

**Travis County  
Emergency Services District  
No. 2**

**Financial Statements  
as of and for the Year Ended  
September 30, 2023 and  
Independent Auditors' Report**



# Travis County Emergency Services District No. 2

## Table of Contents

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	<u>Page</u>
<b>Financial Section</b>	
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Basic Financial Statements:	
Statement of Net Position and Governmental Fund Balance Sheet	9
Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance	10
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	11
Notes to Basic Financial Statements	12
Required Supplementary Information:	
Schedule of Changes in Net Pension Asset and Related Ratios	31
Schedule of District Contributions	32
Notes to Required Supplementary Information	33
<b>Government Auditing Standards Section</b>	
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 <i>Government Auditing Standards</i>	35
Schedule of Findings and Responses	37
Summary Schedule of the Prior Audit Finding (Auditee Prepared)	38



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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, 2023, 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, 2023, 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.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

*"A Registered Investment Advisor"*

*This firm is not a CPA firm*

## **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 April 12, 2024 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  
April 12, 2024

# Travis County Emergency Services District No. 2

## Management's Discussion & Analysis

September 30, 2023

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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, 2023. 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 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, 2023 and 2022 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

	<u>9/30/2023</u>	<u>9/30/2022</u>
Assets:		
Current assets	\$ 38,640,164	\$ 41,225,163
Non-current assets	571,552	2,474,284
Capital assets, net	<u>41,651,553</u>	<u>29,171,704</u>
Total Assets	<u>80,863,269</u>	<u>72,871,151</u>
Deferred Outflows of Resources	<u>4,277,983</u>	<u>2,815,562</u>
Liabilities:		
Current liabilities	6,022,841	4,327,112
Non-current liabilities	<u>21,237,330</u>	<u>17,702,802</u>
Total Liabilities	<u>27,260,171</u>	<u>22,029,914</u>
Deferred Inflows of Resources	<u>505,954</u>	<u>2,325,083</u>
Net Position:		
Net investment in capital assets	21,419,100	11,446,229
Restricted	-	5,549,477
Unrestricted	<u>35,956,027</u>	<u>34,336,010</u>
Total Net Position	<u>\$ 57,375,127</u>	<u>\$ 51,331,716</u>

The District’s total assets were \$80,863,269 as of September 30, 2023. Of this amount, \$41,651,553 is accounted for by capital assets. The District had outstanding liabilities of \$27,260,171 as of September 30, 2023 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**

	<u>9/30/2023</u>	<u>9/30/2022</u>
Revenues:		
General revenues	\$ 38,164,009	\$ 34,336,846
Program revenues	<u>5,653,201</u>	<u>4,388,049</u>
Total Revenues	<u>43,817,210</u>	<u>38,724,895</u>
Expenses:		
Service operations	35,195,314	26,272,273
Depreciation and amortization	1,985,516	1,812,855
Debt service	<u>592,969</u>	<u>487,721</u>
Total Expenses	<u>37,773,799</u>	<u>28,572,849</u>
Change in Net Position	<u>\$ 6,043,411</u>	<u>\$ 10,152,046</u>

General revenues increased by \$3,827,163 for the fiscal year ended September 30, 2023, primarily due to increases in sales tax revenue and property tax revenue of \$384,192 and \$1,954,988, respectively. Property taxes generated \$16,276,064 in revenues. Total expenses increased by \$9,200,950 for the fiscal year ended September 30, 2023, primarily due to an increase in salaries and benefits as a result of increased headcount. Net position increased \$6,043,411 for the fiscal year ended September 30, 2023, compared to an increase of \$10,152,046 for the fiscal year ended September 30, 2022.

**The District’s Governmental Fund**

At September 30, 2023, the District’s governmental fund reported a fund balance of \$35,077,646, which is a decrease of \$3,767,252 from the prior year.

**General Fund Budgetary Highlights**

The actual expenditures in the General Fund were \$7,845,220 less than the final budgeted amounts primarily due to timing of operations expenditures and less capital outlay than anticipated. Revenues were \$608,692 more than the final budgeted amounts primarily due to an increase in interest income and other revenue and program revenues as compared to the final budgeted amount, which was offset some by sales tax revenues being lower than the final budgeted amount.



