

TRAVIS COUNTY
EMERGENCY SERVICES DISTRICT #3

ANNUAL FINANCIAL STATEMENTS
WITH OTHER SUPPLEMENTAL INFORMATION
AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2010

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3

Certificate of Board Approval

I, J. Edd New, President of the Board of Travis County Emergency Services District #3, do hereby certify that this accompanying audit report for the year ended September 30, 2010 from John F. Lewis P.C. was reviewed and approved at a meeting of the Board of Commissioners held on the 28th day of February, 2011.



J. Edd New
President, Board of Commissioners

TRAVIS COUNTY
EMERGENCY SERVICES DISTRICT #3

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TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
LISTING OF OFFICIALS
SEPTEMBER 30, 2010

Board of Commissioners

J. Edd New.....	President
John Villanacci.....	Vice President
Carroll Knight.....	Treasurer/Secretary
C. Rick Coneway.....	Assistant Treasurer
Robert L. Taylor.....	Commissioner

Command Staff

Gary Warren.....	Fire Chief
J.J. Wittig.....	Assistant Chief
Robert Hartigan.....	District Chief
Madeline Miller.....	Business / HR Manager

JOHN F. LEWIS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report


To the Board of Commissioners
Travis County Emergency Services District #3
Austin, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the discretely presented component unit of Travis County Emergency Services District #3 (the District), as of and for the year ended September 30, 2010. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-9 and 28 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.


John F. Lewis, P.C.

February 11, 2011

Required Supplementary Information

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3

Management's Discussion and Analysis For the Year Ended September 30, 2010

Our discussion and analysis of the financial performance of Travis County Emergency Services District #3, and provides an overview of the District's financial activities for the year ended September 30, 2010. Please read it in conjunction with the District's basic financial statements, which begin on page 10 of this report.

FINANCIAL HIGHLIGHTS

- The District's general fund had revenues of \$3,904,228 and expenditures of \$2,979,174 for the year ended September 30, 2010.
- The District had total net assets of \$5,929,753 at September 30, 2010.
- The District's cash and investment balances were \$3,117,559 as of September 30, 2010.
- The District's debt obligations consisted of capital leases payable, notes payable, and bonds payable with outstanding amounts of \$480,594, \$482,785, and \$3,770,000, respectively as of September 30, 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements of Travis County ESD #3. The District's basic financial statements comprise 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 declining.

The *statement of activities* presents information showing how the District's net assets changed during the most recent 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. Thus, the accrual basis of accounting is used, which is similar to the accounting used by most private-sector businesses. Some revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3

Management's Discussion and Analysis For the Year Ended September 30, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

In the Statement of Net Assets, we present the District as one type of fund:

Governmental - Most of the District's activities are reported here.

The government-wide financial statements are be found on pages 10-11 of this report.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

The fund financial statements begin on page 12, and provide detailed information about the most significant funds - not the District as a whole. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are included in one category: governmental funds. Some funds are required to be established by State law and by bond covenants; currently, the only fund required is the general fund. As the District ventures further into securing bonded debt on future endeavors it may be necessary to establish other 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 how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual*, which measures cash and all other financial assets that can readily be converted to cash.

The governmental fund statements provide a detailed short-term view of the District's general government operations and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities and governmental funds in the *Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets* and the *Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities* found on pages 13 and 15 of this report.

The *Notes to Financial Statements* provide additional information that is essential for 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 16-27 of this report.

Each year the District adopts a budget for its General Fund. A budgetary comparison schedule has been provided for the Governmental Funds to demonstrate compliance with this budget. This information can be found on page 28 of this report.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3

**Management's Discussion and Analysis
For the Year Ended September 30, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's net assets increased by \$525,795 during fiscal year 2010. At September 30, 2010, the District's assets exceed liabilities by \$5,929,753. The information below presents a summary of the net assets and changes in net assets of governmental activities over the past three years. Details of this information can be found in the Government-wide financial statements on pages 10-11 of this report.

