

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

Independent Auditor's Report
and Basic Financial Statements

September 30, 2013

Travis County Emergency Services District No. 2

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities and each major fund of Travis County Emergency Services District No. 2 (the "District"), as of and for the year ended September 30, 2013, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

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

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

SAN ANTONIO

100 N.E. LOOP 410, SUITE 1100
SAN ANTONIO, TEXAS 78216
210 828 6281

AUSTIN

811 BARTON SPRINGS ROAD, SUITE 550
AUSTIN, TEXAS 78704
512 476 0717

TOLL FREE: 800 879 4966
WEB: PADGETT-CPA.COM

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

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of District as of September 30, 2013, and the respective changes in financial position in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the basic financial statements, effective October 1, 2012, the District implemented Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Budgetary Comparison Schedule – General Fund – Budgetary Basis, as listed under the required supplementary information in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, 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.

Padgett, Statemann + Co., L.L.P.

Austin, Texas
January 9, 2014

Travis County Emergency Services District No. 2

Management's Discussion and Analysis (Unaudited)

Year Ended September 30, 2013

1.0 Introduction

Travis County Emergency Services District No. 2 (the "District") is pleased to submit the following discussion and overview analysis concerning the District's financial statements for the year ended September 30, 2013. The accompanying Financial Audit for fiscal year ("FY") 2013 was performed by Padgett, Stratemann & Co., L.L.P., ("PS&Co.") Austin, Texas.

2.0 Background

Travis County Emergency Services District #2, a governmental entity authorized under Texas statute, is a fire and first response medical provider within Travis County, Texas. The district currently has a population estimated at approximately ninety-seven thousand (97,000) people and covers about seventy-seven (77) square miles of northeast Travis County.

The City of Pflugerville lies within the district, with another large unincorporated subdivision known as Wells Branch in the western half of the district. The area is roughly bound by Farm-to-Market Road 1325 in the West, the Travis-Williamson County line on the North, Farm-to-Market Road 973 and Cameron Road on the East, and Yager Lane, Dessau Road and Howard Lane on the South. The population of the district is essentially evenly divided on the east and west side of Interstate 35. This heavily traveled highway is the most direct route from Middle America to Mexico, and is called by many, "The North American Free Trade Agreement Highway." Two (2) additional tollways run through the north and eastern part of the district; State Highway 45 and State Highway 130, respectively.

The District is "full service" in that it provides all of the services normally expected from a fire department, which includes: Fire Prevention; Fire Suppression/Rescue; and, "first response" Emergency Medical Care. The District is currently served by personnel and equipment working out of four (4) fire stations. The four (4) modern fire stations are ready twenty-four (24) hours a day and house the District's fleet of firefighting apparatus. The District uses the latest fire suppression technology of Compressed Air Foam Systems "CAFS."

The District is a leader in the state and nation with respect to fire suppression using CAFS. This technology was first introduced in this country to combat wildfire in the forested areas of the northwest. The system injects air into a water and foam solution creating a most effective fire suppression agent. The foam is in reality a really good soap that is environmentally friendly. Today, CAFS has been adapted for structure fires and most other fire situations that we encounter on any given day.

The importance of this technology is based in quick fire suppression. Less collateral property damage is done during fire operations, thereby ensuring more property is returned to its owner. The District is able to actually put out much more fire with much less water being applied. Another important feature of this system is the safety factor. We are able to extinguish a great deal of fire without having to travel so deeply into a burning structure due to the penetration ability of a good foam stream.

Travis County Emergency Services District No. 2

Management's Discussion and Analysis (Unaudited)

Year Ended September 30, 2013

One of the reasons CAFS makes sense for the District is because of the lesser amounts of water used. Water has become an important issue in Texas as well as for the nation. As responsible citizens we want to participate in conserving this precious natural resource and using this fire suppression system contributes toward this effort.

As mentioned above, in addition to fire suppression, the District is also responsible for meeting the needs of the community as a first responder to medical emergencies. The District is dispatched to all requests made for emergency medical care in this District. The percentage of time and resources that the District devotes to first responder activities continues to grow at a rapid rate. Currently, over seventy percent (70%) of the District's calls involve first responder activities. The District is an active participant in a county-wide initiative focused on providing the community with the best level of care as a first responder.

The District provides quarters for two (2) ambulances that are owned and operated by the Austin-Travis County EMS System. While these ambulances are stationed at the District, they are utilized throughout the entire Austin-Travis County area. That causes other ambulances from other locations to also provide transportation of patients within the District.

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

The District is a taxing authority limited by statute to a maximum tax of ten (10) cents per hundred (100) dollars of property valuation. The District's fiscal year begins on October 1 and ends on September 30. The majority of income to operate the District, over ninety (90) percent, comes from property tax and the half (0.5) cent of sales tax approved by the voters. Prior to the beginning of each fiscal year, the Commissioners review and approve a budget that covers income and expenses for operations, prevention, and administration. Through foresight and fiscal responsibility, the District has also budgeted reserve funds for future expansion and/or to assist the District in covering payroll and other expenses during an economic downturn.

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

Travis County Emergency Services District No. 2

Management's Discussion and Analysis (Unaudited)

Year Ended September 30, 2013

The strategic plan developed in 2011 was focused on events and organizational activities during fiscal years 2012 and 2013, (September 2011 – October 2013). It was intended to shift the paradigm of the District examining everything we do and how we do it with respect to accepted industry practices. Because of the ever increasing demand for emergency medical services, a need to raise the level of service provision was envisioned. No aspect of business was considered exempt from review and potential change. The end goal was to match appropriate resources to actual public demands for service.

As the plan was advanced, gaps became more obvious. While state and national standards were utilized as measures, those standards were actually modified to fit real life in our District. As an example, response time standards were based on the Commission of Fire Accreditation International, reflecting population distributions. Those standards were then set and measured against actual alarms in the various response polygons within our District. That meant commercial areas with large numbers of workers or shoppers would be measured as an urban development. Furthermore, "gaps" included staffing levels, staff utilizations, fleet and equipment needs, and delivery of an effective firefighting force, (EFF – sufficient personnel to address necessary tasks at a structure fire).

District staff and Commissioners have committed to providing the best service possible using good stewardship principles of efficiency and economy. Knowing there are "gaps" that cannot be filled immediately because of funding, staff began to identify those things that have greatest effect on the safety of personnel relative to provision of service in order to meet our purpose "***Protect Lives and Property.***"

3.0 Financial Highlights – Comparison of FY 2013 and FY 2012

- The District's auditors for FY 2013, Padgett, Stratemann, & Co., L.L.P. have been working with the District since the audit for FY 2008.
- During FY 2013, the District experienced a slight increase in revenues from property tax revenue, as well as an increase in sales tax revenue, as shown below. In FY 2014, the District is anticipating an approximate five (5%) percent increase in property tax revenues, confirmed by Travis County.

As the District's operational demands and needs grew during FY 2013, expenses increased; however, the net change in net position was positive for the fiscal year. This positive net position change includes a positive change in the GASB 34 adjustments for loan proceeds of \$587,436 received to purchase a new Fire Engine, as well as \$159,457 for the five-year refinancing of a balloon payment due on another Fire Engine.