## Capital Assets and Debt Administration

### Capital Assets

At September 30, 2023 and 2022, the District had the following capital assets in operation:

#### Capital Assets at Year End

	<u>9/30/2023</u>	<u>9/30/2022</u>
Land	\$ 2,615,243	\$ 1,009,017
Construction in progress	12,146,212	3,749,282
Vehicles in progress	1,998,746	1,537,815
Buildings and improvements	20,884,916	19,456,297
Fire trucks and vehicles	15,644,756	13,836,132
Furniture and fixtures	1,065,259	1,048,586
Equipment	<u>2,023,302</u>	<u>1,574,438</u>
Total Capital Assets	56,378,434	42,211,567
Accumulated depreciation/amortization	<u>(14,726,881)</u>	<u>(13,039,863)</u>
Total Net Capital Assets	<u>\$ 41,651,553</u>	<u>\$ 29,171,704</u>

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

### Debt Administration

At September 30, 2023 and 2022, the District had debt comprised of the following:

#### Debt at Year End

	<u>9/30/2023</u>	<u>9/30/2022</u>
Notes payable	<u>\$ 20,232,453</u>	<u>\$ 17,725,475</u>

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

### Compensated Absences

As of September 30, 2023, the District had \$3,354,885 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 2024 for the District's governmental fund projects a fund balance increase of \$845,693.

## **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, 2023

	General Fund	Adjustments (Note 2)	Statement of Net Position
<b>Assets:</b>			
Cash and cash equivalents	\$ 20,997,236	-	20,997,236
Investments	11,921,191	-	11,921,191
Restricted cash	7,991	-	7,991
Receivables:			
Property taxes, net	125,583	-	125,583
Sales taxes	3,644,528	-	3,644,528
Ambulance and fire services	1,524,146	-	1,524,146
Prepaid items	419,489	-	419,489
Capital assets (net of accumulated depreciation):			
Land	-	2,615,243	2,615,243
Construction in progress	-	12,146,212	12,146,212
Vehicles in progress	-	1,998,746	1,998,746
Buildings and improvements	-	14,816,541	14,816,541
Fire trucks and vehicles	-	7,981,501	7,981,501
Furniture and fixtures	-	681,887	681,887
Equipment	-	1,411,423	1,411,423
Net pension asset	-	571,552	571,552
Total assets	<u>38,640,164</u>	<u>42,223,105</u>	<u>80,863,269</u>
<b>Deferred Outflows of Resources:</b>			
Pension contributions after measurement date	-	1,583,760	1,583,760
Deferred outflows related to pension asset	-	2,694,223	2,694,223
Total deferred outflows of resources	<u>-</u>	<u>4,277,983</u>	<u>4,277,983</u>
<b>Liabilities:</b>			
Accounts payable	\$ 1,993,346	-	1,993,346
Payroll liabilities payable	1,438,220	-	1,438,220
Deposits	550	-	550
Unearned revenue	8,046	-	8,046
Accrued interest payable	-	232,671	232,671
Notes payable	-	1,252,688	1,252,688
Compensated absences	-	1,097,320	1,097,320
Long-term liabilities:			
Notes payable	-	18,979,765	18,979,765
Compensated absences	-	2,257,565	2,257,565
Total liabilities	<u>3,440,162</u>	<u>23,820,009</u>	<u>27,260,171</u>
<b>Deferred Inflows of Resources:</b>			
Deferred revenue - property taxes	122,356	(122,356)	-
Deferred inflows related to pension asset	-	505,954	505,954
Total deferred inflows of resources	<u>122,356</u>	<u>383,598</u>	<u>505,954</u>
<b>Fund Balance/Net Position:</b>			
Fund balance:			
Nonspendable -			
Prepaid items	419,489	(419,489)	-
Unassigned	34,658,157	(34,658,157)	-
Total fund balance	<u>35,077,646</u>	<u>(35,077,646)</u>	<u>-</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 38,640,164</u>		
Net position:			
Net investment in capital assets		21,419,100	21,419,100
Unrestricted		35,956,027	35,956,027
Total net position		<u>\$ 57,375,127</u>	<u>57,375,127</u>

