Travis County Emergency Services District No. 2

Financial Report
September 30, 2016

Contents

Independent auditor's report	1-2
Management's discussion and analysis	3-16
Basic financial statements:	
Governmental funds balance sheet and statement of net position	17-18
Governmental funds revenues expenditures, and changes in fund balances/net position and statement of activities	19
Notes to financial statements	20-39
Required supplementary information	
Budgetary comparison schedule—general fund—budgetary basis	40
Note to required supplementary information—budgetary comparison schedule—general fund—budgetary basis	41
Schedule of changes in the District's proportionate share of net pension (asset) liability and related ratios	42
Schedule of employer contributions	43

RSM US LLP

Independent Auditor's Report

To the Board of Commissioners
Travis County Emergency Services District No. 2

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities and each major fund of Travis County Emergency Services District No. 2 (the District), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2016, and the respective changes in financial position for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison Schedule—General Fund—Budgetary Basis, Schedule of changes in the District's proportionate share of net pension (asset) liability, and Schedule of Employer Contributions, as listed under the required supplementary information in the table of contents, 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.

RSM US LLP

Austin, Texas
March 16, 2017

1.0 Introduction

Travis County Emergency Services District No. 2 (the "District") is pleased to submit the following discussion and overview analysis concerning the District's financial statements for the year ended September 30, 2016. The accompanying Financial Audit for fiscal year ("FY") 2016 was performed by RSM US LLP, Austin, Texas.

2.0 Background

Travis County Emergency Services District No. 2, a governmental entity authorized under Texas statute, is a fire and first response medical provider within Travis County, Texas. The District currently has a population estimated at almost one hundred twenty thousand (120,000) people and covers about seventy-seven (77) square miles of northeast Travis County.

The City of Pflugerville lies within the district, with another large unincorporated subdivision known as Wells Branch in the western half of the district. The area is roughly bound by Farm-to-Market Road 1325 in the West; the Travis-Williamson County line on the North; Manda Carlson Road and Cameron Road on the East; and Yager Lane, Dessau Road and Howard Lane on the South. The population of the district is essentially evenly divided on the east and west side of Interstate 35. This heavily traveled highway is the most direct route from middle America to Mexico and is called by many, The North American Free Trade Agreement Highway. Two (2) additional toll ways run through the north and eastern part of the district: State Highway 45 and State Highway 130, respectively.

The District is a taxing authority limited by statute to a maximum tax of ten (10) cents per hundred (100) dollars of property valuation. The District's fiscal year begins on October 1 and ends on September 30. The majority of income to operate the District, over ninety-seven (97) percent, comes from property tax and the percent of sales tax approved by the voters.

The District's vision is to continue as a financially stable organization that delivers a superior level of traditional and innovative emergency and non-emergency services. The District exists solely to improve the quality of life, health and safety of its constituents. The District will maximize the commonly accepted service methodologies and go beyond traditionally accepted practices to better serve the community.

The District is full service in that it provides all the services normally expected from a fire department. Our District/Fire Department is as complex as all the functions and services it provides, including Fire Prevention; Fire Suppression/Rescue; and, first response Emergency Medical Care. The District is comprised of three major components or Divisions: Administration—Staff Services; Emergency Operations; and Prevention—Code Enforcement. While each Division works independently of each other, all Divisions must work together in order to meet the District's mission. The District is currently served by personnel and equipment working out of four (4) fire stations. The four (4) modern fire stations are ready twenty-four (24) hours a day and house the District's fleet of firefighting apparatus. The District uses the latest fire suppression technology of Compressed Air Foam Systems CAFS.

The District has an automatic aid agreement with the Austin Fire Department and five (5) other emergency services districts in the County. This automatic aid agreement assures that the closest appropriate resource is dispatched to an emergency regardless of the jurisdiction. Mutual aid agreements are commonly based upon requests for specific resources and are not necessarily implemented at the time of initial dispatch. The automatic aid agreement not only assures closest unit response, it specifies full response requirements that provide an Effective Firefighting Force. The Effective Firefighting Force will bring fourteen (14) to sixteen (16) firefighters in the first alarm along with a specific number of engines and aerial apparatus. Likewise, alarm assignments have been pre-determined for various emergency types. The District provides automatic aid assistance to the other jurisdictions, as well as benefits from their assistance on a daily basis.

Travis County Commissioners' Court appoints five (5) Commissioners who govern the operation of the District. These Commissioners represent a cross-section of the District and meet on a regular basis to determine administrative policy and perform financial oversight. Commissioners are appointed for two (2) year terms and continue the original spirit of volunteerism that started this organization.

3.0 Financial Highlights—Comparison of FY 2016 and FY 2015

- The District's auditors for FY 2016, RSM US LLP, acquired the assets of Padgett, Stratemann & Co., LLP on August 16, 2016. Padgett, Stratemann & Co., LLP had been working with the District since the audit for FY 2008.

- During FY 2016, the District experienced a 12.1% increase in property tax revenues as compared to FY 2015. A 5.0% increase in the number of taxable properties in the District, coupled with property tax valuation increases, were the causes of this increase in property tax revenues. Sales taxes also increased in FY 2016. When compared to FY 2015, sales tax revenues increased 22.1% in FY 2016. This increase is sales tax revenues is partly a product of a strengthening economy in the area as well as increases in retail outlets. During FY 2016, Stone Hill Town Center in Pflugerville saw expansion as some smaller retail stores, neighborhood service businesses, and larger, national retailers such as Panera Bread and Andy's Frozen Custard opened. For comparison, property tax revenues increased 10.9% and sales tax revenues increased 46.6% in FY 2015 over the FY 2014 revenues.

- In FY 2016, the Operations Division increased staffing by three (3) paramedic positions; twelve (12) firefighter positions, one (1) health and fitness coordinator position; and one (1) paramedic field training officer. One (1) position, a Community Outreach Coordinator, was added to the Prevention Division. These additional positions, as well as annual pay increases for existing staff increased the FY 2016 salaries by 8.3% over FY 2015 levels. This increase in staffing in FY 2016 is a positive step toward meeting strategic goals such as achieving adequate staffing on all response apparatus and first response paramedics for an enhanced level of EMS care.

- Even with these additional positions, there were several authorized yet unfilled positions for the fiscal year. As a result, salaries and employee benefit expenses were under FY 2016 budget levels.

- During FY 2016, the District continued participating in Texas County & District Retirement System (TCDRS) to provide a defined benefit retirement plan for all employees. Employees are required to contribute 7% of their total pay to the retirement plan and the District elected a matching rate of $1 to $1. The employee's savings grow at a rate of 7 percent, compounded annually. In an effort to pay more toward the unfunded liability of the plan, in FY 2016, the District elected to continue 10 percent of gross pay into the plan, rather than the required 7 percent. In FY 2016, employee contributions to TCDRS totaled $504,942, and the District contributed $721,345.

- The District's net pension asset was measured as of December 31, 2015, which is the date of the actuarial valuation for TCDRS. At that time, the District has a net pension asset recorded in the Statement of Net Position and Governmental Funds Balance Sheet of $198,755. In FY 2017, the District's match on TCDRS contributions changed from $1 to $1 to $2 to $1.

- With a focus on continuing to fill gaps identified during the strategic planning process, Operation expenses increased by approximately 41.9% in FY 2016 compared to FY 2015 levels. The additional expenses were used to purchase self-contained breathing apparatus, communications equipment and personal protective equipment, partly for the new firefighter positions, and partly to replace worn equipment. A change in reporting requirements, now requires annual depreciation expenses be reflected in the Division utilizing the capital assets being depreciated. The adjustment to Operations expenses due to depreciation was $667,306 in FY 2016, compared to $424,013 in FY 2015. The 57% increase in Operations depreciation expense was due to the addition of two ambulances and a new Aerial ladder truck to the fleet.

- As the District's operational demands and needs grew during FY 2016, expenses increased; however, the net change in fund balance was positive for the fiscal year. This positive fund balance change includes a positive change in the GASB 34 adjustments for loan and capital lease proceeds of $1,776,916 received for several vehicles including: the purchase of a new Aerial ladder truck, two (2) ambulances, three (3) pickup trucks and three (3) C Max Hybrid vehicles.

- In FY 2016, Administrative costs increased over the FY 2015 levels by approximately 5.5%. This was predominantly due to increases to fees for collection of taxes to the State's Comptroller's office and Travis Central Appraisal District.

- Below is a summary comparison of revenues and expenditures for FY 2016 and FY 2015

	September 30		
	2016	2015	Variance
Revenues:			
Property taxes—including penalties and interest	$ 7,870,645	$ 7,023,486	$ 847,159
Sales tax	8,901,251	7,291,962	1,609,289
Other revenue	588,891	573,679	15,212
Total revenues	17,360,787	14,889,127	2,471,660
Total expenditures	13,206,645	11,877,749	(1,328,896)
Other financing sources, net	-	53,282	(53,282)
Change in net position	4,154,142	3,064,660	$ 1,089,482
Net position, beginning of year	11,601,583	8,536,923	
Net position, end of year	$ 15,755,725	$ 11,601,583	

Below is a summary comparison of the Statement of Net Position accounts for FY 2016 and FY 2015:

	September 30		
	2016	2015	Variance
Assets:			
Current assets	$ 11,566,183	$ 8,528,366	$ 3,037,817
Capital assets and noncurrent assets	12,052,752	10,488,614	1,564,138
Total assets	23,618,935	19,016,980	4,601,955
Deferred outflows of resources—pension asset	627,602	220,737	406,865
Total assets and deferred outflow of resources	24,246,537	19,237,717	5,008,820
Liabilities:			
Current liabilities	$ 2,721,382	$ 2,420,247	$ 301,135
Noncurrent liabilities	5,769,430	5,215,887	553,543
Total liabilities	8,490,812	7,636,134	854,678
Net position:			
Net investment in capital assets	5,238,376	4,335,231	903,145
Restricted for debt service fund	142,562	146,377	(3,815)
Restricted for pension plan	826,357	-	826,357
Unrestricted	9,548,430	7,119,975	2,428,455
Total net position	15,755,725	11,601,583	4,154,142
Total liabilities and net position	$ 24,246,537	$ 19,237,717	$ 5,008,820

- Because of the increased property and sales tax collections through FY 2016, Cash and Investment accounts were approximately $2,800,000 above ending FY 2015 balances. The remaining difference in current assets is a result of the end-of-year sales tax receivable for the period of October and November, FY 2016 versus the same period of FY 2015, due to an overall increase in sales tax collections.

