Travis County Emergency Services District No. 2

Financial Statements as of and for the Year Ended September 30, 2022 and Independent Auditors' Report

MAXWELL LOCKE & RITTER

Travis County Emergency Services District No. 2

Table of Contents

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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10 , 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Maxwell Locke & Ritter LLP

Austin, Texas
May 10, 2023

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, 2022. 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 and information related to the District's federal grants 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 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, 2022 and 2021 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

	9/30/2022	9/30/2021
Assets:		
Current assets	$ 41,225,163	$ 27,621,053
Non-current assets	2,474,284	125,795
Capital assets, net	29,171,704	24,716,684
Total Assets	72,871,151	52,463,532
Deferred Outflows of Resources	2,815,562	2,810,413
Liabilities:		
Current liabilities	4,327,112	3,591,474
Non-current liabilities	17,702,802	10,054,379
Total Liabilities	22,029,914	13,645,853
Deferred Inflows of Resources	2,325,083	448,422
Net Position:		
Net investment in capital assets	11,446,229	14,431,866
Restricted	5,549,477	-
Unrestricted	34,336,010	26,747,804
Total Net Position	$ 51,331,716	$ 41,179,670

The District's total assets were $72,871,151 as of September 30, 2022. Of this amount, $29,171,704 is accounted for by capital assets. The District had outstanding liabilities of $22,029,914 as of September 30, 2022 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

	9/30/2022	9/30/2021
Revenues:		
General revenues	$ 34,336,846	$ 30,800,288
Program revenues	4,388,049	4,950,827
Total Revenues	38,724,895	35,751,115
Expenses:		
Service operations	26,272,273	23,836,885
Depreciation and amortization	1,812,855	1,760,532
Debt service	487,721	496,493
Total Expenses	28,572,849	26,093,910
Change in Net Position	$ 10,152,046	$ 9,657,205

General revenues increased by $3,536,558 for the fiscal year ended September 30, 2022, primarily due to increases in sales tax revenue and property tax revenue of $3,182,990 and $254,171, respectively. Property taxes generated $14,321,076 in revenues. Total expenses increased by $2,478,939 for the fiscal year ended September 30, 2022, primarily due to an increase in salaries and benefits as a result of increased headcount. Net position increased $10,152,046 for the fiscal year ended September 30, 2022, compared to an increase of $9,657,205 for the fiscal year ended September 30, 2021.

The District's Governmental Fund

At September 30, 2022, the District's governmental fund reported a fund balance of $38,844,898, which is an increase of $12,955,109 from the prior year.

General Fund Budgetary Highlights

The actual expenditures in the General Fund were $3,999,610 less than the budgeted amounts primarily due to timing of operations expenditures and less capital outlay than anticipated. Revenues were $2,206,992 more than the budgeted amounts primarily due to an increase in sales tax revenue and program revenues as compared to the budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At September 30, 2022 and 2021, the District had the following capital assets in operation:

Capital Assets at Year End

	9/30/2022	9/30/2021
Land	$ 1,009,017	$ 1,009,017
Construction in progress	3,749,282	645,693
Vehicles in progress	1,537,815	616,663
Buildings and improvements	19,456,297	19,194,620
Fire trucks and vehicles	13,836,132	13,014,032
Furniture and fixtures	1,048,586	1,069,036
Equipment	1,574,438	1,418,717
Total Capital Assets	42,211,567	36,967,778
Accumulated depreciation/amortization	(13,039,863)	(12,251,094)
Total Net Capital Assets	$ 29,171,704	$ 24,716,684

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

Debt Administration

At September 30, 2022 and 2021, the District had debt comprised of the following:

Debt at Year End

	9/30/2022	9/30/2021
Notes payable	$ 17,725,475	$ 10,284,818

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

Compensated Absences

As of September 30, 2022, the District had $1,793,783 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 2023 for the District's governmental fund projects a fund balance decrease of $6,972,771.