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, 2023

	General Fund	Adjustments (Note 2)	Statement of Activities
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 4,950,537	-	4,950,537
Operating grants and contributions	702,664	-	702,664
Total program revenues	5,653,201	-	5,653,201
General revenues:			
Property taxes, including penalties and interest	16,241,296	34,768	16,276,064
Sales taxes	20,264,034	-	20,264,034
Interest income and other	1,464,728	159,183	1,623,911
Total general revenues	37,970,058	193,951	38,164,009
Total revenues	43,623,259	193,951	43,817,210
<b>Expenditures/expenses:</b>			
Emergency response services - operations	35,013,030	182,284	35,195,314
Capital outlay	14,465,365	(14,465,365)	-
Depreciation and amortization	-	1,985,516	1,985,516
Debt service:			
Principal payments	1,129,777	(1,129,777)	-
Interest payments	578,277	14,692	592,969
Total expenditures/expenses	51,186,449	(13,412,650)	37,773,799
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(7,563,190)	13,606,601	6,043,411
<b>Other financing sources:</b>			
Proceeds from disposal of capital assets	26,846	(26,846)	-
Proceeds from insurance claims	132,337	(132,337)	-
Proceeds from notes payable	3,636,755	(3,636,755)	-
Total other financing sources	3,795,938	(3,795,938)	-
Change in fund balance	(3,767,252)	3,767,252	-
Change in net position	-	6,043,411	6,043,411
<b>Fund balance/net position:</b>			
Beginning of year	38,844,898	12,486,818	51,331,716
End of year	\$ 35,077,646	22,297,481	57,375,127

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, 2023

	Original Budget	Final Budget	Actual	Variance
<b>Revenues:</b>				
Property taxes, including penalties and interest	\$ 16,051,713	16,051,713	16,241,296	189,583
Sales taxes	22,283,412	22,283,412	20,264,034	(2,019,378)
Program revenues	3,816,213	3,816,213	5,653,201	1,836,988
Interest income and other	863,229	863,229	1,464,728	601,499
Total revenues	<u>43,014,567</u>	<u>43,014,567</u>	<u>43,623,259</u>	<u>608,692</u>
<b>Expenditures:</b>				
Emergency response services - operations	40,566,359	40,566,359	35,013,030	5,553,329
Capital outlay	15,470,541	16,755,255	14,465,365	2,289,890
Debt service	1,710,055	1,710,055	1,708,054	2,001
Total expenditures	<u>57,746,955</u>	<u>59,031,669</u>	<u>51,186,449</u>	<u>7,845,220</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(14,732,388)	(16,017,102)	(7,563,190)	8,453,912
<b>Other financing sources:</b>				
Proceeds from disposal of capital assets	-	-	26,846	26,846
Proceeds from insurance claims	-	-	132,337	132,337
Proceeds from notes payable	7,759,617	9,029,617	3,636,755	(5,392,862)
Total other financing sources	<u>7,759,617</u>	<u>9,029,617</u>	<u>3,795,938</u>	<u>(5,233,679)</u>
Change in fund balance	(6,972,771)	(6,987,485)	(3,767,252)	3,220,233
<b>Fund balance:</b>				
Beginning of year	<u>38,844,898</u>	<u>38,844,898</u>	<u>38,844,898</u>	<u>-</u>
End of year	<u>\$ 31,872,127</u>	<u>31,857,413</u>	<u>35,077,646</u>	<u>3,220,233</u>

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

# Travis County Emergency Services District No. 2

## Notes to Basic Financial Statements Year Ended September 30, 2023

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### 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 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, mutual funds, and U.S. treasury notes. 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 and U.S. treasury notes 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, 2023, the District had an allowance for property tax receivables of \$225,369.

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, 2023, 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 31<sup>st</sup> will be paid out no later than March 31<sup>st</sup> 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, 2023, the District's liability for accrued vacation, holiday and sick leave was \$3,354,885.

