Travis County Emergency Services District No. 2

Basic Financial Statements
September 30, 2017

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Contents

Independent auditor’s report	1-2
Management’s discussion and analysis	3-15
Basic financial statements	
Governmental funds balance sheet and statement of net position	18-19
Governmental funds revenues, expenditures and changes in fund balances and statement of activities	20
Notes to financial statements	21-42
Required supplementary information	
Budgetary comparison schedule—general fund—budgetary basis	44
Note to required supplementary information—budgetary comparison schedule—general fund—budgetary basis	45
Schedule of changes in net pension asset and related ratios	46
Schedule of employer contributions	47
Notes to required supplementary information—pension plan	48-50

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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, 2017, 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, 2017, and the respective changes in financial position for the year then 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 net pension asset and related ratios, and schedule of employer contributions, as listed 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
April 24, 2018

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, 2017. The accompanying Financial Audit for fiscal year ("FY") 2017 was performed by RSM US LLP, Austin, Texas.

2.0 Background

District Information

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 District is also known as the Pflugerville Fire Department.

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 additional toll ways run through the north and eastern part of the district: State Highway 45 and State Highway 130, respectively.

The District's vision is to continue as a financially stable organization that delivers a superior level of traditional and innovative emergency and nonemergency 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 functions as a full-service fire department providing fire prevention, community risk reduction, fire suppression, rescue and advanced life support emergency medical care services. In January 2017 the District placed its first District-owned and operated ambulance in service and, in May 2017, added a second ambulance, with another two ambulances in place before the end of the 2017 calendar year. This service was previously provided in the District by the City of Austin through a contract between Travis County and the City of Austin.

The District has an automatic aid agreement with the Austin Fire Department that ensures the closest appropriate resource is dispatched to an emergency without regard to assigned jurisdiction. Austin Fire Department provides fire dispatch to all departments in Travis County and is, therefore, capable of determining closest resource(s) required for an emergency. The District contracts with Austin Fire Department for dispatching service.

The District's fiscal year begins on October 1 and ends on September 30. The District is a property taxing authority limited by statute to a maximum tax of ten cents per hundred dollars of property valuation. Property tax revenue is one of the two major sources of revenue for the District.

Sales tax revenue is the other major source of revenue for the District. Sales tax first became a source of revenue in March 2001 following voter approval of a 0.5% allocation District-wide. In October 2014, an additional allocation of 0.5% was approved by voters in the District, making the tax allocation 1.0%. This taxing authority excluded the City of Pflugerville, the Wells Branch Library District and the Austin Metropolitan Transit Authority. Inclusion of these areas would have been contrary to tax limitations at the time. The second tax authority within the District is labeled as District 2-A.

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, and the Board of Commissioners approves, a budget for income and expense items. During fiscal year 2017, the District amended the expenditures in the approved budget; therefore, variances between the amended budget amounts and actual amounts are small.

District Strategic Plan

The Travis County Commissioners' Court appoints five 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 year terms.

The Board of Commissioners and District staff meet at least annually to focus on strategic planning for delivery of emergency services. Included in the planning process is an evaluation of progress from the previous year(s) and a financial position review along with a future revenue forecast. This is coupled to three basic principles of service: first, to continually analyze staff deployment and resource allocation with safety as the focus; second, to develop and implement enhanced pre-hospital care for District populations; and third, to develop plans to address the growing gaps in best practice response times (e.g., additional fire stations and response vehicles).

Demands for service are continually increasing because of development and population growth in the District. District needs must be planned across a time spectrum that goes beyond a single budget. Addressing gaps in infrastructure, such as number of staff, facilities and equipment, and internal functions created by growth and development and increased service demands, have been given priority over expanding services with building additional fire stations. District staff monitors the annual budget and institutes measures as necessary to maintain a balance between expenditures and revenues. In fiscal year 2017, the priority for the District was to begin providing emergency medical service (EMS) and ensure adequate staffing for day-to-day District needs.

3.0 Financial Highlights

- The District's assets exceed its liabilities by $18.0 million at the close of fiscal year 2017 of which $12.3 million is unrestricted and can be utilized to meet the needs and obligations of the District. The net position of the district increased by $2.2 million from fiscal year 2016.

- The combined ending fund balance for the District was $12.5 million, which increased $2.4 million from fiscal year 2016.

- Total liabilities for the District are $9.6 million, which increased approximately $1.1 million from fiscal year 2016 to fiscal year 2017. The increased debt is a result of the purchase of new vehicles and equipment.

- Overall revenue for the district increased by 15% or $2.6 million in fiscal year 2017. Most of the increase was attributable to increased property and sales tax revenue. Sales tax revenue increased 8% or $700,000 and property tax revenue increased 19% or $1.5 million.

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 *governmental funds balance sheet and statement of net position* presents information on all the District's assets and deferred outflows, as well as the District's and liabilities and deferred inflows, 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 *governmental fund revenues, expenditures and changes in fund balances and statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in fund balances are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The accrual basis of accounting is used, which is similar to the accounting methodology 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 into separate funds, each of which are 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.

The District's basic financial statements are comprised of 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.

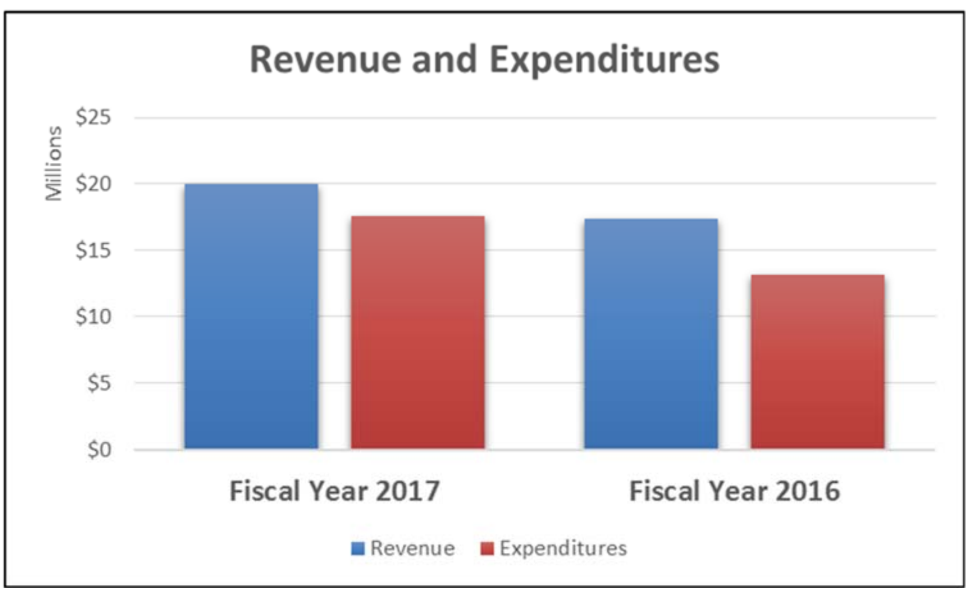
Debt service fund: The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of government funds.

5.0 Financial Analysis

Below is a summary comparison of revenues and expenditures for FY 2017 and FY 2016:

	September 30		
	2017	2016	Variance
Revenues:			
Property taxes—including penalties and interest	$ 9,373,752	$ 7,870,645	$ 1,503,107
Sales tax	9,592,499	8,901,251	691,248
Other revenue	1,030,617	588,891	441,726
Total revenues	19,996,868	17,360,787	2,636,081
Total expenditures	17,785,922	13,206,645	(4,579,277)
Other financing sources, net	-	-	-
Change in net position	2,210,946	4,154,142	$ (1,943,196)
Net position, beginning of year	15,755,725	11,601,583	
Net position, end of year	$ 17,966,671	$ 15,755,725	

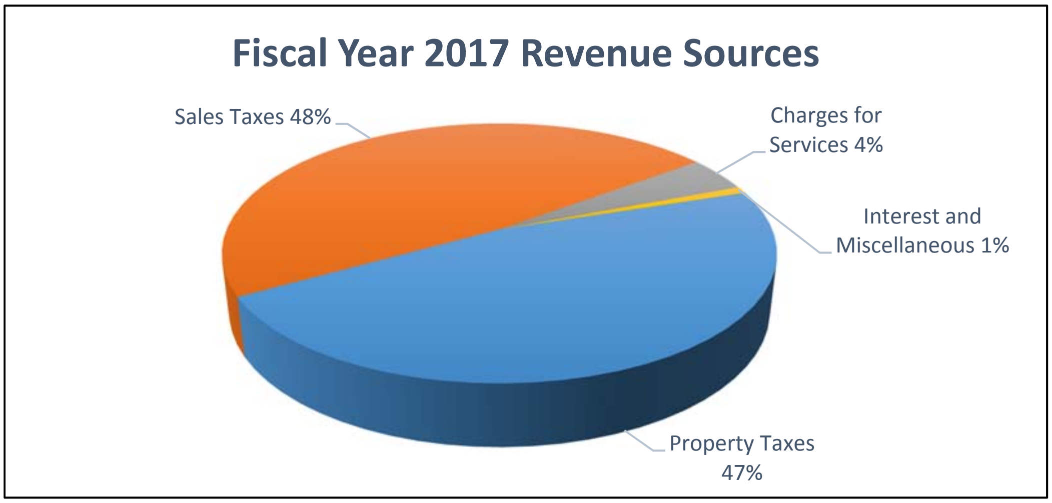
Overall revenue increased by 15% and overall expenditures increased by 35% from fiscal year 2016 to 2017. Revenues continue to exceed expenditures and contributed an additional $2.2 million to the District's net position at the end of fiscal year 2017. The balance places the District in a position of continued progress without alteration of strategic vision. This year-end financial position enhances the District's future posture for service capability.