Travis County ESD #3 - Net Assets

	Governmental Activities		
	2008	2009	2010
Assets:			
Current and other assets	\$ 2,276,241	\$ 2,667,065	\$ 3,163,138
Capital assets, net of accumulated depreciation	8,146,795	7,962,585	7,677,558
Intangible assets, net of accumulated amortization	<u>74,272</u>	<u>69,630</u>	<u>64,987</u>
Total Assets	<u>\$ 10,497,308</u>	<u>\$ 10,699,280</u>	<u>\$ 10,905,683</u>
Liabilities:			
Current and other liabilities	\$ 556,873	\$ 575,520	\$ 559,627
Non-current liabilities	<u>4,991,783</u>	<u>4,719,802</u>	<u>4,416,303</u>
Total Liabilities	<u>\$ 5,548,656</u>	<u>\$ 5,295,322</u>	<u>\$ 4,975,930</u>
Net Assets:			
Unrestricted	\$ 4,913,720	\$ 2,373,855	\$ 2,910,315
Invested in fixed assets, net of related debt	-	2,985,067	2,974,180
Restricted	<u>34,932</u>	<u>45,036</u>	<u>45,258</u>
Total Net Assets	<u>\$ 4,948,652</u>	<u>\$ 5,403,958</u>	<u>\$ 5,929,753</u>

Travis County ESD #3 - Changes in Net Assets

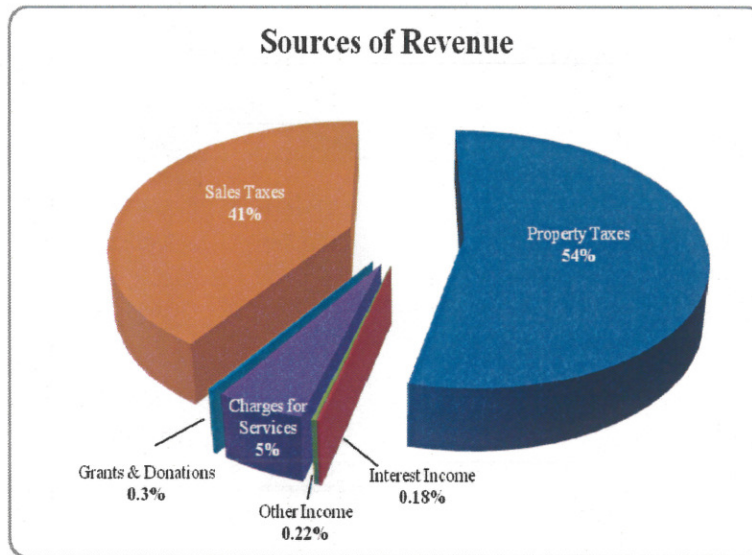
	Governmental Activities		
	2008	2009	2010
Revenues:			
Program revenue	\$ <u>124,877</u>	\$ <u>203,226</u>	\$ <u>198,849</u>
General revenues:			
Property taxes	1,820,119	2,017,566	2,105,183
Sales taxes	1,583,412	1,500,372	1,593,159
Interest and other income	<u>193,750</u>	<u>134,322</u>	<u>16,076</u>
Total General Revenues	<u>3,597,281</u>	<u>3,652,260</u>	<u>3,714,418</u>
Total Revenues	<u>3,722,158</u>	<u>3,858,486</u>	<u>3,913,267</u>
Expenses:			
Fire and Emergency Services	<u>3,346,444</u>	<u>3,392,010</u>	<u>3,387,472</u>
Total Expenses	<u>3,346,444</u>	<u>3,392,010</u>	<u>3,387,472</u>
Increase in Net Assets	<u>\$ 375,714</u>	<u>\$ 463,476</u>	<u>\$ 525,795</u>

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3

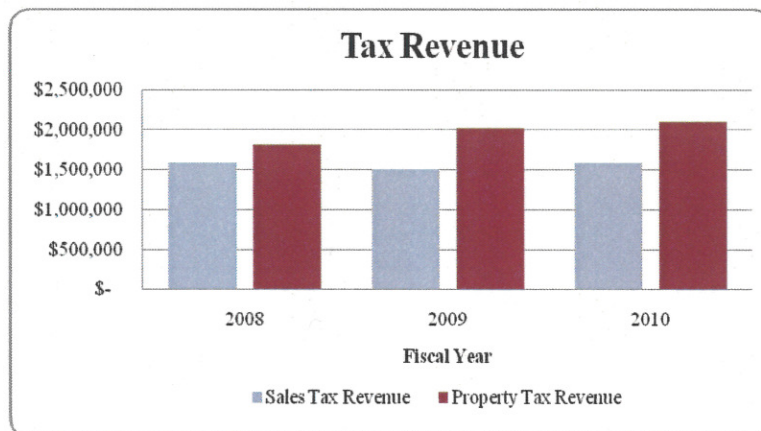
Management's Discussion and Analysis For the Year Ended September 30, 2010

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The District receives the majority of its revenue from property taxes and sales taxes collected by Travis County and remitted to the District. The following graph presents the different sources of revenue recorded by the District during fiscal year 2010.