- The District's authorized ½-cent sales tax collections grew during 2013 likely due to a recovering local economy and increasing commercial development. In addition, in FY 2012, there was a one-time negative audit adjustment of approximately \$300,000, which reduced that fiscal year's sales tax revenues.

Travis County Emergency Services District No. 2

Management's Discussion and Analysis (Unaudited)

Year Ended September 30, 2013

- During FY 2013, a group of citizens began a process to petition the Travis County Commissioners to call an election so that voters could decide on adding an overlay district. If the voters approved the overlay district funding for emergency medical services could be shifted to the overlay district and provide exclusive funding for fire services in the existing emergency services district. The funding relief would allow for addressing the identified gaps in personnel and equipment and allow for higher levels of emergency medical care at the first responder level. Unfortunately, the City Council of Pflugerville opposed the concept. The Council first voted to not have an election called within the City and then proceeded to combat the idea of an election outside the City in the extra-territorial jurisdiction. Ultimately the Commissioner Court was unable to decide on calling an election because of questions raised at the last moment on the new law. The issue was left open and the effective date of petition passed time limitations for an election.
- Turnover in Operations personnel has created a slight decrease in the number of staff at the end of FY 2013 compared to FY 2012, and salaries expenditures decreased proportionately. Increases to Employee Benefits costs resulted from higher renewal premiums on Health, Dental, and Workers Compensation insurances, as well as an increase in the accrued Compensable Absences expense.
- In FY 2013, Administrative costs increased over the FY 2012 levels by approximately 8%. This was due largely to increased Dispatch Service costs, insurance, and legal expenses for the new Collective Bargaining Agreement which took effect on December 1, 2013.
- During FY 2013, the Board of Commissioners approved the purchase of a 2012 Fire Engine. The purchase was accomplished through a Capital Lease with Oshkosh Capital.
- The Board also approved the disposal of a Rescue vehicle, which was traded in on the new Fire Engine. The trade-in value of the Rescue vehicle is the Proceeds from sale of assets on the Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances/Net Position.
- During FY 2013, the use of approximately \$370,000 of the District's budgeted reserved funds was approved by the commissioners to cover unforeseen operational expenses and capital purchases.
- During FY 2013, the District assumed 100% of expenses for the Staffing for Adequate Fire and Emergency Response (SAFER) grant received in 2009. The grant covered a five (5) year period starting on May 13, 2009. This grant allowed the District to hire nine (9) new additional firefighters during FY 2009. The grant provided for 90% reimbursement of salary and benefit costs in the first year, and provides for a decreasing reimbursement of these costs for the new hires over the five (5) year period. In FY 2013, reimbursements were at 30% from October 1, 2012, through February 12, 2013, after which, the District's cost share was 100%.

Travis County Emergency Services District No. 2

Management's Discussion and Analysis (Unaudited)

Year Ended September 30, 2013

- Below is a summary comparison of revenues and expenditures for FY 2013 and FY 2012:

	September 30,		Variance
	2013	2012	
Revenues:			
Property taxes – including penalties and interest	\$ 5,977,308	\$ 5,878,890	\$ 98,418
Sales tax receipts	4,389,667	3,685,801	703,866
Other revenue	593,421	620,840	(27,419)
Total revenues	10,960,396	10,185,531	774,865
Total expenditures	10,155,680	10,141,258	(14,422)
Other financing sources – net	105,985	38,495	67,490
Change in net position	910,701	82,768	\$ <u>827,933</u>
Net Position – beginning of year	7,455,820	7,373,052	
Net Position – end of year	\$ 8,366,521	\$ 7,455,820	

Travis County Emergency Services District No. 2

Management's Discussion and Analysis (Unaudited)

Year Ended September 30, 2013

- Below is a summary comparison of Balance Sheet accounts for FY 2013 and FY 2012:

	September 30,		Variance
	2013	2012	
Current and other assets	\$ 5,440,972	\$ 5,095,828	\$ 345,144
Capital assets and noncurrent assets	9,797,592	9,500,335	297,257
Total assets	\$ 15,238,564	\$ 14,596,163	\$ 642,401
Current liabilities	\$ 2,345,554	\$ 2,051,687	\$ 293,867
Long-term liabilities	4,526,489	5,088,656	(562,167)
Total liabilities	6,872,043	7,140,343	(268,300)
Net Position			
Net investment in capital assets	4,380,723	3,713,993	666,730
Restricted for debt service	155,282	145,912	9,370
Unrestricted	3,830,516	3,595,915	234,601
Total net position	8,366,521	7,455,820	910,701
Total liabilities and net position	\$ 15,238,564	\$ 14,596,163	\$ 642,401

- Because of the increased property and sales tax collections through FY 2013, Cash and Investment accounts were approximately \$228,000 above ending FY 2012 levels. The remaining difference in Current Assets is a result of the end-of-year sales tax receivable for the period of October and November, 2013 versus the same period of 2012.
- In Noncurrent Assets, during FY 2013, Capital additions totaled \$928,935. Depreciation expense for the year was \$631,678, resulting in the positive \$297,257 variance for the year.
- In FY 2013, \$67,658 of the increase in current liabilities is due to timing of payables at year end, as well as an increase in the end-of-year salary accrual. The remainder of the variance is a result of a portion of compensable absences reclassified to current because they will be payable to employees in March, 2014. This reclassification is a portion of the variance in noncurrent liabilities, as well. The remainder of the noncurrent liabilities variance results from debt payments.

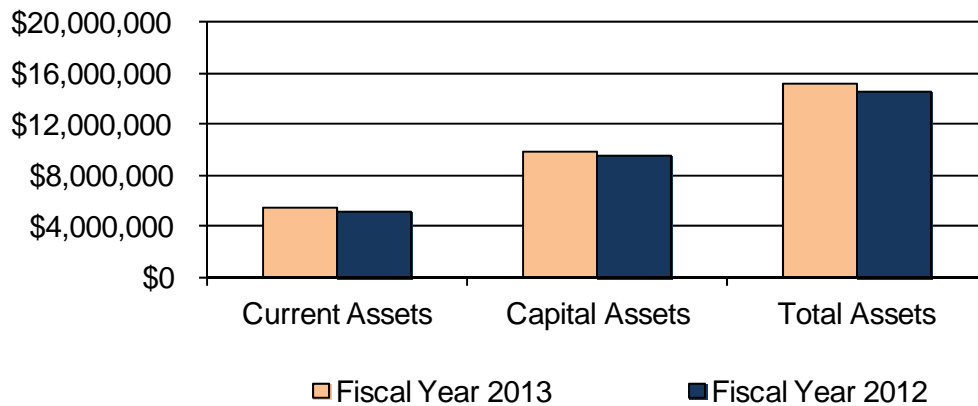
Travis County Emergency Services District No. 2

Management's Discussion and Analysis (Unaudited)

