

**TRAVIS COUNTY
EMERGENCY SERVICES
DISTRICT NO. 14**

**Financial Statements for the
Year Ended September 30, 2010 and
Independent Auditors' Report**

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT NO. 14

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-5
BASIC FINANCIAL STATEMENTS:	
Statement of Net Assets and Governmental Fund Balance Sheet	6
Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance	7
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	8
Notes to Basic Financial Statements	9-14



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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
Travis County Emergency Services District No. 14:

We have audited the accompanying financial statements of the governmental activities and the major fund of Travis County Emergency Services District No. 14 (the "District") as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express opinions 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District as of September 30, 2010, the respective changes in financial position, and the respective budgetary comparison for the General Fund 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 on pages 2 through 5 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.

Maxwell Locke & Ritter LLP
March 4, 2011

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Travis County Emergency Services District No. 14

Management's Discussion & Analysis

September 30, 2010

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, the management of Travis County Emergency Services District No. 14 (the "District") offers the following narrative on the financial performance of the District for the year ended September 30, 2010. Please read it in connection with the District's financial statements that follow.

For purposes of GASB Statement No. 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the "General Fund" column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the Statement of Net Assets and the Statement of Activities.

Overview of the Basic Financial Statements

The District's reporting is comprised of two parts:

- *Management's Discussion and Analysis* (this section)

- *Basic Financial Statements*
 - *Statement of Net Assets and Governmental Fund Balance Sheet*
 - *Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance*
 - *Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund*
 - *Notes to Basic Financial Statements*

The *Statement of Net Assets and Governmental Fund Balance Sheet* includes a column (titled "General Fund") that represents a balance sheet prepared using the modified accrual basis of accounting. The adjustments column converts those balances to a balance sheet that more closely reflects a private-sector business. Over time, increases or decreases in the District's net assets will indicate financial health.

The *Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance* includes a column (titled "General Fund") that derives the change in fund balance resulting from current year revenues, expenditures, and other financing sources or uses. These amounts are prepared using the modified accrual basis of accounting. The adjustments column converts those activities to full accrual, a basis that more closely represents the income statement of a private-sector business.

The *Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund* presents a comparison statement between the District's adopted budget to its actual results.

The *Notes to Basic Financial Statements* provide additional information that is essential to a full understanding of the information presented in the *Statement of Net Assets and Governmental Fund Balance Sheet* and the *Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance*.

The District as a Whole

The District's combined net assets for the years ending September 30, 2010 and 2009 are shown in the table below. Our analysis below focuses on the net assets and changes in the net assets of the District's governmental activities as reported in the accrual basis of accounting.

STATEMENT OF NET ASSETS

	<u>9/30/2010</u>	<u>9/30/2009</u>
Assets:		
Current	\$ 666,744	\$ 610,109
Capital assets (net of accumulated depreciation)	742,031	732,801
TOTAL ASSETS	<u>\$ 1,408,775</u>	<u>\$ 1,342,910</u>
Liabilities-		
Current liabilities	\$ 179,255	\$ 198,103
TOTAL LIABILITIES	<u>179,255</u>	<u>198,103</u>
Net Assets:		
Invested in capital assets, net of related debt	742,031	695,292
Unrestricted	487,489	449,515
TOTAL NET ASSETS	<u>\$ 1,229,520</u>	<u>\$ 1,144,807</u>

The District's total assets were approximately \$1,409,000 as of September 30, 2010. Of this amount, approximately \$742,000 is accounted for by capital assets. The District had outstanding liabilities of approximately \$179,000 as of September 30, 2010 which represents current liabilities.

The changes in net assets for the respective periods are also shown in the table below.