- In keeping with the District's mission to continue as a financially stable organization, the Board of Commissioners approved the establishment of a $3.5M rainy day fund from the Unrestricted Net Position balance. This fund will be used in the event current operating revenues are insufficient to cover current operating expenses during less positive times.

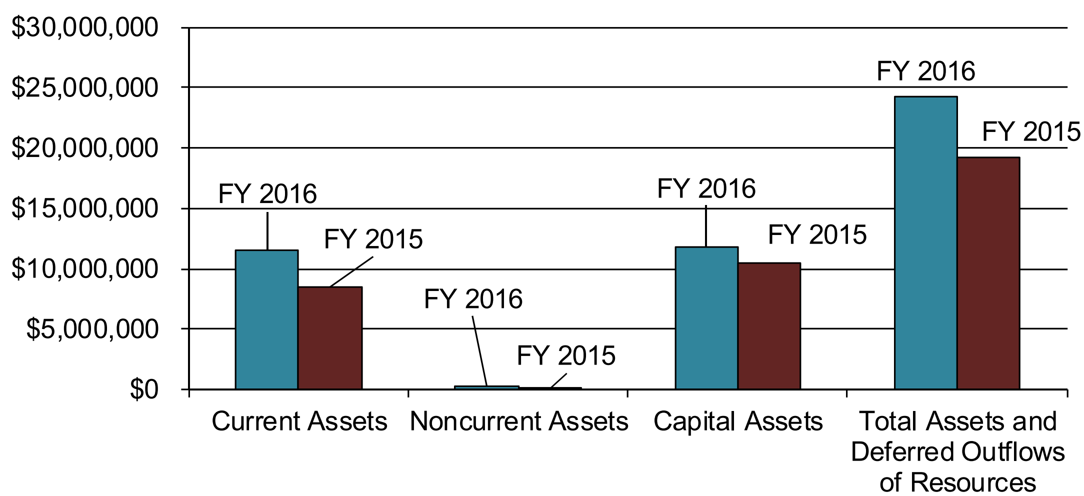
- In Noncurrent Assets, during FY 2016, Capital additions totaled $2,276,172, and depreciation expense for the year was $914,115, resulting in the positive $790,285 variance for the year. In FY 2015, Capital additions totaled $1,534,537, while depreciation expense for the year was $744,252.

- In FY 2016, the increase in current liabilities is due to several factors. First, end-of year payroll and employee benefits accrual was approximately $175,060 higher than FY 2015 because the end-of-year payroll accrual was larger due to additional staff positions and the September retirement plan contributions were not paid until October 15th. Accounts payable at the end of FY 2016 was $99,645 higher than in FY 2015 because of the timing of some end-of-year purchases not being paid until early October. The remaining $26,430 is the difference in the current portions of debt payments due within one year in FY 2016 versus FY 2015.

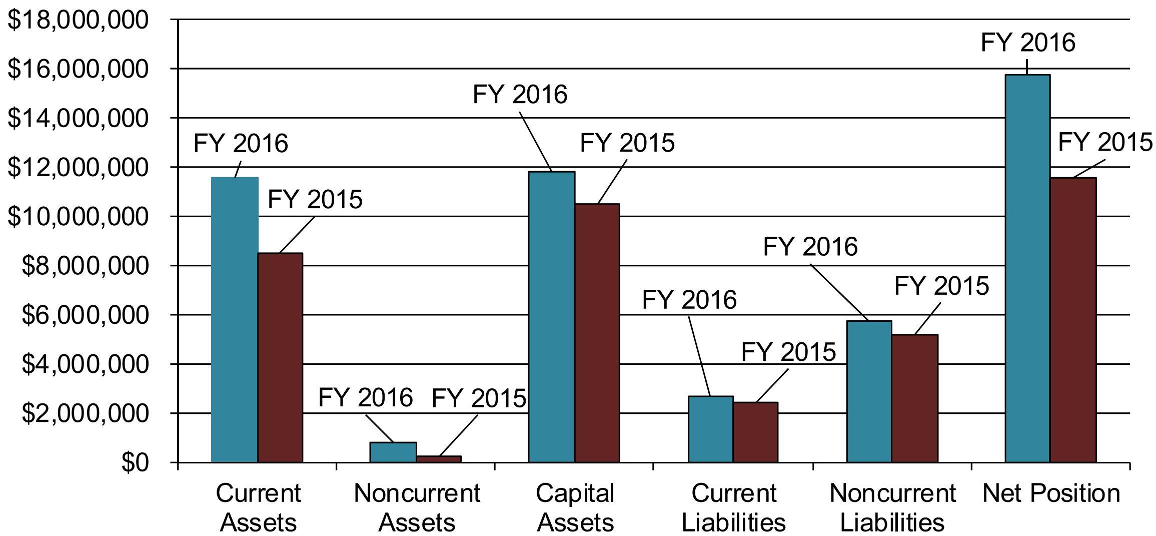
- The variance in Noncurrent Liabilities is due to FY 2016 debt payments being higher than in FY 2015.

- During FY 2016, the Board of Commissioners approved several large projects identified in the strategic plan including: building bunker gear rooms at each of the fire stations; the purchase of a new Aerial ladder truck, two (2) ambulances, three (3) pickup trucks, one (1) Ford Explorer, and three (3) C Max Hybrids; enhancements to our audio conferencing equipment; and, building of an awning for housing new fire vehicles. Capital purchases in FY 2016 totaled $2,306,875. The changes in total assets and net assets is reflected in the charts below:

Total Assets—Fiscal Year 2016
and Fiscal Year 2015



Assets and Liabilities—Fiscal Year 2016
and Fiscal Year 2015



- Fund balance divided by fund (General Fund and Debt Service Fund) was as follows when compared between FY 2015 and FY 2016. Beginning fund balance for the General Fund $7,277,417, ending balance $10,025,879. The Debt Service Fund decreased from $146,377 to an ending balance of $142,562. This fund balance represents the debt amount paid by the City of Austin to the District on property annexed away from the District in prior years. In FY 2017, the District's Series 2005 bond issuance will be paid in full.

4.0 Overview of the Financial Statements

The District's financial statements presented in this report include basic financial statements, as well as, information on required supplementary information.

The basic financial statements attached hereto are comprised of the following major components:

The *statement of net position and governmental funds balance sheet* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or declining.

The *statement of activities and governmental fund revenues, expenditures and changes in fund balances/net position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in fund balances/net position 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 companies.

The *notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures or expenses as appropriate. Government resources are allocated and accounted for the purpose of carrying on specific activities in accordance with laws, regulations or other appropriate requirements.

In the District's basic financial statements, you will see the following major governmental funds:

- General fund—The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted in another fund.

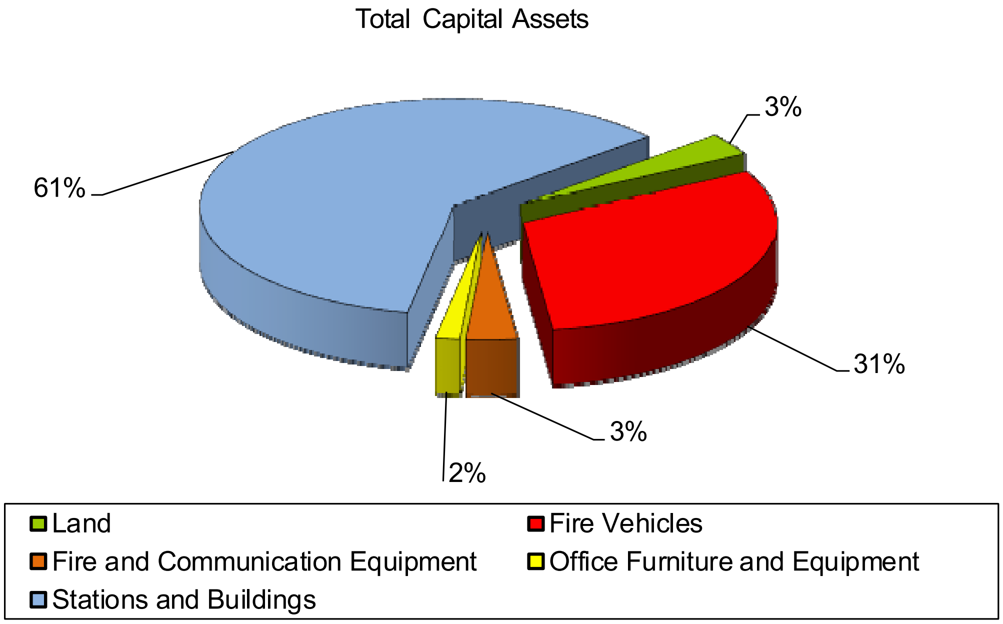
- Debt service fund—The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of government funds.

5.0 District's FY 2016—Financial Analysis Summary

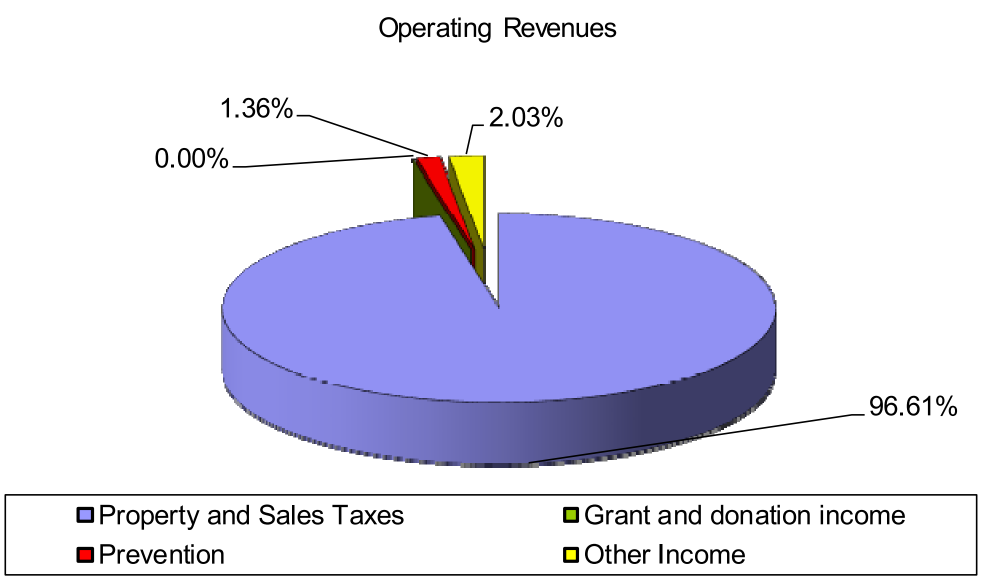
The District's current assets consist of cash and cash equivalents, investments, property, sales tax, other receivables, prepaids and other current assets. The District maintains the majority of its investments with the Texas Local Government Pool ("TexPool") which is a local government investment pool created on behalf of Texas entities whose investment objectives are preservation and safety of principal, liquidity and yield consistent with the Public Funds Investment Act. The TexPool program offers a convenient and effective choice for the investment of local funds and, as an AAAm rated local government investment pool, TexPool is committed to maintaining safety and stability. This investment strategy has served the District well through the volatile, downturn in the economy and in the financial markets worldwide.