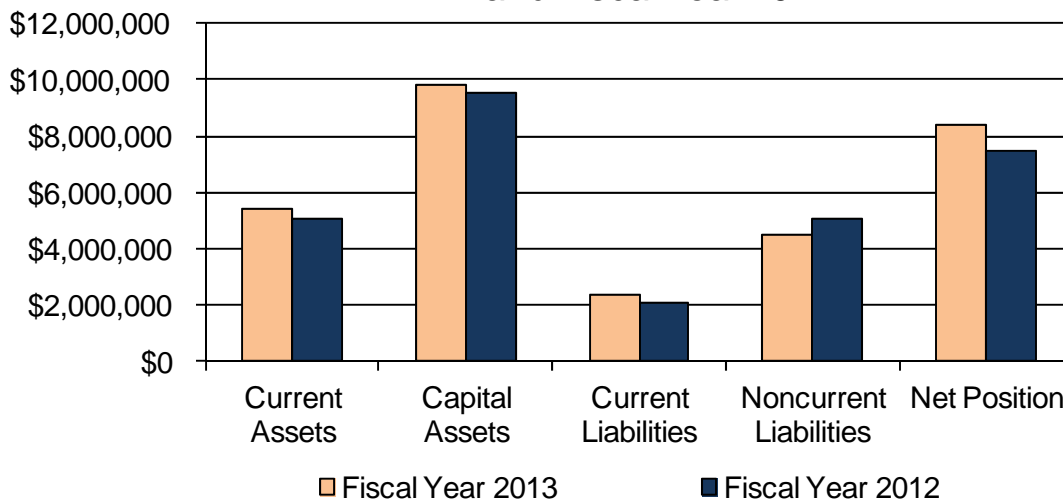
Year Ended September 30, 2013

- During FY 2013, the Board of Commissioners approved the renovations to the Training Field, improvements to the District's wireless networking infrastructure, the purchase of a new air compressor for Operations updates to communications equipment, and continued replacement of some fitness equipment. Approved purchases totaled about \$225,000. The changes in total assets and net assets are reflected in the charts below.

Total Assets – Fiscal Year 2013 and Fiscal Year 2012



Assets and Liabilities – Fiscal Year 2013 and Fiscal Year 2012



Travis County Emergency Services District No. 2

Management's Discussion and Analysis (Unaudited)

Year Ended September 30, 2013

- Additionally, fund balance divided by fund (General Fund and Debt Service Fund) were as follows when compared between FY 2012 and FY 2013. Beginning fund balance for the General Fund \$3,820,433, ending balance \$4,070,831. The Debt Service Fund increased from \$145,912 to an ending balance of \$155,282. This fund balance represents the debt amount paid by the City of Austin to the District on property annexed away from the District in prior years. The increase in FY 2013 was a result of Austin's annexation of the Dessau Office Park.

4.0 Overview of the Financial Statements

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

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

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

The *statement of activities and governmental fund revenues, expenditures, and changes in fund balances/net position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in fund balances/net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, the accrual basis of accounting is used, which is similar to the accounting used by most private sector companies.

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

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

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

- General fund – The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted in another fund.
- Debt Service fund – The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of government funds.

Travis County Emergency Services District No. 2

Management's Discussion and Analysis (Unaudited)

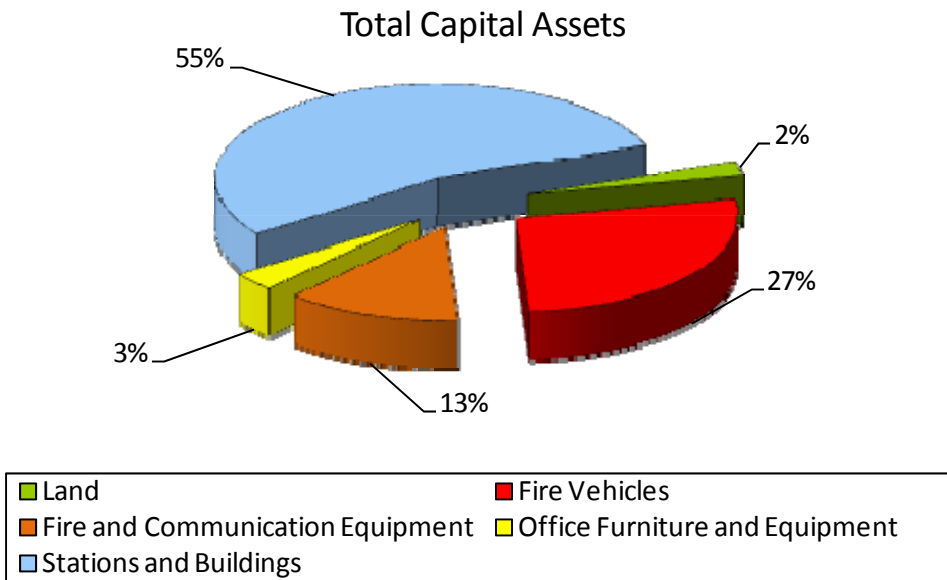
Year Ended September 30, 2013

5.0 District's FY 2013 – Financial Analysis Summary

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

During FY 2013, the District continued to keep part of its cash investment in an interest bearing savings account with Wells Fargo Bank. The bank was able to offer a slightly higher interest rate than TexPool and credited individual client analysis fees, and this account assisted with routine cash management.

The District's total assets at \$15.2 Million, represented mostly by capital assets, at \$9.8 Million net of accumulated depreciation, and over \$17.2 Million gross. Capital assets are shown divided into the different categories in the chart below.



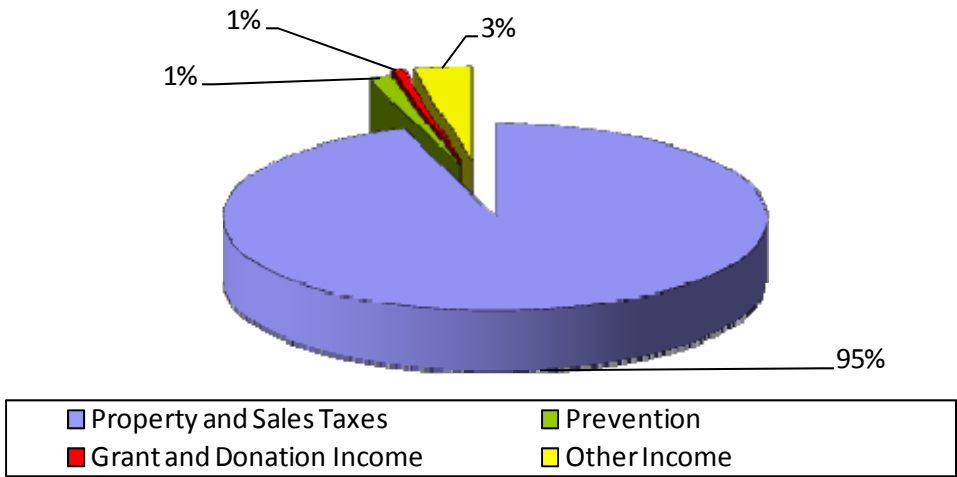
Travis County Emergency Services District No. 2

Management’s Discussion and Analysis (Unaudited)