Property tax revenues increased \$87,617 or 4.3% from fiscal year 2009. The related tax rate held by the District remained unchanged at \$0.10/\$100. The amount of sales tax collected by the District increased \$92,787 or 6.1% from fiscal year 2009. The following graph presents a comparison of the amount of property tax and sales tax revenue collected by the District for the years ended September 30, 2008, 2009, and 2010.



TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3

Management's Discussion and Analysis For the Year Ended September 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

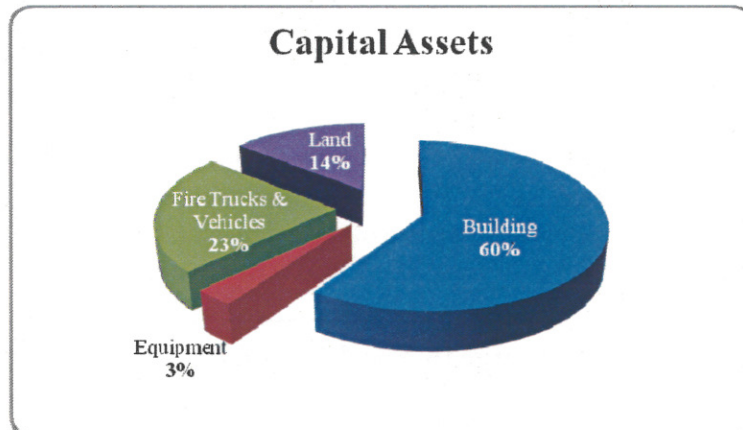
Total revenues for the District's governmental funds were \$3,904,751 while total expenditures were \$3,347,784. The excess of revenues over expenditures was \$556,967.

As of September 30, 2010, the fund balance in the General Fund was \$3,020,259, and \$45,258 in the Debt Service Fund. Details of this information can be found on pages 12 and 14 of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2010, the District had \$9,578,806 invested in capital assets, less accumulated depreciation of \$1,901,248. The following graph presents a detail of the types of capital assets held by the District at the year ended September 30, 2010.



In addition to the capital assets listed above, the District had an intangible asset consisting of bond issuance costs in the amount of \$64,987, net of accumulated amortization.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3

**Management's Discussion and Analysis
For the Year Ended September 30, 2010**

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Debt

As of September 30, 2010, the District had long-term debt consisting of capital leases payable, notes payable, and bonds payable. The following chart presents the current and long-term portions of each type of debt obligation.

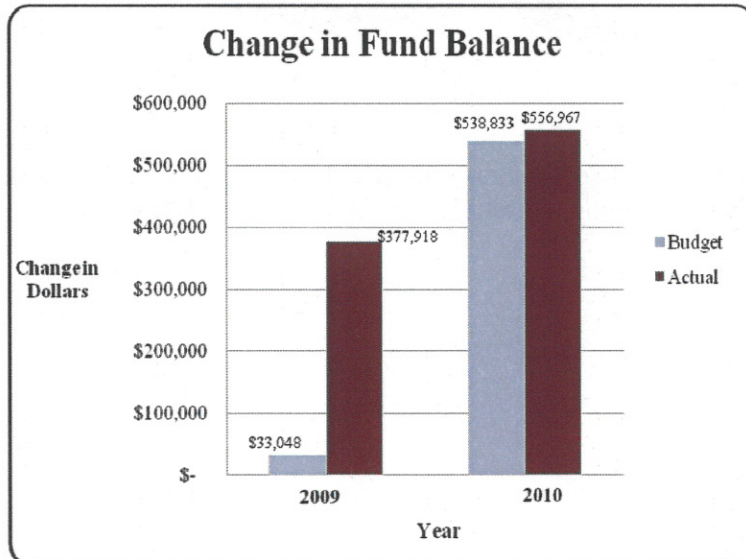
	Current Portion	Long-Term Portion	Total
Capital Leases Payable	\$ 72,705	\$ 407,888	\$ 480,593
Notes Payable	29,370	453,415	482,785
Bonds Payable	215,000	3,555,000	3,770,000
Total	\$ 317,075	\$ 4,416,303	\$ 4,733,378

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's appointed officials consider many factors when setting the fiscal budget, tax rates, and necessary expenses to be incurred in the next fiscal year's activities. The District's budgetary growth has mirrored its residential growth and economy.

During the year the District's general fund was over/under budget in various categories. The amount of these variances was not significant to the overall budget of the District and was caused by unexpected increases/decreases in operating costs and other maintenance items.