During FY 2016, the District continued to keep part of its cash investment in an interest bearing savings account with Wells Fargo Bank. The bank was able to offer a slightly higher interest rate than TexPool and credited individual client analysis fees, and this account assisted with routine cash management.

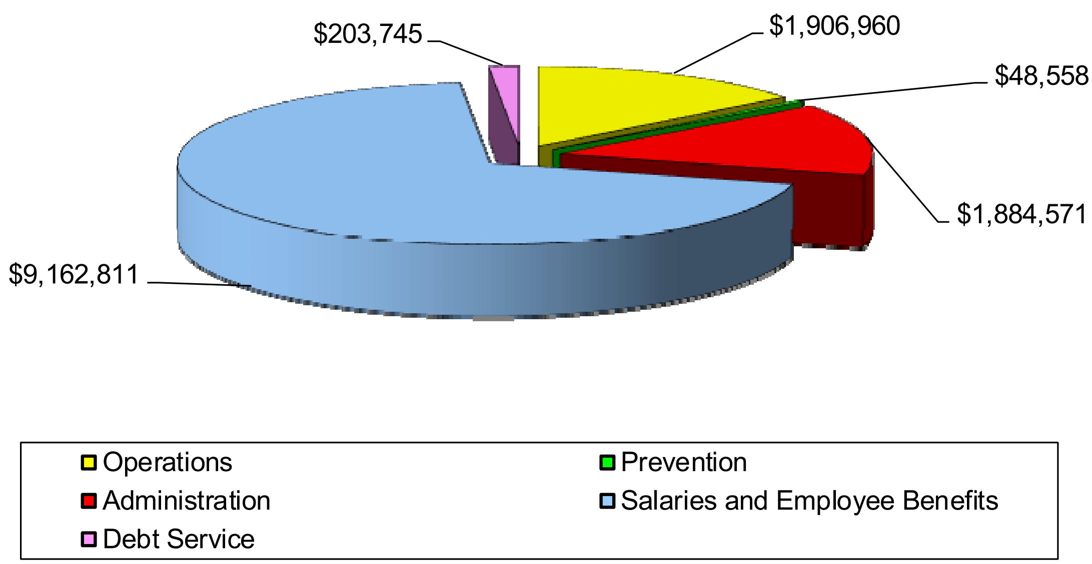
The District's total assets and deferred outflows at $24.2 Million, represented mostly by capital assets, at $11.9 Million net of accumulated depreciation, and over $21.4 Million gross. Capital assets are shown divided into the different categories in the chart below.



Currently, the source of the District's operating revenues is almost exclusively from property and sales tax collections. Total operating revenues for FY 2016, totaled about $17.3 Million, of which 96.9% was received from tax collections. Operating expenses totaled about $13.2 Million of which 69.4% of operating expenses were related to employee salaries and benefits for FY 2016. For comparison with prior year's presentation, the operating revenues category of grant and donation income is presented, even though the District received no grants or donations during FY 2016. Several grant applications were submitted, but not awarded. Now a SAFER grant has been submitted in FY 2017, but at this time, we do not know if the grant will be awarded.



Operating Expenses, Including Depreciation

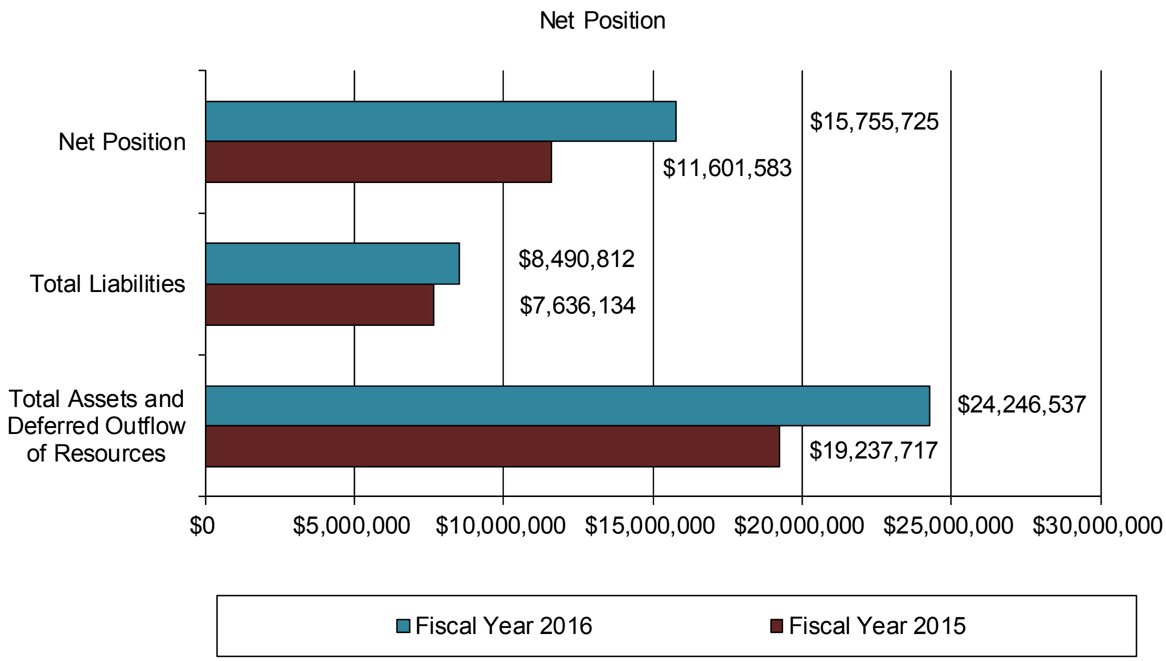


6.0 Capital Asset and Outstanding Debt

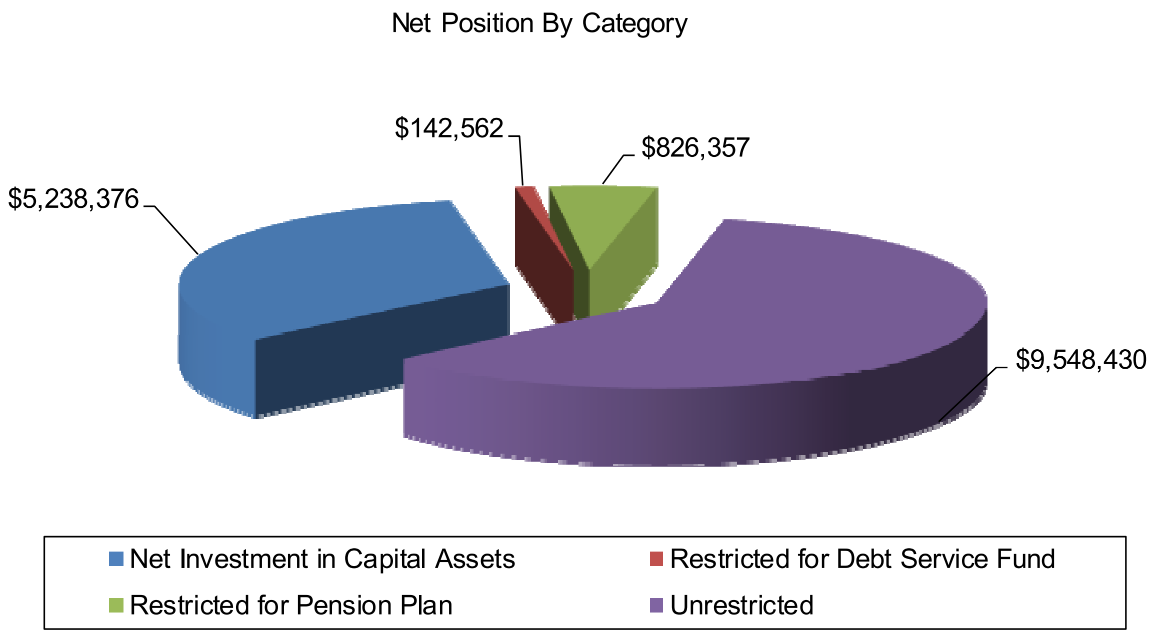
District liabilities increased during FY 2016, as the District obtained approximately $1.8 Million total in five (5) new capital leases for an Aerial ladder truck, a Ford Explorer, three (3) pickup trucks, three (3) C Max Hybrid vehicles, and two (2) ambulances. The District made scheduled payments of both principal and interest on bonds, capital leases, and loans, and even though the new debt was incurred during the fiscal year, increases to the District's liabilities was less than $900 Thousand. The new debt incurred was financed at a rate of 3.4% for the Aerial ladder truck, 2.85% for the ambulances, and 6.25% for the capital leases on the pickup trucks, Explorer, and C Max Hybrids.