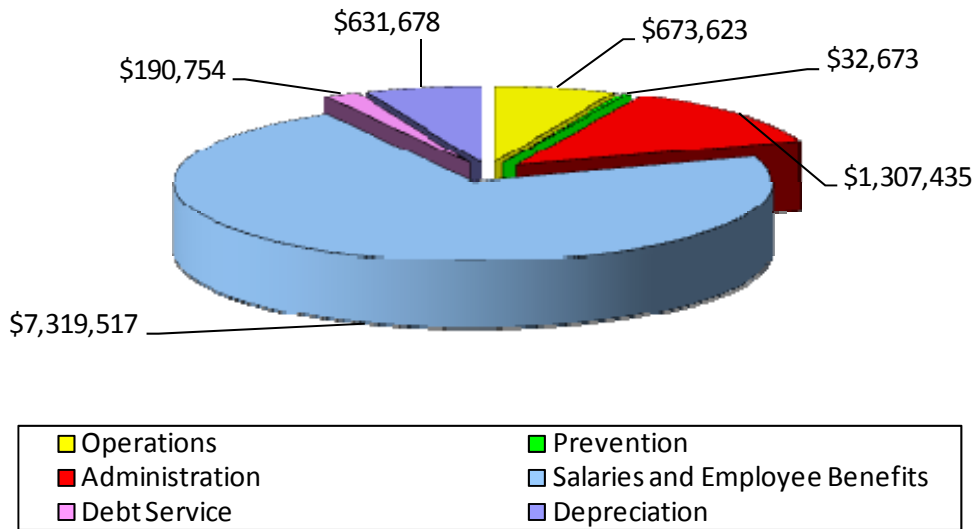
Year Ended September 30, 2013

The source of the District’s operating revenues is almost exclusively from property and sales tax collections. Total operating revenues for FY 2013, totaled about \$10.9 Million, of which 94.6% was received from tax collections. Operating expenses totaled about \$10.1 Million of which almost 72.1% of operating expenses were related to employee salaries and benefits for FY 2013.

Operating Revenues



Operating Expenses – Including Depreciation



Travis County Emergency Services District No. 2

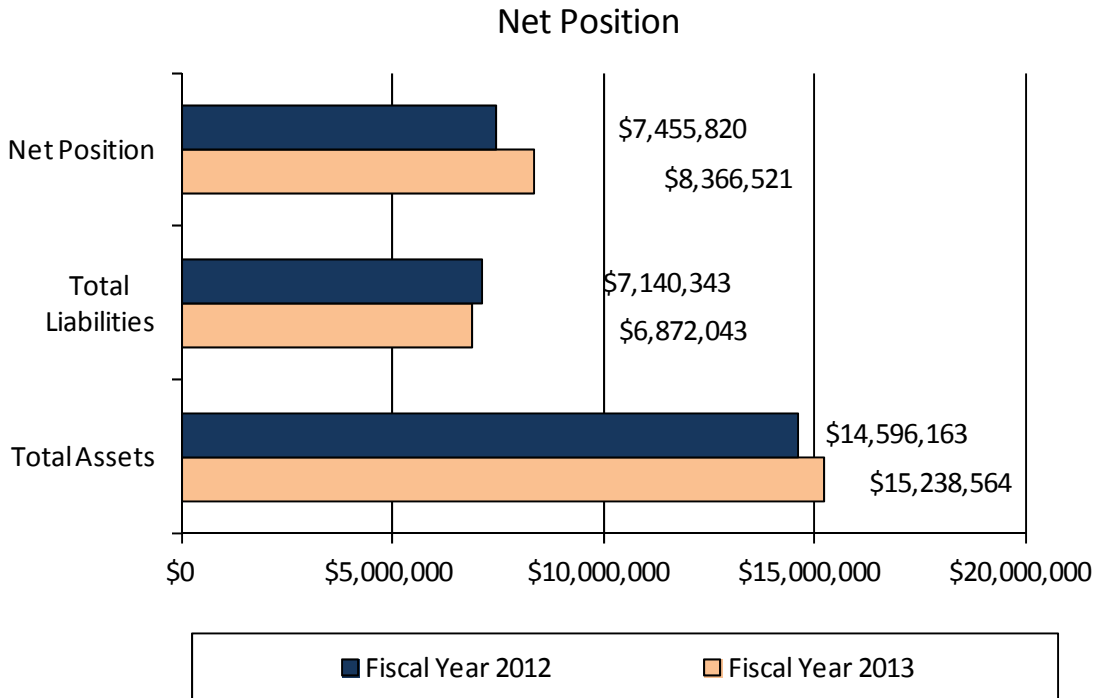
Management's Discussion and Analysis (Unaudited)

Year Ended September 30, 2013

5.0 Capital Asset and Outstanding Debt

District liabilities continued to be reduced during FY 2013, as the District made scheduled payments of both principal and interest on bonds, capital leases, and loans, and even though some new debt was incurred during the fiscal year, it was less than the debt retired. The new debt incurred was financed at a rate of approximately 3.3%.

The chart below shows a comparison between FY 2013 and FY 2012 net position. Net position represents the difference between total assets and total liabilities.



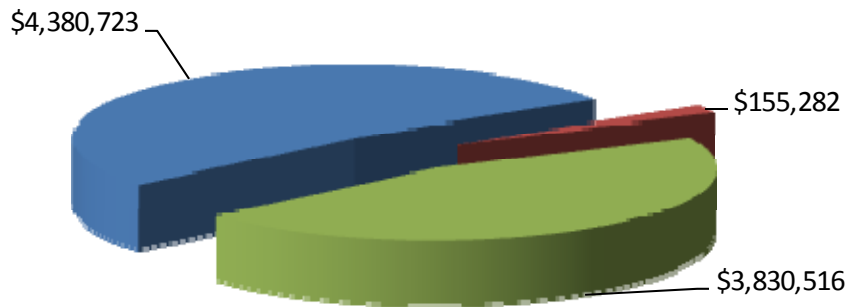
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Management's Discussion and Analysis (Unaudited)

Year Ended September 30, 2013

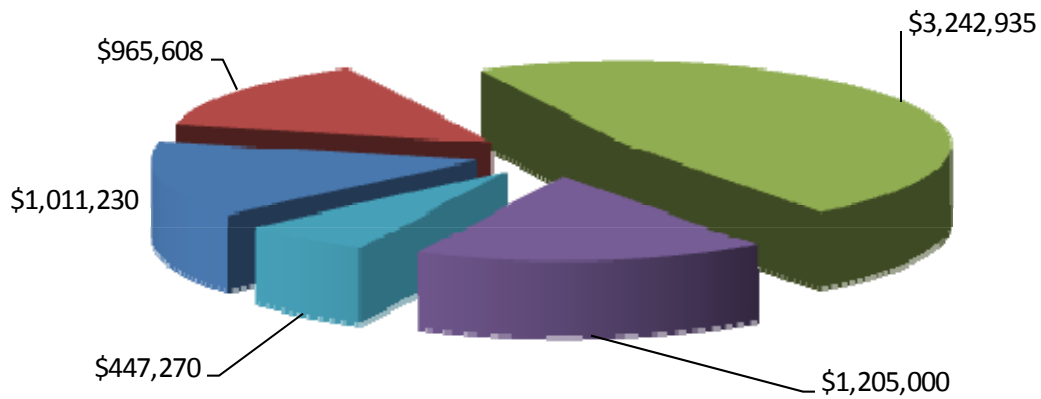
Additionally, the charts below detail the components of net position and total liabilities for FY 2013 for the District:

Net Position By Category



- Investment in Capital Assets – Net of Related Debt
- Restricted for Debt Service
- Unrestricted

Current and Noncurrent Liabilities



- Current Liabilities
- Loan Payable
- Compensated Absences Payable
- Capital Leases Payable
- Bond Payable

Travis County Emergency Services District No. 2

Management's Discussion and Analysis (Unaudited)

Year Ended September 30, 2013

6.0 Economic Factors and Budgetary Highlights

In September 2012, the District's commissioners approved a resolution to levy ad valorem at a tax rate of \$0.0939 on each \$100.00 of taxable property within the District in order to provide funds for maintenance and operating purposes, and a tax rate of \$0.0061 on each \$100.00 in order to provide for payment and principal of and interest and associated obligations on the District's unlimited tax bonds now outstanding. The total levy of ad valorem tax for FY 2013 was a rate of \$0.10. Likewise in September 2013, the District's commissioners approved a levy of ad valorem tax for FY 2014 of a \$0.10 rate.