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, 2022

	General Fund	Adjustments (Note 2)	Statement of Net Position
Assets:			
Cash and cash equivalents	$ 20,595,625	-	20,595,625
Investments	10,893,362	-	10,893,362
Restricted cash	5,570,893	-	5,570,893
Receivables:			
Property taxes, net	100,304	-	100,304
Sales taxes	3,510,036	-	3,510,036
Ambulance and fire services	375,014	-	375,014
Prepaid items	179,929	-	179,929
Capital assets (net of accumulated depreciation):			
Land	-	1,009,017	1,009,017
Construction in progress	-	3,749,282	3,749,282
Vehicles in progress	-	1,537,815	1,537,815
Buildings and improvements	-	13,828,884	13,828,884
Fire trucks and vehicles	-	7,187,637	7,187,637
Furniture and fixtures	-	713,976	713,976
Equipment	-	1,145,093	1,145,093
Net pension asset	-	2,474,284	2,474,284
Total assets	41,225,163	31,645,988	72,871,151
Deferred Outflows of Resources:			
Pension contributions after measurement date	-	1,659,980	1,659,980
Deferred outflows related to pension asset	-	1,155,582	1,155,582
Total deferred outflows of resources	-	2,815,562	2,815,562
Liabilities:			
Accounts payable	$ 977,811	-	977,811
Payroll liabilities payable	1,295,481	-	1,295,481
Deposits	1,350	-	1,350
Unearned revenue	18,035	-	18,035
Accrued interest payable	-	217,979	217,979
Notes payable	-	1,129,777	1,129,777
Compensated absences	-	686,679	686,679
Long-term liabilities:			
Notes payable	-	16,595,698	16,595,698
Compensated absences	-	1,107,104	1,107,104
Total liabilities	2,292,677	19,737,237	22,029,914
Deferred Inflows of Resources:			
Deferred revenue - property taxes	87,588	(87,588)	-
Deferred inflows related to pension asset	-	2,325,083	2,325,083
Total deferred inflows of resources	87,588	2,237,495	2,325,083
Fund Balance/Net Position:			
Fund balance:			
Nonspendable -			
Prepaid items	179,929	(179,929)	-
Restricted -			
Fire station construction	5,549,477	(5,549,477)	-
Assigned -			
Subsequent year's budget deficit	6,972,771	(6,972,771)	-
Unassigned	26,142,721	(26,142,721)	-
Total fund balance	38,844,898	(38,844,898)	-
Total liabilities, deferred inflows of resources, and fund balances	$ 41,225,163		
Net position:			
Net investment in capital assets		11,446,229	11,446,229
Restricted		5,549,477	5,549,477
Unrestricted		34,336,010	34,336,010
Total net position		$ 51,331,716	51,331,716

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, 2022

	General Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Program revenues:			
Charges for services	4,205,563	-	4,205,563
Operating grants and contributions	182,486	-	182,486
Total program revenues	4,388,049	-	4,388,049
General revenues:			
Property taxes, including penalties and interest	14,273,497	47,579	14,321,076
Sales taxes	19,879,842	-	19,879,842
Interest income and other	135,928	-	135,928
Total general revenues	34,289,267	47,579	34,336,846
Total revenues	38,677,316	47,579	38,724,895
Expenditures/expenses:			
Emergency response services - operations	26,456,268	(183,995)	26,272,273
Capital outlay	6,389,591	(6,389,591)	-
Depreciation and amortization	-	1,812,855	1,812,855
Debt service:			
Principal payments	1,103,194	(1,103,194)	-
Interest payments	372,311	115,410	487,721
Total expenditures/expenses	34,321,364	(5,748,515)	28,572,849
Excess of revenues over expenditures	4,355,952	5,796,094	10,152,046
Other financing sources:			
Proceeds from disposal of capital assets	55,306	(55,306)	-
Proceeds from notes payable	8,543,851	(8,543,851)	-
Total other financing sources	8,599,157	(8,599,157)	-
Change in fund balance	12,955,109	(12,955,109)	-
Change in net position	-	10,152,046	10,152,046
Fund balance/net position:			
Beginning of year	25,889,789	15,289,881	41,179,670
End of year	$ 38,844,898	12,486,818	51,331,716