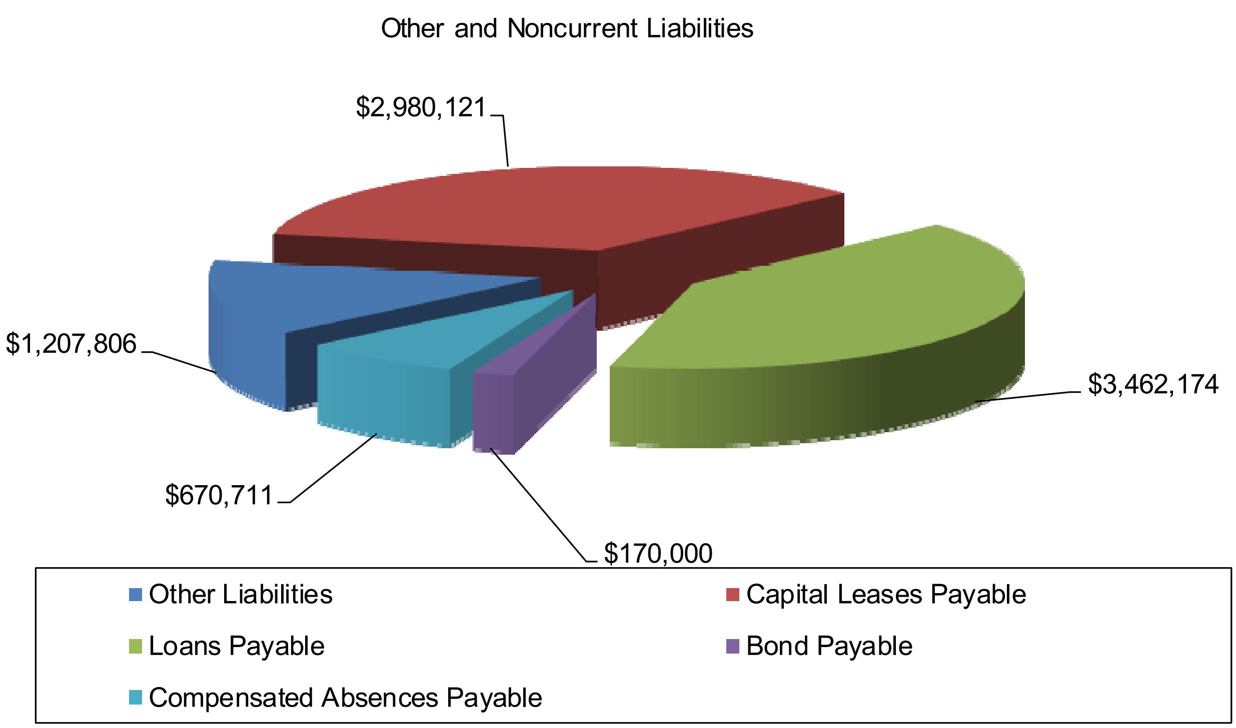
The chart below shows a comparison between FY 2016 and FY 2015 net position. Net position represents the difference between total assets and total liabilities.

The chart below shows a comparison between FY 2016 and FY 2015 net position. Net position represents the difference between total assets and total liabilities.



Additionally, the charts below detail the components of net position and total liabilities for FY 2016 for the District:





7.0 Economic Factors and Budgetary Highlights

In September 2015, the District's commissioners approved a resolution to levy ad valorem at a tax rate of $0.0913 on each $100.00 of taxable property within the District in order to provide funds for maintenance and operating purposes, and a tax rate of $0.0045 on each $100.00 in order to provide for payment and principal of and interest and associated obligations on the District's unlimited tax bonds now outstanding. The total levy of ad valorem tax for FY 2016 was a rate of $0.0958. In September 2016, the District's commissioners approved a levy of ad valorem tax for FY 2017 of a total $0.10 rate. This rate is equal to the maximum allowed by law.

No strategic plan or operation can be successful without a solid financial basis. Economic conditions in the area seem to be improving with increased properties on the tax roll as well as increases to property valuations. The District remains cautiously optimistic that this trend will continue.

With the need to address an increasing call burden in the most effective and safest way possible, without additional large revenue streams, a strategic plan was proposed and adopted by the Board of Commissioners. The goals outlined in the adopted Strategic Plan center around three guiding principles: first, analyze our current deployment strategies and resource allocations and develop a plan to address employee safety, gaps in equipment, vehicles and personnel; second, develop an enhanced level of EMS care (first response paramedics and transport service); and, third develop plans to address growing gaps in response times goals (additional stations and response vehicles).

The recent planning process involved a re-evaluation of finance and economic forecasts placed against service and personnel gaps. Revenue growth at a rate of less than ten percent (10%) would cause long-term budget deficits that could not be offset with reserved revenues because of complete depletion. Cost per incident has remained relatively flat over the years, at or around $1,500 per incident. In fact, the cost of an incident in 2012 is actually about nine percent (9%) less than the same incident ran in 2008. However, the volume of incidents has increased tremendously, between 2008 and 2012, the number of incidents rose by 38.2%, from less than 5,000 to 6,723. And the District ran over 7,700 incidents in calendar year 2015.

As of December 1, 2013, the District and the Pflugerville Professional Firefighters Association, Local 4137, approved and signed a Collective Bargaining Agreement effective from December 1, 2013, through September 30, 2016. And as of December 1, 2016, the District and the Pflugerville Professional Firefighters Association, Local 4137, approved and signed a Collective Bargaining Agreement effective from December 1, 2016, through September 30, 2019.

Each fiscal year, the District prepares a budget for most income and expense items in the General Fund. During FY 2016, the District revised the annual budget and variances between budgeted and actual amounts are very slight when compared.

A quick comparison of actual to budgeted amounts reveals several small variances. The positive variance of $28,218 in property tax revenues is due to better than budgeted collection rate for property taxes during the year. The positive variance in sales tax receipts of $924,956 is due to three factors: 1) a strengthening economy and more retail opportunities in the area; 2) the annual adjustment of sales tax receipts to between October and November 2016 versus October and November 2015 sales tax collections; and 3) the difference in category because the budgeted amount for sales tax receipts is shown net of fees in the revenue section, while the actual amount recorded in the financial statements is gross (or total collected) and the fee is shown below as an expenditure creating a related variance in the expenditure category as well.

Fees for services posted a positive variance of $38,246 because of collections received for insurance claims on incidents was above budgeted expectations due to more diligent efforts by our new service provider. Prevention actual revenues show a negative variance of $37,654 due to decreased levels of Plan Reviews and Inspections during the year. Facilities income had a positive variance of $6,989 because rentals of Pfluger Hall were slightly more than anticipated. The positive variance of $50,171 in miscellaneous revenues is because miscellaneous revenues are not budgeted. Operations expenses were over budget by $39,877 because EMS supplies purchased for the new ambulances were higher than budget. Prevention expenses were under budget by $18,610 due to reduced fleet maintenance costs and training costs being less than anticipated. Budgeted expenses for legal services were more than actual expenses, creating the $11,820 positive variance in Professional Services. The $295,998 positive variance in General and Administrative costs are due to newsletter printing and postage costs, recruiting and retention expenses, training, communications systems and dispatch fees, and administrative fleet maintenance being less than budget. Salaries expense was $1,005,276 less than budget due to less overtime utilization and several positions unfilled for the fiscal year. The $596,772 positive variance in Employee Benefits is cost savings in workers compensation insurance, the District health and dental insurances, retirement plan expenses, and the District's wellness program expenses, as well as the benefits budgeted for the unfilled positions mentioned above. The positive variance of $151,081 in Capital Outlay is due to the expenses improvements to buildings being less than budgeted.

As in past years, the Board of Commissioners approved a Strategic Plan document, which sets the direction for the FY 2017 Budget. The work at the Strategic Planning session was focused not only on needs at the Division level, but on how those needs related to the District overall. During the last planning session, July 16, 2016, the Board of Commissioners and District staff agreed to continue progress as directed in the existing plan to insure full implementation of an ALS, (Advanced Life Support), Fire-Base EMS System. It has been recognized that more than 70% of the District's emergency response is for medical purposes.

As a result of voter support of the ½-cent sales tax in the District's areas outside the City of Pflugerville and Wells Branch Library District, as well as the District's strategic planning process, in early FY 2017 the District became licensed to start operating its own ambulances. The District has a new ambulance responding to medical emergencies, and this ambulance is housed at Station No. 2 in Wells Branch. A second ambulance is kept in reserve for use when the first ambulance is out of service. Later in FY 2017, the District anticipates receipt of a third ambulance, which will be housed at Central station in downtown Pflugerville. These ambulances are in addition to the Austin—Travis County EMS ambulances contracted to operate from Station No. 3 on Kelly Lane and Station No. 4 on Pflugerville Parkway.

Additionally, Commissioners expressed concern for the establishment of additional fire stations across the District. While the FY 2017 budget does not include funding for stations, District staff will begin a process of site selection and recommendation.

Financial constraints do not allow for all things in all Divisions to be met in a single year, so priorities have to be identified. District needs are planned across a time spectrum that goes beyond a single budget. Gaps in infrastructure, such as number of personnel, facilities and equipment, and internal functions created by growth and development and increased service demands, are planned to be filled before considerations for expansion of services.

For FY 2017, revenue is budgeted to increase. A twenty-one-point-three percent (21.3%) increase in property taxes has been budgeted due to increased properties and higher taxable property valuations reported on the Certified Tax Rolls, as well as the Board adopted higher tax rate. Sales tax revenue has been growing, so a twenty percent (20%) increase has been budgeted for sales tax revenues. Other revenue categories, such as Grants and Gifts and Miscellaneous Income were not budgeted in FY 2017 because, at this time, no Grants have been awarded, and the uncertainty of receiving

Miscellaneous Income makes it prudent not to budget revenue in this category. A zero-point-seven percent (0.7%) decrease has been budgeted for Prevention revenues due to decreased Plan Reviews, and an approximate one-hundred-eighty-five percent (185%) increase is anticipated in Fees for Services because of expected increased billings for the new Ambulance Services.

The FY 2017 budget continues to reflect the Strategic Plan and is the benchmark for the District in a rapidly changing community. Population growth projections for the upcoming fiscal years, as reported by the City of Pflugerville, reflect a 7.3% increase from the period of 2015 to 2017, with a projection growth of 6.9% in fiscal 2018, followed by a 2.1% increase for subsequent fiscal years. This growth is similar to the population increases seen in the entire Central Texas (Austin metropolitan) area. Residential construction continued at an accelerated pace in 2016, with new subdivisions opening and several multi-family complexes under construction. Indications are that commercial and residential development will continue at a similar pace in 2017.

For FY 2017, Salaries and Employee Benefits budgeted expenses have increased, because on December 1, 2016, a new Collective Bargaining Agreement ("CBA") between the Pflugerville Professional Firefighters Association and the District was approved. This new CBA contains an outline for annual pay increases for the association members. The new CBA is effective for the period of December 1, 2016, through September 30, 2019. Professional Services have also been budgeted for an increase over the FY 2017 budget due to additional fees for services by both the Travis Central Appraisal District for property taxes and the Texas Comptroller's Office for collection of sales taxes. In Operations, the FY 2017 budget includes increased amounts for EMS Medical Equipment and Supplies and Training expenses. Training expenses in the Prevention division have also been included in the FY 2017 budget.

Budget preparation and budget review is a valued process at the District. The budget's use as a planning tool and the continuous review of the budgeted amounts against actual amounts enhances the monitoring of day to day operations and assists to highlight unexpected income or expense items.

