assets of governmental activities	<u>\$ 44,072</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, 2011

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### **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, 2011

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## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Basis of Presentation**

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the District. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Other items not properly included among program revenues are reported instead as general revenues. The District had no program revenues.

### **Fund Financial Statements:**

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column. The District has no proprietary activities, or non-major funds.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental fund:

### **General Fund**

The General Fund is the main operating fund of the District. This fund is used to account for the acquisition and use of the District's expendable financial resources and the related liabilities. The measurement focus is based upon determination of changes in financial position rather than upon net income determination.

### **Measurement Focus/Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

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

NOTES TO FINANCIAL STATEMENTS (continued)  
SEPTEMBER 30, 2011

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus/Basis of Accounting – continued**

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

Investment income is recorded as earned, since it is measurable and available.

**Budgetary Data**

The District uses the following procedures in establishing the budget reflected in the general purpose financial statements:

1. Prior to the beginning of each fiscal year, the Commissioners are presented with a proposed budget for the year beginning on the following October 1. The budget includes proposed expenditures and the means of financing them. The budget is legally enacted through passage of a resolution.
2. An annual budget is legally adopted for the General Fund. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America.
3. Revisions to the budget that alter General Fund expenditures must be approved by the Commissioners. The fund level is the legal level of budgetary control. Appropriations lapse at year-end.
4. Original budgeted amounts presented in the budgetary comparison schedule are as originally adopted by the Commissioners. The final amended budget reflects any amendments approved by the Commissioners during the year.

# DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS (continued)  
SEPTEMBER 30, 2011

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## **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, 2011, 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. FUND BALANCE**

Beginning with the fiscal year ending September 30, 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

# DENTON COUNTY EMERGENCY SERVICES DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS (continued) SEPTEMBER 30, 2011

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### **NOTE 2. FUND BALANCE (Continued)**

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified prepaid items as being nonspendable as these items are not expected to be converted to cash.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the District's bonded debt and are restricted through debt covenants. The District had no restricted resources as of September 30, 2011.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Commissioners. The Commissioners establish (and modify or rescind) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Commissioners remove or change the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District has no committed resources as of September 30, 2011.
- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent is expressed by the Commissioners. The District had no assigned fund balance as of September 30, 2011.
- Unassigned: This classification includes all amounts not included in other spendable classifications, including the residual fund balance for the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Commissioners have provided otherwise in its commitment or assignment actions.

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

NOTES TO FINANCIAL STATEMENTS (continued)  
SEPTEMBER 30, 2011

**NOTE 3 – 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.

**1. Cash Deposits:**

At September 30, 2011, the carrying amount of the District's deposits in checking accounts and interest-bearing accounts was \$206,442 and the bank balance was \$210,005. The District's cash deposits at September 30, 2011 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, 2011, the District had no investments.

**NOTE 4 – 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, 2011.

Amounts outstanding September 30, 2010	\$ -0-
Loan proceeds	250,000
Loan principal payments	<u>(250,000)</u>
Amounts outstanding September 30, 2011	<u>\$ -0-</u>

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

NOTES TO FINANCIAL STATEMENTS (continued)  
SEPTEMBER 30, 2011

**NOTE 5 – 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, 2011:

Description	Interest Rate	Balance 10/1/2010	Additions	Retirements	Balance 9/30/2011	Due Within One Year
Ambulance note	5.00%	\$ 92,193	\$ 0	\$ 29,236	\$ 62,957	\$ 30,762
Fire engine note	5.00%	400,774	0	36,041	364,733	38,358
<b>TOTAL</b>		<b>\$ 492,967</b>	<b>\$ 0</b>	<b>\$ 65,277</b>	<b>\$ 427,690</b>	<b>\$ 69,120</b>

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
2012	\$ 69,120	\$ 21,385	\$ 90,505
2013	72,471	17,928	90,399
2014	42,290	14,305	56,595
2015	44,405	12,190	56,595
2016	46,625	9,970	56,595
2017-2019	152,779	15,451	168,230
	<b>\$ 427,690</b>	<b>\$ 91,229</b>	<b>\$ 518,919</b>

**NOTE 6 – 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, 2011

**NOTE 6 – DIRECT FINANCING LEASES (Continued)**

The following lists the components of the net investment in the District's direct financing leases as of September 30, 2011:

	<u>Ambulance</u>	<u>Fire Engine</u>	<u>Total</u>
Total minimum lease payments to be received	\$ 67,820	\$ 452,760	\$ 520,580
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	67,820	452,760	520,580
Less: allowance for uncollectibles	<u>0</u>	<u>0</u>	<u>0</u>
Net minimum lease payments receivable	67,820	452,760	520,580
Less: unearned income	<u>(4,863)</u>	<u>(88,027)</u>	<u>(92,890)</u>
Net investment in direct financing leases	<u>\$ 62,957</u>	<u>\$ 364,733</u>	<u>\$ 427,690</u>

Future minimum lease payments to be received under the terms of the District's direct financing lease as of September 30, 2011 are as follows:

<u>Year Ended September</u>	<u>Amount</u>
2012	\$ 90,505
2013	90,505
2014	56,595
2015	56,595
2016	56,595
2017-2019	<u>169,785</u>
Total	<u>\$ 520,580</u>

**NOTE 7 – CAPITAL ASSETS**

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

	<u>Balance October 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2011</u>
Governmental Activities:				
Capital assets being depreciated:				
Furniture and equipment	\$ 3,277	\$ 2,285	\$ -	\$ 5,562
Total capital assets being depreciated	<u>3,277</u>	<u>2,285</u>	<u>-</u>	<u>5,562</u>
Less accumulated depreciation for:				
Furniture and equipment	<u>(253)</u>	<u>(694)</u>	<u>-</u>	<u>(947)</u>
Total accumulated depreciation	<u>(253)</u>	<u>(694)</u>	<u>-</u>	<u>(947)</u>
Total capital assets being depreciated, net	<u>\$ 3,024</u>	<u>\$ 1,591</u>	<u>\$ -</u>	<u>\$ 4,615</u>

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

**NOTE 8 – 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, 2011, the District levied an ad valorem debt service tax at the rate of \$.10 per \$100 of assessed valuation, which resulted in a tax levy of \$1,504,252 on the adjusted taxable valuation of \$1,504,251,890 for the 2010 tax year.