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, 2022

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Property taxes, including penalties and interest	$ 14,125,471	14,125,471	14,273,497	148,026
Sales taxes	15,031,514	19,376,880	19,879,842	502,962
Program revenues	2,472,300	2,574,705	4,388,049	1,813,344
Interest income and other	393,268	393,268	135,928	(257,340)
Total revenues	32,022,553	36,470,324	38,677,316	2,206,992
Expenditures:				
Emergency response services - operations	28,670,166	28,957,941	26,456,268	2,501,673
Capital outlay	13,266,774	7,887,526	6,389,591	1,497,935
Debt service	1,475,507	1,475,507	1,475,505	2
Total expenditures	43,412,447	38,320,974	34,321,364	3,999,610
Excess (deficiency) of revenues over (under) expenditures	(11,389,894)	(1,850,650)	4,355,952	6,206,602
Other financing sources:				
Proceeds from notes payable	11,004,291	8,543,851	8,543,851	-
Proceeds from disposal of capital assets	-	-	55,306	55,306
Total other financing sources	11,004,291	8,543,851	8,599,157	55,306
Change in fund balance	(385,603)	6,693,201	12,955,109	6,261,908
Fund balance:				
Beginning of year	25,889,789	25,889,789	25,889,789	-
End of year	$ 25,504,186	32,582,990	38,844,898	6,261,908

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 seven 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 exchange 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 **-** Restricted cash consists of proceeds received from a note payable which is restricted in use based on the note payable agreement guidelines and amounts held in trust for health insurance premiums (Note 8).

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, 2022, the District had an allowance for property tax receivables of $190,240.

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	7-10
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, 2022, 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, 2022, the District's liability for accrued vacation, holiday and sick leave was $1,793,783.

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 asset, 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 8 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.

Change in Accounting Principle for Recently Adopted Accounting Pronouncement

In June 2017, the GASB issued GASB Statement No. 87, *Leases*, effective for fiscal years beginning after June 15, 2021. 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. These changes had no impact on the District's financial statements for the year ended September 30, 2022.

Recently Issued Accounting Pronouncement

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for fiscal years beginning after June 15, 2022. The objective of GASB Statement No. 96 is to improve accounting and financial reporting by establishing a definition for a subscription-based information technology arrangement ("SBITA") and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. GASB Statement No. 96 will require a government to report a right-to-use subscription asset as an intangible asset and a corresponding subscription liability for a SBITA, and also require certain disclosures about the SBITA. GASB Statement No. 96 also provides capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. Management is evaluating the effects that the full implementation of GASB Statement No. 96 will have on its financial statements for the year ended September 30, 2023.

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	$ 38,844,898
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	29,171,704
Deferred tax revenue is not available to pay for current-period expenditures and, therefore, is deferred in the funds.	87,588
Net pension asset is not a current financial resource and is therefore not reported in the governmental fund balance sheet	2,474,284
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	(17,725,475)
Accrued interest payable	(217,979)
Pension contributions after measurement date	1,659,980
Deferred outflows related to pension asset	1,155,582
Deferred inflows related to pension asset	(2,325,083)
Compensated absences	(1,793,783)
Total net position	$ 51,331,716

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

Change in fund balance	$ 12,955,109
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	6,389,591
Depreciation and amortization expense	(1,812,855)
Disposal of capital assets	(121,716)
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	47,579
Note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net position.	
Proceeds from notes payable	(8,543,851)
Repayment of note principal	1,103,194
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	(115,410)
Change in compensated absences	(226,572)
Pension contributions made before measurement date	339,113
Pension contributions made after measurement date	1,155,582
Adjustments for ending deferred inflows and outflows related to net pension asset	(1,017,718)
Change in net position	$ 10,152,046

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, 2022, the District had cash on hand and demand deposits with a carrying balance of $1,000,611 and a bank balance of $1,408,145. During the year ended September 30, 2022, there were instances in which the District's deposits were not fully collateralized by FDIC insurance and other pledged collateral. These instances were due to the timing of certain payments received by the District in which the bank did not increase the pledged collateral until administratively feasible, thus deposits were exposed to custodial credit risk.

