TRAVIS COUNTY
EMERGENCY SERVICES
DISTRICT NO. 2

Financial Statements for the
Year Ended September 30, 2019 and
Independent Auditors' Report

MAXWELL
& LOCKE
RITTER

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT NO. 2

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of Travis County Emergency Services District No. 2 (the "District"), as of and for the year ended September 30, 2019, 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.

Auditors' Responsibility

Our responsibility is to express opinions 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 auditors' 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 entity'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 entity'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the District as of September 30, 2019, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net pension asset and related ratios, the schedule of district contributions, and the notes to required supplementary information on pages 3 through 7, 31, 32, and 33 through 34, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Maxwell Locke + Ritter LLP

Austin, Texas
March 5, 2020

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, the management of Travis County Emergency Services District No. 2 (the "District") offers the following narrative on the financial performance of the District for the year ended September 30, 2019. Please read it in connection with the District's financial statements that follow.

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

Overview of the Basic Financial Statements

The District's reporting is comprised of two parts:

- *Management's Discussion and Analysis* (this section)
- *Basic Financial Statements*
    - *Statement of Net Position and Governmental Fund Balance Sheet*
    - *Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance*
    - *Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund*
    - *Notes to Basic Financial Statements*

Other required supplementary information is also included.

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

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

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

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

Required supplementary information related to the District's participation in the Texas County and District Retirement System pension plan and is presented immediately following the *Notes to Basic Financial Statements.*

The District as a Whole

The District's combined net position for the years ending September 30, 2019 and 2018 are shown in the table below. Our analysis below focuses on the net position and changes in the net position of the District's governmental activities as reported in the accrual basis of accounting.

Statement of Net Position

	9/30/2019	9/30/2018
Assets:		
Current assets	$ 19,658,603	$ 14,130,744
Non-current assets	40,848	6,083,325
Capital assets, net	20,109,132	14,167,910
Total Assets	39,808,583	34,381,979
Deferred Outflows of Resources	1,906,014	1,379,662
Liabilities:		
Current liabilities	5,128,974	3,850,591
Non-current liabilities	11,183,370	11,107,201
Total Liabilities	16,312,344	14,957,792
Deferred Inflows of Resources	352,431	415,810
Net Position:		
Net investment in capital assets	7,746,381	7,515,516
Unrestricted	17,303,441	12,872,523
Total Net Position	$ 25,049,822	$ 20,388,039

The District's total assets were $39,808,583 as of September 30, 2019. Of this amount, $20,109,132 is accounted for by capital assets. The District had outstanding liabilities of $16,312,344 as of September 30, 2019 which represents current and non-current liabilities.

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

Statement of Activities

	9/30/2019	9/30/2018
Revenues		
General revenues and other	$ 24,707,517	$ 20,957,122
Program revenues	3,318,251	1,986,966
Total Revenues	28,025,768	22,944,088
Expenses		
Service operations and capital outlay	21,575,312	19,103,665
Depreciation and amortization	1,296,612	1,202,544
Debt service	492,061	216,511
Total Expenses	23,363,985	20,522,720
Change in Net Position	$ 4,661,783	$ 2,421,368

General revenues and other increased by $3,750,395 for the fiscal year ended September 30, 2019, primarily due to increases in sales tax revenue and property tax revenue of $1,671,518 and $1,707,626, respectively. Property taxes generated $11,945,973 in revenues. Total expenses increased by $2,841,265 for the fiscal year ended September 30, 2019, primarily due to an increase in salaries and benefits as a result of increased headcount. Net position increased $4,661,783 for the fiscal year ended September 30, 2019, compared to an increase of $2,421,368 for the fiscal year ended September 30, 2018.

The District's Governmental Fund

At September 30, 2019, the District's governmental fund reported a fund balance of $17,115,633, which is a decrease of $1,440,341 from the prior year.

General Fund Budgetary Highlights

The actual expenditures in the General Fund were $8,338,038 less than the budgeted amounts primarily due to timing of capital outlay expenditures. Revenues were $2,632,839 more than the budgeted amounts primarily due to an increase in sales tax revenue as compared to the budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At September 30, 2019 and 2018, the District had the following capital assets in operation:

Capital Assets at Year End

	9/30/2019	9/30/2018
Land	$ 1,009,017	$ 919,017
Construction in progress	4,620,687	421,411
Vehicles in progress	1,534,322	286,572
Buildings and improvements	11,102,327	10,621,694
Fire trucks and vehicles	11,384,891	10,295,662
Furniture and fixtures	473,551	848,605
Equipment	1,075,610	2,369,166
Total Capital Assets	31,200,405	25,762,127
Accumulated depreciation/amortization	(11,091,273)	(11,594,217)
Total Net Capital Assets	$ 20,109,132	$ 14,167,910

More detailed information about the District's capital assets is presented in the *Notes to Basic Financial Statements.*

Debt Administration

At September 30, 2019 and 2018, the District had debt comprised of the following:

Debt at Year End

	9/30/2019	9/30/2018
Notes payable	$ 9,174,272	$ 8,283,316
Capital lease payable	3,188,479	4,183,375
Total Debt	$ 12,362,751	$ 12,466,691

More detailed information about the District's debt is presented in the *Notes to Basic Financial Statements.*

Compensated Absences

As of September 30, 2019, the District had $1,333,086 of compensated absences outstanding, which represents the estimated liability for employees' accrued vacation, holiday, and sick leave for which employees are entitled to be paid upon termination subject to the terms of the District's policy.

