

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2022



**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

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**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
MANAGEMENT'S DISCUSSION AND ANALYSIS**

SEPTEMBER 30, 2022

Our discussion and analysis of El Paso County Emergency Services District #2's ("the District") financial performance provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2022. We encourage readers to consider this information in conjunction with the basic financial statements, which begin on Page 17.

Fund-based financial reporting and government-wide reporting are not viewed as being in conflict; however, they are not comparable. A significant portion of this analysis focuses on the changes in the government-wide statements, while still providing information on the District's fund-based comparative changes.

FINANCIAL HIGHLIGHTS 2022

- Total assets increased by approximately 6% due to an increase in cash and cash equivalents mainly driven by increases in general revenue.
- Total liabilities decreased by 19% due primarily to principal payments made on outstanding notes payable.
- Total net position of \$23,900,135 increased by \$3,424,131, which represents an increase of 17% for the year ended September 30, 2022, mainly as a result of general revenues from sales taxes and property taxes exceeding operating expenses.
- Amounts invested in capital assets, net of related debt, amounted to \$17,016,241. This represents an increase of 21% for the year ended September 30, 2022 from the preceding year. This is primarily due to capital asset additions.
- Unrestricted, net position, available to meet the District's on-going obligations, totaled \$6,883,894. This represents an increase of 6% for the year ended September 30, 2022 from the preceding year, as a result of general revenues exceeding operating expenses.
- At September 30, 2022, the District's governmental fund statements show an ending fund balance of \$7,776,096, an increase of \$1,654,012 or 27% as a result of increases in general revenues.
- Program revenues amounted to \$455,347, a decrease of 86% from the prior year due primarily to federal grant awards received in prior fiscal year.
- General revenues amounted to \$9,562,546, an increase of 14% from the prior year.
- Total revenues amounted to \$10,017,893, a decrease of 14% from the prior year.
- The District expended \$1,326,762 in capital expenditures for construction in progress, building improvements, transportation equipment for public safety, and other equipment for the different fire departments.
- The District had \$6,138,415 in net program expenses related to governmental activities. This represents a 110% increase from prior year, due to federal grant awards received in prior fiscal year.
- Total expenses amounted to \$6,593,762, an increase of 8% from the prior year.
- The District uses the general fund to maintain its financial records.
- Total deferred outflows amounted to \$260,879, an increase of 21% from the prior year and were related to pensions.
- Total deferred inflows amounted to \$202,202, an increase of 397% from the prior year and were related to pensions.

(Continued)

FINANCIAL HIGHLIGHTS 2022 (CONTINUED)

- Net pension asset was \$193,739, which represents an increase of \$190,712 from net pension asset reported in the previous year.
- The total revenue from the general fund amounted to \$10,022,164. Total expenditures from the general fund amounted to \$8,368,152, which were less than the final budgeted appropriations by 20%.
- Total budgeted appropriations for the year ended September 30, 2022 were \$10,440,238, which exceeded actual expenses by \$2,072,086 or 20%. No expense categories exceeded their respective budgeted appropriations during the fiscal year ended September 30, 2022. Excess appropriations of \$1,431,353 for capital expenses were rolled over to the budget for the fiscal year ending September 30, 2023.
- On November 2, 2022 the District entered into a \$680,000 note agreement with Zions Bancorporation to finance the purchase of a fire truck. Interest is at 4.100% per annum, payable in semi-annual installments which are specified in the agreement. The note matures in March 2028 and is secured by ad valorem taxes levied and assessed on the proceeds of taxable property in the District.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include:

- Government-wide financial statements on Pages 17-18.
- Fund financial statements on Pages 19-22.
- Notes to the financial statements on Pages 23-52.

This report also contains required supplementary information and related notes on pages 53 through 60.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the financial position of the District and are similar to private sector financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements appear on pages 17 through 18 of this report. One of the most important questions asked about the District is whether its finances as a whole, are better off or worse as a result of the year's activities. The Statement of Net Position and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These two statements report the District's *net position* and changes in assets and liabilities. The District's net position can be interpreted as the difference between assets, what the District owns, and liabilities, what the District owes, as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are indicators of whether its *financial health* is improving or deteriorating. Net position is shown in two categories: 1) invested in capital assets, net of related debt, and 2) unrestricted. To assess the *overall health* of the District other non-financial factors need to be considered. These include but are not limited to changes in the District's jurisdiction, the availability of funds to pursue capital projects, changes in local and regional demographics, macroeconomic factors, and continuing local government support.

(Continued)

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The Statement of Activities presents information showing how the District's net position changed during the fiscal year ended September 30, 2022. It provides a breakdown of revenues and expenses by function. All changes in net position are reported as soon as the underlying event which contributes to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only affect cash flows in future fiscal periods. Examples of such items include revenues earned and expenses incurred but not yet paid, all of which will produce changes in cash in a future fiscal period.

The Statement of Net Position and the Statement of Activities attempt to distinguish functions of the District that are principally supported by taxes (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees (*business-type activities*). The governmental activities function of the District includes public safety (fire protection). The District does not engage in any business-type activities. The District's government-wide statements also intend to present information about the District's long-term liabilities resulting from employee benefit plans. The District participated in the Texas County and District Retirement System (TCDRS) during the year ended September 30, 2022.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District only has governmental funds. The governmental funds financial statements are on Pages 19 through 22.