Financial Statements

Travis County Emergency Services District No. 2

Governmental Funds Balance Sheet and Statement of Net Position
September 30, 2016

	General Fund	Debt Service Fund	Total	Adjustments (Note 11)*	Statement of Net Position
Assets					
Current assets:					
Cash and cash equivalents	$ 9,338,296	$ 142,562	$ 9,480,858	$ -	$ 9,480,858
Investments	9,235	-	9,235		9,235
Receivables:					
Property taxes	269,793	13,305	283,098	-	283,098
Sales taxes	1,588,784	-	1,588,784	-	1,588,784
Other	19,839	-	19,839	-	19,839
Prepaid items	184,369	-	184,369	-	184,369
Total current assets	11,410,316	155,867	11,566,183	-	11,566,183
Noncurrent assets:					
Security deposit	3,326	-	3,326	-	3,326
Pension asset	-	-	-	198,755	198,755
Total noncurrent assets	3,326	-	3,326	198,755	202,081
Capital assets:					
Capital assets—nondepreciable	-	-	-	395,545	395,545
Capital assets—depreciable, net	-	-	-	11,455,126	11,455,126
Total capital assets	-	-	-	11,850,671	11,850,671
Total noncurrent assets	3,326	-	3,326	12,049,426	12,052,752
Total assets	11,413,642	155,867	11,569,509	12,049,426	23,618,935
Deferred outflows of resources					
Pension plan	-	-	-	627,602	627,602
Total deferred outflows of resources	-	-	-	627,602	627,602

* Note 11 provides the details for the main components of the adjustments.

See notes to financial statements.

	General Fund	Debt Service Fund	Total	Adjustments (Note 11)*	Statement of Net Position
Liabilities					
Current liabilities:					
Accounts payable	$ 465,182	$ -	$ 465,182	$ -	$ 465,182
Accrued payroll and employee benefits	620,643	-	620,643	-	620,643
Accrued interest	-	-	-	89,836	89,836
Unearned revenue—other	8,925	-	8,925	-	8,925
Deposits	23,220	-	23,220	-	23,220
Due within one year:					
Bond payable	-	-	-	170,000	170,000
Notes payable	-	-	-	632,016	632,016
Capital leases payable	-	-	-	441,872	441,872
Compensated absences payable	-	-	-	269,688	269,688
Total current liabilities	1,117,970	-	1,117,970	1,603,412	2,721,382
Noncurrent liabilities:					
Notes payable	-	-	-	2,830,158	2,830,158
Capital leases payable	-	-	-	2,538,249	2,538,249
Compensated absences payable	-	-	-	401,023	401,023
Total noncurrent liabilities	-	-	-	5,769,430	5,769,430
Total liabilities	1,117,970	-	1,117,970	7,372,842	8,490,812
Deferred inflows of resources:					
Unavailable property tax revenue	269,793	13,305	283,098	(283,098)	-
Fund balances:					
Nonspendable—prepaid items	184,369	-	184,369	(184,369)	-
Restricted—retirement of long-term debt	-	142,562	142,562	(142,562)	-
Unassigned	9,841,510	-	9,841,510	(9,841,510)	-
Total fund balances	10,025,879	142,562	10,168,441	(10,168,441)	-
Net position:					
Net investment in capital assets				5,238,376	5,238,376
Restricted for debt service fund				142,562	142,562
Restricted for pension plan				826,357	826,357
Unrestricted				9,548,430	9,548,430
Total net position				$ 15,755,725	$ 15,755,725

* Note 11 provides the details for the main components of the adjustments.

Travis County Emergency Services District No. 2

Governmental Funds Revenues, Expenditures and Changes in Fund Balances and Statement of Activities
Year Ended September 30, 2016

	General Fund	Debt Service Fund	Total	Adjustments (Note 11)*	Statement of Activities
Revenues:					
Property taxes, including penalties and interest	$ 7,491,755	$ 369,274	$ 7,861,029	$ 9,616	$ 7,870,645
Sales tax	8,901,251	-	8,901,251	-	8,901,251
Charges for services	491,736	-	491,736	-	491,736
Interest income	47,773	2,105	49,878	-	49,878
Miscellaneous	50,171	477	50,648	(3,371)	47,277
Total revenues	16,982,686	371,856	17,354,542	6,245	17,360,787
Expenditures/expenses:					
Emergency response services—operations	12,595,349	2,445	12,597,794	405,106	13,002,900
Debt service:					
Principal retirement	958,004	360,000	1,318,004	(1,318,004)	-
Interest	153,338	14,000	167,338	36,407	203,745
Capital outlay	2,306,875	-	2,306,875	(2,306,875)	-
Total expenditures/expenses	16,013,566	376,445	16,390,011	(3,183,366)	13,206,645
Excess (deficiency) of revenues and transfers in over (under) expenditures and transfers out	969,120	(4,589)	964,531	3,189,611	4,154,142
Other financing sources (uses):					
Proceeds from sale of capital assets	3,200	-	3,200	(3,200)	-
Issuance of capital leases	1,776,916	-	1,776,916	(1,776,916)	-
Transfers in	370,994	371,768	742,762	(742,762)	-
Transfers out	(371,768)	(370,994)	(742,762)	742,762	-
Total other financing sources (uses)	1,779,342	774	1,780,116	(1,780,116)	-
Net change in fund balances/net position	2,748,462	(3,815)	2,744,647	1,409,495	4,154,142
Fund balances/net position, beginning of year	7,277,417	146,377	7,423,794	4,177,789	11,601,583
Fund balances/net position, end of year	$ 10,025,879	$ 142,562	$ 10,168,441	$ 5,587,284	$ 15,755,725

* Note 11 provides the details for the main components of the adjustments.

See notes to financial statements.

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies

The accounting and reporting policies of Travis County Emergency Services District No. 2 (the District), included in the accompanying financial statements, conform to accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental entities. U.S. GAAP for local governments includes those principles prescribed by the Governmental Accounting Standards Board (GASB), which constitutes the primary source of U.S. GAAP for governmental units. The following represents the more significant accounting and reporting policies and practices used by the District.

Reporting entity: The District was created by order of the Travis County Commissioners Court following a conversion election, which was held within the boundaries of Travis County Rural Fire Prevention District No. 3. A majority of the voters within the Rural Fire Prevention District voted to convert the Rural Fire Prevention District to the Emergency Services District. This election was held on January 18, 1992. The District operates under Article III, Section 48-e of the Texas Constitution and Chapter 775 of the Texas Health and Safety Code and is run by a five-member Board of Commissioners (the Board) appointed by the Travis County Commissioners Court. The District’s major activities include providing emergency services to the residents of the District.

Effective October 1, 1994, the District assumed, through a series of agreements, the assets, leases and other obligations of the Pflugerville Volunteer Fire Department.

The District considered the guidelines specified by the GASB Codification Section 2100, *Defining the Financial Reporting Entity*, when determining which entities to include in the accompanying basic statements. Under these guidelines, the reporting entity consists of the primary government (all funds of the District), organizations for which the primary government is financially accountable, and any other organizations for which the nature and significance of their relationship with the primary is such that exclusion could cause the District’s basic financial statements to be misleading or incomplete. Entities other than the primary government, which are included in the primary government’s financial statements, are called component units. Under the guidelines established by GASB Codification Section 2100, *Defining the Financial Reporting Entity*, no legally separate organizations met the necessary criteria for inclusion as component units in the basic financial statements.

Government-wide financial statements: The government-wide and fund financial statements are presented on one schedule and are interrelated. The statement of net position and the statement of activities display information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

The statement of net position presents the District’s nonfiduciary assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. The governmental activities are reported on the full accrual, economic resource basis, which recognizes all long-term assets and receivables, as well as long-term debt and obligations.

The statement of activities demonstrates the degree to which the direct expenses of a given function. Direct expenses are those that are clearly identifiable with a specific function. Revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function or segment. Property taxes and other items are reported as revenues.

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)

Fund financial statements: The fund financial statements of the District are organized into funds, each of which is considered a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund balance, revenues and expenditures. Government resources are allocated to and accounted for the purpose of carrying on specific activities in accordance with laws, regulations or other appropriate requirements.

Governmental funds**:** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as fund balance. The following is the District's major governmental funds:

> *General fund**:*** The General fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
>
> *Debt service fund**:*** The Debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The fund did not meet the criteria for a major fund; however, management decided to include it as a major fund in the interest of the users of the financial statements.

Measurement focus and basis of accounting: 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 in which they are levied. Sales taxes are recognized as revenues in the year in which the underlying exchange occurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and available. For this purpose, the District considers all revenues to be available if the revenues are collected within 60 days after year-end. Expenditures generally are recorded when the related fund liability is incurred, if measurable, except for debt service expenditures and compensated absences, which are recognized as expenditures only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes when levied and sales taxes associated with the current period are all considered to be measureable and are recorded as revenue, if available. All other revenue items are considered to be measurable and available only when cash is received by the District.

Cash and cash equivalents: The District's cash and cash equivalents are considered to be cash on hand, external investment pools and demand deposits. External investment pools are valued at amortized cost pursuant to GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)

Investments: Investments consists of mutual funds, which are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. The related disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments.

Receivables: The District provides for uncollectible accounts receivable using the allowance method of accounting for bad debts. Under this method of accounting, a provision for uncollectible accounts is charged to earnings. The allowance account is increased or decreased based on past collection history and management's evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account and recoveries of previously charged off accounts are added to the allowance. At September 30, 2016, no allowance was considered necessary, as it is management's opinion that losses, if incurred, would not materially affect the financial statements.

Unavailable/unearned revenue: Delinquent property taxes receivable are recorded as unavailable revenue in the governmental funds since they are not currently available. Unavailable revenue—other consists of deposits and customer advances to rent a facility owned by the District.

Capital assets: Capital assets include property, buildings and equipment. Capital assets are defined by the District as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Assets under capital lease are recorded at the present value of future minimum lease payments at the inception of the lease.

Donated capital assets are valued at their estimated acquisition value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Estimated Useful Lives
Buildings	40 years
Building improvements	20 years
Fire and other vehicles	7 to 10 years
Fire and communication equipment	10 years
Office furniture and equipment	10 years

Deferred outflows/inflows of resources: In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the District after the measurement date but before the end of the District's reporting period.