The recent unstable economy has caused numerous concerns and adjustments. In fact the District saw a general 4% reduction property tax revenues in recent years coupled to increasing demands on service. The recent planning process involved in-depth evaluation of finance and economic forecasts placed against service and personnel gaps. Revenue growth at less than a 10% increase will cause long-term budget supplements that cannot be offset with reserved revenues because of complete depletion. A review of cost per incident over the last five years shows that there have been minor fluctuations in those costs, around \$1,500 per incident. In fact, the cost is actually 8.7% less when comparing incidence of 2008 to 2012. Over the same period the number of incidents rose by 38.2%, from less than 5,000 to 6,723.

As of September 30, 2010, the District and the Pflugerville Firefighters Association, Local 4137, approved and signed a Collective Bargaining Agreement effective from October 1, 2010, through September 30, 2013. As of December 1, 2013, the District implemented a newly negotiated Collective Bargaining Agreement effective from December 1, 2013, through September 30, 2016. The original agreement was implemented during FY 2011 and continued through FY 2013. The second agreement was implemented during FY 2014.

Each fiscal year, the District prepares a budget for most income and expense items in the General Fund. This budget does not include the day to day income and expenses for Facilities. During FY 2013, the District revised the annual budget; variances are very slight when compared to actual.

When starting to compare actual to budgeted amounts, the positive variance of \$56,093 in sales tax revenues is due to a difference in category. The budget amount is shown net of fees in the revenue section, while the actual amount is shown gross and the fee is shown below as an expenditure creating a variance in the expenditure category as well. The \$77,024 positive variance in fees for services is a result of additional fees paid the District by Paramount Pictures for providing on-site fire and inspection services while filming a movie near Pflugerville. Salaries were under budget slightly due to vacancies in positions during the fiscal year. The major reason for the variance between the final budget and the actual budget basis for salaries is caused by the audit adjustment for the end-of-year salary accrual, which was included in the final budget but netted out of the actual budget basis figure presented.

Travis County Emergency Services District No. 2

Management's Discussion and Analysis (Unaudited)

Year Ended September 30, 2013

Employee benefits are over budget as a result of higher health care benefit and worker's compensation expenses. Professional services were over budget as a result of additional legal expenses around the negotiations of the Collective Bargaining Agreement that went into effect on December 1, 2013, and increases in the District's insurance costs.

For FY 2014, revenue is budgeted to increase. A two (2%) percent increase in property taxes has been budgeted. Sales tax revenue has been growing steadily, and a nine (9%) percent increase has been budgeted. However, since the SAFER grant reimbursements have now ended, other revenues have been decreased.

For FY 2014, expenses, particularly in Operations Division equipment and maintenance are expected to increase and loans, as well as budgeted reserves will likely be used to cover some of those budgeted purchases.

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

Basic Financial Statements

Travis County Emergency Services District No. 2

Statement of Net Position and Governmental Funds Balance Sheet

September 30, 2013

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Assets					
Current assets:					
Cash and cash equivalents	\$ 1,885,610	\$ 14,796	\$ 1,900,406	\$ -	\$ 1,900,406
Investments	2,162,411	140,486	2,302,897	-	2,302,897
Receivables – property taxes	226,154	14,692	240,846	-	240,846
Receivables – sales taxes	780,122	-	780,122	-	780,122
Receivables – other	78,003	-	78,003	-	78,003
Prepays and other current assets	138,698	-	138,698	-	138,698
Total current assets	5,270,998	169,974	5,440,972	-	5,440,972
Noncurrent assets:					
Security deposit	3,326	-	3,326	-	3,326
Capital assets – net of accumulated depreciation	-	-	-	9,794,266	9,794,266
Total noncurrent assets	3,326	-	3,326	9,794,266	9,797,592
Total assets	\$ 5,274,324	\$ 169,974	\$ 5,444,298	\$ 9,794,266	\$ 15,238,564
Liabilities					
Current liabilities:					
Accounts payable	\$ 565,150	\$ -	\$ 565,150	\$ -	\$ 565,150
Accrued payroll and employee benefits	388,619	-	388,619	-	388,619
Compensated absences payable	-	-	-	179,111	179,111
Accrued interest	-	-	-	33,890	33,890
Deferred property tax revenue	233,704	14,692	248,396	(240,845)	7,551
Deposits	16,020	-	16,020	-	16,020
Capital leases payable	-	-	-	299,108	299,108
Loans payable	-	-	-	526,105	526,105
Bond payable	-	-	-	330,000	330,000
Total current liabilities	1,203,493	14,692	1,218,185	1,127,369	2,345,554
Noncurrent liabilities:					
Capital leases payable	-	-	-	666,500	666,500
Loans payable	-	-	-	2,716,830	2,716,830
Bond payable	-	-	-	875,000	875,000
Compensated absences payable	-	-	-	268,159	268,159
Total noncurrent liabilities	-	-	-	4,526,489	4,526,489
Total liabilities	1,203,493	14,692	1,218,185	5,653,858	6,872,043
Fund Balances					
Restricted – retirement of long-term debt	-	155,282	155,282	(155,282)	-
Unassigned	4,070,831	-	4,070,831	(4,070,831)	-
Total fund balances	4,070,831	155,282	4,226,113	(4,226,113)	-
Total liabilities and fund balances	\$ 5,274,324	\$ 169,974	\$ 5,444,298		
Net Position					
Net investment in capital assets				4,380,723	4,380,723
Restricted for debt service fund				155,282	155,282
Unrestricted				3,830,516	3,830,516
Total net position				\$ 8,366,521	\$ 8,366,521

Notes to the basic financial statements form an integral part of this statement.