GOVERNMENTAL FUNDS

Governmental funds are used to account for essentially the same functions of those reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's operations and the services it provides. Governmental fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

(Continued)

GOVERNMENTAL FUNDS (CONTINUED)

The focus of governmental funds is narrower than that of government-wide financial statements. Therefore, it can be useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations have been provided as a link between the governmental fund statements and the government-wide financial statements to assist in this comparison.

The District maintains its activities in the general fund.

The District has no proprietary funds or fiduciary funds.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in both the government-wide and governmental fund financial statements. The notes to the financial statements can be found on Pages 23 through 52 of this report.

OTHER INFORMATION

In addition to the basic financial statements and the accompanying notes, this reporting package also presents certain required supplementary information concerning the District's budgetary comparison schedules for its General Fund, Schedule of Changes in Net Pension Liability and Related Ratios, and Schedule of Employer Contributions. The required supplementary information can be found on Pages 53 through 60.

(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1
Net Position (In Thousands)
September 30,

	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 8,830.9	\$ 6,761.0
Capital assets	<u>22,136.2</u>	<u>22,352.6</u>
Total assets	<u>30,967.1</u>	<u>29,113.6</u>
Deferred outflows of resources	<u>260.9</u>	<u>216.4</u>
Long-term obligations	6,551.4	8,420.4
Other liabilities	<u>574.3</u>	<u>392.9</u>
Total liabilities	<u>7,125.7</u>	<u>8,813.3</u>
Deferred inflows of resources	<u>202.2</u>	<u>40.7</u>
Net position:		
Investment in capital assets, net	17,016.2	14,018.3
Unrestricted	<u>6,883.9</u>	<u>6,457.7</u>
Total net position	<u>\$23,900.1</u>	<u>\$20,476.0</u>

For the year ended September 30, 2022, net position of the District's activities increased 17% or \$3,424,131. Unrestricted net assets, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased from \$6,457,686 to \$6,883,894 at the end of fiscal year 2022. The increase can be primarily attributed to the District's increase in general revenues.

(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Table 2 compares the fiscal year ended 2022 with the respective preceding period.

Table 2
Changes in Net Position for 2022
Compared to Previous Year Activity
(In Thousands)

	<u>Year Ended September 30,</u>		
	<u>2022</u>	<u>2021</u>	<u>Change</u>
Program revenues:			
Charges for services	\$ 412.2	\$ 726.2	\$ (314.0)
Operating grants	43.1	2,485.4	(2,442.3)
General revenues:			
Property taxes	4,496.2	3,773.3	722.9
Sales taxes	4,559.5	4,281.1	278.4
Gain on sale of capital assets	495.9		495.9
Other	<u>11.0</u>	<u>316.5</u>	<u>(305.5)</u>
Total revenues	<u>10,017.9</u>	<u>11,582.5</u>	<u>(1,564.6)</u>
Program expenses:			
Public safety	6,322.5	5,794.1	528.4
Interest on long-term debt	<u>271.3</u>	<u>334.2</u>	<u>(62.9)</u>
Total expenses	<u>6,593.8</u>	<u>6,128.3</u>	<u>465.5</u>
Change in net position	<u>\$3,424.1</u>	<u>\$ 5,454.2</u>	<u>(2,030.1)</u>

For the year ended September 30, 2022, property taxes increased due to an increase in property values. In addition, sales taxes increased along with sales within the District. The gain on sale of capital assets is primarily due to sales of fully depreciated transportation equipment acquired sold at auction. The increase in public safety expenses is attributed to an increase in salaries and related expenses and an increase in depreciation expense due to significant capital additions in the prior fiscal year.

(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Table 3 presents the total cost of each of the District's programs, as well as each program's net cost (total cost less revenues generated by activities). The net cost shows the financial burden that was placed on the District by each of these functions.

Table 3
Governmental Activities
(In Thousands)
Year Ended September 30,

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
General government	\$6,322.5	\$5,794.1	\$5,867.1	\$2,582.4
Interest on long-term debt	<u>271.3</u>	<u>334.2</u>	<u>271.3</u>	<u>334.1</u>
Total expenses	<u>\$6,593.8</u>	<u>\$6,128.3</u>	<u>\$6,138.4</u>	<u>2,916.5</u>

The increase in general government expenses is attributed to the increase in salaries and an increase in depreciation expense due to a significant amount of capital additions purchased the in prior fiscal year. In addition, federal grant awards reduced net general government expenses significantly in the prior fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted above, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As mentioned earlier, the General Fund is the chief operating fund of the District. The District's governmental fund statements show an ending fund balance of \$7,776,096 for the year ended September 30, 2022. The change represents an increase of 27% or \$1,654,012 from the preceding year. Included in ending fund balance, \$6,284,007 constitutes unassigned, undesignated fund balance, which is available for spending at the District's discretion at September 30, 2022. In addition, \$1,431,353 of the total ending fund balance constitutes committed fund balance for the purchase of vehicles and buildings renovations, and \$60,736 represents prepaid expenses and other current assets that are to be consumed in future periods.

(Continued)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

Table 4 presents the fund balance of the general fund and an analysis of significant changes in the fund balance.