Revenue

In September 2016, the District's commissioners approved a resolution to levy ad valorem at a tax rate of $0.0997 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 $0.0003 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 outstanding. The total levy of ad valorem tax for fiscal year 2016 was a rate of $0.0958. In September 2016, the District's commissioners approved a levy of ad valorem tax for fiscal year 2017 of a total $0.10 rate. This rate is equal to the maximum allowed by law.

Total revenue projected in the fiscal year 2017 Budget was $19.5 million and total actual fiscal year 2017 revenue received was $19.9 million, which is a positive impact of $486,000 or 2% over the projected budget.



Overall revenue for the district increased by 15% in fiscal year 2017 from fiscal year 2016. Most of the increase was attributable to increased property and sales tax revenue.

Total sales tax revenue increased 8% from $8.9 million in fiscal year 2016 to $9.6 million in fiscal year 2017. General Fund sales tax revenue was $140,000 or 1% above the fiscal year 2017 budgeted revenue amount. Sales tax revenue increased statewide in fiscal year 2017 as compared to fiscal year 2016 according to the Texas Comptroller's reports.

Total property tax revenue increased 19% from $7.9 million in fiscal year 2016 to $9.4 million in fiscal year 2017. The General Fund property tax revenue was on target with the budgeted revenue for fiscal year 2017. Property tax revenue continues to increase due to steadily increasing home values in central Texas along with the increasing number of new homes in Travis County.

The District began providing ambulance service in January 2017 with one ambulance and added a second in May 2017. Revenue from the billing of the medical services provided contributed an additional $325,000 in revenue in fiscal year 2017 above fiscal year 2016. The total revenue for services provided was $215,000 above the fiscal year 2017 budgeted amount. The revenue amounts are gross—the billing company that the District contracts with for fire and medical billing receives a fee for their service that is accounted for in the expense section. Revenue projections for this service were projected conservatively because the District was new to billing medical service.

Fiscal year 2017 Plan review and Inspection revenues were budgeted at a 42% lower amount than fiscal year 2016 budget due to an anticipated decrease in the number of reviews and inspections during the year, which was realized in actual revenues decreasing 26% or $31,000 in fiscal year 2017. This was purposeful and in line with the District's plan to focus on risk reduction activities to prevent injury and loss of life instead of using inspections as the primary means.

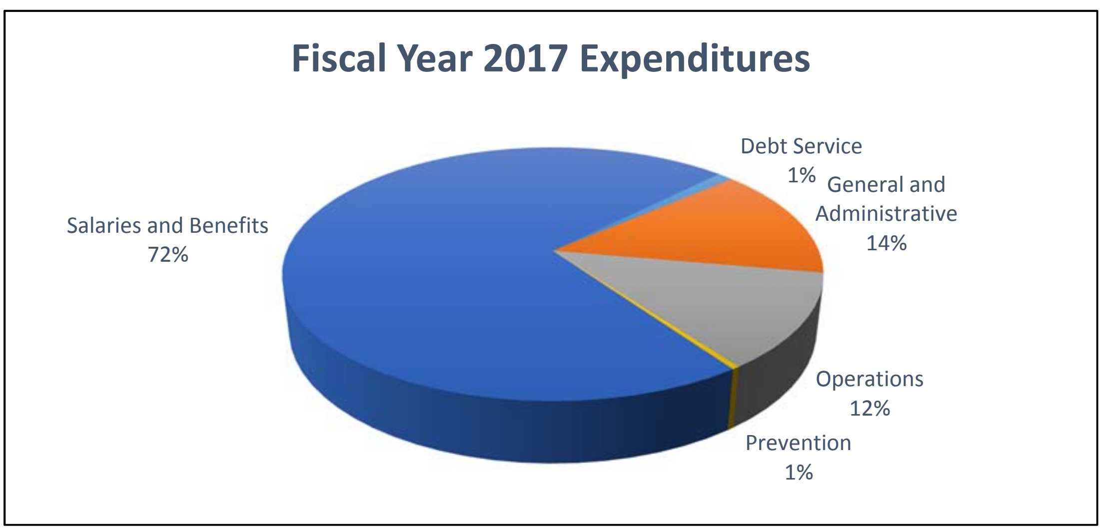
Facilities income from rentals of the District-owned Pfluger Hall and Education Building increased 17% or $32,000 from fiscal year 2016 to 2017. The growth in revenue is due to more frequent rentals of the facility and an increase in the standard fees charged for use of the facilities.

The District received a small $14,000 grant from Firehouse Subs to provide new carbon dioxide and smoke detectors in homes within the District.

Miscellaneous and interest revenue increased $68,000 from fiscal year 2016 to 2017. The budgeted revenue in fiscal year 2017 for interest was $14,000 and zero for miscellaneous income. The combined total revenue for fiscal year 2017 was $165,000. Interest income exceeded budget expectations by $42,000 due to increased cash balances of bank accounts and interest from brokered certificates of deposit ("CDs"), as well as $34,000 interest and penalty income from property tax collections. Miscellaneous income for fiscal year 2017 included $21,000 for proceeds from retired equipment that was auctioned off and $31,000 from Travis County for EMS supply reimbursements.

Expenses

Operating expenses for fiscal year 2017 totaled about $17.8 million of which 72% were related to employee salaries and benefits. Fiscal year 2017 expenditures were budgeted higher than fiscal year 2016 due to an additional 18 position increase in full-time equivalent ("FTE") employee positions (128 authorized FTEs for fiscal year 2017 and 110 FTEs for fiscal year 2016) and related expenses, as well as increased expenditures for lease payments of new vehicles and equipment. Fiscal year 2017 expenditures exceeded the budget by $495,000 or 2%.



The additional FTE positions, as well as annual pay increases for existing staff increased the overall fiscal year 2017 salary and benefits expenditures 27% or $2.6 million over fiscal year 2016 levels. This increase in staffing in fiscal year 2017 is a component of the plan toward achieving the District's strategic goals, such as achieving adequate staffing on all response apparatus and first response paramedics for an enhanced level of pre-hospital EMS care. Salaries were above budget by $198,000 or 2% due to increased overtime work, but the expenditures for employee benefits were below budget by $360,000 due mostly to lower than budgeted costs for health, dental and workers compensation insurance. Total expenditures for salaries and benefits in fiscal year 2017 were collectively below budget by $161,000 or 1%.

The impact of New FTE positions goes well beyond salary, benefits, uniforms and personal protective equipment ("PPE"). The District operates 24 hours a day and 7 days a week, so everything from utility costs to equipment maintenance expense increase to accommodate more staff providing increased levels and frequency of services. Expenses for new uniforms and PPE for the additional operations staff increased the department-wide budget for uniforms and PPE items by 15% or $50,000 from fiscal year 2016 to fiscal year 2017. The overall uniform and PPE expense for the new FTEs was approximately $100,000 or $7,000 per new operational employee ($100,000 divided by 15 FTEs). The total budget for PPE related items for fiscal year 2017 was $338,000 and the actual expense was $242,000, which represents a $96,000 or 28% budget savings for the Operations division.

Operations division expenditures include equipment and clothing needed for the operations division staff to provide services, as well as vehicle maintenance, training, and supplies needed for the stations and trucks. The savings in this division over the fiscal year 2017 budget were $303,000 or 18% below the budgeted amount of $1.7 million. The largest contribution to the savings was in the mobile/handheld radio category which was $119,000 below the fiscal year 2017 budgeted amount because the expense for these purchases were posted in the capital outlay category, as they were expenses related to outfitting the new ambulances with necessary radio equipment. Some of the other line items with budget savings include PPE (discussed above) and medical equipment and supplies.