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 TCERS'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 7 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 Principles for Recently Adopted Accounting Pronouncement**

For the year ended September 30, 2023, the District implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of GASB Statement No. 96 is to better meet the information needs of financial statement users by establishing uniform accounting and financial reporting requirements for subscription-based information technology arrangements (“SBITAs”), improving the comparability of financial statements among governments that have entered into SBITAs, and enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. The adoption did not have an impact on the District’s statement of net position or statement of revenues, expenses and changes in net position as the District did not have any significant SBITAs.

## **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	\$ 35,077,646
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	41,651,553
Deferred tax revenue is not available to pay for current-period expenditures and, therefore, is deferred in the funds.	122,356
Net pension asset is not a current financial resource and is therefore not reported in the governmental fund balance sheet	571,552
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	(20,232,453)
Accrued interest payable	(232,671)
Pension contributions after measurement date	1,583,760
Deferred outflows related to pension asset	2,694,223
Deferred inflows related to pension asset	(505,954)
Compensated absences	(3,354,885)
Total net position	<u>\$ 57,375,127</u>

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

Change in fund balance	\$ (3,767,252)
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	14,465,365
Depreciation and amortization expense	(1,985,516)
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	34,768
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	(3,636,755)
Repayment of note principal	1,129,777
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	(14,692)
Change in compensated absences	(1,561,102)
Pension contributions made before measurement date	470,007
Pension contributions made after measurement date	1,583,760
Adjustments for ending deferred inflows and outflows related to net pension asset	<u>(674,949)</u>
Change in net position	<u>\$ 6,043,411</u>

### 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, 2023, the District had cash on hand and demand deposits with a carrying balance of \$660,712 and a bank balance of \$973,197. During the year ended September 30, 2023, 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 District's deposits were fully collateralized by FDIC insurance and other pledged collateral as of September 30, 2023.

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, 2023 consisted of the following:

Type	Fair Value	Weighted Average Maturity (Days)	Standard & Poor's Rating
Local Governmental Investment Pool-			
TexPool	\$ 3,686,820	1	AAAm
Certificates of deposit	2,685,406	278	N/A
Money market funds	17,843,076	1	N/A
Mutual funds	6,824,029	1	N/A
U.S. treasury notes	1,226,375	821	A-1+
Total	<u>\$ 32,265,706</u>		

The District had investments in an external local governmental investment pool, Texas Local Governmental Investment Pool (“TexPool”), at September 30, 2023. 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, money market funds, and U.S. treasury notes 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, 2023, investments were included in an external local governmental investment pool, certificates of deposit, money market funds, mutual funds, and U.S. treasury notes 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, 2023, investments were included in an external local governmental investment pool, certificates of deposit, money market funds, mutual funds, and U.S. treasury notes.

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, 2023, investments were included in external local government investment pools, money market funds, and mutual funds which have a weighted average maturity of one day, certificates of deposit with a weighted average of 278 days, and U.S. treasury notes of 821 days.

#### 4. Capital Assets

Capital assets activity for the fiscal year ended September 30, 2023 was as follows:

	Balance September 30, 2022	Additions	Retirements and Transfers	Balance September 30, 2023
Capital assets not being depreciated/amortized:				
Land	\$ 1,009,017	1,606,226	-	2,615,243
Construction in progress	3,749,282	8,955,164	(558,234)	12,146,212
Vehicles in progress	1,537,815	1,998,746	(1,537,815)	1,998,746
Total capital assets, not being depreciated	<u>6,296,114</u>	<u>12,560,136</u>	<u>(2,096,049)</u>	<u>16,760,201</u>
Capital assets being depreciated/amortized:				
Buildings and improvements	19,456,297	1,117,421	311,198	20,884,916
Fire trucks and vehicles	13,836,132	380,688	1,427,936	15,644,756
Equipment	1,574,438	375,985	72,879	2,023,302
Furniture and fixtures	1,048,586	31,135	(14,462)	1,065,259
Total capital assets being depreciated/amortized	<u>35,915,453</u>	<u>1,905,229</u>	<u>1,797,551</u>	<u>39,618,233</u>
Less accumulated depreciation/ amortization for:				
Buildings and improvements	(5,627,413)	(639,994)	199,032	(6,068,375)
Fire trucks and vehicles	(6,648,495)	(1,060,675)	45,915	(7,663,255)
Equipment	(429,345)	(221,623)	39,089	(611,879)
Furniture and fixtures	(334,610)	(63,224)	14,462	(383,372)
Total accumulated depreciation/amortization	<u>(13,039,863)</u>	<u>(1,985,516)</u>	<u>298,498</u>	<u>(14,726,881)</u>
Total capital assets being depreciated/amortized, net	<u>22,875,590</u>	<u>(80,287)</u>	<u>2,096,049</u>	<u>24,891,352</u>
Capital assets, net	<u>\$ 29,171,704</u>	<u>12,479,849</u>	<u>-</u>	<u>41,651,553</u>