**Table 4
Changes in Year-End Fund Balance
(In Thousands)
September 30,**

	<u>2022</u>	<u>2021</u>	<u>Percent Change</u>
General Fund	\$ <u>7,776.1</u>	\$ <u>6,122.1</u>	<u>27%</u>

The 27% increase in fund balance is primarily attributed to a reduction in the purchase of capital assets when compared to the prior fiscal year. In addition, collection of property tax receivables was slightly faster when compared to the prior fiscal year.

Revenue Source

Table 5 presents a detail of the governmental fund revenues for the fiscal year ended September 30, 2022, along with a comparison of the governmental fund revenues for the corresponding preceding fiscal year.

**Table 5
Total Governmental Fund Revenues
Year Ended September 30,**

	<u>2022 Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) Over 2021</u>	<u>Increase (Decrease)</u>
Sales taxes	\$4,559,549	45.49%	\$278,460	6.5%
Property taxes	4,487,687	44.78%	662,408	17.3%
Proceeds from sale of capital assets	508,652	5.08%	508,652	100.0%
Charges for services	412,230	4.11%	(313,988)	(43.2)%
Grant income	43,117	0.43%	(2,442,324)	(98.3)%
Interest income	675	0.01%	(6)	(0.9)%
Other income	<u>10,254</u>	<u>0.10%</u>	<u>(305,555)</u>	<u>(96.8)%</u>
Total	<u>\$10,022,164</u>	<u>100.0%</u>	<u>\$(1,612,353)</u>	<u>(13.9)%</u>

For the year ended September 30, 2022, property taxes increased due to increases in property tax values. In addition, sales taxes increased because sales increased within the District. The decrease in charges for services is primarily due to services provided at the port of entry related to a COVID-19 vaccination program during 2021 that did not occur in fiscal year 2022.

(Continued)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

Revenue Source (Continued)

The decrease in grant income is due primarily to federal grant awards received in the prior fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Table 6 shows the variance between the final budget and the actual results for the fiscal year ended September 30, 2022:

**Table 6
Final Budget Versus Actual Results
(In Thousands)
General Fund**

	<u>2022</u>			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Sales taxes	\$4,163.0	\$4,440.5	\$4,559.5	\$119
Property taxes	4,314.4	4,465.2	4,487.7	22.5
Proceeds from sale of capital assets		512.9	508.7	(4.2)
Charges for services	110.0	412.2	412.2	
Grant income		202.2	43.1	(159.1)
Interest income		0.7	0.7	
Reserve funds	1,309.5	1,309.5		(1,309.5)
Other income	_____	93.6	10.3	(83.3)
	<u>\$9,896.9</u>	<u>\$11,436.8</u>	<u>\$10,022.2</u>	<u>\$(1,414.6)</u>
Expenditures:				
Total general government	<u>\$9,896.9</u>	<u>\$10,440.2</u>	<u>\$ 8,368.2</u>	<u>\$ 2,072.0</u>

(Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's financial statements present capital assets in two categories: those assets subject to depreciation (such as buildings and equipment) and those not subject to depreciation (such as land and construction in progress). At September 30, 2022, the District had \$22,136,241 invested in capital assets, net of depreciation. There were additions in fiscal year 2022, however depreciation and disposal of assets exceeded total additions, thereby reducing overall capital assets by \$216,326 or 1% compared to the prior year.

Capital assets held by the District at the end of the current year and prior year are summarized in Table 7 as follows:

Table 7
Capital Assets, Net of Accumulated Depreciation

	<u>Governmental Activities</u>	
	<u>2022</u>	<u>2021</u>
Land	\$ 1,401,906	\$ 1,401,906
Construction in progress	2,798,506	2,258,506
Buildings and improvements	11,649,129	11,579,334
Transportation equipment	3,101,518	3,496,577
Other equipment	<u>3,185,182</u>	<u>3,616,244</u>
Total capital assets, net	<u>\$22,136,241</u>	<u>\$22,352,567</u>

Additional information on the District's capital assets can be found on Page 33 of this report.

(Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Debt Administration

At September 30, 2022, the District had \$6,357,614 in outstanding long-term debt. This amount represents a decrease of 24% from the preceding year. The decrease is primarily due to principal payments made to notes. Additionally, the District did not issue any debt during the current year. Long-term debt held by the District at the end of the current year and the preceding year is summarized in Table 8 as follows:

Table 8
Long-term Debt Outstanding at Year End
Year Ended September 30,

	<u>Governmental Activities</u>	
	<u>2022</u>	<u>2021</u>
Notes payable	\$6,551,353	\$8,329,145
Capital leases		91,225
Net pension asset	<u>(193,739)</u>	<u>(3,027)</u>
Total long-term debt	<u>\$6,357,614</u>	<u>\$8,417,343</u>

The District's policy is to recognize deferred compensation expense for its employees when paid. More detailed information about the District's long-term liabilities is presented on Pages 34 through 39 of this report.

(Continued)

ECONOMIC FACTORS

The District's taxing jurisdiction consists of the surrounding areas of El Paso County, Texas, including the communities of Anthony, Canutillo, Clint, Fabens, Montana Vista, San Elizario, Socorro, Tornillo and Vinton. The total jurisdiction of the District spans under 600 square miles with an estimated population of 105,000. The largest growing areas of the District include Socorro, Clint, Canutillo and, Montana Vista.