Economic Factors, Next Year's Budgets and Rates

The District's Board of Commissioners considered various factors when setting the fiscal year budget, tax rates, and necessary expenditures to be incurred in the next fiscal year's activities. The District's budgetary growth has mirrored its residential growth and economy. Tax revenues are currently limited by the mandatory $0.10 per $100 of assessed valuation cap. The adopted budget for fiscal year 2020 for the District's governmental fund projects a fund balance decrease of $4,637,132.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District at Travis County Emergency Services District No. 2, Attn: Treasurer, 203 East Pecan Street, Pflugerville, Texas 78660.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT NO. 2

STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET
SEPTEMBER 30, 2019

	GENERAL FUND	ADJUSTMENTS (NOTE 2)	STATEMENT OF NET POSITION
ASSETS:			
Cash and cash equivalents	$ 7,992,104	-	7,992,104
Investments	5,909,369	-	5,909,369
Restricted cash equivalent	2,770,491	-	2,770,491
Receivables:			
Property taxes, net	73,177	-	73,177
Sales taxes	2,115,466	-	2,115,466
Ambulance and fire services	394,848	-	394,848
Grants	282,646	-	282,646
Other	1,455	-	1,455
Prepaid items	115,721	-	115,721
Security deposit	3,326	-	3,326
Capital assets (net of accumulated depreciation):			
Land	-	1,009,017	1,009,017
Construction in progress	-	4,620,687	4,620,687
Vehicles in progress	-	1,534,322	1,534,322
Buildings and improvements	-	6,995,884	6,995,884
Fire trucks and vehicles	-	5,560,371	5,560,371
Furniture and fixtures	-	157,601	157,601
Equipment	-	231,250	231,250
Net pension asset	-	40,848	40,848
TOTAL ASSETS	19,658,603	20,149,980	39,808,583
DEFERRED OUTFLOWS OF RESOURCES:			
Pension contributions after measurement date	-	967,379	967,379
Deferred outflows related to pension asset	-	938,635	938,635
Total deferred outflows of resources	-	1,906,014	1,906,014
LIABILITIES:			
Accounts payable	$ 1,397,814	-	1,397,814
Payroll liabilities payable	1,016,837	-	1,016,837
Deposits	28,720	-	28,720
Unearned revenue	31,788	-	31,788
Accrued interest payable	-	141,348	141,348
Notes payable	-	953,009	953,009
Capital lease payable	-	952,548	952,548
Compensated absences	-	606,910	606,910
Long-tem liabilities:			
Notes payable	-	8,221,263	8,221,263
Capital lease payable	-	2,235,931	2,235,931
Compensated absences	-	726,176	726,176
TOTAL LIABILITIES	2,475,159	13,837,185	16,312,344
DEFERRED INFLOWS OF RESOURCES:			
Deferred revenue - property taxes	67,811	(67,811)	-
Deferred inflows related to pension asset	-	352,431	352,431
Total deferred inflows of resources	67,811	284,620	352,431
FUND BALANCE/NET POSITION:			
Fund balance:			
Nonspendable	115,721	(115,721)	-
Assigned:			
Subsequent year's budget deficit	116,641	(116,641)	-
Construction	4,520,491	(4,520,491)	-
Unassigned	12,362,780	(12,362,780)	-
Total fund balance	17,115,633	(17,115,633)	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	$ 19,658,603		
Net position:			
Net investment in capital assets		7,746,381	7,746,381
Unrestricted		17,303,441	17,303,441
TOTAL NET POSITION		$ 25,049,822	25,049,822

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

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT NO. 2

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2019

	GENERAL FUND	ADJUSTMENTS (NOTE 2)	STATEMENT OF ACTIVITIES
REVENUES:			
Program revenues:			
Charges for services	2,393,891	-	2,393,891
Operating grants and contributions	834,360	90,000	924,360
Total program revenues	3,228,251	90,000	3,318,251
General revenues:			
Property taxes, including penalties and interest	11,972,234	(26,261)	11,945,973
Sales taxes	12,289,261	-	12,289,261
Interest income and other	454,933	17,350	472,283
Total general revenues	24,716,428	(8,911)	24,707,517
Total revenues	27,944,679	81,089	28,025,768
EXPENDITURES/EXPENSES:			
Emergency response services - operations	21,701,696	(126,384)	21,575,312
Capital outlay	7,147,834	(7,147,834)	-
Depreciation and amortization	-	1,296,612	1,296,612
Debt service:			
Principal payments	1,870,287	(1,870,287)	-
Interest payments	448,900	43,161	492,061
Total expenditures/expenses	31,168,717	(7,804,732)	23,363,985
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,224,038)	7,885,821	4,661,783
OTHER FINANCING SOURCES:			
Proceeds from note payable	1,750,000	(1,750,000)	-
Proceeds from capital lease	16,347	(16,347)	-
Proceeds from sale of capital assets	17,350	(17,350)	-
Total other financing sources	1,783,697	(1,783,697)	-
Change in fund balance	(1,440,341)	1,440,341	-
Change in net position	-	4,661,783	4,661,783
FUND BALANCE/NET POSITION:			
Beginning of year	18,555,974	1,832,065	20,388,039
End of year	$ 17,115,633	7,934,189	25,049,822