## 5. Long-Term Liabilities

Long-term liabilities transactions for the year ended September 30, 2023, are summarized as follows:

	Balance September 30, 2022	Additions	Retirements	Balance September 30, 2023	Due Within One Year
Notes payable	\$ 17,725,475	3,636,755	(1,129,777)	20,232,453	1,252,688
Compensated absences	1,793,783	2,456,881	(895,779)	3,354,885	1,097,320
Total governmental activities	<u>\$ 19,519,258</u>	<u>6,093,636</u>	<u>(2,025,556)</u>	<u>23,587,338</u>	<u>2,350,008</u>

Notes payable consisted of the following at September 30, 2023:

Date of Issue	Amounts of Original Issue	Maturity Date	Interest Rate	Outstanding at September 30, 2023	Due Within One Year
June 27, 2018	\$ 6,100,000	2038	4.22%	\$ 5,013,707	\$ 246,416
August 7, 2019	1,750,000	2039	3.64%	1,493,783	70,414
October 22, 2019	1,342,842	2027	2.73%	872,140	165,161
July 30, 2020	1,550,754	2029	2.44%	1,070,383	167,821
March 1, 2022	7,070,000	2042	2.76%	6,800,399	277,042
May 26, 2022	1,473,851	2032	3.00%	1,345,286	132,421
July 13, 2023	2,020,000	2043	4.80%	2,020,000	62,393
July 28, 2023	1,616,755	2033	4.59%	1,616,755	131,020
	<u>\$ 22,924,202</u>			<u>\$ 20,232,453</u>	<u>\$ 1,252,688</u>

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
2024	\$ 1,252,688	714,907	1,967,595
2025	1,294,872	672,723	1,967,595
2026	1,338,560	629,035	1,967,595
2027	1,383,809	583,786	1,967,595
2028	1,430,677	536,918	1,967,595
2029-2033	5,942,273	2,002,316	7,944,589
2034-2038	5,037,847	995,539	6,033,386
2039-2043	2,551,727	228,817	2,780,544
Total	<u>\$ 20,232,453</u>	<u>6,364,041</u>	<u>26,596,494</u>

## 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 2022, the District levied a tax rate of \$0.08 per \$100 of assessed valuation to finance operating expenditures. The total 2022 tax levy was \$16,402,547 based on a taxable valuation of \$18,475,361,154.

## 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.

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 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, 2023, the District made contributions to the 401(a) Plan of \$157,836 and participants made contributions to the 457(b) Plan of \$775,267.

### ***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, 2023, the District made subsidy payments of \$28,149.

## ***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 nearly 850 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, 2022 was as follows:

Retirees and beneficiaries currently receiving benefits	7
Terminated employees entitled to but not yet receiving benefits	95
Active plan members	<u>246</u>
Total	<u><u>348</u></u>

### **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, 2023 as adopted by the governing body of the District. The actuarially determined rate for the year ended December 31, 2022 was 9.60% for 2023. 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, 2023 equaled \$1,981,486 and \$2,053,767 respectively.

## Net Pension Asset

### Actuarial Assumptions

The District's net pension asset was measured as of December 31, 2022 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, 2022 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	8.1 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, 2022 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 2023 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.