The District consists of five members serving as the Board of Commissioners and 32 paid employees. The District normally maintains operating agreements with six volunteer fire departments: Fabens Fire Department, Socorro Fire Department, Clint Fire Department, Montana Vista Fire and Rescue, San Elizario Fire Rescue, and West Valley Fire Department. The agreements are renewed on an annual basis, or each time a department elects a Fire Chief. Each Volunteer Fire Department independently appoints a Fire Chief and maintains its own by-laws and tax-exempt status. Each department is responsible to:

- 1) Provide, procure, and maintain volunteer personnel, supplies, and material necessary for the operation of each fire station,
- 2) Provide necessary training to fire prevention, firefighting, and medical assistance personnel,
- 3) Conduct annual workshops,
- 4) Submit required financial reports to the District Administrator, and
- 5) Safeguard and maintain District property.

The District utilizes 24/7 dispatching services in conjunction with Horizon City Police Department. This dispatching system utilizes the CAD system. On average, the Dispatching Center is staffed with three to four paid dispatchers every shift by the Horizon Police Department.

Training is also made available to firefighters to attend various seminars conducted in Texas and outside the State, as needed. The firefighters are required to attend a designated number of trainings in order to remain in good standing with each Department, Pension, and for the State Fireman's and Fire Marshal's Association.

The number of calls for the year ended September 30, 2022 amounted to 10,587 and were comprised of the following:

	<u>Fire</u>	<u>Rescue and Medical</u>	<u>Other</u>	<u>Total</u>
Socorro	114	2,251	697	3,062
West Valley	117	1,369	463	1,949
San Eli	77	1,311	545	1,933
Montana Vista	127	1,066	256	1,449
Fabens	67	1,034	276	1,377
Clint	<u>84</u>	<u>528</u>	<u>205</u>	<u>817</u>
	<u>586</u>	<u>7,559</u>	<u>2,442</u>	<u>10,587</u>

Total calls for September 30, 2022 increased by 4% in relation to the previous year.

(Continued)

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Board of Commissioners, President, 16001 Socorro Road, Fabens, Texas 79838.

A handwritten signature in black ink, appearing to read "Adrian Santana", written in a cursive style.

Adrian Santana
Board of Commissioners, President

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
El Paso County Emergency Services District #2
Fabens, Texas

Opinion

We have audited the accompanying financial statements of the governmental activities of El Paso County Emergency Services District #2 (“the District”), a discrete component unit of the County of El Paso, Texas, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of El Paso County Emergency Services District #2 as of September 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Audit Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of El Paso County Emergency Services District #2, 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 opinion.

Responsibilities of Management for the Financial Statements

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

(Continued)

To the Board of Commissioners
El Paso County Emergency Services District #2
Fabens, Texas

Responsibilities of Management for the Financial Statements (Continued)

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 El Paso County Emergency Services District #2'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' Responsibility 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 auditor's report that includes our opinion. 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 El Paso County Emergency Services District #2'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 El Paso County Emergency Services District #2's ability to continue as a going concern for a reasonable period of time.

(Continued)

To the Board of Commissioners
El Paso County Emergency Services District #2
Fabens, Texas

Auditors' Responsibility for the Audit of the Financial Statements (Continued)

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, budgetary comparison information, schedule of the District's changes in the net pension liability and related ratios, and the schedule of the District's employer contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated February 21, 2023, on our consideration of El Paso County Emergency Services' District #2'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 El Paso County Emergency Services District #2'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 El Paso County Emergency Services District #2's internal control over financial reporting and compliance.

SBNG, PC

El Paso, Texas
February 21, 2023

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

STATEMENT OF NET POSITION

September 30, 2022

<u>ASSETS</u>	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 6,969,790
Taxes receivable, net	1,606,591
Prepaid expenses	56,111
Other current assets	4,625
Non-depreciable capital assets	4,200,412
Depreciable capital assets, net of accumulated depreciation	17,935,829
Net pension asset	<u>193,739</u>
Total assets	<u>30,967,097</u>
Deferred outflows of resources related to pensions	<u>260,879</u>
<u>LIABILITIES</u>	
Accounts payable	171,421
Accrued liabilities	91,812
Accrued interest	113,873
Refundable advances	197,180
Due within one year:	
Notes payable	1,610,480
Due after one year:	
Notes payable	<u>4,940,873</u>
Total liabilities	<u>7,125,639</u>
Deferred inflows of resources related to pensions	<u>202,202</u>
<u>NET POSITION</u>	
Investment in capital assets, net of related debt	17,016,241
Unrestricted	<u>6,883,894</u>
Total net position	<u><u>\$23,900,135</u></u>

The accompanying notes are an integral
part of these financial statements.