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

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT NO. 2

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2019

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
REVENUES:				
Property taxes, including penalties and interest	$ 11,734,474	11,734,474	11,972,234	237,760
Sales taxes	11,156,647	11,156,647	12,289,261	1,132,614
Program revenues	2,420,719	2,420,719	3,228,251	807,532
Interest income and other	-	-	454,933	454,933
Total revenues	25,311,840	25,311,840	27,944,679	2,632,839
EXPENDITURES:				
Emergency response services - operations	23,389,950	23,464,950	21,701,696	1,763,254
Capital outlay	13,694,652	13,694,652	7,147,834	6,546,818
Debt service	2,422,153	2,347,153	2,319,187	27,966
Total expenditures	39,506,755	39,506,755	31,168,717	8,338,038
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(14,194,915)	(14,194,915)	(3,224,038)	10,970,877
OTHER FINANCING SOURCES:				
Proceeds from note payable	11,571,065	1,750,000	1,750,000	-
Proceeds from capital lease	-	-	16,347	16,347
Proceeds from sale of capital assets	-	-	17,350	17,350
Total other financing sources	11,571,065	1,750,000	1,783,697	33,697
Change in fund balance	(2,623,850)	(12,444,915)	(1,440,341)	11,004,574
FUND BALANCE:				
Beginning of year	18,555,974	18,555,974	18,555,974	-
End of year	$ 15,932,124	6,111,059	17,115,633	11,004,574

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Travis County Emergency Services District No. 2 (the "District") was created by conversion from Travis County Rural Fire Prevention District No. 3 to an Emergency Services District operating under Chapter 775 of the Texas Health & Safety Code at a local election held on January 18, 1992. The District is one of many emergency service districts located in Travis County, Texas. The District provides fire suppression, fire prevention, and EMS transport and EMS first response services to a service area of approximately 80 square miles in and around the City of Pflugerville, Texas. The District is a 24 hour a day operation and provides service from four fire stations.

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

Government-Wide and Fund Financial Statements

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

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

The statement of activities demonstrates the degree to which the expenses are offset by program revenues. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Major revenue sources considered susceptible to accrual include interest income, sales taxes, and property taxes. Delinquent property taxes at year end that are not collected within sixty days of year end are reported as deferred inflows of resources.

The District reports the following major governmental fund-

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

Budgets and Budgetary Accounting

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

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

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Equity

Cash and Cash Equivalents **-** The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and money market sweep accounts.

Restricted Cash Equivalent **-** Restricted cash equivalent consists of proceeds received from a note payable held in a money market fund, which is restricted for the use of capital projects.

Investments **-** Temporary investments throughout the year consisted of investments in an external local government investment pool, certificates of deposit, and mutual funds. The external local government investment pool is recognized at amortized cost as permitted by GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The certificates of deposit are measured at fair value and the mutual funds are measured at net asset value. The District is entitled to invest any and all of its funds in 1) obligations of, or guaranteed by, the United States of America or its agencies or instrumentalities or obligations of, or guaranteed by, other governmental entities, 2) certificates of deposit issued by a depository institution domiciled in Texas, 3) mutual funds, and 4) certain public fund investment pools to the extent authorized by Section 2256 of the Government Code ("Public Funds Investment Act") and only upon the Board's adoption of a separate resolution authorizing such investment. The District's investment policies and types of investments are governed by the Health and Safety Code, Chapter 775 Emergency Services Districts, Section 775.043, and the Public Funds Investment Act. The District's management believes that it complied with the requirements of the District's investment policy and the Public Funds Investment Act. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments.

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, 2019, the District had an allowance for property tax receivables of $302,901.

Prepaid Items **-** Certain prepayments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

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

Capital assets (other than land, construction in progress, and vehicles in progress) are depreciated and amortized using the straight-line method over the following estimated useful lives:

Asset	Years
Buildings and improvements	10-40
Fire trucks and vehicles	4-10
Equipment	10
Furniture and fixtures	3-10

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

Long-Term Debt **-** In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Issuance costs are reported as an expense in the year the costs are incurred.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Compensated Absences **-** Vested or accumulated vacation, holiday and sick leave that is expected to be liquidated with available resources and has become due is reported as an expenditure and a fund liability in the governmental fund that will make the payment. At September 30, 2019, there has been no liability recorded in the governmental funds and no corresponding expenditures. The amount of vested or accumulated vacation, holiday and sick leave that is not expected to be liquidated with available 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 and 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 no later than March 31st of the following year. For nonunion employees, any unused accrued vacation will be carried forward to the next benefit year and holiday time earned and not used will be forfeited. For both union and nonunion employees, any unused accrued vacation will be paid out upon termination. Union and nonunion employees accrue sick leave hours based on years of service and are allowed to accumulate and carry forward these hours to the next benefit year. For both union and nonunion employees, any unused accrued sick leave will be paid out upon termination. For union employees, the District has various payout categories depending on hours/schedule groupings. At September 30, 2019, the District's liability for accrued vacation, holiday and sick leave was $1,333,086.