<u>Asset Class</u>	<u>Benchmark</u>	<u>Target Allocation (a)</u>	<u>Geometric Real Rate of Return (Expected minus Inflation) (b)</u>
US Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.95%
Global Equities	MSCI World (net) Index	2.50%	4.95%
Int'l Equities - Developed Markets	MSCI World Ex USA (net) Index	5.00%	4.95%
Int'l Equities - Emerging Markets	MSCI Emerging Markets (net) Index	6.00%	4.95%
Investment-Grade Bonds	Bloomberg U.S. Aggregate Bond Index	3.00%	2.40%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	3.39%
Direct Lending	Morningstar LSTA US Leveraged Loan Index	16.00%	6.95%
Distressed Debt	Cambridge Associates Distressed Securities Index (d)	4.00%	7.60%
REIT Equities	67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.30%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index(e)	6.00%	5.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index(c)	25.00%	7.95%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	2.90%
Cash Equivalents	90-Day U. S. Treasury	2.00%	0.20%

- (a) Target asset allocation adopted at the March 2023 TCDRS Board meeting.
- (b) Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.30%, per Cliffwater’s 2023 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, 2022 are as follows:

	Total Pension Liability	Increase (Decrease) Fiduciary Net Position	Net Pension (Asset) Liability
	(a)	(b)	(a) - (b)
Balance as of December 31, 2021	\$ 15,436,279	\$ 17,910,563	\$ (2,474,284)
Changes for the year:			
Service cost	2,002,004	-	2,002,004
Interest on total pension liability (1)	1,315,124	-	1,315,124
Effect of plan changes (2)	-	-	-
Effect of economic/demographic gains or losses	440,958	-	440,958
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(148,137)	(148,137)	-
Benefit payments	(124,906)	(124,906)	-
Administrative expenses	-	(11,423)	11,423
Member contributions	-	1,137,913	(1,137,913)
Net investment income	-	(1,262,327)	1,262,327
Employer contributions	-	1,625,589	(1,625,589)
Other (3)	-	365,602	(365,602)
Balance as of December 31, 2022	<u>\$ 18,921,322</u>	<u>\$ 19,492,874</u>	<u>\$ (571,552)</u>

- (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.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	6.60%	7.60%	8.60%
Total pension liability	\$ 22,962,499	\$ 18,921,322	\$ 15,712,777
Fiduciary net position	19,492,874	19,492,874	19,492,874
Net pension liability / (asset)	<u>\$ 3,469,625</u>	<u>\$ (571,552)</u>	<u>\$ (3,780,097)</u>

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

For the year ended September 30, 2023, the District recognized pension expense of \$674,949. As of September 30, 2023, the deferred outflows and inflows of resources are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 993,212	\$ 495,356
Changes of assumptions	836,216	10,598
Net difference between projected and actual earnings	864,795	-
Contributions made subsequent to measurement date	<u>1,583,760</u>	<u>-</u>
Total	<u>\$ 4,277,983</u>	<u>\$ 505,954</u>

The \$1,583,760 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, 2024. The remaining amounts currently reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Pension Expense Amount</u>
Year ended September 30:	
2024	\$ 224,379
2025	306,882
2026	330,558
2027	726,916
2028	180,989
Thereafter	<u>418,545</u>
	<u>\$ 2,188,269</u>

## **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, 2023, 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, 2023, 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 initial term of the County Agreement was January 1, 2022 through September 30, 2022, and will renew for up to four additional one-year terms at the option of Travis County unless terminated based on the terms of the County Agreement. The County Agreement was renewed for the year ended September 30, 2023, and the District recognized \$818,586 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 \$31.94 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 \$201,244 for the year ended September 30, 2023.

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, 2023, the District is committed under construction contracts with a remaining balance of \$25,252,371.

## **12. Subsequent Event**

On December 28, 2023, the District entered into a note payable agreement for \$6,165,000 to finance the construction of the District's sixth and seventh fire stations along with a training field. The note payable agreement bears interest at 4.75% and annual principal and interest payments of \$484,264 are due beginning December 28, 2024 through December 28, 2043. The note payable agreement is secured by a pledge of ad valorem taxes within the limitations provided by law.