Medical equipment and supplies expense increased $129,000 from fiscal year 2016 to 2017 due to the new ambulance service being provided by the District. This was a significant increase over the 2016 budget. The increase was budgeted and expected and partially offset through revenue received for medical services provided. The budget amount for fiscal year 2017 was five times higher than 2016 to prepare for the anticipated increased use of medical supplies in the field. Total expenditures for medical equipment and supplies was $17,000 or 7% below the budget for fiscal year 2017.

The budget for capital purchases decreased from $2.5 million in fiscal year 2016 to $1.2 million in fiscal year 2017. Total expenditures for fiscal year 2017 were $2.5 million, which was $1.3 million above the budget for the year. The District purchased four new ambulances, a Skeeter lifted brush truck, a Pierce Enforcer™ pumper and a Pierce pumper truck in fiscal year 2017. The financing of the vehicles was processed differently than budgeted, as the lease company provided funds to the District for the purchase, which the District held until the vehicles were completed and then processed as a payment and recognized that expense which exceeded the budget. All the purchases were leases, and payments will begin in fiscal year 2018. The total cost of these purchases was $2.3 million, which was a 6% increase from fiscal year 2016.

Fiscal year 2017 equipment repair and maintenance expenses for the District's fleet decreased by $21,000 or 8% from fiscal year 2016. The District has begun implementing a fleet replacement and management program that has decreased the average age of the fleet and, therefore, decreased repair expenses. In fiscal year 2017, there was one truck that experienced multiple mechanical issues and became too costly to repair and maintain. This truck was retired, and a new truck was purchased in fiscal year 2017 to replace it. Payments for this purchase will begin in fiscal year 2018.

General and administrative division expenses include support expenses, such as facilities supplies and maintenance, general (nonhealth) insurance, information technology (e.g., computers and copiers), utilities and other overall department expenses. The budget for this division was $1.5 million for fiscal year 2017 and expenditures totaled $1.2 million which was a 12% savings. In fiscal year 2017, insurance expense was $32,000 or 10% below the $135,000 budget, mobile/handheld radios were $14,000 below the $40,000 budget, Internet and wireless data services were $24,000 below the combined budget of $40,000 and office supplies and promotional materials were $25,000 below the combined budget of $35,000. The rest of the savings was relatively spread to the other budget line items in the division.

Building and property maintenance expenses increased $42,000 or 43% from fiscal year 2016 to 2017. The increased expense for maintenance is partly due to the increasing age of buildings. In fiscal year 2017 there was a targeted focus on proactive maintenance and repairs to increase the safety of the buildings. There was also an increase in remodeling and reconfiguration activities to house the additional new FTEs added to shifts. Additional living spaces were configured and related furniture was purchased.

Events program expenses increased from $3,000 in fiscal year 2016 to $41,000 in 2017. In fiscal year 2016, the District began a restructuring of the organization that continued through 2017. Two new executive team members were hired, and the District hired a consultant to facilitate a retreat to renew the focus on a combined mission and vision. The increase in expense covered the expense of the consultant and cost of the facility. The District also focused on ensuring that the Board of Commissioners was informed and had focused time to review and update the strategic plan. This is done in a concentrated timeframe away from the main offices, and the other portion of the increased expense was for the conference center expense. The District received a grant for the purchase of 400 carbon monoxide and smoke detectors so there was a $14,000 expense for that purchase that also contributed to the increase in this expense category.

Professional services include legal services, audit services, fees paid to Travis County Appraisal District for collection of property taxes, fees paid to the Texas Comptroller for collection and distribution of sales taxes, computer support and collection fees paid to the medical billing company. The budget for professional services for fiscal year 2017 was $1.1 million and total expenditures were $1 million. The 10% savings was due to less expense in various professional services than expected, as well as legal services expenditures coming in $24,000 or 15% under budget.

Legal service expenses increased 88% or $61,000 in fiscal year 2017 from 2016. Special legal counsel was retained for the collective bargaining agreement process, which accounts for about half of the increase. The rest of the increase was for legal services regarding legislative issues.

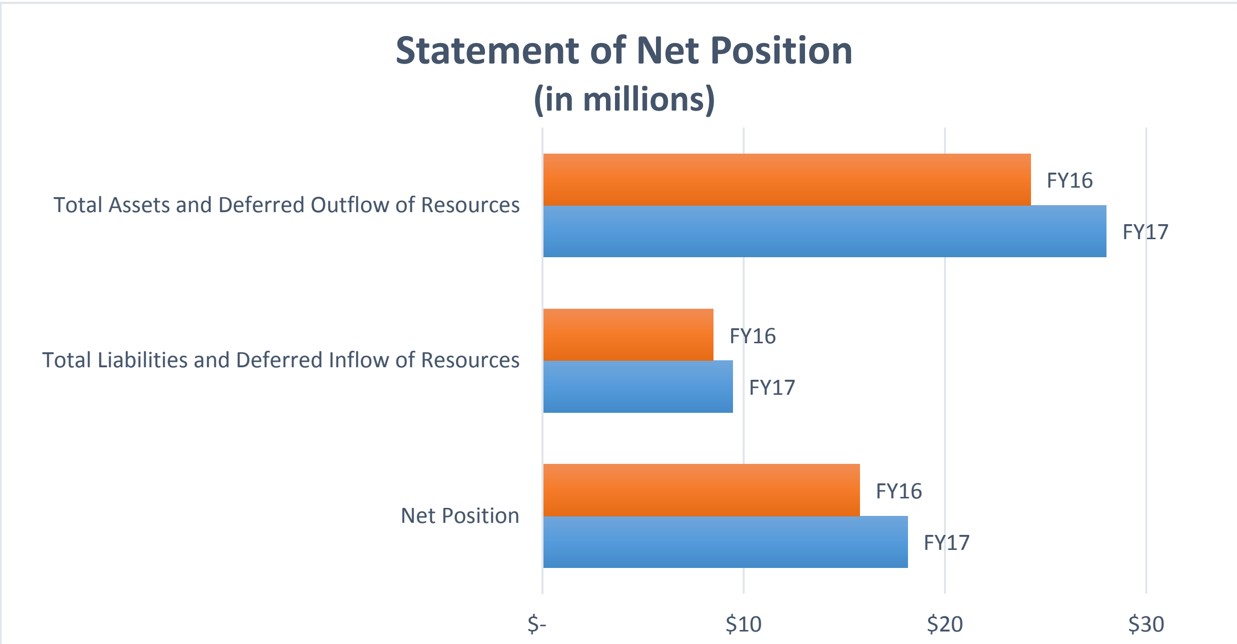
Collection fees for services rendered are the fees for the fire and medical billing company services to bill for services provided by the District. These fees increased from fiscal year 2016 to 2017 from $16,000 to $46,000. The total expenditure for fiscal year 2017 was 8% or $3,800 below the budgeted amount.

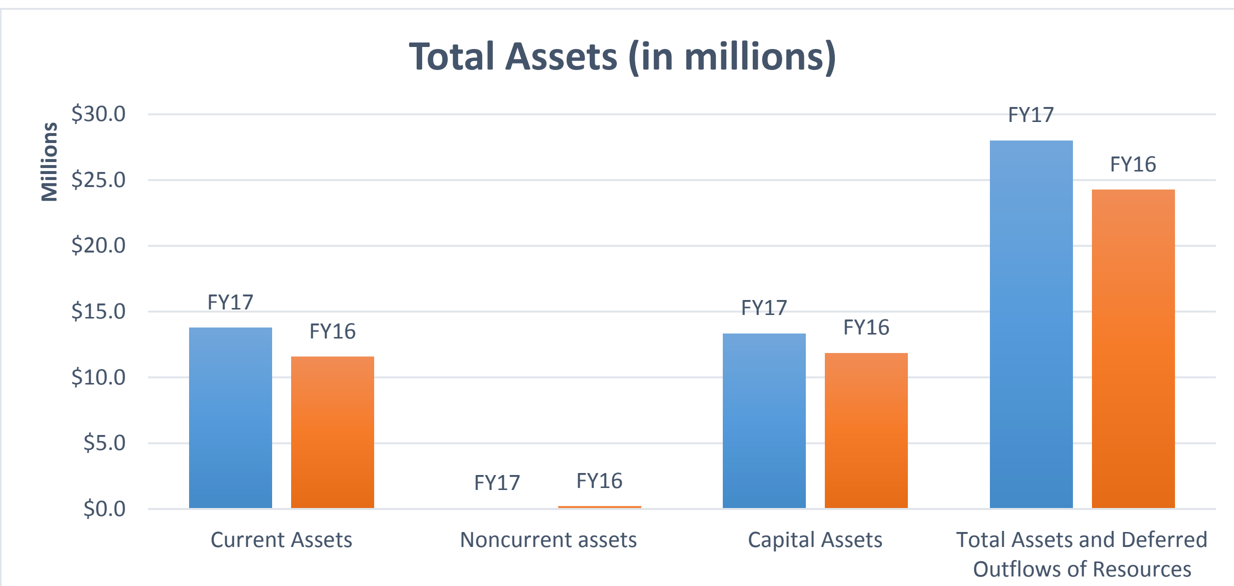
Assets and Liabilities

Below is a summary comparison of the Statement of Net Position accounts for FY 2017 and FY 2016:

	September 30		
	2017	2016	Variance
Assets:			
Current assets	$ 13,777,324	$ 11,566,183	$ 2,211,141
Noncurrent assets	35,200	202,081	(166,881)
Capital assets	13,325,193	11,850,671	1,474,522
Total assets	27,137,717	23,618,935	3,518,782
Deferred outflows of resources—pension asset	869,232	627,602	241,630
Total assets and deferred outflow of resources	$ 28,006,949	$ 24,246,537	$ 3,760,412
Liabilities:			
Current liabilities	$ 3,028,441	$ 2,721,382	$ 307,059
Noncurrent liabilities	6,602,674	5,769,430	833,244
Total liabilities	9,631,115	8,490,812	1,140,303
Deferred inflows of resources—pension asset	409,163	-	409,163
Net position:			
Net investment in capital assets	5,702,812	5,238,376	464,436
Restricted for debt service fund	-	142,562	(142,562)
Unrestricted	12,263,859	10,374,787	1,889,072
Total net position	17,966,671	15,755,725	2,210,946
Total liabilities and net position	$ 28,006,949	$ 24,246,537	$ 3,760,412

The chart below shows a comparison between fiscal year 2017 and fiscal year 2016 net position. Net position rpresents the difference between total assets and total liabilities.



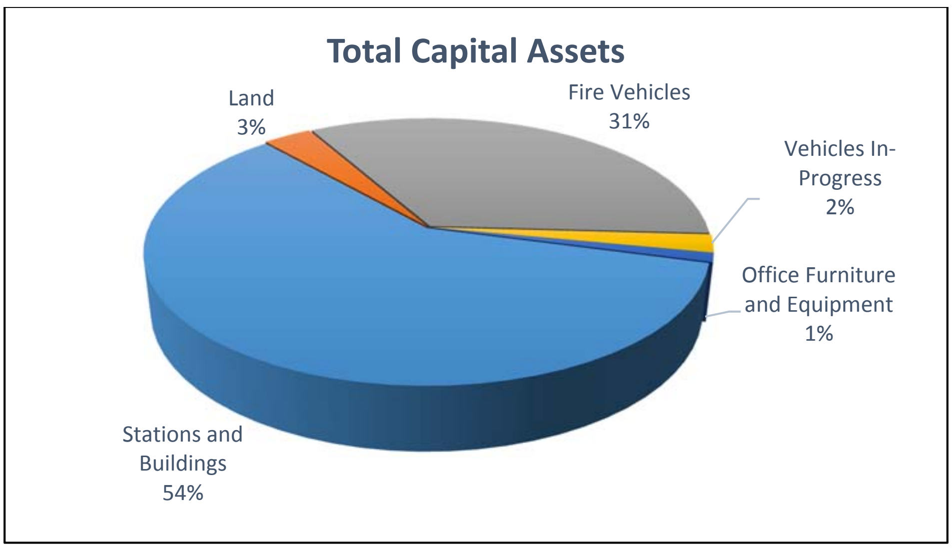


The District's current assets consist of cash and cash equivalents; investments; property, sales tax and other receivables; prepaids and other current assets. The District keeps day-to-day operating funds in business checking and saving accounts and has cash reserves that are held in accounts that are compliant with the investment policy approved by the Board of Commissioners. Total current assets increased $2.2 million from fiscal year 2016 to 2017.

A portion of the District's cash reserves are deposited 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.

In fiscal year 2016, the Board of Commissioners established a $3.5 million rainy day fund from the unrestricted net position balance from that year. These funds were invested in laddered (staggered maturity date) brokered CDs and can be used in the event operating revenues are insufficient to cover operating expenses or some other purpose approved by the Board of Commissioners. This funding is included in the current asset category.

The District's total assets and deferred outflows equal approximately $28 million, represented by capital assets of approximately $13.3 million. The District's capital assets increased by approximately $1.5 million from fiscal year 2016 to 2017. The main driver for this increase is additions to the fleet to accommodate the new District provided ambulance service and increased service capability needed for the District's growing population and number of service calls.



The District's front-line operations fleet is crucial to their ability to respond timely and safely to incidents. The front-line fleet include the fire trucks and ambulances. The District implements a 2:1 ratio of in-service equipment to reserve equipment, and the District strives to maintain this level at all times.

The District ordered four new ambulances, a Skeeter lifted brush truck, a Pierce Enforcer™ pumper and a Pierce pumper truck in fiscal year 2017. The total cost of these purchases was $2.3 million, which was a 6% increase in vehicle expense from fiscal year 2016. These vehicles were acquired through lease arrangements with payments beginning in fiscal year 2018.

The District has six total ambulances. Two of the six ambulances were purchased in fiscal year 2016 with annual lease payments that began in fiscal year 2017. The other four ambulances were purchased in fiscal year 2017 with lease payments beginning in fiscal year 2018. The first ambulance was put in to service in January 2017, the second in May 2017 and two in October 2017. Four of the ambulances are in service during the regular shifts and the other two are in reserve in case the in-service units require maintenance or other mechanical work.

The Skeeter lifted brush truck that was purchased replaced a previous brush truck that was an older model that had an outdated design. The new brush truck has a higher ground clearance and is able to traverse terrain that larger engines cannot.

The Pierce FXP pumper truck was purchased specifically for training purposes at the training field location. This is used for training new District staff, as well as training for the District's high school academy class that began the first class in August 2017. Prior to this purchase, a reserve engine would be utilized for training which would put additional wear and usage on equipment vital to day-to-day operations. The new pumper truck was less expensive than a traditional engine because it is not a fully equipped apparatus, but has the necessary components for effective training. If the need arose, the pumper truck could be utilized for response.

As discussed in the expense section, an older fire truck was retired due to prohibitive repair and maintenance costs. The Pierce Enforcer™ pumper truck replaced a previous engine that was due for replacement. The old engine was auctioned off per government regulations.

Three Ford C Max Hybrid vehicles were purchased in fiscal year 2016 through lease arrangements and the first bi-annual payment was in that same fiscal year. Fiscal year 2017 saw an increase in $11,000 for the second payment and subsequent bi-annual payment for a total annual lease payment of $22,242. These vehicles are utilized by the administration and operations support staff.

District liabilities increased during fiscal year 2017, as the District realized approximately $2.3 million total in new capital leases for a brush truck, two pumper trucks and four ambulances. The District made scheduled payments of both principal and interest on bonds, capital leases and loans, and with the new debt incurred during the fiscal year, increases to the District's liabilities were just under $1 million. There were also liabilities that were finalized—the last $82,000 lease payment for a 2011 brush truck, the last $85,000 payment for a note secured by sales tax revenue and the last payment for the 2005 bond.

6.0 Economic Factors and Budgetary Highlights

The economy in central Texas and Austin metropolitan area continues to grow at historic rates. Property and sales tax revenues are predicted to continue to increase and for fiscal year 2018 are forecasted to increase by 10% over fiscal year 2017. There are also continued increases in new construction of single and multi-family homes, which equates to additional population moving to the District. Commercial developments in the District are also continuing with the expectation of a Costco store opening toward the end of fiscal year 2018 and continued economic development from the City of Pflugerville. The District call volume is correlated to population, so the call volume will increase dramatically as well. The revenue from medical services provided is also forecasted to increase due to the District having four ambulances in service in fiscal year 2018.

Fiscal year 2018 will be focused on continuing with our three basic principles of service: safety, enhanced pre-hospital care and additional fire stations and response vehicles. The fiscal year 2018 budget includes new staff positions (FTEs), funding for pre-construction expenses for two new stations and a central warehouse, funds to perform much needed maintenance and improvements for existing fire stations and new vehicles for paramedic squads to supplement the ambulance services.