Pensions **-** The fiduciary net position of the Texas County and District Retirement System ("TCDRS") has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TCDRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balance - The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 8 for additional information on those fund balance classifications.

Deferred Outflows and Inflows of Resources - The District complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net position applicable to a future reporting period.

The District complies with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note 9 for additional information on deferred outflows and inflows of resources.

Fair Value Measurements - The District complies with GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.

- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

- Level 3 inputs are unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

- Market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities.

- Cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).

- Income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Use of Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In June 2017, the GASB issued GASB Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. Management is evaluating the effects that the full implementation of GASB Statement No. 87 will have on its financial statements for the year ended September 30, 2021.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 89 is to enhance the relevance and comparability of information about capital assets and to simplify accounting for interest cost incurred before the end of a construction period. Under GASB Statement No. 89, interest costs will no longer be capitalized as part of the asset but will be shown as an expenditure in the fund financial statements and as an expense in the government-wide financial statements. Management is evaluating the effects that the full implementation of GASB Statement No. 87 will have on its financial statements for the year ended September 30, 2021.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Governmental fund total fund balance	$ 17,115,633
Capital assets used in governmental activities are not current financial resources and are therefore not reported in the governmental fund balance sheet-	
Capital assets, net of accumulated depreciation and amortization	20,109,132
Deferred tax revenue is not available to pay for current-period expenditures and, therefore, is deferred in the funds.	67,811
Net pension asset is not a current financial resource and is therefore not reported in the governmental fund balance sheet	40,848
The following liabilities and deferred outflows and inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds:	
Notes payable	(9,174,272)
Capital lease payable	(3,188,479)
Accrued interest payable	(141,348)
Pension contributions after measurement date	967,379
Deferred outflows related to pension asset	938,635
Deferred inflows related to pension asset	(352,431)
Compensated absences	(1,333,086)
Total net position	$ 25,049,822

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

Change in fund balance	$ (1,440,341)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense.	
Capital outlay	7,147,834
Contributed capital assets	90,000
Depreciation and amortization expense	(1,296,612)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred tax revenue	(26,261)
Note and capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net position.	
Proceeds from note payable	(1,750,000)
Repayment of note principal	859,044
Proceeds from capital lease	(16,347)
Repayment of capital lease principal	1,011,243
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.	
Change in interest payable	(43,161)
Change in compensated absences	(238,493)
Pension contributions made before measurement date	293,122
Pension contributions made after measurement date	967,379
Adjustments for ending deferred inflows and outflows related to net pension asset	(895,624)
Change in net position	$ 4,661,783

3. CASH, CASH EQUIVALENTS AND TEMPORARY INVESTMENTS

The District’s deposits are required to be secured in the manner provided by law for the security of the funds. At September 30, 2019, the District had cash on hand and demand deposits with a carrying balance of $685,660 and a bank balance of $823,303. At September 30, 2019, the District’s bank deposits were fully covered by FDIC insurance and other pledged collateral.

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

Investments and cash equivalents held at September 30, 2019 consisted of the following:

Type	Fair Value	Weighted Average Maturity (Days)	Standard & Poor's Rating
Local Governmental Investment Pool-TexPool	$ 2,271,291	1	AAAm
Certificates of deposit	3,014,965	521	N/A
Money market funds	7,306,444	1	N/A
Money market funds - restricted	2,770,491	1	N/A
Mutual funds	623,113	1	N/A
Total	$ 15,986,304		

The District had investments in an external local governmental investment pool, Texas Local Governmental Investment Pool ("TexPool"), at September 30, 2019. The investments in TexPool had a weighted average maturity of one day and a Standard and Poor's rating of AAAm.

Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. These investments are stated at amortized cost in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

TexPool is overseen by the Texas State Comptroller of Public Accounts, who is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company which is authorized to operate TexPool. TexPool also has an advisory board to advise on TexPool's investment policy. This board is made up equally of participants and nonparticipants who do not have a business relationship with TexPool. Federated Investors manages daily operations of TexPool under a contract with the Comptroller and is the investment manager for the pool. TexPool's investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

In accordance with GASB Statement No. 79, the external local government investment pool does not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. This pool does not impose any liquidity fees or redemption gates.

Certificates of deposit and money market funds are valued using Level 2 inputs that are based on market data from independent sources for similar securities. Mutual funds are measured at net asset value.

<u>Credit Risk</u> **-** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At September 30, 2019, investments were included in an external local governmental investment pool, certificates of deposit, and mutual funds with a rating from Standard and Poor's in compliance with the District's investment policy, if rated.