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected in the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Compensated absences: Vested or accumulated vacation, holiday and sick leave that is expected to be liquidated with expendable available resources and has become due is reported as an expenditure and a fund liability of the governmental fund that will pay it. No expenditure has been recorded. The amount of vested or accumulated vacation and sick leave that is not expected to be liquidated with expendable available financial resources is reported as a liability in the statement of net position. The District's liability for accrued vacation and sick time at September 30, 2016, totaled $670,711.

Long-term debt: General obligation bonds, which have been issued to fund capital projects, are to be repaid from tax revenues of the District.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the period incurred. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pension: For purposes of measuring the net pension asset (liability), deferred outflows of resources and deferred inflows of resources related to pensions and pension expenses, information about the fiduciary net position of the District's participation in the Texas County & District Retirement System (TCDRS), an Agent Plan, and additions to/ deductions from TCDRS's fiduciary net position have been determined on the same basis as they are reported by TCDRS. For this purpose, benefit payments (including refunds to employee contributions) are recognized in the TCDRS net pension liability calculations when due and payable in accordance with the benefit terms. The investments are stated at fair value.

Fund balance: In the governmental fund financial statements, the District reported the following types of governmental fund balances: restricted and unassigned.

Nonspendable: Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted: Amounts that have constraints placed on the use of their resources. These constraints can be: (a) externally imposed by creditors (e.g., debt covenants), grantors, contributors or laws/regulations of other governments; or (b) imposed by law through constitutional provision or enabling legislation. Both constraints are legally enforceable by an external party.

Unassigned: All amounts not included in other spendable classifications. The General Fund is the only fund that would report a positive amount in unassigned fund balance. Residual deficit amounts of the governmental funds would also be reported as unassigned.

Note 1. Nature of Operations, Reporting Entity and Summary of Significant Accounting Policies (Continued)

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first, followed by committed fund balances, then assigned fund balances and finally unassigned fund balances, as needed, unless the Board or its delegated official has provided otherwise in its commitment or assignment actions.

Net position: Net position represents the difference between assets plus deferred outflow of resources less liabilities less deferred inflows of resources in the government-wide financial statement. Net investment in capital assets consists of capital assets, net accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those capital assets. Net position restricted for debt service is reported as restricted when there are limitations imposed on their use, either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for pension plan is reported as restricted when pension plan assets are legally protected from creditors, nonemployer contributing entities and the pension plan administrator. Unrestricted net position is comprised of the remainder of net position that has no restrictions.

Budgets and budgetary accounting: A budget adopted by the Board is presented in the accompanying financial statements on the budgetary basis. The budget is not legally binding. Annual appropriations lapse at the end of the fiscal year.

Use of estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amount reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2. Deposits and Investments

The investment policies of the District are governed by state statute and an adopted District Investment Policy that includes depository contract provisions and custodial contract provisions. Major provisions of the District's investment policy include: depositories must be Federal Deposit Insurance Corporation (FDIC) insured Texas banking institutions, depositories must fully insure or collateralize all demand and time deposits and securities collateralizing time deposits are held by independent third-party trustees.

Deposits: At September 30, 2016, the District had cash on hand and demand deposits had a carrying balance of $7,179,361 and total bank balance of $7,234,442, of which the bank balances were covered by FDIC for $250,000 and the remainder of the balance was covered by collateral pledged in the District's name.

Investments: The District's investments are as follows:

	September 30, 2016	Level 1	Level 2	Level 3
Investments by fair value level:				
Mutual fund	$ 9,235	$ 9,235	$ -	$ -
Total investments by fair value level	9,235	9,235	-	-
Investments measured at amortized cost				
TexPool	2,301,498			
Total investments	$ 2,310,733			

Note 2. Deposits and Investments (Continued)

Fair value measurements: The District uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1: Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2: Inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable inputs for an asset or liability. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

Texas local government investment pool: Texas Local Government Investment Pool (TexPool) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and are subject to the provisions of the Public Funds Investment Act (PFIA), Chapter 2256 of the Texas Government Code. In addition to other provision of the PFIA designed to promote liquidity and safety of principal, it requires pools to: (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating of no lower than AAA or AAAm or an equivalent rating by at least one nationally recognized rating service; and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the values of its shares.

The Districts investments in TexPool are reported at share value, which equals amortized cost. The District believes that the pools in which it invests operate as required under GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, to be valued at amortized cost.

The Texas State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the Texas State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The advisory board's members review the investment policy and management fee structure.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with its investment policy, the District manages its exposure to declines in fair value by limiting the types of investments it allows and the maturity.

Credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment policy requires an investment that does not meet the minimum required rating, to be liquidated. At September 30, 2016, the District's investments in TexPool were rated AAAm by Standard & Poor's.

Note 3. Ad Valorem Property Taxes

In accordance with state statutes, the District levies property tax in October (the assessment date) of each year based on the assessed value of the previous January 1 for all real property. The assessed date represents the date in which an enforceable legal claim to the assets arise. Appraised values are established by Travis Central Appraisal District to equal to 100 percent of the appraised market value as required under the State Property Code. Property taxes owed attach to property as an enforceable lien as of January 1 of the subsequent year. Taxes are payable upon receipt of the tax bill and are due the following January 31 to avoid penalty and interest changes.

The total assessed value for real and personal property on the tax roll, was initially approximately $8,204,000 and subsequently updated to approximately $8,202,000, as of October 1, 2015, as certified by the Travis Central Appraisal District.

The tax rates assessed for the year ended September 30, 2015, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were $0.09130 and $0.0045 per $100 valuation, respectively, for a total of $0.0958 per $100 valuation.

At September 30, 2016, unavailable property tax revenue totaled $283,098. Property taxes receivable at September 30, 2016, consisted of the following:

	General Fund	Debt Service Fund	Total
2015 levy	$ 42,144	$ 2,078	$ 44,222
Prior years' levy	227,649	11,227	238,876
	$ 269,793	$ 13,305	$ 283,098

The District is prohibited from writing off real property taxes without specific authority from the Texas Legislature.

Note 4. Fund Balance

On July 14, 2016, the governing board adopted a resolution to maintain a minimum level of unassigned fund balance in the general fund of $3,500,000, which approximates three months of general fund annual expenditures. This amount is intended to provide fiscal stability when economic downturns and other unexpected events occur.

Note 5. Interfund Receivables and Payables

At September 30, 2016, there were no interfund receivables and/or payables.

The following is a schedule of transfers as included in the basic financial statements of the District:

	Transfers In	Transfers Out
Major funds:		
General fund	$ 370,994	$ 371,768
Debt service fund	371,768	370,994
	$ 742,762	$ 742,762

Note 5. Interfund Receivables and Payables (Continued)

Transfers are used to move (1) revenues from the fund with collection authorization to the Debt Service Fund as debt service principal and interest payments become due or (2) restricted amounts from borrowings to the Debt Service Fund to establish mandatory reserve accounts.

Note 6. Capital Assets

A summary capital asset activity for the year ended September 30, 2016, is as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not depreciated:				
Land	$ 395,545	$ -	$ -	$ 395,545
Construction-in-progress	47,784	-	(47,784)	-
Total capital assets not depreciated	443,329	-	(47,784)	395,545
Capital assets being depreciated:				
Fire vehicles	5,553,101	2,141,294	(30,704)	7,663,691
Fire and communication equipment	2,264,850	-	-	2,264,850
Office furniture and equipment	644,768	56,521	-	701,289
Station #2	1,269,299	-	-	1,269,299
Station #3	544,240	-	-	544,240
Station #4	742,118	-	-	742,118
Training center	1,208,359	-	-	1,208,359
Central station	1,116,075	-	-	1,116,075
Administrative building	2,280,073	-	-	2,280,073
Education building	2,130,318	-	-	2,130,318
Pfluger Hall	236,848	-	-	236,848
Improvements	651,882	156,844	-	808,726
Total capital assets being depreciated	18,641,931	2,354,659	(30,704)	20,965,886
Less accumulated depreciation for:				
Fire vehicles	(3,538,864)	(490,762)	24,133	(4,005,493)
Fire and communication equipment	(1,778,685)	(102,892)	-	(1,881,577)
Office furniture and equipment	(467,159)	(50,556)	-	(517,715)
Station #2	(355,149)	(31,732)	-	(386,881)
Station #3	(251,797)	(17,018)	-	(268,815)
Station #4	(269,017)	(18,553)	-	(287,570)
Training center	(373,538)	(30,209)	-	(403,747)
Central station	(460,457)	(29,282)	-	(489,739)
Administrative building	(389,434)	(57,002)	-	(446,436)
Education building	(399,435)	(53,258)	-	(452,693)
Pfluger Hall	(62,173)	(5,921)	-	(68,094)
Improvements	(250,938)	(51,062)	-	(302,000)
Total accumulated depreciation	(8,596,646)	(938,247)	24,133	(9,510,760)
Capital assets being depreciated net	10,045,285	1,416,412	(6,571)	11,455,126
Total capital assets, net	$ 10,488,614	$ 1,416,412	$ (54,355)	$ 11,850,671

Depreciation expense charged to emergency response services—operations totaled approximately, $938,000.

Note 7. Long-Term Liabilities and Bonds Payable

The following is a summary of changes in bonded and other long-term liabilities for the year ended September 30, 2016:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bond payable—Series 2005	$ 530,000	$ -	$ 360,000	$ 170,000	$ 170,000
Notes payable	4,172,730	-	710,556	3,462,174	632,016
Capital leases payable	1,450,653	1,776,916	247,448	2,980,121	441,872
Compensated absences payable	598,232	696,813	624,334	670,711	269,688
Total long-term debt	$ 6,751,615	$ 2,473,729	$ 1,942,338	$ 7,283,006	$ 1,513,576

Compensated absences are generally liquidated by the General Fund.

Bond payable: Detailed information on the original limited tax bond obligation is as follows:

	Date of Issue	Interest Rate	Original Principal Balance
$2,604,999 Limited Tax Bond—Series 2005	April 15, 2005	3%-4%	$ 2,604,999

The District issued limited tax bonds for construction of fire protection facilities and equipment. Tax revenue from yearly ad valorem tax assessments will pay principal and interest on the outstanding tax-supported bonds of the District.

The following schedule sets forth the debt service requirements on the general obligations outstanding bond indebtedness of the District at September 30, 2016:

	Principal	Interest	Total
Year ending September 30:			
2017	$ 170,000	$ 3,400	$ 173,400
	$ 170,000	$ 3,400	$ 173,400

Notes payable: The District has entered into note agreements with Wells Fargo to finance certain construction projects. The District has pledged futures sales tax collections to repay these note payables. Total principal and interest remaining to be paid on the note payables is $3,699,867 through 2022.