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

STATEMENT OF ACTIVITIES

Year Ended September 30, 2022

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Governmental Activities</u>
		<u>Charges for Services and Fees</u>	<u>Capital Grants and Contributions</u>	<u>Operating Grants and Contributions</u>	<u>Net Revenue (Expense) and Change in Net Position</u>
Primary government:					
Governmental activities:					
Public safety	\$ 6,322,476	\$ 412,230	\$	\$ 43,117	\$ (5,867,129)
Interest on long-term debt	<u>271,286</u>	<u> </u>	<u> </u>	<u> </u>	<u>(271,286)</u>
Total primary government	<u>\$ 6,593,762</u>	<u>\$ 412,230</u>	<u>\$</u>	<u>\$ 43,117</u>	<u>(6,138,415)</u>
		General revenues:			
		Taxes:			
					4,496,209
					4,559,549
					495,859
					675
					<u>10,254</u>
				Total general revenues	<u>9,562,546</u>
				Change in net position	3,424,131
				Net position at beginning of year	<u>20,476,004</u>
				Net position at end of year	<u>\$ 23,900,135</u>

The accompanying notes are an integral part of these financial statements.

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2022

<u>ASSETS</u>	<u>General Fund</u>
Cash and cash equivalents	\$ 6,969,790
Taxes receivable, net	1,606,591
Prepaid expenses	56,111
Other current assets	<u>4,625</u>
 Total assets	 <u>\$ 8,637,117</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>	
Liabilities:	
Accounts payable	\$ 171,421
Accrued liabilities	91,812
Refundable advances	<u>197,180</u>
 Total liabilities	 <u>460,413</u>
Deferred inflows of resources:	
Deferred revenue - property taxes	<u>400,608</u>
 Total deferred inflows of resources	 <u>400,608</u>
Fund balances:	
Non-spendable	60,736
Committed	1,431,353
Unassigned	<u>6,284,007</u>
 Total fund balances	 <u>7,776,096</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 8,637,117</u>

The accompanying notes are an integral
part of these financial statements.

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET POSITION**

September 30, 2022

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION ARE DIFFERENT BECAUSE:

Total fund balances of governmental funds in the balance sheet		\$ 7,776,096
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Governmental capital assets	50,243,495	
Less accumulated depreciation	<u>(28,107,254)</u>	22,136,241
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Notes payable	(6,551,353)	
Accrued interest	<u>(113,873)</u>	(6,665,226)
Taxes receivable not collected within 60 days of the end of the fiscal year are not considered available resources under the modified accrual basis and are reported as deferred inflows of resources in the government funds. Unavailable taxes receivable are reported in the statement of net position on the full accrual basis.		400,608
Pension related assets, and deferred inflows and outflows are not due and payable in the current period, and are not available to pay current period expenditures, therefore, are not reported in the governmental funds:		
Net pension asset	193,739	
Deferred outflows of resources related to pensions	260,879	
Deferred inflows of resources related to pensions	<u>(202,202)</u>	<u>252,416</u>
NET POSITION, GOVERNMENTAL ACTIVITIES		<u>\$23,900,135</u>

The accompanying notes are an integral part of these financial statements.

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS**

Year Ended September 30, 2022

	<u>General Fund</u>
Revenues:	
Sales taxes	\$ 4,559,549
Property taxes	4,487,687
Proceeds from sale of capital assets	508,652
Charges for services	412,230
Grant income	43,117
Interest income	675
Other income	<u>10,254</u>
Total revenues	<u>10,022,164</u>
Expenditures:	
Public safety	4,865,831
Capital outlay	1,326,762
Debt service:	
Principal	1,869,017
Interest	<u>306,542</u>
Total expenditures	<u>8,368,152</u>
Revenues over expenditures	<u>1,654,012</u>
Net change in fund balance	1,654,012
Fund balance at beginning of year	<u>6,122,084</u>
Fund balance at end of year	<u>\$ 7,776,096</u>

The accompanying notes are an integral
part of these financial statements.

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

Year Ended September 30, 2022

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Net change in fund balance - total governmental funds		\$ 1,654,012
Governmental funds report capital outlays as expenditures. However, in the government-wide statements, the cost of those assets are depreciated over their estimated useful lives:		
Expenditure for capital outlay	1,326,762	
Less current year provision for depreciation	<u>(1,530,295)</u>	(203,533)
The effect of miscellaneous transactions involving capital assets:		
Book value of capital assets disposed		(12,793)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position		1,869,017
Accrued interest expense is reported as an expense in the governmental funds on the modified accrual basis, but is reported as a liability in the statement of net position on the full accrual basis:		
Change in accrued interest expense		35,256
Certain property tax revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred on the modified accrual basis in governmental funds:		
Change in unavailable property taxes		8,522
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds:		
Change in pension liability, deferred inflows, and outflows		<u>73,650</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 3,424,131</u>

The accompanying notes are an integral
part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

NOTES TO FINANCIAL STATEMENTS

ORGANIZATION AND OPERATIONS

El Paso County Emergency Services District #2 (“the District”) was created for the purpose of saving lives, the protection of property endangered by fires and other emergencies, and to promote the teaching and practices of fire and accident prevention. The District is a taxing entity and is a political subdivision of the State of Texas. The District was formed as provided by Article III, Section 48-e of the Texas Constitution. The District is administered by a Board of Commissioners (“Commissioners”), appointed by the Commissioners of the County of El Paso, Texas, that acts as the authoritative and legislative body of the entity.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – As required by generally accepted accounting principles, these financial statements present the activities of the District and any component units. All activities of the District are governmental in nature and are financed through taxes and other non-exchange transactions. Component units are legally separate organizations for which the District is financially accountable or other organizations whose nature and significant relationship with the District are such that exclusion would cause the District’s financial statements to be misleading. Financial accountability is defined as the appointment of a voting majority of the component unit’s Board, and (i) either the District’s ability to direct the Organization or (ii) the potential for the Organization to provide a financial benefit to or impose a financial burden on the District.