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, 2022 consisted of the following:

Type	Fair Value	Weighted Average Maturity (Days)	Standard & Poor's Rating
Local Governmental Investment Pool- TexPool	$ 3,523,523	1	AAAm
Certificates of deposit	2,105,973	522	N/A
Money market funds	22,669,514	1	N/A
Mutual funds	7,760,259	1	N/A
Total	$ 36,059,269		

The District had investments in an external local governmental investment pool, Texas Local Governmental Investment Pool ("TexPool"), at September 30, 2022. 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.

Credit Risk **-** 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, 2022, investments were included in an external local governmental investment pool, certificates of deposit, money market funds, and mutual funds with a rating from Standard and Poor's in compliance with the District's investment policy, if rated.

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. At September 30, 2022, investments were included in an external local governmental investment pool, certificates of deposit, money market funds, 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, 2022, investments were included in external local government investment pools, money market funds, and mutual funds which have a weighted average maturity of one day.

4. Capital Assets

Capital assets activity for the fiscal year ended September 30, 2022 was as follows:

	Balance September 30, 2021	Additions	Retirements and Transfers	Balance September 30, 2022
Capital assets not being depreciated/amortized:				
Land	$ 1,009,017	-	-	1,009,017
Construction in progress	645,693	3,103,589	-	3,749,282
Vehicles in progress	616,663	1,537,815	(616,663)	1,537,815
Total capital assets, not being depreciated	2,271,373	4,641,404	(616,663)	6,296,114
Capital assets being depreciated/amortized:				
Buildings and improvements	19,194,620	357,557	(95,880)	19,456,297
Fire trucks and vehicles	13,014,032	1,068,631	(246,531)	13,836,132
Equipment	1,418,717	309,338	(153,617)	1,574,438
Furniture and fixtures	1,069,036	12,661	(33,111)	1,048,586
Total capital assets being depreciated/amortized	34,696,405	1,748,187	(529,139)	35,915,453
Less accumulated depreciation/ amortization for:				
Buildings and improvements	(5,131,268)	(592,025)	95,880	(5,627,413)
Fire trucks and vehicles	(6,173,311)	(971,427)	496,243	(6,648,495)
Equipment	(686,378)	(60,639)	317,672	(429,345)
Furniture and fixtures	(260,137)	(188,764)	114,291	(334,610)
Total accumulated depreciation/amortization	(12,251,094)	(1,812,855)	1,024,086	(13,039,863)
Total capital assets being depreciated/amortized, net	22,445,311	(64,668)	494,947	22,875,590
Capital assets, net	$ 24,716,684	4,576,736	(121,716)	29,171,704

5. Long-Term Liabilities

Long-term liabilities transactions for the year ended September 30, 2022, are summarized as follows:

	Balance September 30, 2021	Additions	Retirements	Balance September 30, 2022	Due Within One Year
Notes payable	$ 10,284,818	8,543,851	(1,103,194)	17,725,475	1,129,777
Compensated absences	1,567,211	1,743,475	(1,516,903)	1,793,783	686,679
Total governmental activities	$ 11,852,029	10,287,326	(2,620,097)	19,519,258	1,816,456

Notes payable consisted of the following at September 30, 2022:

Date of Issue	Amounts of Original Issue	Maturity Date	Interest Rate	Outstanding at September 30, 2022	Due Within One Year
June 27, 2018	$ 6,100,000	2038	4.22%	$ 5,250,155	$ 236,449
August 7, 2019	1,750,000	2039	3.64%	1,561,722	67,938
October 22, 2019	1,342,842	2027	2.73%	1,032,912	160,772
July 30, 2020	1,550,754	2029	2.44%	1,234,207	163,824
August 12, 2020	301,234	2023	2.35%	102,628	102,628
March 1, 2022	7,070,000	2042	2.76%	7,070,000	269,601
May 26, 2022	1,473,851	2032	3.00%	1,473,851	128,565
	$ 19,588,681			$ 17,725,475	$ 1,129,777

The notes payable agreements were entered into by the District to finance the acquisition of land, improvements, and vehicles and fund the construction of a fire station. The notes payable agreements are secured by funds on hand (as defined), the vehicles acquired, and the facilities being built.