Note 7. Long-Term Liabilities and Bonds Payable (Continued)

Notes payable is comprised of the following items at September 30, 2016:

Note payable to Wells Fargo; interest at 2.25%; secured by sales tax revenues; due in annual installments through February 2021	$	931,317
Note payable to Wells Fargo was restructured; interest at 2.40%; secured by sales taxes; due in quarterly installments through July 2021		1,786,822
Note payable to Wells Fargo; interest at 2.40%; secured by sales taxes; due in annual installments through July 2022		744,035
		3,462,174
Less current portion		632,016
	$	2,830,158

Maturities of long-term debt for notes payable for the fiscal years subsequent to September 30, 2016, are as follows:

	Principal	Interest	Total
Year ending September 30:			
2017	$ 632,016	$ 78,066	$ 710,082
2018	647,269	62,948	710,217
2019	662,750	47,467	710,217
2020	678,563	31,654	710,217
2021	703,176	17,558	720,734
2022	138,400	-	138,400
	$ 3,462,174	$ 237,693	$ 3,699,867

Capital lease payable: The District is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled $4,902,012 at September 30, 2016, and accumulated amortization at September 30, 2016, totaled $1,660,119. The amortization of assets held under capital leases is included with depreciation expense. Lease obligations are repaid with general revenue sources.

Note 7. Long-Term Liabilities and Bonds Payable (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2016, were as follows:

Year ending September 30:		
2017	$	543,781
2018		539,061
2019		503,866
2020		413,822
2021		399,031
2022-2023		988,405
Minimum lease payments for all capital leases		3,387,966
Lease amount representing interest at the District's incremental borrowing base		(407,845)
Present value of minimum lease payments		2,980,121
Less current portion		441,872
Capital leases payable—long-term	$	2,538,249

Note 8. 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 has obtained coverage from Volunteer Fireman's Insurance Services and has effectively managed risk. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Note 9. Employee Retirement Plans

Defined contribution plan: In April 2007, the Board authorized the creation of the Travis County Emergency Services District No. 2 457(b) Plan (the 457(b) Plan) with Principal Financial Group. Employees are eligible to participate in the Plan after meeting defined requirements. The Plan replaced the Travis County Emergency Services District No. 2 401(a) plan as the employer funded plan of the District until January 1, 2010. On January 1, 2010, the Board again authorized employer contributions into the Travis County Emergency Services District No. 2 401(a) plan and continued the 457(b) plan for employee contributions only. During fiscal year 2013, the Board also approved changes to the plan administrator and investments held in the Plan, following a recommendation from the District's Investment Workgroup. The District was no longer making contributions to the 401(a) plan for payroll earned after May 31, 2015.

The District's contribution to the 457(b) Plan for the year ended September 30, 2016, totaled $1,936. Participant contributions for the year ended September 30, 2016, totaled $182,384.

Deferred compensation plan: In June 2016, the Board adopted a nonqualified deferred compensation plan for an executive. The Board will make annual discretionary contributions into an investment account that the District will direct to ensure it earns a rate of interest equal to the interest crediting rate of 7%. At September 31, 2016, the market value of the investments totaled approximately $9,200. The District's contributions for the year ended September 30, 2016, totaled $9,265.

Note 9. Employee Retirement Plans (Continued)

Defined benefit plan:

Plan description: Beginning on June 1, 2015, the District began its participation in TCDRS, which is an agent multi-employer pension plan. TCDRS is a non-profit public trust providing pension, disability and death benefits for the eligible employees of participating counties and districts. TCDRS was established by legislative act in 1967 under authority of Article XVI of the Texas Constitution. The TCDRS Act (Subtitle F, Title 8, Texas Government Code) is the basis for TCDRS administration. TCDRS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. That annual report may be downloaded at http://www.tcdrs.org.

Benefits provided: Effective the date of employment, the District provides retirement benefits. A percentage of each employee's paycheck is deposited into his or her TCDRS account. That percentage has been set by the District at 7% and has elected a matching rate of $1 to $1. The employee's savings grow at a rate of 7%, compounded annually. At retirement, the employee's account balance is combined with the District's matching and converted into a lifetime monthly benefit. Employees receive a month of service time for each month that they make a deposit into their account. District employees also receive service time for the years worked prior to the District's participation in TCDRS. The amount of service an employee needs to earn a future benefit is called the vesting requirement. When an employee is vested, he or she has the right to a monthly benefit, which includes the employer matching contribution, at age 60 or older.

The District's employees must work five years to be vested. Once vested, an employee has earned the right to receive a lifetime monthly retirement benefit and is eligible to retire at age 60. The District has also adopted the Rule of 75, which gives all vested employees the right to retire and receive a lifetime monthly benefit when the employee's age plus years of service equals 75 or more. Any employee with 30 years of service, regardless of age, will also have the right to retire and receive a lifetime monthly benefit.

Any TCDRS member who is a vested member may terminate employment prior to attaining age 60, and remain eligible to retire and receive a monthly benefit after attaining age 60 provided his or her membership is not terminated other than by retirement.

Retirees elect to receive their lifetime benefit by choosing one of seven actuarially equivalent payment options. Prior service gives employees credit for time worked for an eligible organization before it joined the system. Partial lump sum payments at retirement allow employees to withdraw part of their TCDRS account balance as a lump sum at retirement with a reduced monthly benefit. District employees all have the option to receive a lump-sum payment at retirement up to the amount of their final account balance.

Contributions: Plan members and the District are required to contribute at a rate set by statute. The contribution requirements of plan members and the District are established and may be amended. For 2016, the contribution rate for the plan members was 7 percent of gross pay. The District pays a matching portion to the pension plan and elected to contribute 10 percent of gross pay for 2016, rather than 7 percent, which totaled $721,345. Participant contributions totaled $504,942.

Net pension asset: The District's net pension asset was measured as of December 31, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

Note 9. Employee Retirement Plans (Continued)

Actuarial assumptions: The actuarial assumptions that determined the total pension asset as of December 31, 2015, was based on the results of an actuarial experience study for the period. January 1, 2009, through December 31, 2012, except where required to be different by GASB Statement No. 68.

The total pension asset in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Payroll growth for funding calculations (including inflation plus average merit of 1.4% and productivity of 0.5% for 2015)	4.90%
Long-term investment return	8.00%

Mortality rates were based on the following:

Depositing members: RP-2000 Active Employee Mortality Table for males with a two-year set-forward and RP-2000 Active Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110 percent of the MP-2014 Ultimate scale after that.

Service retirees, beneficiaries and non-depositing members*:* The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110 percent of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.

Disabled retirees: RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110 percent of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

Long-term rate of return on assets: The long-term expected rate of return on TCDRS assets is determined by adding expected information to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013. The numbers shown are based on January 2016 information for a 7-10 year time horizon.

Note 9. Employee Retirement Plans (Continued)

Asset Class	Benchmark	Target Allocation (1)	Geometric Real Rate of Return (Expected Minus Inflation) (2)
U.S. Equities	Dow Jones U.S. Total Stock Market Index	14.50%	5.45%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (3)	14.00%	8.45%
Global Equities	MSCI World (net) Index	1.50%	5.75%
International Equities— Developed	MSCI World Ex USA (net)	10.00%	5.45%
International Equities—Emerging	MSCI World Ex USA (net)	8.00%	6.45%
Investment—Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	1.00%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	5.10%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.09%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	5.00%	6.40%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	8.10%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	3.00%	4.00%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	6.80%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (4)	5.00%	6.90%
Hedge Funds	Hedge Fund Research, Inc. Fund of Funds Composite Index	25.00%	5.25%

(1) Target asset allocations adopted at the April 2016 TCDRS Board meeting.

(2) Geometric real rates of return in addition to assumed inflation of 1.6 percent per Cliffwater's 2016 capital market assumptions.

(3) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

Discount rate: The discount rate used to measure the total pension liability was 8.1% for December 31, 2015. In order to determine the discount rate to be used by the employer, the TCDRS used an alternative method to determine the sufficiency of the fiduciary net position in all future years. The alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

(1) TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.

(2) Under the TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.

(3) The employer's assets are projected to exceed accrued liabilities in 20 year or less. When this point is reached, the employer is still required to contribute at least the normal cost.

(4) Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Note 9. Employee Retirement Plans (Continued)

Change in net pension liability (asset): Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for the purpose of calculating the total pension liability and net pension liability of the District is equal to the long-term assumed rate of return on investment. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB Statement No. 68 purposes. Therefore, the system has used a discount rate of 8.1%. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.0%, net of all expenses, increased by 0.1% to be gross of administrative expenses.

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
Changes in Net Pension Liability (Asset)	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)–(b)
Balance as of September 30, 2015	$ -	$ -	$ -
Changes for the year:			
Service cost	444,088	-	444,088
Interest on total pension liability (1)	15,607	-	15,607
Effect of plan changes (2)	(53,422)	-	(53,422)
Effect of economic/demographic gains or losses	53,516	-	53,516
Effect of assumptions changes or inputs	2,334	-	2,334
Refund of contributions	(53,309)	(53,309)	-
Benefit payments	53,309	53,309	-
Administrative expenses	-	(247)	247
Member contributions	-	274,573	(274,573)
Net investment income	-	(5,665)	5,665
Employer contributions	-	392,247	(392,247)
Other (3)	-	(30)	30
Balance as of September 30, 2016	$ 462,123	$ 660,878	$ (198,755)

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) Reflects new annuity purchase rates applicable to all TCDRS employers effective January 1, 2018.

(3) Relates to allocation of system-wide items.

Note 9. Employee Retirement Plans (Continued)

Sensitivity analysis: The following presents the net pension liability of the District, calculated using the discount rate of 8.1%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.1%) or 1 percentage point higher (9.1%) than the current rate.

	1% Decrease 7.10%	Current Discount Rate	1% Increase 9.10%
Total pension liability	$ 538,511	$ 462,123	$ 397,284
Fiduciary net position	660,878	660,878	660,878
Net pension liability (asset)	$ (122,367)	$ (198,755)	$ (263,594)

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separate issued TCDRS report.

Pension expense: The District recognized the following pension related expense (income) during the year ended September 30, 2016:

Description	Pension Expense (Income)
Service cost	$ 444,088
Interest on total pension liability (1)	15,607
Effect on plan changes	(53,422)
Administrative expenses	248
Member contributions	(274,573)
Expected investment return net of investment expenses	(26,717)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	3,823
Recognition of assumption changes or inputs	167
Recognition of investment gains or losses	6,476
Other (2)	30
Pension expense	$ 115,727

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) Relates to allocation of system-wide items.