The District was able to generate an increase in fund balance above the amount that was budgeted for the year ended September 30, 2010. The following graph shows the final budgeted and actual amounts of the change in fund balance of governmental funds for the years ended September 30, 2009 and 2010. For a more detailed budget to actual comparison see page 28 of this report.



TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3

**Management's Discussion and Analysis
For the Year Ended September 30, 2010**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District at:

Travis County Emergency Services District #3
Attn: Treasurer
4111 Barton Creek Boulevard
Austin, Texas 78735

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

ASSETS	<u>Governmental Activities</u>	<u>Component Units</u>
Current Assets		
Cash and cash equivalents	\$ 880,208	\$ 9,412
TexPool investments	2,237,351	-
Property tax receivables (net of uncollectible taxes)	33,123	-
Accounts receivable - other	12,456	-
Total Current Assets	<u>3,163,138</u>	<u>9,412</u>
Noncurrent Assets		
Capital assets (net of accumulated depreciation)	7,677,558	5,850
Intangible assets (net of accumulated amortization)	64,987	-
Total Noncurrent Assets	<u>7,742,545</u>	<u>5,850</u>
TOTAL ASSETS	<u>\$ 10,905,683</u>	<u>\$ 15,262</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 6,225	\$ -
Salaries payable	61,967	-
Accrued liabilities	1,178	-
Accrued interest on long-term liabilities	30,534	-
Compensated absences payable	142,648	-
Leases payable, current portion	72,705	-
Notes payable, current portion	29,370	-
Bonds payable, current portion	215,000	-
Total Current Liabilities	<u>559,627</u>	<u>-</u>
Noncurrent Liabilities		
Leases payable, less current portion	407,888	-
Notes payable, less current portion	453,415	-
Bonds payable, less current portion	3,555,000	-
Total Noncurrent Liabilities	<u>4,416,303</u>	<u>-</u>
TOTAL LIABILITIES	<u>4,975,930</u>	<u>-</u>
NET ASSETS		
Unrestricted	2,910,315	15,262
Invested in fixed assets, net of related debt	2,974,180	-
Restricted	45,258	-
TOTAL NET ASSETS	<u>\$ 5,929,753</u>	<u>\$ 15,262</u>

See independent auditors' report and accompanying notes to financial statements

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Functions/Programs	Expenses			Program Revenues			Net (Expenses) Revenue and Changes in Net Assets	
	Expenses	Administration Allocation	Expenses after Allocation of Administration	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Governmental Activities
Governmental Activities:								
Fire and Emergency Services	\$ 3,079,699	\$ 18,924	\$ 3,098,623	\$ 195,099	\$ 3,750	\$ -	\$ (2,899,774)	\$ -
Interest on long-term debt	288,849	-	288,849	-	-	-	(288,849)	-
Administration	18,924	(18,924)	-	-	-	-	-	-
Total Governmental Activities	\$ 3,387,472	\$ -	\$ 3,387,472	\$ 195,099	\$ 3,750	\$ -	\$ (3,188,623)	\$ -
Response Training Foundation	\$ 743	\$ -	\$ 743	\$ -	\$ 6,470	\$ -	\$ -	\$ 5,727
General revenue								
Property taxes							2,105,183	-
Sales taxes							1,593,159	-
Interest income							7,320	-
Other income							8,756	-
Total General Revenue							3,714,418	-
Change in Net Assets							525,795	5,727
Net Assets, beginning of year							5,403,958	9,535
Net Assets, end of year							\$ 5,929,753	\$ 15,262

See independent auditors' report and accompanying notes to financial statements

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 834,950	\$ 45,258	\$ 880,208
TexPool investments	2,237,351	-	2,237,351
Property taxes receivable (net of uncollectible taxes)	33,123	-	33,123
Accounts receivable - other	<u>12,456</u>	<u>-</u>	<u>12,456</u>
TOTAL ASSETS	<u>\$ 3,117,880</u>	<u>\$ 45,258</u>	<u>\$ 3,163,138</u>
LIABILITIES			
Accounts payable	\$ 6,225	\$ -	\$ 6,225
Salaries payable	57,095	-	57,095
Accrued liabilities	1,178	-	1,178
Deferred revenue	<u>33,123</u>	<u>-</u>	<u>33,123</u>
TOTAL LIABILITIES	<u>97,621</u>	<u>-</u>	<u>97,621</u>
FUND BALANCE			
Unrestricted	3,020,259	-	3,020,259
Restricted for debt service	<u>-</u>	<u>45,258</u>	<u>45,258</u>
TOTAL FUND BALANCE	<u>3,020,259</u>	<u>45,258</u>	<u>3,065,517</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,117,880</u>	<u>\$ 45,258</u>	<u>\$ 3,163,138</u>