In fiscal year 2017, the District applied for and was awarded a 3-year FEMA SAFER (Staffing for Adequate Fire and Emergency Response) grant of $1.45 million. The grant provides for funding for fire departments to increase or maintain the number of front line firefighters in the community. The grant funding will provide for a percentage of the salary and benefit expense for 12 firefighter positions. These positions will be utilized to staff the new paramedic squads and assist with the additional call volume and service needs within the District.

Three new facilities will begin the planning and construction process in fiscal year 2018. Two new fire stations are in the pre-construction planning phases in fiscal year 2018. Station 5 will be located at 1541 Pflugerville Loop and Station 6 will be located by Pflugerville Lake (actual location still in discussion with the City of Pflugerville). Station 6 will assist with the heavy call volume on the busiest of the District's four stations: Station 2 which is the located in the western edge of the district in a densely populated area due to a concentration of multi-family apartment complexes in that service area. There will also be a central warehouse constructed next to Station 4 at 911 Pflugerville Parkway. This warehouse will serve as a central receiving and inventory facility, air shop, as well as a storage facility for training equipment and other District equipment.

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Basic Financial Statements

Travis County Emergency Services District No. 2

Governmental Funds Balance Sheet and Statement of Net Position
September 30, 2017

	General Fund	Debt Service Fund	Total	Adjustments (Note 11)*	Statement of Net Position
Assets					
Current assets:					
Cash and cash equivalents	$ 5,615,432	$ -	$ 5,615,432	$ -	$ 5,615,432
Investments	5,700,730	-	5,700,730	-	5,700,730
Receivables:					
Property taxes	282,917	851	283,768	-	283,768
Sales taxes	1,634,113	-	1,634,113	-	1,634,113
Ambulance and fire services	175,074	-	175,074	-	175,074
Other	18,789	-	18,789	-	18,789
Prepaid items	349,418	-	349,418	-	349,418
Total current assets	13,776,473	851	13,777,324	-	13,777,324
Noncurrent assets:					
Security deposit	3,326	-	3,326	-	3,326
Pension asset	-	-	-	31,874	31,874
	3,326	-	3,326	31,874	35,200
Capital assets:					
Capital assets—nondepreciable	-	-	-	1,343,237	1,343,237
Capital assets—depreciable, net	-	-	-	11,981,956	11,981,956
Total capital assets	-	-	-	13,325,193	13,325,193
Total noncurrent assets	3,326	-	3,326	13,357,067	13,360,393
Total assets	13,779,799	851	13,780,650	13,357,067	27,137,717
Deferred outflows of resources—pension plan	-	-	-	869,232	869,232
Total deferred outflows of resources	-	-	-	869,232	869,232

See notes to financial statements.

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

	General Fund		Debt Service Fund		Total		Adjustments (Note 11)*		Statement of Net Position
Liabilities									
Current liabilities:									
Accounts payable	$	325,165	$	-	$	325,165	$	-	$ 325,165
Accrued payroll and employee benefits		599,198		-		599,198		-	599,198
Accrued interest		-		-		-		95,295	95,295
Unearned revenue—other		15,000		-		15,000		-	15,000
Deposits		23,470		-		23,470		-	23,470
Due within one year:									
Notes payable		-		-		-		647,360	647,360
Capital leases payable		-		-		-		928,282	928,282
Compensated absences payable		-		-		-		394,671	394,671
Total current liabilities		962,833		-		962,833		2,065,608	3,028,441
Noncurrent liabilities:									
Notes payable		-		-		-		2,183,032	2,183,032
Capital leases payable		-		-		-		3,863,707	3,863,707
Compensated absences payable		-		-		-		555,935	555,935
Total noncurrent liabilities		-		-		-		6,602,674	6,602,674
Total liabilities		962,833		-		962,833		8,668,282	9,631,115
Deferred inflows of resources:									
Pension plan		-		-		-		409,163	409,163
Unavailable property tax revenue		282,917		851		283,768		(283,768)	-
Total deferred inflows of resources		282,917		851		283,768		125,395	409,163
Fund balances:									
Nonspendable—prepaid items		349,418		-		349,418		(349,418)	-
Unassigned		12,184,631		-		12,184,631		(12,184,631)	-
Total fund balances	$	12,534,049	$	-	$	12,534,049	$	(12,534,049)	$ -
Net position:									
Net investment in capital assets								5,702,812	5,702,812
Unrestricted								12,263,859	12,263,859
Total net position							$	17,966,671	$ 17,966,671

* 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, 2017

	General Fund	Debt Service Fund	Total	Adjustments (Note 11)*	Statement of Activities
Revenues:					
Property taxes, including penalties and interest	$ 9,344,963	$ 28,119	$ 9,373,082	$ 670	$ 9,373,752
Sales tax	9,592,499	-	9,592,499	-	9,592,499
Charges for services	865,563	-	865,563	-	865,563
Interest income	89,976	482	90,458	-	90,458
Miscellaneous	74,596	-	74,596	-	74,596
Total revenues	19,967,597	28,601	19,996,198	670	19,996,868
Expenditures/expenses:					
Emergency response services—operations	15,962,313	173	15,962,486	1,628,985	17,591,471
Debt service:					
Principal retirement	1,076,087	170,000	1,246,087	(1,246,087)	-
Interest	185,593	3,400	188,993	5,458	194,451
Capital outlay	2,489,197	-	2,489,197	(2,489,197)	-
Total expenditures/expenses	19,713,190	173,573	19,886,763	(2,100,841)	17,785,922
Excess (deficiency) of revenues over (under) expenditures	254,407	(144,972)	109,435	2,101,511	2,210,946
Other financing sources (uses):					
Issuance of capital leases	2,256,173	-	2,256,173	(2,256,173)	-
Transfers in	28,221	30,631	58,852	(58,852)	-
Transfers out	(30,631)	(28,221)	(58,852)	58,852	-
Total other financing sources (uses)	2,253,763	2,410	2,256,173	(2,256,173)	-
Net change in fund balances/net position	2,508,170	(142,562)	2,365,608	(154,662)	2,210,946
Fund balances/net position, beginning of year	10,025,879	142,562	10,168,441	5,587,284	15,755,725
Fund balances/net position, end of year	$ 12,534,049	$ -	$ 12,534,049	$ 5,432,622	$ 17,966,671

See notes to financial statements.

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

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.

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, 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 are offset by revenue. 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, deferred inflows/outflows, 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, compensated absences and pension-related amounts, 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 in the fiscal period the District receives the cash.

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 are carried at fair value. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Investment in negotiable certificates of deposit (CDs) are recorded at fair value in accordance with GASB Statement No. 72. Accordingly the change in fair value of the investments is recognized as an increase or decrease to investment assets and investment income. Shares of money market mutual funds are valued at net asset value (NAV) per share, and these money market mutual funds invest primarily in short-term United States Treasury and government agency securities. The redemption frequency is one day, and there are no unfunded commitments as of the year ended September 30, 2017.The District reports its investments in local government investment pools at amortized cost.

District investment practices are governed by state statutes, the District's own investment policy, bond indentures and the Texas Public Funds Investment Act.

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, 2017, 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. Unearned revenue—other consists of 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

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

Deferred outflows of resources: In addition to assets, the governmental funds balance sheet and statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows or resources consist of unrecognized items not yet charged to pension expense and contributions from the District to the pension plans after the measurement date, but before the end of the District's reporting period.

Deferred outflows/inflows of resources: In addition to liabilities, the governmental funds balance sheet and statement of net position 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, so, will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues from three sources: property taxes, local option sales tax and intergovernmental revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In the District's government-wide statements, only the property tax revenue remains under the modified accrual basis of accounting and will become an inflow in the year for which the taxes are levied and budgeted for.

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 of this type 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. Union and nonunion employees begin to accrue vacation once eligibility requirements are met. Hours are accrued monthly based on years of service. For union employees, vacation and holiday time earned and not used by December 31st will be paid out by no later than March 31st of the following year. For nonunion employees, holiday time earned and not used will be forfeited. Any unused accrued vacation will be carried forward to the next benefit year for nonunion employees. For both union and nonunion employees, upon termination of employment any unused accrued vacation will be paid out. Union and nonunion employees accrue sick leave hours monthly based on years of service and will be allowed to accumulate and carry forward to the next benefit year. For both union and nonunion employees, upon termination of employment any unused accrued sick leave hours will be paid out. For union employees, the District has various payout categories depending on hours/schedule groupings. The District's liability for accrued vacation, holiday and sick time at September 30, 2017, totaled $950,606.