Note 9. Employee Retirement Plans (Continued)

Deferred inflows and outflows of resources: As of September 30, 2016, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ -	$ 49,694
Changes of assumptions	-	2,167
Net difference between projected and actual earnings	-	25,906
Contributions made subsequent to measurement date	N/A	549,835
	$ -	$ 627,602

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Years ended September 30:	
2017	$ 10,466
2018	10,466
2019	10,466
2020	10,466
2021	3,989
Thereafter	31,914

The remaining balance to be recognized in future years (and included in the thereafter category), if any, will be impacted by additional future deferred inflows and outflows of resources.

	Schedule of Deferred Inflows and Outflows of Resources					
	Original Amount	Date Established	Original Recognition Period	Amount Recognized in 9/30/2016 Expense (1)	Balance of Deferred Inflows 09/30/16	Balance of Deferred Outflows 09/30/16
Investment or losses	$ 32,382	09/30/16	5	$ 6,476	$ -	$ 25,906
Economic/demographic or losses	53,516	09/30/16	14	3,823	-	49,694
Assumption changes or inputs	2,334	09/30/16	14	167	-	2,167

(1) Investment losses are recognized in pension expense over a period of five years; economic/demographic losses and assumption changes or inputs are recognized over the average remaining service life for all active, inactive and retired members.

Note 10. Commitments

Effective October 15, 2015, the District entered into an agreement with Fire Recovery USA to provide billing services for the District's fees charged to respond to EMS calls and other related departmental services provided to the general public. The District may terminate this agreement at any time upon 90 days' prior written notice to Fire Recovery USA. The agreement calls for the District to pay a 20% fee of all payments collected on behalf to the District.

Note 10. Commitments (Continued)

Effective December 31, 2001, the District entered into an agreement with the City of Austin Fire Department to provide dispatch services to the District service area on a fee-for-service basis. The service fee is based on the number of calls dispatched in the District service area in the preceding year and was $24 per call and totaled approximately $178,000 during 2016. Either party may terminate this agreement with 90 days' prior written notice to the other party.

Note 11. Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The statement of net position and governmental funds balance sheet include adjustments between governmental funds balances and net position. The details on those adjustments are as follows:

Total governmental fund balances	$	10,168,441
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not reported in the funds		11,850,671
Other long-term assets are not available to pay for current-period expenditures and, therefore, reported as deferred inflows of resources—unavailable revenue, in the governmental funds		283,098
Pension related deferred outflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds		627,602
Certain assets and liabilities, including bonds, notes and capital lease payables, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. These assets and liabilities at year-end consist of:		
Pension asset		198,755
Accrued interest payable		(89,836)
Bonds payable		(170,000)
Notes payable		(3,462,174)
Capital leases payable		(2,980,121)
Compensated absences payable		(670,711)
Total net position of governmental activities	$	15,755,725

Note 11. Reconciliation of Government Wide Financial Statements and Fund Financial Statements (Continued)

The statement of activities and governmental funds revenues, expenditures and changes in fund balances includes the following adjustments:

Net change in governmental fund balances	$ 2,744,647
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. This is the amount by which capital outlay exceeded depreciation in the current period and other transactions involving capital assets:	
Capital outlay	2,306,875
Depreciation expense	(938,247)
Proceeds from sale of capital assets	(3,200)
Loss on sale of capital assets	(3,371)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, change in deferred inflows of resources—unavailable revenue	9,616
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds:	
Issuance of capital leases	(1,776,916)
Repayment of bond principal	360,000
Repayment of notes payable principal	710,556
Repayment of capital lease principal	247,448
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 governmental funds:	
Increase in compensated absences	(72,479)
Increase in accrued interest payable	(36,407)
Pension expense	605,620
Change in net position of governmental activities	$ 4,154,142

Subsequent events: The District evaluates events that occur subsequent to the statement of financial position date, but before financial statements are issued for periods ending on such dates, for possible adjustments to such financial statements or other disclosure. This evaluation generally occurs through the date at which the District's financial statements are issued. For the financial statements as of and for the year ended September 30, 2016, this date was March 16, 2017.

Note 12. Subsequent Events

Effective January 1, 2017, the District adopted an increase of the employer matching remitted to TCDRS to 200 percent and the change will be retroactively applied back to inception of TCDRS. The elected funding rate will remain at 10%.

Note 13. New Pronouncements

The District adopted the following statement during the year ended September 30, 2016:

- **GASB Statement No. 72, *Fair Value Measurement and Application,* issued February 2015:** This Statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value and what information about fair value should be disclosed in the notes to the financial statements. This statement defines fair values as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. The related disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments.

- **GASB Statement No. 79, *Certain External Investment Pools and Pool Participants:*** The adoption of this statement requires additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes.

The GASB has issued several statements not yet implemented by the District. The statement which might impact the District is as follows:

- **GASB Statement No. 84, *Fiduciary Activities:*** This statement establishes criteria for identifying fiduciary activities of all state and local governments and clarifies whether and how business-type activities should report their fiduciary activities. This statement provides that governments should report activities meeting certain criteria in a fiduciary fund in the basic financial statements and present a statement of fiduciary net position and a statement of changes in fiduciary net position. This statement also describes four fiduciary funds that should be reported, if applicable: pension/employee benefit trust funds; investment trust funds; private purpose trust funds and custodial funds with fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The District’s management has not yet determined the effect this statement will have on the District’s financial statements.

Required Supplementary Information

Travis County Emergency Services District No. 2

Budgetary Comparison Schedule—General Fund—Budgetary Basis
Year Ended September 30, 2016

	Original Budget	Final Budget	Actual	Adjustments	Actual Budget Basis	Variance With Final Budget Favorable (Unfavorable)
Revenues:						
Property taxes, including penalties and interest	$ 7,463,537	$ 7,463,537	$ 7,491,755	$ -	$ 7,491,755	$ 28,218
Sales tax	7,824,000	7,824,000	8,901,251	(152,295)	8,748,956	924,956
Fee for services	131,600	131,600	69,846	100,000	169,846	38,246
Prevention	273,355	273,355	235,701	-	235,701	(37,654)
Facilities income	179,200	179,200	186,189	-	186,189	6,989
Interest income	7,500	7,500	47,773	-	47,773	40,273
Miscellaneous	-	-	50,171	-	50,171	50,171
Total revenues	15,879,192	15,879,192	16,982,686	(52,295)	16,930,391	1,051,199
Expenditures:						
Current:						
Operations	1,199,777	1,199,777	1,239,654	-	1,239,654	(39,877)
Prevention	47,700	47,700	29,090	-	29,090	18,610
Administrative:						
Professional services	746,300	746,300	734,480	-	734,480	11,820
General and administrative	1,292,171	1,292,171	896,173	100,000	996,173	295,998
Salaries	8,900,000	8,900,000	7,894,724	-	7,894,724	1,005,276
Employee benefits	2,398,000	2,398,000	1,801,228	-	1,801,228	596,772
Debt service:						
Principal retirement	915,507	958,020	958,004	-	958,004	16
Interest and fees	150,097	153,280	153,338	-	153,338	(58)
Capital outlay	200,000	2,457,956	2,306,875	-	2,306,875	151,081
Total expenditures	15,849,552	18,153,204	16,013,566	100,000	16,113,566	2,039,638
Excess (deficiency) of revenues over (under) expenditures	29,640	(2,274,012)	969,120	(152,295)	816,825	3,090,837
Other financing sources (uses):						
Proceeds from sale of capital assets	-	-	3,200	-	3,200	3,200
Issuance of capital leases	-	1,776,916	1,776,916	-	1,776,916	-
Transfers in	-	-	370,994	(370,994)	-	-
Transfers out	-	-	(371,768)	371,768	-	-
Total other financing sources (uses)	-	1,776,916	1,779,342	774	1,780,116	3,200
Net change in fund balances	$ 29,640	$ (497,096)	$ 2,748,462	$ (151,521)	$ 2,596,941	$ 3,094,037

Note to Required Supplementary Information—Budgetary Comparison Schedule—General Fund—Budgetary Basis

Note 1. Basis of Presentation

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund.

For the fiscal year beginning October 1, a proposed budget is adopted by the Board in September. Once adopted, the budget can be amended by the Board. The budget is prepared at the division level. The District may make transfers of appropriations within a division. Transfers of appropriations between divisions require the approval of the Board. Appropriations in all budgeted funds lapse at the end of the fiscal year.

Travis County Emergency Services District No. 2

Schedule of Changes in the District's Proportionate Share of Net Pension (Asset) Liability and Related Ratios
Year Ended September 30, 2016

Total pension liability	
Service cost	$ 444,088
Interest on total pension liability	15,607
Effect of plan changes	(53,422)
Effect of economic/demographic gains or losses	53,516
Effect of assumptions changes or inputs	2,334
Refund of contributions	(53,309)
Benefit payments	53,309
Net change in total pension asset	462,123
Total pension liability—beginning of year	-
Total pension liability—end of year	$ 462,123
Plan fiduciary net pension:	
Refund of contributions	(53,309)
Benefit payments	53,309
Administrative expenses	(247)
Member contributions	274,573
Net investment income	(5,665)
Employer contributions	392,247
Other	(30)
Net change in plan fiduciary net pension	660,878
Plan fiduciary net position—beginning of year	-
Plan fiduciary net position—end of year	$ 660,878
Net pension (asset) liability—beginning of year	-
Net pension (asset) liability—end of year	$ (198,755)
District's covered-employee payroll	$ 7,212,452
District's proportionate share of net pension liablity as a percentage of its covered-employee payroll	-2.76%
Plan fiduciary net position as a percentage of total pension liability	143.01%

Note: Only the current fiscal year is presented using a December 31, 2015, measurement date because 10-year data is not yet available.

Travis County Emergency Services District No. 2

Schedule of Employer Contributions
Year Ended September 30, 2016

Actuarially determined contribution	$	208,283
Contributions in relation to the actuarially determined contribution		392,247
Contribution deficiency (excess)	$	(183,964)
Covered-employee payroll	$	3,922,470
Contributions as a percentage of covered-employee payroll		10.00%

Notes to Schedule

Valuation date:	Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amorization Period	0.6 years (based on contribution rate calculated in December 31, 2015, valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment rate of return	8.0%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions Reflected in the Schedule*	No changes in plan provisions are reflected in the Schedule of Employer Contributions

* Only changes effective 2015 and later are shown in the Notes to Schedule.