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

Fiscal Year	Principal	Interest	Total Requirement
2023	$ 1,129,777	578,276	1,708,053
2024	1,059,276	543,738	1,603,014
2025	1,092,451	510,563	1,603,014
2026	1,126,710	476,303	1,603,013
2027	1,162,091	440,922	1,603,013
2028-2032	4,999,665	1,677,705	6,677,370
2033-2037	4,336,486	900,136	5,236,622
2038-2042	2,819,019	212,086	3,031,105

6. 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 2021, the District levied a tax rate of $0.09 per $100 of assessed valuation to finance operating expenditures. The total 2021 tax levy was $14,390,633 based on a taxable valuation of $14,590,816,396.

7. 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.

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

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

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

<u>Assigned</u> **-** 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.

<u>Unassigned</u> **-** 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 9.

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.

8. 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, 2022, the District made contributions to the 401(a) Plan of $114,858 and participants made contributions to the 457(b) Plan of $562,866.

Retirement Health Plan

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. For the year ended September 30, 2022, the District made subsidy payments of $21,481.

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 made annual discretionary contributions into an investment account. The investment account held by the District for the executive became 100% vested on September 15, 2022 and the proceeds of $215,306 were disbursed by the District to the executive upon vesting.

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 830 active participating counties and districts throughout Texas. TCDRS in the aggregate issues an annual comprehensive financial report ("ACFR") on a calendar year basis. The ACFR is available upon written request from the TCDRS, Finance Division, at Barton Oaks Plaza IV, Suite 500, 901 S. Mopac Expressway, Austin, Texas 78746.

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, 2021 was as follows:

Retirees and beneficiaries currently receiving benefits	4
Terminated employees entitled to but not yet receiving benefits	80
Active plan members	151
Total	235

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, 2022 as adopted by the governing body of the District. The actuarially determined rate for the year ended December 31, 2021 was 9.81% for 2022. 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, 2022 equaled $1,466,294 and $1,494,695, respectively.

Net Pension Asset

Actuarial Assumptions

The District's net pension asset was measured as of December 31, 2021 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, 2021 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 on a calendar basis 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	12.9 years
Asset Valuation Method	5-year smoothed market
Inflation	2.50%
Salary Increases	Varies by age and service. 4.7% average over career including inflation
Investment Rate of Return	7.50%
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 5.3% for age 40-49 to high of 27.5% 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	135% of the Pub-2010 General Employees Amount-Weighted Mortality Table for males and 120% of the Pub-2010 General Employees Amount-Weighted Mortality Tables for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Service retirees, beneficiaries and non-depositing members	135% of the Pub-2010 General Retirees Amount-Weighted Mortality Table for males and 120% of the Pub-2010 General Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Disabled retirees	160% of the Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% of the Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

The actuarial assumptions that determined the total pension liability as of December 31, 2021 were based on the results of an actuarial experience study for the period January 1, 2017 through December 31, 2020, 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 2022 information for a 10-year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed in detail at a minimum of every four years and is set based on long-term horizon; the most recent analysis was performed in March 2021.