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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective-interest method. Issuance costs are reported as an expense in the year the costs are incurred.

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.

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

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:

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.

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.

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 plus 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. Unrestricted net position is comprised of the remainder of net position that has no restrictions.

Sometimes, the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

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 District's Board has adopted an investment policy to set forth the factors involved in the management of investment assets of the District. The investment policy allows for various types of investments, including depositories which must be insured by Federal Deposit Insurance Corporation (FDIC), depositories must fully insure or collateralize all demand and time deposits and securities collateralizing time deposits are held by independent third-party trustees.

As of September 30, 2017, the District's cash and investments were as follows:

Cash	$ 5,615,432
TexPool	2,185,588
Investments—CDs	3,500,000
Investments—mutual funds	15,142
	$ 11,316,162

Custodial credit risk—deposits: Custodial credit risk for deposits is that risk that, in the event of a failure of a depository financial institution, the District will not be able to recover its deposits. The District has a deposit policy for custodial credit risk, which requires bank deposit accounts be collateralized with pledge securities. There is no limit on the amount the District may deposit in any one institution. As of September 30, 2017, the District had cash on hand and demand deposits had a carrying balance of $5,615,432 and total bank balance of $5,650,647, 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. The District does not have funds that are held in foreign currency.

Fair value measurements: The District uses various methods to measure the fair value of investments on a recurring basis. GASB Statement No. 72 established a hierarchy that prioritizes inputs to valuation methods. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets and liabilities that the District has the ability to access at the measurement date.

- Level 2 inputs are observable inputs, other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument in an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

- Level 3 inputs are unobservable inputs for an asset or liability, to the extent relevant observable inputs are not available, representing the District's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

Note 2. Deposits and Investments (Continued)

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

As of September 30, 2017, the fair value of investments were:

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Unobservable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Certificates of deposit	$ 3,500,000	$ -	$ 3,500,000	$ -
Total investments by fair value level	3,500,000	$ -	$ 3,500,000	$ -
Investments measured at NAV:				
Mutual funds	15,142			
Investments measured at amortized cost:				
TexPool	2,185,588			
Total investments	$ 5,700,730			

Certificates of deposit classified as Level 2 of the fair value hierarchy are valued using other observable significant inputs including, but not limited to, quoted prices for similar securities.

Custodial credit risk—investments: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's investment policy requires that all investments are collateralized, as required by the Collateral Act for Public Funds, Chapter 2257, of the Texas Government Code. The District has no exposure to investment custodial credit risk at September 30, 2017, because all investments were fully covered by pledged securities.

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, 2017, the District's investments in TexPool were rated AAAm by Standard & Poor's.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District is authorized to invest funds in accordance with its investment policy, bond indentures and the Texas Public Funds Investment Act. Authorized investments include, but are not limited to: United States Treasury and federal agency issues, certificates of deposit issued by a state or national bank domiciled in the state of Texas, Securities and Exchange Commission (SEC) registered no-load money market mutual funds and local government investment funds.

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. As a means of limiting its exposure to fair value losses due to interest rate fluctuations, the District's investment policy requires investment maturity of 60 days after the date of purchase for the general fund and no later than 12 months after date of purchase for the debt service fund.

Note 2. Deposits and Investments (Continued)

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.

Note 3. Ad Valorem Property Taxes

In accordance with Texas statutes, the Board Commissioners approves a tax rate and order to levy taxes in September of each year. Property taxes are billed by the county tax assessor-collector as of October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are payable upon receipt of the tax bill and are delinquent if not paid before February 1 of each year following the year in which imposed. On January 1 of the year following the District’s order to levy taxes (the assessment date), a tax lien attaches to the property to secure the payment of all taxes, penalties and interest ultimately imposed. The assessment date represents the date on which an enforceable legal claim arises and attaches as the lien on the assessed property. In the basic financial statements, property tax revenues are considered available when they become due and receivable within the current period, including those property taxes expected to be collected during a 60-day period after the close of the District’s fiscal year.

The total assessed value for real and personal property on the tax roll, was initially approximately $9,411,038,000 and subsequently updated to approximately $9,355,173,000, as of October 1, 2016, as certified by the Travis Central Appraisal District.

The District’s assessed tax rates approved by the Board for 2017 General Fund operations and the payment of principal and interest on general obligation long-term debt were $0.0997 and $0.0003 per $100 valuation, respectively, for a total of $0.1000 per $100 valuation.

Note 3. Ad Valorem Property Taxes (Continued)

At September 30, 2017, unavailable property tax revenue totaled $283,768. Property taxes receivable at September 30, 2017, consisted of the following:

	General Fund	Debt Service Fund	Total
2016 levy	$ 47,678	$ 143	$ 47,821
Prior-year levy	235,239	708	235,947
	$ 282,917	$ 851	$ 283,768

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 and Transfers

At September 30, 2017, 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	$ 28,221	$ 30,631
Debt service fund	30,631	28,221
	$ 58,852	$ 58,852

Transfers are used to move (1) revenues from the fund with collection authorization to the Debt Service Fund or (2) move debt service resource, as debt service principal and interest payments become due.

Note 6. Capital Assets

A summary capital asset activity for the year ended September 30, 2017, is as follows:

	Beginning Balance	Additions and Transfers In	Deletions and Transfers Out	Ending Balance
Capital assets not depreciated:				
Land	$ 395,545	$ -	$ -	$ 395,545
Vehicles-in-progress	-	947,692	-	947,692
Total capital assets not depreciated	395,545	947,692	-	1,343,237
Capital assets being depreciated:				
Fire vehicles	7,663,691	1,308,640	-	8,972,331
Fire and communication equipment	2,264,850	15,848	-	2,280,698
Office furniture and equipment	701,289	29,199	-	730,488
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	808,726	187,818	-	996,544
Total capital assets being depreciated	20,965,886	1,541,505	-	22,507,391
Less accumulated depreciation for:				
Fire vehicles	(4,005,493)	(537,319)	-	(4,542,812)
Fire and communication equipment	(1,881,577)	(101,940)	-	(1,983,517)
Office furniture and equipment	(517,715)	(54,037)	-	(571,752)
Station #2	(386,881)	(31,732)	-	(418,613)
Station #3	(268,815)	(17,017)	-	(285,832)
Station #4	(287,570)	(18,553)	-	(306,123)
Training center	(403,747)	(30,209)	-	(433,956)
Central station	(489,739)	(29,282)	-	(519,021)
Administrative building	(446,436)	(57,002)	-	(503,438)
Education building	(452,693)	(53,258)	-	(505,951)
Pfluger Hall	(68,094)	(5,921)	-	(74,015)
Improvements	(302,000)	(78,405)	-	(380,405)
Total accumulated depreciation	(9,510,760)	(1,014,675)	-	(10,525,435)
Capital assets being depreciated net	11,455,126	526,830	-	11,981,956
Total capital assets, net	$ 11,850,671	$ 1,474,522	$ -	$ 13,325,193

Depreciation expense charged to emergency response services—operations totaled approximately, $1,015,000.

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, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bond payable—Series 2005	$ 170,000	$ -	$ 170,000	$ -	$ -
Notes payable	3,462,174	-	631,782	2,830,392	647,360
Capital leases payable	2,980,121	2,256,173	444,305	4,791,989	928,282
Compensated absences payable	670,711	1,080,577	800,682	950,606	394,671
Total long-term debt	$ 7,283,006	$ 3,336,750	$ 2,046,769	$ 8,572,987	$ 1,970,313

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 bond obligation has been paid in full at September 30, 2017.

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 $2,990,019 through 2022.