STATEMENT OF ACTIVITIES

	<u>9/30/2010</u>	<u>9/30/2009</u>
Revenues-		
General revenues	\$ 1,009,120	\$ 983,637
TOTAL REVENUES	<u>1,009,120</u>	<u>983,637</u>
Expenses:		
Service operations	871,294	839,749
Depreciation	51,282	44,967
Debt service	1,831	3,576
TOTAL EXPENSES	<u>924,407</u>	<u>888,292</u>
CHANGE IN NET ASSETS	<u>\$ 84,713</u>	<u>\$ 95,345</u>

General revenues increased by approximately \$25,000 to approximately \$1,009,000 for the fiscal year ended September 30, 2010 due to an increase in property taxes. Property taxes generated approximately \$1,008,000 in revenues. Total expenses increased approximately \$36,000 to approximately \$924,000 for the fiscal year ended September 30, 2010. Net assets increased approximately \$85,000 for the fiscal year ended September 30, 2010 compared to an increase of approximately \$95,000 for the fiscal year ended September 30, 2009.

The District Governmental Funds

At the end of the fiscal year September 30, 2010, the District's governmental fund reported a fund balance of approximately \$464,000, which is an increase of approximately \$34,000 from last year, the majority of which is due to the timing of property tax revenue recognition.

General Fund Budgetary Highlights

Over the course of the fiscal year, the District revised its General Fund budget. These budget amendments include supplemental appropriations throughout the fiscal year to prevent budget line item overruns. Total budgeted expenditures in the final amended General Fund budget increased as compared to the original budget to cover additional costs for the water tank project for the Volente Volunteer Fire Department.

With these budget adjustments, the actual expenditures in the General Fund were approximately \$106,000 below the final budget amounts. Resources available for appropriation were \$38,000 above the final budgeted amount. The primary reason for the increase was due to the property tax collections being more than budgeted.

Capital Asset and Debt Administration

Capital Assets

At September 30, 2010, the District had the following capital assets in operation.

CAPITAL ASSETS AT PERIOD END

	<u>9/30/2010</u>	<u>9/30/2009</u>
Land	\$ 252,997	\$ 252,997
Vehicles	649,634	617,994
Equipment	54,768	25,896
Buildings	43,049	43,049
TOTAL CAPITAL ASSETS	<u>1,000,448</u>	<u>939,936</u>
Accumulated depreciation	<u>(258,417)</u>	<u>(207,135)</u>
TOTAL NET CAPITAL ASSETS	<u><u>\$ 742,031</u></u>	<u><u>\$ 732,801</u></u>

For the year ended September 30, 2010, the District's capital outlay totaled \$61,000, consisting of vehicle and equipment purchases. More detailed information about the District's capital assets is presented in the *Notes to Basic Financial Statements*.

Capital Lease Obligations

There was no capital lease obligations outstanding as of September 30, 2010 as the final payment was made during fiscal year 2010. Principal and interest payments of \$39,340 were made during the fiscal year ending September 30, 2010. More detailed information about the District's capital lease obligations is presented in the *Notes to Basic Financial Statements*.

Economic Factors, Next Year's Budgets and Rates

The District Commissioners considered various factors when setting the fiscal year budget and the ad valorem tax rate that will be charged for the governmental activities. Considerations included the economy of the area within the District boundaries. Tax revenues are currently limited by the mandatory \$0.10 per \$100 of assessed valuation cap. The adopted budget for fiscal year 2011 for the District's governmental fund projects a fund balance decrease of approximately \$75,000.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District at Travis County Emergency Services District No. 14, Attn: Treasurer, 15406 FM 2769, Volente, Texas 78641.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT NO. 14