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	11.50%	3.80%
Global Equities	MSCI World (net) Index	2.50%	4.10%
Int'l Equities - Developed Markets	MSCI World Ex USA (net) Index	5.00%	3.80%
Int'l Equities - Emerging Markets	MSCI Emerging Markets (net) Index	6.00%	4.30%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	(0.85%)
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	1.77%
Direct Lending	S&P/LSTA Leveraged Loan Index	16.00%	6.25%
Distressed Debt	Cambridge Associates Distressed Securities Index (d)	4.00%	4.50%
REIT Equities	67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	3.10%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	3.85%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index(e)	6.00%	5.10%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index(c)	25.00%	6.80%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	1.55%
Cash Equivalents	90-Day U. S. Treasury	2.00%	(1.05%)

(a) Target asset allocation adopted at the March 2022 TCDRS Board meeting.

(b) Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.60%, per Cliffwater's 2022 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 7.60%. This rate reflects the long-term rate of return funding valuation assumption of 7.50%, 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, 2021 are as follows:

	Total Pension Liability	Increase (Decrease) Fiduciary Net Position	Net Pension (Asset) Liability
	(a)	(b)	(a) - (b)
Balance as of December 31, 2020	$ 12,486,951	$ 12,612,746	$ (125,795)
Changes for the year:			
Service cost	2,260,483	-	2,260,483
Interest on total pension liability (1)	1,116,659	-	1,116,659
Effect of plan changes (2)	-	-	-
Effect of economic/demographic gains or losses	(412,499)	-	(412,499)
Effect of assumptions changes or inputs	95,824	-	95,824
Refund of contributions	(93,203)	(93,203)	-
Benefit payments	(17,936)	(17,936)	-
Administrative expenses	-	(9,689)	9,689
Member contributions	-	958,286	(958,286)
Net investment income	-	3,025,121	(3,025,121)
Employer contributions	-	1,368,980	(1,368,980)
Other (3)	-	66,258	(66,258)
Balance as of December 31, 2021	$ 15,436,279	$ 17,910,563	$ (2,474,284)

(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 7.60%, 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 (6.60%) or 1 percentage point higher (8.60%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
	6.60%	7.60%	8.60%
Total pension liability	$ 18,812,600	$ 15,436,279	$ 12,763,117
Fiduciary net position	17,910,563	17,910,563	17,910,563
Net pension liability / (asset)	$ 902,037	$ (2,474,284)	$ (5,147,446)

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

For the year ended September 30, 2022, the District recognized pension expense of $1,017,717. As of September 30, 2022, the deferred outflows and inflows of resources are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 702,569	$ 584,115
Changes of assumptions	957,411	12,364
Net difference between projected and actual earnings	-	1,728,604
Contributions made subsequent to measurement date	1,155,582	-
Total	$ 2,815,562	$ 2,325,083

The $1,155,582 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 asset in the year ended September 30, 2023. 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:	
2023	$ (283,816)
2024	(376,670)
2025	(294,167)
2026	(270,491)
2027	125,865
Thereafter	434,176
	$ (665,103)

9. 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, 2022, 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.

10. Contracted Services

The District entered into an agreement with Travis County Emergency Services District No. 17 ("ESD 17") to provide ESD 17 with administrative, management and bookkeeping services ("Administrative Agreement"). The Administrative Agreement requires ESD 17 to pay the District a fee in quarterly installments each year based on the consideration determined as part of ESD 17's budget and tax planning process for the fiscal year in which the services are provided. The Administrative Agreement was effective on July 15, 2021 and continues through September 30, 2026 unless terminated based on the terms of the Administrative Agreement. During the year ended September 30, 2022, the District recognized $96,000 of revenue related to the Administrative Agreement.

The District entered into an agreement with ESD 17 to provide ESD 17 with advanced life support emergency medical services and ambulance transport services authorized by Chapter 773 and 775 of the Texas Health & Safety Code ("EMS Agreement"). The EMS Agreement requires ESD 17 to pay the District an annual fee of $1,116,254 in equal monthly installments for the services provided. The EMS Agreement was effective on January 1, 2022 and continues through September 30, 2026 unless terminated based on the terms of the EMS Agreement. The EMS Agreement will automatically renew for up to five renewals of five-year terms unless written notice of the intent to not renew is delivered by the District or ESD 17 to the other no less than ninety days prior to the end of the then current term of the EMS Agreement.