Notes payable is comprised of the following items at September 30, 2017:

Note payable to Wells Fargo; interest at 2.25%; secured by sales tax revenues; due in annual installments through February 2021	$ 753,362
Note payable to Wells Fargo was restructured; interest at 2.40%; secured by sales taxes; due in quarterly installments through July 2021	1,448,448
Note payable to Wells Fargo; interest at 2.40%; secured by sales taxes; due in annual installments through July 2022	628,582
	2,830,392
Less current portion	647,360
	$ 2,183,032

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

Maturities of long-term debt for notes payable for the fiscal years subsequent to September 30, 2017, are as follows:

	Principal	Interest	Total
Years ending September 30:			
2018	$ 647,360	$ 62,948	$ 710,308
2019	662,750	47,467	710,217
2020	678,563	31,654	710,217
2021	703,599	15,408	719,007
2022	138,120	2,150	140,270
	$ 2,830,392	$ 159,627	$ 2,990,019

Capital lease payable: The District is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled $5,683,997 at September 30, 2017, and accumulated amortization at September 30, 2017, totaled $1,941,020. The amortization of assets held under capital leases is included with depreciation expense. Lease obligations are repaid with general revenue sources.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2017, were as follows:

Years ending September 30:	
2018	$ 1,082,411
2019	1,046,783
2020	953,886
2021	558,925
2022	464,775
2023-2027	1,253,959
Minimum lease payments for all capital leases	5,360,739
Lease amount representing interest at the District’s incremental borrowing base	(568,750)
Present value of minimum lease payments	4,791,989
Less current portion	928,282
Capital leases payable—long-term	$ 3,863,707

Note 8. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors and omissions; injuries to employees and natural disasters. During the fiscal year, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

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 not making contributions to the 401(a) plan for payroll earned after May 31, 2015 through January 1, 2017. Effective January 1, 2017, the District will match $0.25 of each $1.00 contributed by the employee up to 7% of compensation. The District's match will go into the 401(a) plan continuing with the five-year vesting schedule.

The District's contribution to the 457(b) Plan for the year ended September 30, 2017, totaled $37,899. Participant contributions for the year ended September 30, 2017, totaled $177,935.

Deferred compensation plan: In June 2016, the Board adopted a nonqualified deferred compensation plan for an executive held in the District's name. 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 30, 2017, the market value of the investments totaled approximately $15,100. The District's contributions for the year ended September 30, 2017, totaled $4,623. The investment account held by the District in the general fund for the executive shall become 100 percent vested upon the first to occur of the following events: (i) the fixed payment date of September 15, 2020, (ii) the executive's separation from service for good reason, (iii) the executive's involuntary separation from service (other than for cause), (iv) the executive's death or (v) upon the determination of the executive's disability.

Defined benefit plan:

Plan description: Beginning on June 1, 2015, the District began its participation in Texas Counties and District Retirement System (TCDRS). TCDRS is a statewide, agent multi-employer, public employee retirement system. 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, disability and death 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 percent and has elected a matching rate of $2 to $1. The employee's savings grow at a rate of 7 percent, 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.

Note 9. Employee Retirement Plans (Continued)

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.

Any TCDRS member who is a vested member who is totally and permanently disabled is eligible for a disability retirement benefit. A member who is not vested is eligible for disability retirement benefits if the total and permanent disability was a result of an on-the job injury.

Any TCDRS member who has four or more years of service credit with the District is eligible for purposes of the survivor annuity death benefit.

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.

Any amendments to the plan would be approved by the District.

Employees covered by benefit terms: The following employees were covered by the benefit terms as of the valuation date December 31, 2016:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to, but not yet receiving benefits	14
Active employees	100
Total	115

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 the period from October 1, 2016, through September 30, 2017, 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 2017, rather than 7 percent, which totaled $936,790. Participant contributions totaled $655,753.

Net pension asset: The District's net pension asset was measured as of December 31, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date.

Actuarial assumptions: The actuarial assumptions that determined the total pension asset as of December 31, 2016, 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.

Note 9. Employee Retirement Plans (Continued)

The total pension asset in the December 31, 2016, 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 1.40% and productivity of 0.50% for 2016)	4.90%
Long-term investment return	8.10%

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 nondepositing 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 capital market assumptions and information shown below are provided by TCDRS' investment consultant based on December 31, 2016, information for a 7-10 year time horizon.

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	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity and Venture Capital Index (3)	16.00%	7.70%
Global Equities	MSCI World (net) Index	1.50%	5.00%
International Equities— Developed Markets	MSCI World Ex USA (net)	10.00%	4.70%
International Equities—Emerging Markets	MSCI EM Standard (net) Index	7.00%	5.70%
Investment—Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	0.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	3.83%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.15%
Distressed Debt	Cambridge Associates Distressed Securities Index (4)	3.00%	6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index plus 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	3.85%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (5)	6.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. Fund of Funds Composite Index	20.00%	3.85%

Note 9. Employee Retirement Plans (Continued)

(1) Target asset allocations adopted at the April 2017 TCDRS Board meeting.

(2) Geometric real rates of return in addition to assumed inflation of 2.0 percent per Cliffwater's 2017 capital market assumptions.

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

(4) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

(5) 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 percent for December 31, 2016. 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.

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.

Note 9. Employee Retirement Plans (Continued)

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, 2016	$ 462,123	$ 660,878	$ (198,755)
Changes for the year:			
Service cost	749,537	-	749,537
Interest on total pension liability (1)	110,060	-	110,060
Effect of plan changes (2)	1,079,552	-	1,079,552
Effect of economic/demographic gains or losses	(446,360)	-	(446,360)
Benefit payments	(209)	(209)	-
Administrative expenses	-	(548)	548
Member contributions	-	509,383	(509,383)
Net investment income	-	50,430	(50,430)
Employer contributions	-	727,691	(727,691)
Other (3)	-	38,952	(38,952)
Balance as of September 30, 2017	$ 1,954,703	$ 1,986,577	$ (31,874)

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

(2) No plan changes valued.

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

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

	1% Decrease	Current Discount Rate	1% Increase
	7.1%	8.1%	9.1%
Total pension liability	$ 2,326,098	$ 1,954,703	$ 1,653,063
Fiduciary net position	1,986,577	1,986,577	1,986,577
Net pension liability (asset)	$ 339,521	$ (31,874)	$ (333,514)

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

Note 9. Employee Retirement Plans (Continued)

Pension expense: The District recognized the following pension related expense (income) during the year ended September 30, 2017:

Description	Pension Expense (Income)
Service cost	$ 749,537
Interest on total pension liability (1)	110,060
Effect on plan changes	1,079,552
Administrative expenses	548
Member contributions	(509,383)
Expected investment return net of investment expenses	(104,174)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	(33,374)
Recognition of assumption changes or inputs	167
Recognition of investment gains or losses	17,225
Other (2)	(38,952)
Pension expense	$ 1,271,206

(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.

Deferred inflows and outflows of resources: As of September 30, 2017, the deferred inflows and outflows of resources are as follows:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ 409,163	$ 45,871
Changes of assumptions	-	2,001
Net difference between projected and actual earnings	-	62,424
Contributions made subsequent to measurement date	-	758,936
	$ 409,163	$ 869,232

Note 9. Employee Retirement Plans (Continued)

Contributions made subsequent to the measurement date are eligible employer contributions made from January 1, 2017 through September 30, 2017. The $758,936 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2018. The deferred outflows and deferred inflows resulting from the difference between expected and actual experiences on pension plan investments will be recognized as a reduction in pension expense over five years. The other deferred outflows will be recognized in pension expense using the average remaining service life for all active, inactive and retired members. 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	$	(15,982)
2018		(15,982)
2019		(15,982)
2020		(22,459)
2021		(33,207)
Thereafter		(195,255)
	$	(298,867)

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 9/30/2017 Expense*	Balance of Deferred Inflows 9/30/2017	Balance of Deferred Outflows 9/30/2017
Investment or losses	$ 53,744	12/31/2016	5	$ 10,749	$ -	$ 42,995
Investment or losses	32,382	12/31/2015	5	6,476	-	19,429
Economic/demographic or losses	(446,360)	12/31/2016	12	(37,197)	409,163	-
Economic/demographic or losses	53,516	12/31/2015	14	3,823	-	45,871
Assumption changes or inputs	2,334	12/31/2015	14	167	-	2,001
Total	$ (304,384)			$ (15,982)	$ 409,163	$ 110,296

* 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 percent 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 $26.40 per call and totaled approximately $190,000 during 2017. 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	$ 12,534,049
Amounts reported for governmental activities in the governmental funds balance sheet and statement of net position are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not reported in the funds	13,325,193
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	283,768
Pension related deferred outflows and inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds	460,069
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 liabilities in the funds. These assets and liabilities at year-end consist of:	
Pension asset	31,874
Accrued interest payable	(95,295)
Notes payable	(2,830,392)
Capital leases payable	(4,791,989)
Compensated absences payable	(950,606)
Total net position of governmental activities	$ 17,966,671

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	$ 2,365,608
Governmental funds report capital outlays as expenditures. However, in the governmental funds revenues, expenditures and changes in fund balances/net position and 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	2,489,197
Depreciation expense	(1,014,675)
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	670
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	(2,256,173)
Repayment of bond principal	170,000
Repayment of notes payable principal	631,782
Repayment of capital lease principal	444,305
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	(279,895)
Increase in accrued interest payable	(5,458)
Pension expense	(334,415)
Change in net position of governmental activities	$ 2,210,946

Note 12. Subsequent Events

The District was awarded the Staffing for Adequate Fire and Emergency Response (SAFER) grant in the amount of approximately $1,450,000. Certain requirements will need to be met before the District can draw down the funds.