Travis County Emergency Services District No. 2

Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances/Net Position

September 30, 2013

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
Revenues					
Property taxes – including penalties and interest	\$ 5,616,386	\$ 364,856	\$ 5,981,242	\$ (3,934)	\$ 5,977,308
Sales tax receipts	4,389,667	-	4,389,667	-	4,389,667
Fee for services	140,024	-	140,024	-	140,024
Prevention	145,209	-	145,209	-	145,209
Grant and donation income	73,636	-	73,636	-	73,636
Facilities income	169,796	-	169,796	-	169,796
Miscellaneous	51,297	13,459	64,756	-	64,756
Total revenues	10,586,015	378,315	10,964,330	(3,934)	10,960,396
Expenditures					
Current:					
Operations	673,623	-	673,623	-	673,623
Prevention	32,673	-	32,673	-	32,673
Administrative:					
Professional services	471,918	-	471,918	-	471,918
General and administrative	833,097	2,420	835,517	-	835,517
Salaries	5,999,369	-	5,999,369	-	5,999,369
Employee benefits	1,294,903	-	1,294,903	25,245	1,320,148
Debt service:					
Principal retirement	801,366	315,000	1,116,366	(1,116,366)	-
Interest and fees	149,636	54,500	204,136	(13,382)	190,754
Capital outlay	928,935	-	928,935	(928,935)	-
Depreciation	-	-	-	631,678	631,678
Total expenditures	11,185,520	371,920	11,557,440	(1,401,760)	10,155,680
Excess (deficiency) of revenues over (under) expenditures	(599,505)	6,395	(593,110)	1,397,826	804,716
Other Financing Sources (Uses)					
Interest income	33,635	1,850	35,485	-	35,485
Proceeds from sale of assets	70,500	-	70,500	-	70,500
Proceeds from loans	746,893	-	746,893	(746,893)	-
Transfers in	380,032	381,157	761,189	-	761,189
Transfers out	(381,157)	(380,032)	(761,189)	-	(761,189)
Total other financing sources (uses)	849,903	2,975	852,878	(746,893)	105,985
Net change in fund balances/net position	250,398	9,370	259,768	650,933	910,701
Fund balances/net position – beginning of the year	3,820,433	145,912	3,966,345	3,489,475	7,455,820
Fund balances/net position – end of the year	\$ 4,070,831	\$ 155,282	\$ 4,226,113	\$ 4,140,408	\$ 8,366,521

Notes to the basic financial statements form an integral part of this statement.

Travis County Emergency Services District No. 2

Notes to the Basic Financial Statements

1. Summary of Significant Accounting Policies

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

Reporting Entity

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

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

The accompanying basic financial statements present information required to account for those activities, organizations, and functions which are related to the District and are controlled by, or dependent upon, the District's governing body, the Board of Commissioners (the "Board").

The District does not meet the criteria for inclusion as a component unit of any entity nor does any entity meet the criteria for inclusion as a component unit of the District.

The criteria used by the District for including activities in its basic financial statements are in conformity with GASB Accounting Standards Codification ("ASC"), Section 2100, *Defining the Financial Reporting Entity*. GASB has concluded that the basic criterion for including a legally separate organization in a governmental unit's reporting entity for general purpose financial reports is financial accountability of the primary government for the legally separate organization. Based upon that criterion, there are no legally separate organizations, which fall within the financial reporting entity of the District.

Travis County Emergency Services District No. 2

Notes to the Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and charges to customers.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The District's primary function is to provide emergency services.

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

The District has the following major governmental funds:

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

Measurement Focus

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. All governmental funds are accounted for on a "spending" or "financial flow" measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance of governmental funds is considered a measure of "available spendable resources."

Travis County Emergency Services District No. 2

Notes to the Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Measurement Focus (continued)

The government-wide financial statements follow the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year in which they are levied. Sales taxes are recognized as revenues in the year in which the taxes are remitted to the state of Texas.

The modified accrual basis of accounting is used for the governmental fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both available and measurable. Revenues, other than grants, are considered to be available when they are expected to be collected during the current budgetary period, or within 60 days thereafter, to pay liabilities outstanding at the close of the budgetary period. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables. Interest revenue is recorded when earned since it is measurable and available. Other revenues are recognized when measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, except expenditures for debt service including interest on long-term debt. Expenditures for principal and interest on long-term debt are recognized when matured.

For fiscal year 2013, the District reported the following types of governmental funds balances: Restricted and Unassigned.

- Restricted fund balances are those that have constraints placed on the use of their resources. These constraints can be: (a) externally imposed by creditors (e.g., debt covenants), grantors, contributors, or laws/regulations of other governments; or (b) imposed by law through constitutional provision or enabling legislation. Both constraints are legally enforceable by an external party.
- Unassigned fund balances are those within the General Fund and represent fund balance that has not been restricted, committed, or assigned.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first.

Effective October 1, 2012, the District adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* ("Statement No. 62"), and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, ("Statement No. 63"). Statement No. 62 incorporates (1) FASB Statements and Interpretations, (2) Accounting Principles Board Opinions, and (3) Accounting Research Bulletins, issued on or before November 30, 1989 that do not conflict or contradict GASB pronouncements into GASB's authoritative literature. Statement No. 63 renames the

Travis County Emergency Services District No. 2

Notes to the Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Measurement Focus (continued)

statement of net assets as the statement of net position and provides guidance for reporting deferred outflows of resources and deferred inflows of resources within the financial statements of governmental entities. The adoption of these standards did not have a significant impact on the District's financial statements.

Budgets and Budgetary Accounting

A budget adopted by the Board is presented in the accompanying basic financial statements on the budgetary basis. The budget is not legally binding. No supplemental appropriations were made during the year. Annual appropriations lapse at the end of the fiscal year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Items for which estimates are necessary include the amount of receivables, which may not be collectible, and the service lives and salvage values of depreciable assets. Estimates also include the likelihood of loss and potential loss amount from contingencies such as litigation.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be demand deposits.

Investments

Investments are stated at fair value based on net asset value per share as published by the investment pool sponsor. The District has adopted an investment policy, which allows for various types of investments. Additional information regarding the District's investments can be found in Note 2.

Accounts Receivable

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. No allowance was deemed necessary at September 30, 2013.

Travis County Emergency Services District No. 2

Notes to the Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Capital Assets

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

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

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

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

Deferred Revenue

Delinquent property taxes receivable are recorded as deferred revenue in the governmental funds since they are not currently available. Deferred revenue also includes deposits and customer advances to rent a facility owned by the District.

Long-Term Debt

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

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

Travis County Emergency Services District No. 2

Notes to the Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Long-Term Debt (continued)

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

Compensated Absences

Vested or accumulated vacation and sick leave that is expected to be liquidated with expendable available resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. No expenditure has been recorded. The amount of vested or accumulated vacation and sick leave that is not expected to be liquidated with expendable available financial resources is reported as a long-term liability in the Statement of Net Position and Governmental Funds Balance Sheet. The District's liability for accrued vacation and sick time at September 30, 2013 totaled \$447,270.

Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District has obtained coverage from Volunteer Fireman's Insurance Services and has effectively managed risk. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

2. Cash and Cash Equivalents and Investments

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

Cash and cash equivalents are carried at cost, which approximates market value totaled \$1,900,406. At September 30, 2013, the bank balance totaled \$1,937,811, which was covered by the FDIC and pledged collateral.

Travis County Emergency Services District No. 2

Notes to the Basic Financial Statements

2. Cash and Cash Equivalents and Investments (continued)

Investments

The District's investments at September 30, 2013 are as follows:

	<u>Carrying Amount</u>	<u>Amortized Cost, Which Approximates Fair Value</u>
Texas Local Government Investment Pool ("TexPool")	\$ <u>2,302,897</u>	\$ <u>2,302,897</u>

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

The District believes TexPool operates in a manner consistent with the United States Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940, as defined in GASB Statement No. 59. As such, the District uses amortized cost to report its investments.

Interest Rate Risk – In accordance with its investment policy, the District manages its exposure to declines in fair value by limiting the types of investments it allows and the maturity.

Credit Risk – The District's investment policy allows for various types of investments including: obligations of, or guaranteed by the United States, certificates of deposit, and TexPool. At September 30, 2013, the District's investments in TexPool were rated AAAM by Standard & Poor's.