The District entered into an agreement with Travis County to provide Travis County with advanced life support emergency medical services and ambulance transport services authorized by Chapter 791 of the Texas Health & Safety Code ("County Agreement"). The County Agreement requires Travis County to pay the District a fee of $68,215 in monthly installments for the services provided. The County Agreement was effective on January 1, 2022 and continues through September 30, 2022 unless terminated based on the terms of the County Agreement. The County Agreement will renew for up to four additional one-year terms at the option of Travis County. During the year ended September 30, 2022, the District recognized $613,940 of revenue related to the County Agreement.

11. Commitments and Contingencies

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 $239,139 for the year ended September 30, 2022.

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, 2022, the District is committed under construction contracts with a remaining balance of $5,799,108.

12. Subsequent Events

In March 2023, the District purchased ten acres of land for a net purchase price of $1,979,458. The net purchase price consisted of a purchase price of $2,000,000, closing costs of $7,558, and purchase credits of $28,100.

Required Supplementary Information

Travis County Emergency Services District No. 2

Schedule of Changes in Net Pension Asset and Related Ratios
September 30, 2022

	Year Ended December 31, 2021*	Year Ended December 31, 2020*	Year Ended December 31, 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	$ 2,260,483	$ 1,911,194	$ 1,686,271	$ 1,628,397	$ 1,125,863	$ 749,537	$ 444,088
Interest on total pension liability	1,116,659	846,556	622,792	439,730	249,385	110,060	15,607
Effect of plan changes	-	-	-	-	-	1,079,552	(53,422)
Effect of assumption changes or inputs	95,824	1,090,499	-	-	(21,194)	-	2,334
Effect on economic/demographic (gains) or losses	(412,499)	122,576	263,536	149,378	498,914	(446,360)	53,516
Benefit paymens/refunds of contributions	(111,139)	(47,072)	(23,375)	(7,660)	(3,542)	(209)	-
Net change in total pension liability	2,949,328	3,923,753	2,549,224	2,209,845	1,849,426	1,492,580	462,123
Total pension liability, beginning	12,486,951	8,563,198	6,013,974	3,804,129	1,954,703	462,123	-
Total pension liability, ending (a)	$ 15,436,279	$ 12,486,951	$ 8,563,198	$ 6,013,974	$ 3,804,129	$ 1,954,703	$ 462,123
Fiduciary Net Position							
Employer contributions	$ 1,368,980	$ 1,378,668	$ 1,293,853	$ 1,171,564	$ 1,028,309	$ 727,691	$ 392,247
Member contributions	958,286	965,067	905,698	820,095	719,807	509,383	274,573
Investment income net of investment expenses	3,025,121	964,601	992,112	(53,661)	318,032	50,430	(5,665)
Benefit payments/refunds of contributions	(111,139)	(47,072)	(23,375)	(7,661)	(3,542)	(209)	-
Administrative expenses	(9,689)	(9,229)	(7,081)	(4,863)	(2,707)	(548)	(247)
Other	66,258	68,881	75,801	59,517	23,355	38,952	(30)
Net change in fiduciary net position	5,297,817	3,320,916	3,237,008	1,984,991	2,083,254	1,325,699	660,878
Fiduciary net position, beginning	12,612,746	9,291,830	6,054,822	4,069,831	1,986,577	660,878	-
Fiduciary net position, ending (b)	$ 17,910,563	$ 12,612,746	$ 9,291,830	$ 6,054,822	$ 4,069,831	$ 1,986,577	$ 660,878
Net pension liability / (asset), ending = (a) - (b)	$ (2,474,284)	$ (125,795)	$ (728,632)	$ (40,848)	$ (265,702)	$ (31,874)	$ (198,755)
Fiduciary net position as a % of total pension liability	116.03%	101.01%	108.51%	100.68%	106.98%	101.63%	143.01%
Pensionable covered payroll	$ 13,689,806	$ 13,786,676	$ 12,938,537	$ 11,715,637	$ 10,282,955	$ 7,276,907	$ 6,724,234
Net pension liability as a % of covered payroll	-18.07%	-0.91%	-5.63%	-0.35%	-2.58%	-0.44%	-2.96%