<u>Concentration of Credit Risk</u> **-** Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. At September 30, 2019, investments were included in an external local governmental investment pool, certificates of deposit, and mutual funds.

Interest Rate Risk - The District considers the holdings in the external local governmental investment pool to have a one day weighted average maturity due to the fact that the share position can usually be redeemed each day at the discretion of the shareholders, unless there has been a significant change in value. At September 30, 2019, investments were included in external local government investment pools and mutual funds which have a weighted average maturity of one day.

4. GRANT RECEIVABLES

The District participates in federal programs from which it receives grants to partially or fully fund certain activities. At September 30, 2019, the District had receivables of $282,646 for expenditures incurred related to participation in these grants.

5. CAPITAL ASSETS

Capital assets activity for the fiscal year ended September 30, 2019 was as follows:

	Balance September 30, 2018	Additions	Retirements and Transfers	Balance September 30, 2019
Capital assets not being depreciated/amortized:				
Land	$ 919,017	90,000	-	1,009,017
Construction in progress	421,411	4,259,701	(60,425)	4,620,687
Vehicles in progress	286,572	1,534,322	(286,572)	1,534,322
Total capital assets, not being depreciated	1,627,000	5,884,023	(346,997)	7,164,026
Capital assets being depreciated/amortized:				
Buildings and improvements	10,621,694	420,208	60,425	11,102,327
Fire trucks and vehicles	10,295,662	917,256	171,973	11,384,891
Equipment	2,369,166	16,347	(1,309,903)	1,075,610
Furniture and fixtures	848,605	-	(375,054)	473,551
Total capital assets being depreciated/amortized	24,135,127	1,353,811	(1,452,559)	24,036,379
Less accumulated depreciation/ amortization for:				
Buildings and improvements	(3,762,545)	(343,898)	-	(4,106,443)
Fire trucks and vehicles	(5,131,412)	(807,707)	114,599	(5,824,520)
Equipment	(2,070,467)	(83,796)	1,309,903	(844,360)
Furniture and fixtures	(629,793)	(61,211)	375,054	(315,950)
Total accumulated depreciation/amortization	(11,594,217)	(1,296,612)	1,799,556	(11,091,273)
Total capital assets being depreciated/amortized, net	12,540,910	57,199	346,997	12,945,106
Capital assets, net	$ 14,167,910	5,941,222	-	20,109,132

6. LONG-TERM LIABILITES

Long-term liabilities transactions for the year ended September 30, 2019, are summarized as follows:

	Balance September 30, 2018	Additions	Retirements	Balance September 30, 2019	Due Within One Year
Notes payable	$ 8,283,316	1,750,000	(859,044)	9,174,272	953,009
Capital leases	4,183,375	16,347	(1,011,243)	3,188,479	952,548
Compensated absences	1,094,593	1,317,026	(1,078,533)	1,333,086	606,910
Total governmental activities	$ 13,561,284	3,083,373	(2,948,820)	13,695,837	2,512,467

Notes payable consisted of the following at September 30, 2019:

Date of Issue	Amounts of Original Issue	Maturity Date	Interest Rate	Outstanding at September 30, 2019	Due Within One Year
June 29, 2012	$ 2,193,210	2021	2.40%	$ 746,161	$ 370,075
February 20, 2014	1,150,000	2021	2.25%	385,213	190,476
March 25, 2015	850,000	2022	2.40%	389,241	124,071
June 27, 2018	6,100,000	2038	4.22%	5,903,657	208,904
August 7, 2019	1,750,000	2039	3.64%	1,750,000	59,483
	$ 12,043,210			$ 9,174,272	$ 953,009

The notes payable agreements were entered into by the District to finance the acquisition of land, improvements, and vehicles and are secured by ad valorem taxes, sales taxes, funds on hand (as defined), and the vehicles acquired.

Debt service requirements to maturity for the District's notes payable are summarized as follows:

Fiscal Year	Principal	Interest	Total Requirement
2020	$ 953,009	345,858	1,298,867
2021	978,829	317,023	1,295,852
2022	430,556	292,305	722,861
2023	304,388	278,203	582,591
2024	316,830	265,761	582,591
2025-2029	1,789,394	1,123,562	2,912,956
2030-2034	2,186,596	726,361	2,912,957
2035-2039	2,214,670	240,542	2,455,212
Total	$ 9,174,272	3,589,615	12,763,887

The District financed the purchase of fire trucks and vehicles through capital lease agreements with finance companies. The aggregate purchase price of the fire trucks and vehicles was $5,813,261 which equates to the aggregate capital lease principal amount. The fire trucks and vehicles had aggregate accumulated amortization of $1,958,901 and a net book value of $3,854,360 at September 30, 2019. Under the terms of the capital lease agreements, principal and interest payments are due annually at various dates with maturity dates from November 15, 2019 through March 14, 2025. At the end of each lease term, the District has a bargain purchase option allowing the District to purchase the fire trucks and vehicles for one dollar. The effective interest rates on the leases range from 2.32% to 3.92%.