3. Ad Valorem Property Taxes

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1 are due on November 1, and are past due the following February 1. The Travis County Central Appraisal District established appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Travis County Tax Collector bills and collects the District's property taxes.

Travis County Emergency Services District No. 2

Notes to the Basic Financial Statements

3. Ad Valorem Property Taxes (continued)

The property tax rates, established in accordance with state laws, were based on 100% of the net assessed valuation of real property within the District on the 2012 tax roll. The assessed value of the 2012 tax roll reported by the County, upon which the levy for the 2012 fiscal year was based, was initially \$6,016,364,200 and subsequently updated to \$5,994,135,310. The tax rates assessed for the year ended September 30, 2013 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$0.0939 and \$0.0061 per \$100 valuation, respectively, for a total of \$0.1000 per \$100 valuation.

At September 30, 2013, deferred property tax revenue totaled \$248,396. Property taxes receivable at September 30, 2013 consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>
Current year levy	\$ 38,738	\$ 2,517
Prior year's levy	<u>187,416</u>	<u>12,175</u>
	<u>\$ 226,154</u>	<u>\$ 14,692</u>

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

4. Interfund Receivables and Payables

At September 30, 2013, there were no interfund receivables and/or payables.

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

Travis County Emergency Services District No. 2

Notes to the Basic Financial Statements

5. Capital Assets

Capital assets activity for September 30, 2013 is as follows:

	Balance at October 1, 2012	Additions	Deletions and Other Adjustments	Balance at September 30, 2013
Capital assets not depreciated:				
Land	\$ 395,545	\$ -	\$ -	\$ 395,545
Total capital assets not depreciated	<u>395,545</u>	<u>-</u>	<u>-</u>	<u>395,545</u>
Capital assets being depreciated:				
Fire vehicles	4,429,980	713,915	(428,550)	4,715,345
Fire and communication equipment	2,134,689	76,730	-	2,211,419
Office furniture and equipment	522,116	30,007	-	552,123
Station #2	850,776	-	-	850,776
Station #3	521,871	-	-	521,871
Station #4	742,118	-	-	742,118
Training center	1,208,359	-	-	1,208,359
Central station	1,116,075	-	-	1,116,075
Administrative building	2,023,689	-	-	2,023,689
Education building	2,130,318	-	-	2,130,318
Pfluger Hall	236,848	-	-	236,848
Improvements	457,157	108,283	-	565,440
Total capital assets being depreciated	<u>16,373,996</u>	<u>928,935</u>	<u>(428,550)</u>	<u>16,874,381</u>
Less accumulated depreciation for:				
Fire vehicles	(3,434,679)	(238,524)	428,550	(3,244,653)
Fire and communication equipment	(1,457,987)	(109,167)	-	(1,567,154)
Office furniture and equipment	(372,875)	(27,134)	-	(400,009)
Station #2	(287,136)	(21,269)	-	(308,405)
Station #3	(201,818)	(11,910)	-	(213,728)
Station #4	(213,358)	(18,553)	-	(231,911)
Training center	(282,911)	(30,209)	-	(313,120)
Central station	(372,611)	(27,442)	-	(400,053)
Administrative building	(227,665)	(50,592)	-	(278,257)
Education building	(239,661)	(53,258)	-	(292,919)
Pfluger Hall	(44,409)	(12,310)	-	(56,719)
Improvements	(137,422)	(31,310)	-	(168,732)
Total accumulated depreciation	<u>(7,272,532)</u>	<u>(631,678)</u>	<u>428,550</u>	<u>(7,475,660)</u>
Capital assets being depreciated – net	<u>9,101,464</u>	<u>297,257</u>	<u>-</u>	<u>9,398,721</u>
Total capital assets – net	<u>\$ 9,497,009</u>	<u>\$ 297,257</u>	<u>\$ -</u>	<u>\$ 9,794,266</u>

Travis County Emergency Services District No. 2

Notes to the Basic Financial Statements

6. Long-Term Debt

The District issued limited tax bonds for construction of fire protection facilities and equipment. Tax revenue from yearly ad valorem tax assessments will pay principal and interest on the outstanding tax-supported bonds of the District. General obligation bonds currently outstanding are as follows for the year ended September 30, 2013:

	Balance at October 1, 2012	Additions	Deletions	Balance at September 30, 2013	Due Within One Year
Bond payable – Series 2005	\$ 1,520,000	\$ -	\$ 315,000	\$ 1,205,000	\$ 330,000
Other debt:					
Capital leases payable	478,897	746,893	260,182	965,608	299,108
Loans payable	3,784,119	-	541,184	3,242,935	526,105
Compensated absences payable	422,025	25,245	-	447,270	179,111
Total long-term debt	\$ 6,205,041	\$ 772,138	\$ 1,116,366	\$ 5,860,813	\$ 1,334,324

Bond Payable

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

	Date of Issue	Interest Rate	Original Principal Balance
\$2,604,999 Limited Tax Bond – Series 2005	April 15, 2005	3%-4%	\$ <u>2,604,999</u>

Travis County Emergency Services District No. 2

Notes to the Basic Financial Statements

6. Long-Term Debt (continued)

Bond Payable (continued)

The following schedule sets forth the debt service requirements on the general obligations outstanding bond indebtedness of the District at September 30, 2013:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending September 30,			
2014	\$ 330,000	\$ 41,600	\$ 371,600
2015	345,000	28,100	373,100
2016	360,000	14,000	374,000
2017	<u>170,000</u>	<u>3,400</u>	<u>173,400</u>
	<u>\$ 1,205,000</u>	<u>\$ 87,100</u>	<u>\$ 1,292,100</u>

Loans Payable

During the 2006 fiscal year, the District entered into loan agreements with Wells Fargo Brokerage Services for the financing of improvements to properties owned by the District in the amount of \$4,250,000. The proceeds of this loan were used to fund the construction of an administrative office building, a training facility, and an educational facility.

Long-term debt at September 30, 2013 is comprised of the following items:

Note payable to Wells Fargo; interest at 3.15%; secured by ad valorem taxes; due in annual installments through July 2016	\$ 274,327
Note payable to Wells Fargo; interest at 3.35%; secured by District assets; due in semi-annual installments through April 2016	232,399
Note payable to Wells Fargo; interest at 3.00%; secured by District assets; due in semi-annual installments through May 2014	46,852
Note payable to Wells Fargo; interest at 2.90%; secured by ad valorem taxes; due in annual installments through July 2021	<u>2,689,357</u>
	3,242,935
Less current portion	<u>526,105</u>
	<u>\$ 2,716,830</u>

Travis County Emergency Services District No. 2

Notes to the Basic Financial Statements

6. Long-Term Debt (continued)

Loans Payable (continued)

Maturities of long-term debt for the fiscal years subsequent to September 30, 2013 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending September 30,			
2014	\$ 526,105	\$ 90,182	\$ 616,287
2015	494,179	74,648	568,827
2016	493,051	59,538	552,589
2017	339,260	46,317	385,577
2018	349,370	36,206	385,576
2019-2021	<u>1,040,970</u>	<u>45,047</u>	<u>1,086,017</u>
	<u>\$ 3,242,935</u>	<u>\$ 351,938</u>	<u>\$ 3,594,873</u>

Capital Lease Payable

The District is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$1,957,927 at September 30, 2013, and accumulated amortization at September 30, 2013 totaled \$840,443. The amortization of assets held under capital leases is included with depreciation expense. Lease obligations are re-paid with general revenue sources.