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

Travis County Emergency Services District No. 2

Schedule of District Contributions
September 30, 2022

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%
2020	1,135,885	1,357,090	(221,205)	13,570,907	10.0%
2021	1,089,934	1,377,919	(287,985)	13,779,189	10.0%
2022	1,466,294	1,494,693	(28,399)	14,946,930	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 should report employer contribution amounts on a fiscal year basis. The District is contributions on a calendar year basis for years 2015-2018 and on 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 on a calendar basis 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	12.9 years
Asset Valuation Method	5-year smoothed market
Inflation	2.50%
Salary Increases	Varies by age and service. 4.7% average over career including inflation
Investment Rate of Return	7.50%
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 5.3% for age 40-49 to high of 27.5% 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	135% of Pub-2010 General Employees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Employees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Service retirees, beneficiaries and non-depositing members	135% of Pub-2010 General Retirees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Disabled retirees	160% of Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

2. Change in Assumptions

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

- Amortization period decreased from 16.0 years to 12.9 years
- Average salary increases increased from 4.6% to 4.7%
- Slightly adjusted all mortality rates by using mortality tables specific to public sector employees
- Adjusted service retirement rates to reflect people generally retiring at older ages

Government Auditing Standards Section

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 10, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2022-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2022-001.

The District's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maxwell Locke & Ritter LLP

Austin, Texas
May 10, 2023

Travis County Emergency Services District No. 2

Schedule of Findings and Responses
Year Ended September 30, 2022

Financial Statement Finding

There was one finding required to be reported in accordance with *Government Auditing Standards* for the year ended September 30, 2022. There were no findings required to be reported in accordance with *Government Auditing Standards* for the year ended September 30, 2021.

<u>Finding Relating to Internal Control over Financial Reporting and Compliance in Accordance with *Government Auditing Standards*:</u>

2022-001

Criteria:	The District's deposits with financial institutions are required to be entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.
Condition /Context:	The District's deposits were not fully collateralized by FDIC insurance or pledged collateral at September 30, 2022 as well as multiple other instances of deposits not being fully collateralized during the year ended September 30, 2022.
Effect:	Noncompliance with the requirements of the Public Funds Investment Act Section 2256.009 and the District's deposits were exposed to custodial credit risk.
Cause:	The District received payments on the last business day of the week that caused the bank balance to exceed the coverage provided by FDIC insurance and pledged collateral. The District's depository bank was able to increase the pledged collateral on the first business day of the following week, but the District's deposits were exposed to custodial credit risk over the weekend prior to the increase in pledged collateral. There were also instances where payments were received during the week but due to the timing and amount of the payments received the District's depository bank was not able to increase the pledged collateral until later in the week.
Recommendations:	The District should monitor deposit and related collateral balances on a daily basis and notify the District's depository bank when significant deposits are received to ensure that the District's deposits are fully collateralized. The District could also lower its deposits with the depository bank to levels below FDIC insurance limits by acquiring other authorized investments.
Views of Responsible Officials and Planned Corrective Actions:	See Schedule of Corrective Action Plan

TRAVIS COUNTY EMERGENCY SERVICES DISTRICT No. 2
PFLUGERVILLE FIRE DEPARTMENT
203 E. PECAN STREET
PFLUGERVILLE, TEXAS 78660
(512) 251-2801

Schedule of Corrective Action Plan
(Auditee Prepared)

Year Ending September 30, 2022

Finding 2022-001

Planned Corrective Action: The District will implement all of the recommended corrective actions including monitoring deposits daily, notifying the bank when large deposits are expected to arrive, and reducing the balance in the accounts to below the FDIC insurance limits.

Responsible Party: Jessica Frazier

Estimated Completion Date: September 30, 2023