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET SEPTEMBER 30, 2010

	GENERAL FUND	ADJUSTMENTS (NOTE 2)	STATEMENT OF NET ASSETS
ASSETS:			
Cash	\$ 642,028	-	642,028
Taxes receivable	24,716	-	24,716
Capital assets (net of accumulated depreciation):			
Land	-	252,997	252,997
Vehicles	-	415,064	415,064
Equipment	-	37,639	37,639
Buildings	-	36,331	36,331
TOTAL ASSETS	\$ 666,744	742,031	1,408,775
 LIABILITIES:			
Accounts payable	\$ 179,255	-	179,255
Deferred revenue	23,183	(23,183)	-
Total liabilities	202,438	(23,183)	179,255
 FUND BALANCE/NET ASSETS-			
Fund balance-			
Unreserved, undesignated	464,306	(464,306)	-
Total fund balance	464,306	(464,306)	-
TOTAL LIABILITIES AND FUND BALANCE	\$ 666,744		
 Net assets:			
Investment in capital assets, net of related debt		742,031	742,031
Unrestricted		487,489	487,489
TOTAL NET ASSETS		\$ 1,229,520	\$ 1,229,520

The notes to financial statements are an integral part of this statement.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT NO. 14

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

	GENERAL FUND	ADJUSTMENTS (NOTE 2)	STATEMENT OF ACTIVITIES
REVENUES:			
General revenues:			
Property taxes, including penalties and interest	\$ 1,004,514	3,487	1,008,001
Interest	1,119	-	1,119
Total revenues	<u>1,005,633</u>	<u>3,487</u>	<u>1,009,120</u>
EXPENDITURES/EXPENSES:			
Service operations:			
Volente Volunteer Fire Department funding	509,468	-	509,468
City of Cedar Park contract	338,887	-	338,887
Tax appraisal/collection fees	8,708	-	8,708
Legal fees	2,205	-	2,205
Advertising	57	-	57
Membership dues	1,000	-	1,000
Audit fees	7,500	-	7,500
Bank fees	359	-	359
Office supplies	186	-	186
Other expenses	2,924	-	2,924
Capital outlay	60,512	(60,512)	-
Depreciation	-	51,282	51,282
Debt service:			
Principal payments	37,509	(37,509)	-
Interest payments	1,831	-	1,831
Total expenditures/expenses	<u>971,146</u>	<u>(46,739)</u>	<u>924,407</u>
Excess of revenues over expenditures	34,487	(34,487)	-
Change in net assets	-	84,713	84,713
FUND BALANCE/NET ASSETS:			
Beginning of year	<u>429,819</u>	<u>714,988</u>	<u>1,144,807</u>
End of year	<u>\$ 464,306</u>	<u>765,214</u>	<u>1,229,520</u>

The notes to financial statements are an integral part of this statement.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT NO. 14

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

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL		
REVENUES:				
General revenues:				
Property taxes, including penalties and interest	\$ 962,964	962,964	1,004,514	41,550
Interest	5,000	5,000	1,119	(3,881)
Total revenues	967,964	967,964	1,005,633	37,669
EXPENDITURES:				
Service operations:				
Volente Volunteer				
Fire Department funding	618,450	650,450	509,468	140,982
City of Cedar Park contract	329,000	329,000	338,887	(9,887)
Tax appraisal/collection fees	9,200	9,200	8,708	492
Legal fees	5,000	5,000	2,205	2,795
Training	1,200	1,200	-	1,200
Advertising	1,800	1,800	57	1,743
Membership dues	1,000	1,000	1,000	-
Audit fees	7,000	7,000	7,500	(500)
Bank fees	500	500	359	141
Office supplies	400	400	186	214
Other expenses	31,350	31,350	2,924	28,426
Capital outlay	40,000	40,000	60,512	(20,512)
Debt service:				
Principal payments	-	-	37,509	(37,509)
Interest payments	-	-	1,831	(1,831)
Total expenditures	1,044,900	1,076,900	971,146	105,754
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(76,936)	(108,936)	34,487	143,423
FUND BALANCE:				
Beginning of year	429,819	429,819	429,819	-
End of year	\$ 352,883	320,883	464,306	143,423

The notes to financial statements are an integral part of this statement.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT NO. 14

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Travis County Emergency Services District No. 14 (the “District”) was approved by voters of the District in a general election on November 5, 1985 as Travis County Fire Control District No. 11. Pursuant to Texas Health and Safety Code 794.100, the District was legally converted to a district operating under the Texas Health and Safety Code, Chapter 775, by an election of the voters of the District held on November 2, 1999. As a result, the name of the District changed effective December 2, 1999 and the District automatically assumed all rights and obligations of the former entity. The District provides fire suppression, emergency medical and rescue first response, hazardous materials incident response, and other emergency incident response that may arise within its boundaries.