Blended component units, although legally separate entities are, in substance, part of the District’s operations. Accordingly, data from these units are combined with data of the primary government. The discretely presented component unit, on the other hand, is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Based on the application of these criteria, the District does not have any component units required to be reported under GASB Statements No. 14, as amended by GASB Statement No. 39, GASB Statement No. 61 and No. 80.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (Continued) –

Relationships with Other Governmental Entities

The County of El Paso, Texas – As amended by the Texas 83rd Legislature, Section 775.301 of the Texas Health and Safety Code grants certain control provisions to the Commissioners Court of Counties that border the United States and Mexico and have a population of more than 800,000. Under the statute, the County of El Paso has certain control provisions over the District, which includes the responsibility of appointing a Board of Commissioners, establishing operating policies and procedures for the District, and approving the District's annual budget and tax rate. Based on the application of the criteria set forth by the Government Accounting Standards Board, management has determined the District to be a discrete component unit of the County of El Paso, Texas.

Government-Wide and Fund Financial Statements – The government-wide financial statements (the statement of net position and the statement of activities) report information on all activities of the District. There are no fiduciary or business-type activities conducted by the District. All activities of the District are governmental in nature and are supported by taxes and other non-exchange transactions.

The statement of activities demonstrates the degree to which the direct expenses of a given function or program 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 program, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenue. The District only has one governmental fund.

Measurement Focus, Basis of Accounting, and Financial 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 in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Presentation (Continued) – 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 60 days of the end of the current fiscal period.

Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due.

Grants and entitlements and interest associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the District receives cash.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

In addition to assets and liabilities, the government-wide statement of net position and the government fund balance sheet may report separate sections of deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position (or fund balance) that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition of net position (or fund balance) that applies to a future period which will not be recognized as an inflow of resources until that time.

Fund Accounting – The District uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District only uses governmental funds.

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. For the District, the General Fund is used to account for all financial resources of the District, except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Texas and the by-laws of the District.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues: Exchange and Non-Exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of fiscal year-end. Under the modified accrual basis, interest and charges for services are considered to be both measurable and available at fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

Expenses/Expenditures – On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Cash and Cash Equivalents – For presentation in the financial statements, cash and cash equivalents with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents.

Property Tax Calendar – The District is responsible for the assessment, collection, and apportionment of property taxes. The Board of Commissioners levies property taxes on October 1. The certified tax roll from the El Paso Central Appraisal District reflected taxable values of \$4,387,185,382 for the year ended September 30, 2022. Taxes are due upon receipt of the tax bill and are delinquent if not paid by February 1, of the year following in which levied. On January 1, of each year, a tax lien attaches to property to secure the payment of tax revenues, penalties and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable in the current period.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Tax Calendar (Continued) – The District’s 2021-2022 effective tax rate was \$.100000 per \$100 of assessed valuation. The District incurred expenditures of \$128,974 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2022.

Allowance for Delinquent Taxes Receivable – Delinquent taxes receivable are evaluated by management throughout the year. The District performs ongoing evaluations and maintains allowances for uncollectible delinquent taxes based on factors surrounding the credit risk, historical trends, and other information of the outstanding amount for each tax levy. The allowance for uncollectible delinquent taxes was \$53,112 for the year ended September 30, 2022.

Capital Assets – Capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. All capital assets are recorded at cost (or estimated historical cost) if purchased or constructed and updated for additions and retirements during the year. Donated capital assets are recorded at estimated fair market value at the date of the donation. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Depreciation is determined using the straight-line method over the following estimated useful lives of the capital assets:

Buildings and improvements	40 years
Transportation equipment	5-10 years
Equipment	5-10 years

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. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Long-term issuance costs are recognized as debt service expenditures in the current period in both the government-wide financial statements and the governmental financial statements.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources – In addition to assets and liabilities, the statement of net position and the governmental fund balance sheet may report separate sections of deferred outflows of resources and deferred inflows of resources.

Deferred outflows of resources represent a consumption of net position (or fund balance) that applies to a future period which will not be recognized as an outflow of resources until that time. The District recognized deferred outflows of resources related to pensions on its statement of net position.

Deferred inflows of resources represent an acquisition of net position (or fund balance) that applies to a future period which will not be recognized as an inflow of resources until that time. The District has two types of items that qualify for reporting in this category. Unearned revenue from property taxes arise only under the modified accrual basis of accounting and is only reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also recognizes deferred inflows of resources related to pensions on its statement of net position.

Reservations of Fund Balance – Unassigned fund balances are available for any purpose; these amounts can only be reported in the District’s general fund.

Assigned fund balance includes amounts that are intended to be used for specific purposes but are neither considered restricted nor committed. Fund balance may be assigned by formal action of the Board of Commissioners. At September 30, 2022, there was no assigned balance.