Note 13. New Pronouncements

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 meet specific criteria.

GASB Statement No. 87, *Leases*: In June 2017, the GASB issued this statement. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about an entity's leasing activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, with early application encouraged.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*: In March 2018, the GASB issued this statement, which will be effective for the District beginning with its fiscal year ending September 30, 2019, with earlier adoption encouraged. GASB Statement No. 88 clarifies which liabilities governments should include in their note disclosures related to debt. This statement defines debt that must be disclosed in the notes to financial statements as a liability that arises from a contractual obligation to pay cash in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. Governments must also disclose amounts of unused lines of credit, assets pledged as collateral for debt and the terms specified in debt agreements related to significant events of default with finance-related consequences, termination events with finance-related consequences and subjective acceleration clauses. Within the notes, governments should separate information regarding direct borrowings and direct placements of debt from other debt.

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, 2017

	Original Budget	Final Budget	Actual	Adjustments	Actual Budget Basis	Variance With Final Budget
Revenues:						
Property taxes, including penalties and interest	$ 9,058,450	$ 9,376,450	$ 9,344,963	$ -	$ 9,344,963	$ (31,487)
Sales tax	9,390,745	9,390,745	9,592,499	(61,383)	9,531,116	140,371
Fee for services	190,200	280,200	394,600	100,000	494,600	214,400
Prevention	271,200	257,040	253,741	-	253,741	(3,299)
Facilities income	192,250	201,000	217,222	-	217,222	16,222
Interest income	14,000	14,000	89,976	-	89,976	75,976
Miscellaneous	-	800	74,596	-	74,596	73,796
Total revenues	19,116,845	19,520,235	19,967,597	38,617	20,006,214	485,979
Expenditures:						
Operations	1,360,097	1,723,097	1,420,223	-	1,420,223	302,874
Prevention	60,350	57,150	33,518	-	33,518	23,632
Administrative:						
Professional services	981,000	1,141,000	1,031,356	-	1,031,356	109,644
General and administrative	1,426,300	1,479,633	1,198,158	100,000	1,298,158	181,475
Salaries	9,765,000	9,765,000	9,963,482	-	9,963,482	(198,482)
Employee benefits	2,629,500	2,675,500	2,315,576	-	2,315,576	359,924
Debt service:						
Principal retirement	1,073,889	1,073,889	1,076,087	-	1,076,087	(2,198)
Interest and fees	180,113	180,113	185,593	-	185,593	(5,480)
Capital outlay	1,350,000	1,222,891	2,489,197	-	2,489,197	(1,266,306)
Total expenditures	18,826,249	19,318,273	19,713,190	100,000	19,813,190	(494,917)
Excess (deficiency) of revenues over (under) expenditures	290,596	201,962	254,407	(61,383)	193,024	(8,938)
Other financing sources (uses):						
Issuance of capital leases	-	2,256,173	2,256,173	-	2,256,173	-
Transfers in	-	-	28,221	(28,221)	-	-
Transfers out	-	-	(30,631)	30,631	-	-
Total other financing sources (uses)	-	2,256,173	2,253,763	2,410	2,256,173	-
Net change in fund balances	$ 290,596	$ 2,458,135	$ 2,508,170	$ (58,973)	$ 2,449,197	$ (8,938)

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.

Adjustments are made to the actual budget basis to eliminate inter-District accounts and cash basis for sales tax.

Travis County Emergency Services District No. 2

Schedule of Changes in Net Pension Assets and Related Ratios
Years Ended September 30

	2017	2016
Measurement date	December 31, 2016	December 31, 2015
Total pension liability		
Service cost	$ 749,537	$ 444,088
Interest on total pension liability	110,060	15,607
Effect of plan changes	1,079,552	(53,422)
Effect of economic/demographic gains or losses	(446,360)	53,516
Effect of assumptions changes or inputs	-	2,334
Refund of contributions	-	(53,309)
Benefit payments	(209)	53,309
Net change in total pension liability	1,492,580	462,123
Total pension liability at beginning of year	462,123	-
Total pension liability at end of year (a)	$ 1,954,703	$ 462,123
Fiduciary net pension:		
Refund of contributions	$ -	$ (53,309)
Benefit payments	(209)	53,309
Administrative expenses	(548)	(247)
Member contributions	509,383	274,573
Net investment income	50,430	(5,665)
Employer contributions	727,691	392,247
Other	38,952	(30)
Net change in plan fiduciary net pension	1,325,699	660,878
Fiduciary net position at beginning of year	660,878	-
Fiduciary net position at end of year (b)	1,986,577	660,878
Net pension asset at end of year = (a) - (b)	$ (31,874)	$ (198,755)
Fiduciary net position as a percentage of total pension liability	101.63 %	143.01 %
Pensionable covered payroll	$ 7,276,907	$ 6,724,234
Net pension liability (asset) as a percentage of covered payroll	(0.44)%	(2.96)%

The schedule of changes in net pension assets and related ratios disclosure is required for 10 years. The schedule noted above is only for the years which the new GASB Statements have been implemented.

Travis County Emergency Services District No. 2

Schedule of Employer Contributions
Years Ended December 31

Calendar Years Ending December 31:	Actuarially Determined Contributions (1)	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll (2)	Actual Contribution as a Percentage of Covered Payroll
2007	$ -	$ -	$ -	$ -	-
2008	-	-	-	-	-
2009	-	-	-	-	-
2010	-	-	-	-	-
2011	-	-	-	-	-
2012	-	-	-	-	-
2013	-	-	-	-	-
2014	-	-	-	-	-
2015	208,283	392,247	(183,964)	3,922,470	10%
2016	386,404	727,691	(341,287)	7,276,907	10%

1. TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates that employer should report employer contribution amounts on a fiscal year basis.

2. Payroll is calculated based on contributions as reported to TCDRS.

Note: Beginning on June 1, 2015, the District began its participation in TCDRS.

Actuarial methods and assumptions used: Following are the key assumptions and methods used in these schedules:

Valuation Timing	Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial Cost Method	Individual entry age normal cost method, as required by GASB Statement No. 68, used for GASB calculations. A slightly different version of the entry age normal cost method is used for the funding actuarial valuation.
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Economic Assumptions	
Inflation	3.0 percent
Salary increases	4.9 percent (made up of 3.0 percent inflation and 0.5 percent productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4 percent per year for a career employee.
Investment rate of return	8.1 percent
Cost of living adjustments (COLAs)	COLAs for the District are not considered to be substantively automatic under GASB Statement No. 68. Therefore, no assumption for future COLAs is included in the GASB calculations. No assumption for future COLAs is included in the funding valuation.

Demographic assumptions-related to December 31, 2016 valuation:

Annual Rates of Service Retirement*

Retirement Age	Male	Female	Age	Male	Female
40-44	4.5%	4.5%	62	25%	25%
45-49	9	9	63	16	16
50	10	10	64	16	16
51	10	10	65	30	30
52	10.5	10.5	66	25	25
53	10.5	10.5	67	24	24
54	10.5	10.5	68	22	22
55	11	11	69	22	22
56	11	11	70	22	22
57	11	11	71	22	22
58	12	12	72	22	22
59	12	12	73	22	22
60	14	14	74 **	22	22
61	12	12			

* Deferred members are assumed to retire (100 percent probability) at the later of: a) age 60 b) earliest retirement eligibility. These assumption relate to the December 31, 2015 valuation.

**`For all eligibility members ages 75 and later, retirement is assumed to occur immediately.

Other terminations of employment: The rate of assumed future termination from active participation in the plan for reasons other than death, disability or retirement are all set at 0 percent and the rates do not vary by length of service, entry-age group (age at hire), and sex. No termination after eligibility for retirement is assumed.

Withdrawals: Members who terminate may either elect to leave their account with TCDRS or withdraw their funds. The probability that a member elects a withdrawal varies by length of service and vesting schedule. Rates applied to your plan are shown in table below. For nondepositing members who are not vested, 100 percent are assumed to elect a withdrawal.

Years of Service	Probability	Years of Service	Probability
0	100%	15	40%
1	100	16	38
2	100	17	36
3	100	18	34
4	100	19	32
5	60	20	30
6	60	21	28
7	55	22	26
8	50	23	24
9	49	24	22
10	48	25	20
11	47	26	15
12	46	27	10
13	44	28*	5
14	42		

*Members with more than 28 years of service are not assumed to refund.

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