See independent auditors' report and accompanying notes to financial statements

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

Total Governmental Fund Balances	\$	3,065,517
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets (net) and investments used in governmental activities are not financial resources and therefore are not reported in the funds.		7,742,545
Long-term liabilities, including bonds payable, notes payable capital leases and compensated absences payable are not due and payable in the current period and therefore are not reported in the funds.		(4,880,898)
Expenses in the statement of activities that do not use current financial resources are not reported as expenses in the funds.		(30,534)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		<u>33,123</u>
Net Assets of Governmental Activities	\$	<u><u>5,929,753</u></u>

See independent auditors' report and accompanying notes to financial statements

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Debt Service	Total
Revenues			
Property taxes	\$ 2,096,667	\$ -	\$ 2,096,667
Sales tax	1,593,159	-	1,593,159
Grants and donations	3,750	-	3,750
Charges for services	195,099	-	195,099
Miscellaneous income	8,756	-	8,756
Interest income	6,797	523	7,320
Total Revenues	<u>3,904,228</u>	<u>523</u>	<u>3,904,751</u>
Expenditures			
Current:			
General and administrative	248,080	-	248,080
Public safety	2,585,848	-	2,585,848
Debt Service:			
Principal retirement	96,077	205,000	301,077
Interest and fees	49,169	163,610	212,779
Total Expenditures	<u>2,979,174</u>	<u>368,610</u>	<u>3,347,784</u>
Excess (Deficiency) of			
Revenues Over Expenditures	925,054	(368,087)	556,967
Other Financing Sources (Uses)			
Transfers In	-	368,309	368,309
Transfers Out	(368,309)	-	(368,309)
Total Other Financing Sources (Uses)	<u>(368,309)</u>	<u>368,309</u>	<u>-</u>
Net Change in Fund Balance	556,745	222	556,967
Fund Balance, beginning of year	<u>2,463,514</u>	<u>45,036</u>	<u>2,508,550</u>
Fund Balance, end of year	<u>\$ 3,020,259</u>	<u>\$ 45,258</u>	<u>\$ 3,065,517</u>

See independent auditors' report and accompanying notes to financial statements

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$	556,967
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense for the period</p>		(299,966)
<p>Governmental funds report bond issuance as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as amortization expense. This is the amount by which bond issuance was reduced by amortization expense in the current period.</p>		(4,642)
<p>Repayment of principal on long-term debt is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount of principal repayments on long-term debt in the current period.</p>		301,077
<p>Some revenues in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the governmental funds.</p>		8,517
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds</p>		<u>(36,158)</u>
Change in Net Assets of Governmental Activities	\$	<u>525,795</u>

See independent auditors' report and accompanying notes to financial statements

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The District currently reports under the financial reporting requirements of GASB Statement Nos. 34 and 37, subsequent with other statements applicable to the reporting period. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Financial Reporting Entity

Prior to October 1, 1992, the District operated as a rural fire prevention district (Travis County Rural Fire Prevention District No. 6) under Article III, Section 48-d of the Texas Constitution. On January 18, 1992, the voters of the District approved the formation of an emergency services district under Article III, Section 48-e of the Texas Constitution. On January 18, 1992, the County Commissioners Court of Travis County, State of Texas approved the order to form the Travis County Emergency Services District No. 3. The District was formed on October 1, 1992, and operates under a Board of Directors appointed by the Commissioners Court of Travis County. The District is exempt from federal income taxes, state sales tax and state franchise tax.

Discretely Presented Component Unit

Oak Hill Regional Emergency Response Training Foundation (the Foundation) is a discretely presented component unit of the District. The Foundation is a non-profit corporation dedicated to providing emergency service training. The Foundation is a legally separate entity determined to be a non-major discretely presented component unit of the District due to the District's voting majority in the governing body, financial support and the ability to impose its will on the Foundation. The Foundation is reported on the accrual basis of accounting, following accounting principles generally accepted in the United States of America, and is only reported in the Statement of Net Assets and Statement of Activities located on page 10 and 11. Complete information and financial statements can be obtained from the Foundation's office, which is located at 4111 Barton Creek Blvd., Austin, Texas 78735.

Mission Statement

The mission of the District is "To Preserve Life and Property."

Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the reporting entity. Governmental activities generally are financed through taxes, intergovernmental and non-exchange revenues. The District currently does not have any business-type activities.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- A. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental fund or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- B. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in other funds.

Debt Service Fund - The Debt Service Fund is used to accumulate resources for the payment of general long term debt principal, interest, and related costs (other than those payable from enterprise funds and special assessment funds).

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, the governmental activities are presented using the economic resources measurement focus as defined in item A. below. In the fund financial statements, the “current financial resources” measurement focus is used as appropriate:

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (continued)

A. All government funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available financial resources during a given period. These funds use fund balance as their measure of available financial resources at the end of the period.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

Assets, Liabilities, and Equity

Cash

The District maintains pooled cash, which are separately held and maintained in their respective funds or component units as “cash and cash equivalents”.

Cash deposits and investments are reported at the carrying amount, which reasonably estimates fair value.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Equity (Continued)

Capital Assets

All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets.

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

The District currently maintains a policy of capitalizing all items that meet or exceed \$5,000 individually. Those items that do not meet the capitalization requirements are expensed accordingly.

The range of estimated useful lives by type of asset is as follows:

Fire Trucks and Vehicles	5-20 Years
Building and Improvements	20-40 Years

Fund Financial Statements

In the fund financial statements, capital assets used in government fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. The long-term debt consists of capital leases, notes payable, and bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Equity (Continued)

Source of Funds

Ad valorem taxes, penalties and interest are reported as revenue in the fiscal year in which they become available to finance expenditures of the District. Property taxes accounted for approximately 54% of the District's revenue for the year ended September 30, 2010.

Equity Classifications

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- A. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- B. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as committed or unassigned. The District currently does not carry any committed fund balances.

Revenue, Expenditures and Expenses

Property Taxes

Property taxes are collected by Nelda Wells Spears, Travis County Tax Assessor Collector, and are forwarded to the District through bank transfer. The tax rate held by the District during 2010 was \$0.10/\$100. Property tax revenues are considered available when they become due or past due and are considered receivable within the current period, including those property taxes expected to be collected during a sixty-day period after the close of the District's fiscal year. Property taxes are billed on October 1 of each year, a lien is placed on the property on January 1, and the taxes become due on January 31. Property taxes receivable for 2010 are \$49,718 net of allowance for doubtful accounts of \$16,596.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue, Expenditures and Expenses (Continued)

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Character: Current (further classified by function)
Non-Current
Capital Outlay

Other

Use of 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

NOTE B - CASH AND CASH EQUIVALENTS

Deposits

It is the District's policy for deposits to be 100 percent secured by collateral valued at market or par, whichever is lower, less the amount of Federal Deposit Insurance Corporation insurance. The District's deposits are categorized to give an indication of the level of risk assumed by the District at the fiscal year-end.

The categories are described below:

Category 1 - Insured or collateralized by securities held by the District or by its agent in the District's name.

Category 2 - Collateralized with securities held by the pledging institution's trust department or agent in the District's name.

Category 3 - Uncollateralized.

At September 30, 2010, the District's carrying amount of cash deposits was \$880,208, and the bank balance was \$955,179. All cash deposits were categorized as Category 1 as of September 30, 2010.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

NOTE B - CASH & CASH EQUIVALENTS (Continued)

The district has investments in the Texas Local Government Investment Pool (TexPool). TexPool is a public funds investment pool created by the Treasurer of the State of Texas pursuant to the Interlocal Cooperation Act of the State of Texas. The District has delegated authority to hold legal title to TexPool as custodian and to make investment purchases with the District's funds. The District owns specific, identifiable investment securities of the pool; consequently, no disclosure of categories of credit risk is made.

The market value is determined by the number of pool shares owned on that day. Each share is valued at \$1.00. The market value of the TexPool investments at September 30, 2010, was \$2,237,351.

Types of investments:	Fair Value	Cost	Average Credit Rating (1)	Weighted Average Days to Maturity (2)
<u>Non-Pooled Investments (Government-wide):</u>				
<i>Governmental Activities</i>				
Major Funds:				
General Fund – TexPool	\$ 2,237,351	\$ 2,237,351	AAA	77
Total Investments	<u>\$ 2,237,351</u>	<u>\$ 2,237,351</u>		

- (1) Ratings are provided where applicable to indicate associated credit risk.
- (2) Uses the final maturity of any floating rate instruments held in the portfolio to calculate the weighted average maturity for the investment.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

NOTE C - CAPITAL ASSETS

A summary of changes in capital assets during the year ended September 30, 2010 is as follows:

	<u>Balance</u> <u>9/30/2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>9/30/2010</u>
<i>Governmental Activities</i>				
Depreciable Assets:				
Building & Improvements	\$ 5,707,800	\$ -	-	\$ 5,707,800
Equipment	287,606	14,938	-	302,544
Fire Trucks & Vehicles	<u>2,217,801</u>	<u>-</u>	<u>-</u>	<u>2,217,801</u>
Total Depreciable Assets	<u>8,213,207</u>	<u>14,938</u>	<u>-</u>	<u>8,228,145</u>
Nondepreciable Assets:				
Land (non-depreciable)	<u>1,350,661</u>	<u>-</u>	<u>-</u>	<u>1,350,661</u>
Total Nondepreciable Assets	<u>1,350,661</u>	<u>-</u>	<u>-</u>	<u>1,350,661</u>
Less: Accumulated Depreciation	<u>(1,601,283)</u>	<u>(299,965)</u>	<u>-</u>	<u>(1,901,248)</u>
Total Capital Assets, net of Accumulated Depreciation	<u>\$ 7,962,585</u>	<u>\$ (285,678)</u>	<u>\$ -</u>	<u>\$ 7,677,558</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ <u>299,965</u>
Total Depreciation Expense	\$ <u>299,965</u>

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

NOTE D - INTANGIBLE ASSETS

Intangible assets for the year ended September 30, 2010 are as follows:

	Balance 9/30/2009	Additions	Deletions	Balance 9/30/2010
Bond Issuance Costs	\$ 92,840	\$ -	\$ -	\$ 92,840
Total Intangible Assets	<u>92,840</u>	<u>-</u>	<u>-</u>	<u>92,840</u>
Less: Accumulated Amortization	<u>(23,211)</u>	<u>(4,642)</u>	<u>-</u>	<u>(27,853)</u>
Total Capital Assets, net of Accumulated Depreciation	<u>\$ 69,629</u>	<u>\$ (4,642)</u>	<u>\$ -</u>	<u>\$ 64,987</u>

Amortization was charged to governmental functions as follows:

General Government	\$ <u>4,642</u>
Total Amortization Expense	\$ <u>4,462</u>

NOTE E - CAPITAL LEASE OBLIGATIONS

The district maintains a capital lease collateralized by a Pierce Quantum Ladder Truck and a Quantum CAFS Pumper. The terms of the lease are as follows:

Loan Amount: \$714,643
 Maturity Date: March 2, 2016
 Interest Rate: 4.65% per annum
 Payment Terms: Payments are due and payable in annual installments of \$90,983 beginning March 2, 2007 and ending March 2, 2016. The loan is collateralized with the ladder truck and CAFS pumper. The total outstanding balance at September 30, 2010 was \$467,061.

The district maintains a capital lease collateralized by two Sharp copiers. The terms of the lease are as follows:

Loan Amount: \$14,938
 Maturity Date: April 26, 2014
 Interest Rate: 6.1% per annum
 Payment Terms: Payments are due and payable in monthly installments of \$360 beginning April 26, 2010 and ending April 26, 2014. The loan is collateralized with the copiers. The total outstanding balance at September 30, 2010 was \$13,532.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

NOTE E - CAPITAL LEASE OBLIGATIONS (Continued)

The future debt service for capital leases payable is as follows:

Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 72,705	\$ 22,597
2012	76,187	19,116
2013	79,838	15,465
2014	81,845	11,658
2015	83,077	7,906
Thereafter	<u>86,941</u>	<u>4,043</u>
Totals	<u>\$ 480,593</u>	<u>\$ 80,785</u>

NOTE F - NOTES PAYABLE

The District maintains a loan agreement used for the construction of an emergency services training facility. The note is secured by a ground lease agreement which began July 17, 2007 and runs through July 17, 2037. Per the agreement, the District receives \$1 per year on the date of commencement for the use and occupancy of the property. The terms of the note are as follows:

Loan Amount: \$500,000
 Maturity Date: July 17, 2007
 Interest Rate: 5.1% per annum
 Payment Terms: Payments are due and payable in annual installments of \$40,462 beginning July 17, 2008 and ending July 17, 2027. The total outstanding balance at September 30, 2010 was \$452,785.