The District's obligations under capital leases are reported as a long-term liability in the statement of net position and governmental funds balance sheet.

Travis County Emergency Services District No. 2

Notes to the Basic Financial Statements

6. Long-Term Debt (continued)

Capital Lease Payable (continued)

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments at September 30, 2013:

Year ending September 30,	
2014	\$ 335,562
2015	105,049
2016	105,050
2017	105,050
2018	105,050
Thereafter	<u>349,265</u>
Minimum lease payments for all capital leases	1,105,026
Lease amount representing interest at the District's incremental borrowing rate	<u>(139,418)</u>
Present value of minimum lease payments	965,608
Less current portion	<u>299,108</u>
Capital leases payable, long-term	<u>\$ 666,500</u>

7. Defined Contribution Plan

In April 2007, the Board authorized the creation of the Travis County Emergency Services District No. 2 457(b) Plan (the "Plan") with Principal Financial Group. Employees are eligible to participate in the Plan after meeting defined requirements. The Plan replaced the Travis County Emergency Services District No. 2 401(a) as the employer funded plan of the District until January 1, 2010. On January 1, 2010, the Board again authorized employer contributions into the Travis County Emergency Services District No. 2 401(a) plan and continued the 457(b) plan for employee contributions only. During the fiscal year, the Board also approved changes to the plan administrator and investments held in the Plan, following a recommendation from the District's Investment Workgroup. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The District contributes 10% of the employee's base salary each month. The District's contributions for each employee (and interest allocated to the employee's account) vest 20% per year during the first five years of service. The District's contribution for the year ended September 30, 2013 totaled \$472,496. Participant contributions for the year ended September 30, 2013 totaled \$224,465.

Travis County Emergency Services District No. 2

Notes to the Basic Financial Statements

8. Commitments

Effective October 1, 1995, the District entered into an agreement with Pflugerville Volunteer Fire Department (the "Department"). The Department agreed to provide support services to the District. The District agreed to pay the Department a total of \$2,000 per year out of tax revenues actually collected by the District. The term of the agreement is yearly and may be terminated by either party by providing 90 days' written notice of termination to the other party. Amounts payable to the Department shall be disbursed to the Department quarterly, if and when collected by the District, following the provision by the District of adequate reserves of such tax receipts for the budgeted expenditures of the District. Under the agreement, the District will provide administrative services, all necessary equipment, and training for Department personnel.

Effective April 25, 2000, the District entered into an agreement with ICPProcess.com ("ICP") to provide billing services for the District's fees charged to respond to fire calls and other related departmental services provided to the general public. The District may terminate this agreement at any time upon 30 days' prior written notice to ICP. The agreement calls for the District to pay ICP a 20% commission of the total amount collected on behalf of the District.

Effective December 31, 2001, the District entered into an agreement with the City of Austin Fire Department to provide dispatch services to the District service area on a fee-for-service basis. The service fee is based on the number of calls dispatched in the District service area in the preceding year and was \$24.00 per call and totaled \$157,008 during 2013. Either party may terminate this agreement with 90 days' prior written notice to the other party.

9. Reconciliation of Government Wide Financial Statements and Fund Financial Statements

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

Total governmental fund balances	\$ 4,226,113
Recording of capital assets – net of accumulated depreciation	9,794,266
Deferred property tax revenue recognized	240,845
Accrued interest	(33,890)
Capital leases payable	(965,608)
Loans payable	(3,242,935)
Bond payable	(1,205,000)
Compensated absences payable	<u>(447,270)</u>
Total net position	\$ <u>8,366,521</u>

Travis County Emergency Services District No. 2

Notes to the Basic Financial Statements

9. Reconciliation of Government Wide Financial Statements and Fund Financial Statements (continued)

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

Net change in governmental fund balances	\$ 259,768
Capital outlay	928,935
Depreciation	(631,678)
Employee benefits	(25,245)
Principal retirement	1,116,366
Proceeds from loans	(746,893)
Property taxes	(3,934)
Interest and fees	<u>13,382</u>
Change in net position of governmental activities	\$ <u><u>910,701</u></u>

Required Supplementary Information

Travis County Emergency Services District No. 2

Budgetary Comparison Schedule – General Fund – Budgetary Basis

Year Ended September 30, 2013

	Original Budget	Final Budget	Actual	Adjustments	Actual Budget Basis	Variance With Final Budget Favorable (Unfavorable)
Revenues						
Property taxes – including penalties and interest	\$ 5,542,820	\$ 5,635,820	\$ 5,616,386	\$ -	\$ 5,616,386	\$ (19,434)
Sales tax receipts	3,897,950	4,247,950	4,389,667	(85,624)	4,304,043	56,093
Fee for services	50,000	63,000	140,024	-	140,024	77,024
Prevention	101,500	144,000	145,209	-	145,209	1,209
Grant and donation income	250,000	80,000	73,636	-	73,636	(6,364)
Facilities income	161,200	161,200	169,796	-	169,796	8,596
Miscellaneous	-	40,000	51,297	-	51,297	11,297
Total revenues	10,003,470	10,371,970	10,586,015	(85,624)	10,500,391	128,421
Expenditures						
Current:						
Operations	801,530	801,530	673,623	-	673,623	127,907
Prevention	36,470	36,370	32,673	-	32,673	3,697
Administrative:						
Professional services	710,500	610,500	471,918	-	471,918	138,582
General and administrative	923,700	909,700	833,097	-	833,097	76,603
Salaries	6,000,750	6,008,453	5,999,369	(350,015)	5,649,354	359,099
Employee benefits	1,528,000	1,408,301	1,294,903	-	1,294,903	113,398
Debt service:						
Principal retirement	801,525	800,999	801,366	-	801,366	(367)
Interest and fees	147,042	149,642	149,636	-	149,636	6
Capital outlay	225,000	915,300	928,935	-	928,935	(13,635)
Total expenditures	11,174,517	11,640,795	11,185,520	(350,015)	10,835,505	805,290
Deficiency of revenues under expenditures	(1,171,047)	(1,268,825)	(599,505)	264,391	(335,114)	933,711
Other Financing Sources (Uses)						
Interest income	-	-	33,635	-	33,635	33,635
Proceeds from sale of assets	-	70,500	70,500	-	70,500	-
Proceeds from loans	-	746,893	746,893	-	746,893	-
Transfers in	-	-	380,032	(380,032)	-	-
Transfers out	-	-	(381,157)	381,157	-	-
Total other financing sources (uses)	-	817,393	849,903	1,125	851,028	33,635
Net change in fund balance/net position	(1,171,047)	(451,432)	250,398	265,516	515,914	967,346
Fund balances/net position – beginning of the year	3,820,433	3,820,433	3,820,433	550,150	4,370,583	550,150
Fund balances/net position – end of the year	<u>\$ 2,649,386</u>	<u>\$ 3,369,001</u>	<u>\$ 4,070,831</u>	<u>\$ 815,666</u>	<u>\$ 4,886,497</u>	<u>\$ 1,517,496</u>

See accompanying independent auditor's report