The District financed the purchase of fire trucks and vehicles through capital lease agreements with finance companies. The aggregate purchase price of the fire trucks and vehicles was $582,547 which equates to the aggregate capital lease principal amount. The fire trucks and vehicles had aggregate accumulated amortization of $122,941 and a net book value of $459,606 at September 30, 2019. Under the terms of the capital lease agreements, principal and interest payments are due semi-annually at various dates with maturity dates from October 13, 2019 through January 20, 2022. At the end of each lease term, the District has a bargain purchase option allowing the District to purchase the fire trucks and vehicles for one dollar. The effective interest rates on the leases range from 5.45% to 5.75%.

The District financed the purchase of office equipment through capital lease agreements with finance companies. The aggregate purchase price of the office equipment was $92,192 which equates to the aggregate capital lease principal amount. The office equipment had aggregate accumulated amortization of $65,437 and a net book value of $26,755 at September 30, 2019. Under the terms of the capital lease agreements, principal and interest payments are due monthly at various dates with maturity dates from January 26, 2020 through December 12, 2021. At the end of each lease term, the District has a bargain purchase option allowing the District to purchase the office equipment for one dollar. The effective interest rates on the leases range from 5.91% to 5.93%.

Capital lease payment requirements are as follows:

Fiscal Year	Principal	Interest	Total Requirement
2020	$ 952,548	107,963	1,060,511
2021	587,810	77,976	665,786
2022	583,075	56,803	639,878
2023	635,225	38,157	673,382
2024	97,563	15,460	113,023
Thereafter	332,258	12,564	344,822
Total	$ 3,188,479	308,923	3,497,402

7. PROPERTY TAXES

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

In September 2018, the District levied a tax rate of $0.10 per $100 of assessed valuation to finance operating expenditures. The total 2018 tax levy was $11,995,270 based on a taxable valuation of $11,973,953,117.

8. FUND BALANCE

The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Those fund balance classifications are described below.

Nonspendable **-** Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

Restricted **-** Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.

Committed **-** Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board.

Assigned **-** For the General Fund, amounts that are appropriated by the Board or Board designee that are to be used for specific purposes. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed.

Unassigned **-** Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The detail of the fund balance is included in the Governmental Fund Balance Sheet on page 8.

Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board maintains the authority to assign fund balance for a specific purpose.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

The Board adopted a resolution to maintain a minimum level of $3,500,000 in unassigned fund balance in the General Fund, which approximates three months of General Fund annual expenditures, to provide fiscal stability when economic downturns and other unexpected events occur.

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 457(b) Plan after meeting defined requirements. The 457(b) Plan replaced the Travis County Emergency Services District No. 2 401(a) Plan (the "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 to the 401(a) Plan and continued the 457(b) Plan for employee contributions only. During fiscal year 2013, the Board approved changes to the plan administrator and investments held in the 457(b) Plan. 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 matched $0.25 of each $1 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.

For the year ended September 30, 2019, the District made contributions to the 401(a) Plan of $78,318 and participants made contributions to the 457(b) Plan of $366,429.

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 makes annual discretionary contributions into an investment account. At September 30, 2019, the market value of the investments was $60,674 and the District made contributions of $32,400 for the year ended September 30, 2019. The investment account held by the District for the executive shall become 100% vested upon the first of the following events: 1) the fixed payment date of September 15, 2020; 2) the executive's separation from service for good reason; 3) the executive's involuntary separation from service (other than cause); 4) the executive's death; or 5) upon the determination of the executive's disability.

Defined Benefit Pension Plan

Plan Description

The District provides retirement, disability, and death benefits for all of its non-temporary full-time employees through a nontraditional defined benefit pension plan administered by the TCDRS. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 781 active participating counties and districts throughout Texas. TCDRS in the aggregate issues a comprehensive annual financial report ("CAFR") on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas State statutes governing TCDRS ("TCDRS Act"). Members can retire at age 60 and above with 5 or more years of service, after 30 years of service, or when service time plus age equals 75 but must leave their accumulated contributions in the plan to receive any employer-finance benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefits Provided

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and the employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act, so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Employee membership data related to the Plan, as of the valuation date of December 31, 2018 was as follows:

Retirees and beneficiaries currently receiving benefits	3
Terminated employees entitled to but not yet receiving benefits	41
Active plan members	138
Total	182

Contributions

The District has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The District contributed using an elected rate of 10.00% for the year ended September 30, 2019 as adopted by the governing body of the District. The actuarially determined rate for the year ended December 31, 2018 was 8.55% for 2019. The employee contribution rate was 7.00%. The employee contribution rate and the employer contribution rate may be changed by the governing body of the District within the options available in the TCDRS Act. The required contribution and actual contributions for the year ended September 30, 2019 equaled $1,077,728 and $1,260,501, respectively.