The future debt service for the note is as follows:

Year Ending <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 17,370	\$ 23,092
2012	18,256	22,206
2013	19,187	21,275
2014	20,166	20,297
2015	21,194	19,268
Thereafter	<u>356,612</u>	<u>128,934</u>
Totals	<u>\$ 452,785</u>	<u>\$ 235,072</u>

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

NOTE F - NOTES PAYABLE (Continued)

The District received an overpayment of sales tax revenue from the Texas State Comptroller's office. In order to reimburse the Comptroller's office, the District makes payments of \$1,000 per month until the amount has been repaid in full. There is no interest involved in the repayment plan.

The future payments for the repayment of sales tax are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>
2011	\$ 12,000
2012	12,000
2013	<u>6,000</u>
Totals	<u>\$ 30,000</u>

NOTE G - LIMITED TAX BONDS

The District has two series of bonds outstanding. For each, interest is paid twice per year and principal once per year.

Future payments for the Limited Tax Bond, Series 2003 are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 155,000	\$ 105,215	\$ 260,215
2012	160,000	99,712	259,712
2013	165,000	94,032	259,032
2014	170,000	88,010	258,010
2015	180,000	81,720	261,720
2016	185,000	74,790	259,790
2017	190,000	67,390	257,390
2018	200,000	59,505	259,505
2019	210,000	51,005	261,005
2020	220,000	41,870	261,870
2021	225,000	32,080	257,080
2022	235,000	22,067	257,067
2023	<u>250,000</u>	<u>11,375</u>	<u>261,375</u>
Total	<u>\$ 2,545,000</u>	<u>\$ 828,771</u>	<u>\$ 3,373,771</u>

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

NOTE G - LIMITED TAX BONDS (Continued)

Future payments for the Limited Tax Bond, Series 2005 are as follows:

Year Ending September 30,	Principal	Interest	Total
2011	\$ 60,000	\$ 51,448	\$ 111,448
2012	65,000	45,047	110,047
2013	65,000	46,448	111,448
2014	70,000	43,848	113,848
2015	70,000	41,047	111,047
2016	75,000	38,248	113,248
2017	75,000	35,060	110,060
2018	80,000	31,873	111,873
2019	85,000	28,472	113,472
2020	85,000	24,860	109,860
2021	90,000	21,248	111,248
2022	95,000	17,422	112,422
2023	100,000	13,385	113,385
2024	105,000	9,135	114,135
2025	105,000	4,561	109,561
Total	<u>\$ 1,225,000</u>	<u>\$ 452,102</u>	<u>\$ 1,677,102</u>

NOTE H - PENSION PLAN

The District provides a 457 Deferred Compensation Plan to its employees in which it matches up to 9.5% of employee contributions. During the year ended September 30, 2010, the District contributed a total of \$100,214 on behalf of employees.

NOTE I - RISK MANAGEMENT

During the ordinary course of business the District becomes exposed to various risks of loss related to torts, theft of, damage and destruction of assets; business interruption; errors and omissions; and natural disasters, for which it carries commercial insurance at levels consistent with that of prior years. Risk retention is substantially confined to customarily nominal policy deductibles. Resulting risk management liabilities, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There are no liabilities that have been made known to management, or are reported in these financial statements.

NOTE J - SUBSEQUENT EVENTS

Management has evaluated subsequent events for disclosure and/or recognition through the date of the *Independent Auditors' Report*, which is the date the financial statements were available to be issued.

Required Supplementary Information

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property taxes	\$ 2,068,739	\$ 2,096,718	\$ 2,096,667	\$ (51)
Sales tax	1,419,065	1,593,159	1,593,159	-
Grants and donations	3,000	3,750	3,750	-
Charges for services	166,082	194,835	195,099	264
Miscellaneous income	11,060	8,685	8,756	71
Interest income	30,000	6,800	7,320	520
Total Revenues	<u>3,697,946</u>	<u>3,903,947</u>	<u>3,904,751</u>	<u>804</u>
Expenses				
Cost of revenue acquisition	81,071	75,680	66,343	9,337
Emergency response	413,789	345,504	190,144	155,360
Continued education	190,795	161,793	159,036	2,757
Human resources	2,277,310	2,165,372	2,166,545	(1,173)
Administration	642,381	612,440	761,936	(149,496)
Prevention/public education	5,325	4,325	3,780	545
Contingency	63,630	-	-	-
Total Expenses	<u>3,674,301</u>	<u>3,365,114</u>	<u>3,347,784</u>	<u>17,330</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 23,645</u>	<u>\$ 538,833</u>	556,967	<u>\$ 18,134</u>
Fund Balance, beginning of year			<u>2,508,550</u>	
Fund Balance, end of year			<u>\$ 3,065,517</u>	

See independent auditors' report and accompanying notes to financial statements

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