**NOTE 9 – 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 2011, the District did not carry commercial insurance to cover general liabilities.

**NOTE 10 – 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 11 – 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>	
9/30/12	\$ 13,976
9/30/13	<u>5,942</u>
Total Minimum Rentals	<u>\$ 19,918</u>
Rental Expenditures in Fiscal Year 2011	<u>\$ 12,798</u>



**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, 2011

	Budget		Actual	Variance Positive/ (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$ 1,476,558	\$ 1,476,558	\$ 1,516,519	\$ 39,961
Earned Income - Leases	-	-	25,228	25,228
Investment Income	-	-	373	373
Total Revenues	<u>1,476,558</u>	<u>1,476,558</u>	<u>1,542,120</u>	<u>65,562</u>
Expenditures:				
General Government	85,200	85,200	78,166	7,034
Public Safety	1,391,358	1,391,358	1,391,358	-
Capital Outlay	-	-	2,285	(2,285)
Debt Service - Principal	-	-	315,277	(315,277)
Debt Service - Interest	-	-	29,290	(29,290)
Total Expenditures	<u>1,476,558</u>	<u>1,476,558</u>	<u>1,816,376</u>	<u>(339,818)</u>
Excess (Deficit) of revenues over expenditures	-	-	(274,256)	(274,256)
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	-	-	(24,256)	(24,256)
Fund balance at beginning of year	<u>653,727</u>	<u>653,727</u>	<u>653,727</u>	<u>-</u>
Fund balance at end of year	<u>\$ 653,727</u>	<u>\$ 653,727</u>	<u>\$ 629,471</u>	<u>\$ (24,256)</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, 2011

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General Government	
Professional Fees:	
Legal Fees	\$ 7,906
Accounting and Audit	8,850
Contracted Services:	
Tax Appraisal and Collection	21,810
Other Administrative Expense:	
Contract Services	10,000
Honor Guard Costs	7,096
Travel	2,857
Seminars	615
Computer and Internet Costs	500
Legal Notices and Advertising	1,150
Telephone and Utilities	2,457
Office Rent	12,798
Postage	110
Office Supplies	106
Insurance	1,911
	<hr/>
Total General Government	78,166
	<hr/>
Public Safety:	
Emergency Services Contracts:	
Argyle Fire District	1,250,671
Roanoke Fire Department	118,709
Justin Fire Department	21,978
	<hr/>
Total Public Safety	1,391,358
	<hr/>
Capital Outlay:	
Furniture and Equipment	2,285
	<hr/>
Total Capital Outlay	2,285
	<hr/>
Debt Service - Principal	315,277
Debt Service - Interest	29,290
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Total Debt Service	344,567
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Total General Fund Expenditures	\$ 1,816,376
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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, 2011**

	<u>Maintenance Taxes</u>
Taxes Receivable, Beginning of Year	\$ 25,263
2010 Adjusted Tax Levy	1,504,252
Prior Year Supplements and Adjustments	<u>844</u>
Total to be accounted for	1,530,359
Less Tax Collections:	
Current Tax Year	1,488,896
Prior Tax Years	14,740
Receivable, End of Year	<u>\$ 26,723</u>
Aging of Receivable by Years:	
2010	\$ 15,356
Prior to 2010	11,367
Receivable, End of Year	<u>\$ 26,723</u>
Property Valuations	<u>2010</u>
Total Property Valuations	\$ 1,504,251,890
Tax Rates per \$100 Valuation:	
Debt Service Tax Rates	0.00
Maintenance Tax Rates	<u>0.10</u>
Total Tax Rates Per \$100 Valuation	<u>\$ 0.10</u>
Adjusted Tax Levy	\$ 1,504,252
Percent of Current Taxes Collected to Taxes Levied	<u>98.98%</u>

See accompanying auditors' report.

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

COMMISSIONERS AND CONSULTANTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

Name and Address	Term of Office Elected and Expires	Fees	Expense Reimbursement	Title at Year-End	Resident of District
Mike Sanford 6325 Faught Rd Northlake, TX 76226	11/1/10 to 10/31/12	\$400	\$621	President	Yes
Jay Haynes 734 Harpole Rd Argyle, TX 76226	2/1/10 to 1/31/12	\$0	\$0	Vice President	Yes
Jim Carter P.O. Box 85 Argyle, TX 76226	2/1/10 to 1/31/12	\$400	\$700	Secretary	Yes
Robert Downey 7370 Traux Circle Argyle, TX 76226	11/1/10 to 10/31/12	\$400	\$337	Treasurer	Yes
Steve Harris 240 Country Ct. Bartonville, TX 76226	11/1/10 to 10/31/12	\$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, 2011

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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		\$12,778	\$0	Appraisal District
Denton County Tax Assessor Collector 1505 E. McKinney, Suite 128 Denton, TX 76209		\$9,032	\$0	Tax Collections
Debra Drayovitch Drayovitch, P.C. 620 W. Hickory St. Denton, TX 76201		\$7,906	\$0	Attorney

See accompanying auditors' report.