The reporting entity of the District encompasses those activities and functions over which the District’s appointed officials exercise significant oversight or control. The District is governed by a five member Board of Commissioners which has been appointed by the Travis County Commissioners’ Court, in accordance with state law. The District is not included in any other governmental “reporting entity” as defined by the Governmental Accounting Standards Board (“GASB”) Statement No. 14 since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

Government-Wide and Fund Financial Statements - For purposes of GASB Statement No. 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the “General Fund” column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the statement of net assets and the statement of activities.

The government-wide financial statements report information on all of the activities of the District.

The statement of activities demonstrates the degree to which the expenses are offset by program revenues. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Major revenue sources considered susceptible to accrual include interest income. An accrual for property taxes collected within sixty days of year-end has been made; delinquent property taxes at period end are reported as deferred revenue.

The District reports the following major governmental fund:

The General Fund includes financial resources used for general operations. It is a budgeted fund, and any fund balances are considered resources available for current operations.

Budgets and Budgetary Accounting

Formal budgetary integration is employed as a management control device for the General Fund. Prior to the beginning of each fiscal year, the District prepares a budget. The operating budget includes proposed expenditures and the means of financing those expenditures and is adopted on the modified accrual basis, which is consistent with generally accepted accounting principles.

Public meetings are conducted at which all interested persons' comments concerning the budget are heard. After such meetings, the Board of Commissioners formally adopts the budget through passage of an ordinance. The District may amend the budget throughout the year, approving such additional expenditures as may be required. All annual appropriations for the General Fund lapse at the fiscal year-end.

Assets, Liabilities, and Net Assets or Equity

Cash and cash equivalents - The District considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Investments - The District is entitled to invest any and all of its funds in obligations of, or guaranteed by, the United States of America or its agencies, certificates of deposit, and certain public fund investment pools. The District’s investment policies and types of investments are governed by Section 2256 of the Government Code (“Public Funds Investment Act”). The District’s management believes that it complied with the requirements of the District’s investment policy and the Public Funds Investment Act. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments.

Capital Assets - Capital assets, which include land, buildings, vehicles and equipment are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of at least \$5,000. Such assets are recorded at historical cost if purchased or estimated fair value at the date of donation if donated. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Capital assets (other than land) are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Buildings	39.5
Vehicles	10-20
Equipment	10

Ad Valorem Property Taxes - Allowances for uncollectibles within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Recently Issued Accounting Pronouncements

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective for fiscal years beginning after June 15, 2010, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Management is still evaluating the effects that the full implementation of GASB Statement No. 54 will have on its financial statements for the year ended September 30, 2011, primarily as it relates to fund balance classifications.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the statement of net assets are different because:

Governmental fund total fund balance	\$ 464,306
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Capital assets, net of accumulated depreciation	742,031
Deferred tax revenue is not available to pay for current-period expenditures and, therefore, is deferred in the funds.	<u>23,183</u>
Total net assets	<u>\$ 1,229,520</u>

Amounts reported for governmental activities in the statement of activities are different because:

Excess of revenues over expenditures	\$ 34,487
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital outlay	60,512
Depreciation expense	(51,282)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred tax revenue	3,487
Repayment of capital lease obligation is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Repayment of capital lease obligation	<u>37,509</u>
Change in net assets	<u>\$ 84,713</u>

3. CASH AND TEMPORARY INVESTMENTS

The District's deposits are required to be secured in the manner provided by law for the security of the funds. At September 30, 2010, such deposits were entirely covered by Federal Deposit Insurance Corporation ("FDIC") insurance or secured by collateral pledged by the depository.