## **Required Supplementary Information**

## Travis County Emergency Services District No. 2

### Schedule of Changes in Net Pension Asset and Related Ratios September 30, 2023

	Year Ended December 31, 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*
<b>Total Pension Liability</b>								
Service cost	\$ 2,002,004	\$ 2,260,483	\$ 1,911,194	\$ 1,686,271	\$ 1,628,397	\$ 1,125,863	\$ 749,537	\$ 444,088
Interest on total pension liability	1,315,124	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	440,958	(412,499)	122,576	263,536	149,378	498,914	(446,360)	53,516
Benefit payments/refunds of contributions	(273,043)	(111,139)	(47,072)	(23,375)	(7,660)	(3,542)	(209)	-
Net change in total pension liability	3,485,043	2,949,328	3,923,753	2,549,224	2,209,845	1,849,426	1,492,580	462,123
Total pension liability, beginning	15,436,279	12,486,951	8,563,198	6,013,974	3,804,129	1,954,703	462,123	-
Total pension liability, ending (a)	\$ 18,921,322	\$ 15,436,279	\$ 12,486,951	\$ 8,563,198	\$ 6,013,974	\$ 3,804,129	\$ 1,954,703	\$ 462,123
<b>Fiduciary Net Position</b>								
Employer contributions	\$ 1,625,589	\$ 1,368,980	\$ 1,378,668	\$ 1,293,853	\$ 1,171,564	\$ 1,028,309	\$ 727,691	\$ 392,247
Member contributions	1,137,913	958,286	965,067	905,698	820,095	719,807	509,383	274,573
Investment income net of investment expenses	(1,262,327)	3,025,121	964,601	992,112	(53,661)	318,032	50,430	(5,665)
Benefit payments/refunds of contributions	(273,043)	(111,139)	(47,072)	(23,375)	(7,661)	(3,542)	(209)	-
Administrative expenses	(11,423)	(9,689)	(9,229)	(7,081)	(4,863)	(2,707)	(548)	(247)
Other	365,602	66,258	68,881	75,801	59,517	23,355	38,952	(30)
Net change in fiduciary net position	1,582,311	5,297,817	3,320,916	3,237,008	1,984,991	2,083,254	1,325,699	660,878
Fiduciary net position, beginning	17,910,563	12,612,746	9,291,830	6,054,822	4,069,831	1,986,577	660,878	-
Fiduciary net position, ending (b)	\$ 19,492,874	\$ 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)	\$ (571,552)	\$ (2,474,284)	\$ (125,795)	\$ (728,632)	\$ (40,848)	\$ (265,702)	\$ (31,874)	\$ (198,755)
Fiduciary net position as a % of total pension liability	103.02%	116.03%	101.01%	108.51%	100.68%	106.98%	101.63%	143.01%
Pensionable covered payroll	\$ 16,255,897	\$ 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	-3.52%	-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, 2023

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%
2023	1,981,486	2,053,767	(72,281)	20,537,669	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 contributions 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.

## Travis County Emergency Services District No. 2

### Notes to Required Supplementary Information Year Ended September 30, 2023

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#### 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	8.1 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 was a change to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period-

- Amortization period decreased from 12.9 years to 8.1 years

**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, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 12, 2024.

### **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.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

*"A Registered Investment Advisor"*

*This firm is not a CPA firm*

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

### **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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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  
April 12, 2024



## **Travis County Emergency Services District No. 2**

### **Schedule of Findings and Responses Year Ended September 30, 2023**

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#### **Financial Statement Findings**

There were no findings required to be reported in accordance with *Government Auditing Standards* for the year ended September 30, 2023. There was one finding required to be reported in accordance with *Government Auditing Standards* for the year ended September 30, 2022. Refer to the Summary Schedule of the Prior Audit Finding for the current status of the finding reported.

# TRAVIS COUNTY EMERGENCY SERVICES DISTRICT No. 2



PFLUGERVILLE FIRE DEPARTMENT  
203 E. PECAN STREET  
PFLUGERVILLE, TEXAS 78660  
(512) 251-2801



## Summary Schedule of the Prior Audit Finding (Auditee Prepared)

Year Ending September 30, 2023

### Finding 2022-001

**Condition:** 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.

**Status of Planned Corrective Action:** The District implemented 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. The District's deposits were fully collateralized by FDIC insurance or pledged collateral at September 30, 2023.