Net Pension Asset

Actuarial Assumptions

The District's net pension asset was measured as of December 31, 2018 and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported
Actuarial Cost Method	Individual Entry Age Normal
Amortization method	Level percentage of payroll, closed
Amortization period	5.6 years
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career including inflation
Investment Rate of Return	8.10%
Cost-of-Living Adjustments	Cost-of-Living Adjustments for the District are not considered to be automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB 68 calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Between ages 40 and 74 with various rates of service retirement by gender: low of 4.5% for age 40-44 to high of 25.0% for age 65-66 for males and females
Turnover	New employees are assumed to replace any terminated members and have similar entry ages.
Mortality:	
Depositing members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Tables for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service retirees, beneficiaries and non-depositing members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

The actuarial assumptions that determined the total pension liability as of December 31, 2018 were based on the results of an actuarial experience study for the period January 1, 2013 through December 31, 2016, except where required to be different by GASB 68.

Long-Term Expected Rate of Return

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation 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, Cliffwater LLC. The numbers shown are based on January 2019 information for a 10 year time horizon.

Note that 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 2017.

Asset Class	Benchmark	Target Allocation (a)	Geometric Real Rate of Return (Expected minus Inflation) (b)
US Equities	Dow Jones U.S. Total Stock Market Index	10.50%	5.40%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index (c)	18.00%	8.40%
Global Equities	MSCI World (net) Index	2.50%	5.70%
International Equities - Developed	MSCI World Ex USA (net) Index	10.00%	5.40%
International Equities - Emerging	MSCI Emerging Markets (net) Index	7.00%	5.90%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	1.60%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	4.39%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.95%
Distressed Debt	Cambridge Associates Distressed Securities Index (d)	2.00%	7.20%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.35%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index (e)	6.00%	6.30%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	13.00%	3.90%

(a) Target asset allocation adopted at the April 2019 TCDRS Board meeting.

(b) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.70%, per Cliffwater's 2019 capital market assumptions.

(c) Includes vintage years 2006-present of Quarter Pooled Horizon internal rates of return.

(d) Includes vintage years 2005-present of Quarter Pooled Horizon internal rates of return.

(e) Includes vintage years 2007-present of Quarter Pooled Horizon internal rates of return.

Discount Rate

The discount rate used to measure the total pension liability was 8.10%. This rate reflects the long-term rate of return funding valuation assumption of 8.00%, plus 0.10% adjustment to be gross of administrative expenses as required by GASB 68. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active, inactive, and retired members. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, and the municipal bond rate does not apply.

Changes in Net Pension Asset

Changes in the District's net pension asset for the valuation year ended December 31, 2018 are as follows:

	Total Pension Liability	Increase (Decrease) Fiduciary Net Position	Net Pension (Asset) Liability
	(a)	(b)	(a) - (b)
Balance as of December 31, 2017	$ 3,804,129	$ 4,069,831	$ (265,702)
Changes for the year:			
Service cost	1,628,398	-	1,628,398
Interest on total pension liability (1)	439,730	-	439,730
Effect of plan changes (2)	-	-	-
Effect of economic/demographic gains or losses	149,378	-	149,378
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(4,194)	(4,194)	-
Benefit payments	(3,467)	(3,467)	-
Administrative expenses	-	(4,863)	4,863
Member contributions	-	820,095	(820,095)
Net investment income	-	(53,661)	53,661
Employer contributions	-	1,171,564	(1,171,564)
Other (3)	-	59,517	(59,517)
Balance as of December 31, 2018	$ 6,013,974	$ 6,054,822	$ (40,848)

(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 asset of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension asset would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total pension liability	$ 7,246,004	$ 6,013,974	$ 5,021,806
Fiduciary net position	6,054,822	6,054,822	6,054,822
Net pension liability / (asset)	$ 1,191,182	$ (40,848)	$ (1,033,016)

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended September 30, 2019, the District recognized pension expense of $895,623. As of September 30, 2019, the deferred outflows and inflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 589,784	$ 334,769
Changes of assumptions	1,667	17,662
Net difference between projected and actual earnings	347,184	-
Contributions made subsequent to measurement date	967,379	-
Total	$ 1,906,014	$ 352,431

The $967,379 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2020. The remaining amounts currently reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

	Pension Expense Amount
Year ended September 30:	
2020	$ 112,860
2021	106,382
2022	95,635
2023	113,039
2024	20,183
Thereafter	138,105
	$ 586,204

10. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to or destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases its insurance from regular commercial companies. For the year ended September 30, 2019, there were no significant reductions in coverage and no claims or losses have been incurred that were not covered by insurance within the last three fiscal years.

11. COMMITMENTS

The District entered into an agreement with the City of Austin Fire Department, effective December 31, 2001, 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 to the District service area in the preceding year and is calculated at $26.40 per call. Either party may terminate the agreement with ninety days prior written notice to the other party. The District entered into an agreement with the City of Austin Emergency Medical Service Department, effective January 3, 2017, to provide ambulance dispatch services to the District service area at a rate of $20,000 annually per ambulance. Either party may terminate this agreement with thirty days prior written notice to the other party. Expenditures from these commitments totaled $149,089 for the year ended September 30, 2019.