The Public Funds Investment Act authorizes the District to invest in funds under a written investment policy. The District's deposits and investments are invested pursuant to the investment policy, which is approved annually by the Board of Commissioners. The primary objectives of the District's investment strategy, in order of priority, are safety, liquidity, and yield.

4. CAPITAL ASSETS

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

	Balance September 30, 2009	Additions	Retirements and Transfers	Balance September 30, 2010
Capital assets not being depreciated-				
Land	\$ 252,997	-	-	252,997
Total capital assets not being depreciated	252,997	-	-	252,997
Capital assets being depreciated:				
Vehicles	617,994	31,640	-	649,634
Equipment	25,896	28,872	-	54,768
Buildings	43,049	-	-	43,049
Total capital assets being depreciated	686,939	60,512	-	747,451
Less accumulated depreciation for:				
Vehicles	(189,133)	(45,437)	-	(234,570)
Equipment	(12,374)	(4,755)	-	(17,129)
Buildings	(5,628)	(1,090)	-	(6,718)
Total accumulated depreciation	(207,135)	(51,282)	-	(258,417)
Total capital assets, being depreciated, net	479,804	9,230	-	489,034
Capital assets, net	\$ 732,801	9,230	-	742,031

5. CAPITAL LEASE OBLIGATIONS

The District entered into a capital lease agreement with a finance company for the purchase of a pumper truck. The capital lease bears interest at 4.88%. Payments were due in annual installments of \$39,340, including interest, through August 2010. There was no principal outstanding at September 30, 2010, as the final payment was made during fiscal year 2010.

The vehicle purchased through the capital lease included in capital assets at September 30, 2010 totaled \$236,799 with accumulated amortization totaling \$100,146. Amortization expense is included in depreciation expense within the financial statements.

6. DEFERRED REVENUE

Deferred revenue at September 30, 2010 as reported in the General Fund consisted of net tax revenue of \$23,183.

7. PROPERTY TAXES

The District is authorized to levy a tax each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located within its boundaries. Assessed values are established annually by the Travis Central Appraisal District. District property tax revenues are recognized when levied to the extent that they are collected in the current year. The uncollected balance is reported as deferred revenue. Taxes receivable are due January 1 and are delinquent if received after January 31 and are subject to penalty and interest charges.

In September 2009, the District levied a tax rate of \$0.10 per \$100 of assessed valuation to finance operating expenditures and debt service requirements. The total 2009 tax levy was \$1,002,252 based on a taxable valuation of \$1,002,252,000.

8. CONTRACTED SERVICES

The District entered into an agreement with the Volente Volunteer Fire Department (“VVFD”) that was effective January 1, 2007 for a period of one year. This agreement has been extended annually since January 1, 2008. The District agreed to fund the operations of the VVFD monthly, as funds are available, based on a budget for the VVFD that is approved by the District. In exchange for the funding provided by the District, the VVFD agreed to provide emergency services including fire fighting and first responder assistance in the geographic area served by the District. Expenditures of \$569,980 (which includes \$60,512 of capital outlay as presented in the Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance) were incurred by the District related to this agreement during the year ended September 30, 2010.

In fiscal year 2004, the District entered into an agreement with the City of Cedar Park, Texas for fire protection and limited emergency medical services. This agreement has been extended annually since December 31, 2005. The District pays the City of Cedar Park, Texas quarterly based on a service rate for each water meter within the boundaries of the service area. During the first quarter of the fiscal year ended September 30, 2010, the service rate was \$14.52 per water meter. Effective January 1, 2010, the service rate was \$16.97 per water meter. Expenditures of \$338,887 were incurred by the District related to this agreement during the year ended September 30, 2010. In June 2010, the District provided the City of Cedar Park with a twelve month notice of termination for the agreement.

9. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District, through the VVFD, purchases its insurance from regular commercial companies. As of September 30, 2010, no claims or losses have been incurred that were not covered by insurance. There is no liability due to any claim or suit having been filed within the last three years.