The District contracts out the billing of EMS transport fees. The District initially entered into a contract with Fire Recovery EMS on January 19, 2016 with a fee of 20% of all receipts collected on behalf of the District. The District renegotiated the contract, and an updated contract was signed on May 1, 2018 for EMS billing with a fee of 4.5% of all receipts collected on behalf of the District, and was backdated to include incidents from January 1, 2018 forward. In early 2019, the District issued a new request for proposal for the services and through that process the District entered into a contract with Emergicon beginning June 1, 2019 with a fee of 6% for all receipts collected on behalf of the District (plus an additional 2% for credit card payments). Fire Recovery EMS continues to process payments and requests for incidents that occurred prior to June 1, 2019, but all new incidents are billed by Emergicon.

At September 30, 2019, the District is committed under construction contracts with a remaining balance of $3,319,836.

12. SUBSEQUENT EVENT

Effective October 1, 2019, the District adopted a Retirement Health Plan that partially subsidizes the cost of medical and dental insurance and offers full-cost vision insurance coverage for certain employees when they retire from the District. Full-time employees with at least 5 years of service are eligible to participate in the Retirement Health Plan. The amount of the subsidy provided by the District varies based on the age of the employee at the time of retirement and the number of years of service.

REQUIRED
SUPPLEMENTARY INFORMATION

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT NO. 2

SCHEDULE OF CHANGES IN NET PENSION ASSET AND RELATED RATIOS
SEPTEMBER 30, 2019

	Year Ended December 31, 2018*	Year Ended December 31, 2017*	Year Ended December 31, 2016*	Year Ended December 31, 2015*
Total Pension Liability				
Service cost	$ 1,628,397	$ 1,125,863	$ 749,537	$ 444,088
Interest on total pension liability	439,730	249,385	110,060	15,607
Effect of plan changes	-	-	1,079,552	(53,422)
Effect of assumption changes or inputs	-	(21,194)	-	2,334
Effect on economic/demographic (gains) or losses	149,378	498,914	(446,360)	53,516
Benefit paymens/refunds of contributions	(7,660)	(3,542)	(209)	-
Net change in total pension liability	2,209,845	1,849,426	1,492,580	462,123
Total pension liability, beginning	3,804,129	1,954,703	462,123	-
Total pension liability, ending (a)	$ 6,013,974	$ 3,804,129	$ 1,954,703	$ 462,123
Fiduciary Net Position				
Employer contributions	$ 1,171,564	$ 1,028,309	$ 727,691	$ 392,247
Member contributions	820,095	719,807	509,383	274,573
Investment income net of investment expenses	(53,661)	318,032	50,430	(5,665)
Benefit payments/refunds of contributions	(7,661)	(3,542)	(209)	-
Administrative expenses	(4,863)	(2,707)	(548)	(247)
Other	59,517	23,355	38,952	(30)
Net change in fiduciary net position	1,984,991	2,083,254	1,325,699	660,878
Fiduciary net position, beginning	4,069,831	1,986,577	660,878	-
Fiduciary net position, ending (b)	$ 6,054,822	$ 4,069,831	$ 1,986,577	$ 660,878
Net pension liability / (asset), ending = (a) - (b)	$ (40,848)	$ (265,702)	$ (31,874)	$ (198,755)
Fiduciary net position as a % of total pension liability	100.68%	106.98%	101.63%	143.01%
Pensionable covered payroll	$ 11,715,637	$ 10,282,955	$ 7,276,907	$ 6,724,234
Net pension liability as a % of covered payroll	-0.35%	-2.58%	-0.44%	-2.96%

* Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT NO. 2

SCHEDULE OF DISTRICT CONTRIBUTIONS
SEPTEMBER 30, 2019

Year Ending September 30 **	Actuarially Determined Contribution	Actual Employer Contributions	Contribution Deficiency (Excess)	Pensionable Covered Payroll *	Actual Contribution as a % of Covered Payroll
2015***	208,283	392,247	(183,964)	3,922,470	10.0%
2016***	386,404	727,691	(341,287)	7,276,907	10.0%
2017***	979,966	1,028,309	(48,343)	10,282,955	10.0%
2018***	1,081,353	1,171,564	(90,211)	11,715,637	10.0%
2019	1,077,728	1,260,501	(182,773)	12,605,007	10.0%

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

** Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

*** TCDRS calculates actuarially determined contribtutions on a calendar year basis. GASB Statement No. 68 indicates the employer shold report employer contribution amounts on a fiscal year basis. The District is contributions on a calendar year basis for years 2015-2018 and a fiscal year basis thereafter.

1. METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The following methods and assumptions were used to determine the contributions rates:

Valuation Timing	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported
Actuarial Cost Method	Individual Entry Age Normal
Amortization method	Level percentage of payroll, closed
Amortization period	5.6 years
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career including inflation
Investment Rate of Return	8.10%
Cost-of-Living Adjustments	Cost-of-Living Adjustments for the District are not considered to be automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB 68 calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Between ages 40 and 74 with various rates of service retirement by gender: low of 4.5% for age 40-44 to high of 25.0% for age 65-66 for males and females
Turnover	New employees are assumed to replace any terminated members and have similar entry ages.
Mortality:	
Depositing members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Tables for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service retirees, beneficiaries and non-depositing members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

2. CHANGE IN ASSUMPTIONS

There were no changes in the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.