Committed fund balances include amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to ordinances passed by the Board of Commissioners, the District’s highest level of decision-making authority. Commitments may be modified or rescinded only through ordinances approved by the Board of Commissioners. Committed fund balance at September 30, 2022 includes \$1,431,353 committed for the purchase of vehicles and building improvements.

The non-spendable fund balance includes amounts that cannot be spent because it is not in spendable form or is not expected to be converted into cash. Non-spendable fund balance at September 30, 2022 includes \$60,736 of prepaid expenses and other current assets to be consumed in future periods.

Fund Balance Flow Assumptions – It is the District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance, and unassigned fund balance is applied last.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position – Equity is classified as net position and displayed in two components:

- 1) Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- 2) Unrestricted net position - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Estimates – The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results may differ from those estimates.

Budgets and Budgetary Accounting – The District is required by the Texas Constitution and the Texas Health and Safety Code to adopt an annual balanced budget for its general fund. The District's Board of Commissioners officially adopts the annual budget and any amendments. As established by the Texas 83rd Legislature, the Texas Health and Safety Code grants authority and responsibility to the County of El Paso, Texas for reviewing and approving the District's annual budget and amendments before adoption by the Board of Commissioners. All budgets are prepared on the budgetary basis of accounting as required by Texas law.

Refundable Advances – The District records unexpended conditional grant awards as unearned revenue until they are spent for the purpose of the grant, at which time they are recognized as revenue. Any amount remaining in excess of the final billing is required to be refunded to the granting agency. As of September 30, 2022, unearned revenue totaled \$197,180 which is required to be expensed prior to December 31, 2024.

DEPOSITS

Statutes require the classification of funds held by the District into three categories.

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the District. Such funds must be maintained as cash, withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

DEPOSITS (CONTINUED)

Category 2 consists of “inactive” funds - those funds not required for use within the current two-year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 1) Commercial paper;
- 2) Bankers’ acceptances;
- 3) Repurchase agreements;
- 4) Certificates of deposit; and
- 5) Obligation of, or Guaranteed by Governmental Agencies, such as letters of credit or direct obligations.

Investments in collateral mortgage obligations are prohibited. The maximum allowable stated maturity of any authorized investment type cannot exceed two years to maturity. Repurchase agreements, for which no secondary market exists has a maximum maturity of 120 days.

Investment categories are as follows:

Category 1 - Insured or registered, with securities held by the District or its agent in the District’s name.

Category 2 - Uninsured and unregistered, with securities held by the counter party’s Trust Department or agent in the District’s name.

Category 3 - Uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the District’s name.

El Paso County Emergency Services District #2 maintains cash in one financial institution. Collateral is held in safekeeping at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged as a pool of collateral against all of the public funds it holds, with the exception of deposit insurance by the Federal Deposit Insurance Corporation.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

DEPOSITS (CONTINUED)

The schedule of pledged collateral to secure the funds of El Paso County Emergency Services District #2 as of September 30, 2022 is as follows:

Cash accounts (bank balance)	\$1,783,872
Money market funds	<u>5,320,003</u>
 Total cash and cash equivalents	 7,103,875
FDIC coverage	<u>(250,000)</u>
 Total uninsured public funds	 <u>\$6,853,875</u>
 Pledged securities	 \$7,669,348
Collateral requirement (100% of uninsured public funds)	<u>6,853,875</u>
 Over collateralization	 <u>\$ 815,473</u>

Interest Rate Risk – The District’s investment policy does not place any limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits investments to the types described above. The District’s investment policy does not further limit its investment choices.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk - Deposits – Management evaluates the exposure to custodial credit risk for deposits exceeding the amount insured by the FDIC by comparing the amounts of cash on-hand to collateral funds. At September 30, 2022, pledged collateral funds securing the District’s deposits had a fair market value of \$7,669,348, which exceeded the District’s bank balances totaling \$7,103,875. Management does not believe the District is exposed to any significant credit risk.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

TAXES RECEIVABLE, NET

Taxes receivable, net consist of the following at September 30, 2022:

	<u>Gross</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net</u>
Governmental activities:			
Sales taxes	\$ 860,121	\$	\$ 860,121
Property taxes, current	184,535		184,535
Property taxes, delinquent	<u>614,647</u>	<u>(53,112)</u>	<u>561,535</u>
Taxes receivable, net	<u>1,659,303</u>	<u>(53,112)</u>	<u>1,606,191</u>
Other	<u>400</u>	<u>—</u>	<u>400</u>
Total governmental activities	<u>\$1,659,703</u>	<u>\$(53,112)</u>	<u>\$1,606,591</u>

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

CAPITAL ASSETS

Capital asset activity for the District for the year ended September 30, 2022 was as follows:

	<u>September 30, 2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>September 30, 2022</u>
Non-depreciable capital assets:				
Land	\$ 1,401,906	\$	\$	\$ 1,401,906
Construction in progress	<u>2,258,506</u>	<u>540,000</u>	<u> </u>	<u>2,798,506</u>
Total non-depreciable capital assets	<u>\$ 3,660,412</u>	<u>\$ 540,000</u>	<u>\$ </u>	<u>\$ 4,200,412</u>
Depreciable capital assets:				
Building and improvements	\$17,043,782	\$ 506,020	\$	\$17,549,802
Transportation equipment	20,988,920	248,187	(776,548)	20,460,559
Other equipment	<u>8,000,167</u>	<u>32,555</u>	<u> </u>	<u>8,032,722</u>
	<u>46,032,869</u>	<u>786,762</u>	<u>(776,548)</u>	<u>46,043,083</u>
Less accumulated depreciation:				
Building and improvements	5,464,448	436,225		5,900,673
Transportation equipment	17,492,343	630,453	(763,755)	17,359,041
Other equipment	<u>4,383,923</u>	<u>463,617</u>	<u> </u>	<u>4,847,540</u>
Total accumulated depreciation	<u>27,340,714</u>	<u>1,530,295</u>	<u>(763,755)</u>	<u>28,107,254</u>
Depreciable capital assets, net	<u>\$18,692,155</u>	<u>\$ (743,533)</u>	<u>\$ (12,793)</u>	<u>\$17,935,829</u>

Total provision for depreciation of \$1,530,295 was charged to public safety. Capital assets pledged as security for long-term debt had a cost of \$10,163,494 as of September 30, 2022.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

DEFERRED REVENUE

Deferred revenue in the amount of \$400,608 at September 30, 2022 consisted of property tax revenue received up to 60 days following year-end (unavailable to pay liabilities of the current period). Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Deferred revenue received up to 60 days following year-end is fully recognized as revenue on the government-wide statements. Deferred revenue at the government-wide level arises only when the District receives resources before it has a legal claim to them.

LONG-TERM DEBT

The following is a summary of changes in governmental activities long-term debt for the year ended September 30, 2022:

	<u>Balance at September 30, 2021</u>		<u>Additions</u>	<u>Reductions</u>	<u>Balance at September 30, 2022</u>	<u>Due Within One Year</u>
Notes payable (direct borrowings)	\$8,329,145	\$		\$(1,777,792)	\$6,551,353	\$1,610,480
Capital lease	91,225			(91,225)		
Net pension liability (asset)	<u>(3,027)</u>		<u> </u>	<u>(190,712)</u>	<u>(193,739)</u>	<u> </u>
	<u>\$8,417,343</u>	<u>\$</u>	<u> </u>	<u>\$(2,059,729)</u>	<u>\$6,357,614</u>	<u>\$1,610,480</u>

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (CONTINUED)

Notes Payable (Direct Borrowings)

The District entered into a \$3,366,000 note agreement with the Independent Bankers Bank, N.A. to finance vehicles. Interest is at 1.590% per annum, payable in annual installments which are specified in the contract. The note matures in August 2027 and is secured by ad valorem taxes levied and assessed on the proceeds of taxable property in the District.	\$2,826,975
The District entered into a \$1,635,784 note agreement with Southside Bank to finance Socorro Fire Station property and to renovate the Station. Interest is at 5.755% per annum, payable in annual installments which are specified in the contract. The note matures in March 2029 and is secured by ad valorem taxes levied and equipment.	762,571
The District entered into a \$1,283,473 note agreement with Southside Bank to refinance real estate and for improvements and repairs. Interest is at 5.793% per annum, payable in annual installments which are specified in the contract. The note matures in March 2028 and is secured by ad valorem taxes levied and real estate.	525,603
The District entered into a \$996,478 note agreement with Southside Bank to finance the purchase of radio equipment. Interest is at 2.87% per annum, payable in annual installments which are specified in the contract. The note matures in March 2027 and is secured by ad valorem taxes levied and assessed on the proceeds of taxable property in the District.	521,437
The District entered into a \$1,585,600 note agreement with Southside Bank to finance San Elizario Fire Station. Interest is at 5.731% per annum, payable in annual installments which are specified in the contract. The note matures in March 2025 and is secured by ad valorem taxes levied and assessed on the proceeds of taxable property in the District.	425,705

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (CONTINUED)

Notes Payable (Direct Borrowings) (Continued)

The District entered into a \$868,567 note agreement with Southside Bank to refinance two buildings. Interest is at 5.793% per annum, payable in annual installments which are specified in the contract. The note matures in March 2028 and is secured by ad valorem taxes levied and real estate.	\$347,203
The District entered into a \$1,318,751 note agreement with Southside Bank to refinance fire stations. Interest is at 5.593% per annum, payable in annual installments which are specified in the contract. The note matures in March 2024 and is secured by ad valorem taxes levied and assessed and real estate.	\$233,066
The District entered into a \$1,257,481 note agreement with Southside Bank to refinance real estate and for improvements and repairs. Interest is at 5.593% per annum, payable in annual installments which are specified in the contract. The note matures in March 2024 and is secured by ad valorem taxes levied and real estate.	222,238
The District entered into a \$375,000 note agreement with Southside Bank to finance a vehicle and equipment. Interest is at 5.382% per annum, payable in annual installments which are specified in the contract. The note matures in April 2028 and is secured by ad valorem taxes levied and a vehicle.	152,359
The District entered into a \$1,507,216 note agreement with Southside Bank to finance vehicles and heavy equipment. Interest is at 5.555% per annum, payable in annual installments which are specified in the contract. The note matures in March 2023 and is secured by ad valorem taxes, vehicles, and equipment.	136,536

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (CONTINUED)

Notes Payable (Direct Borrowings) (Continued)

The District entered into a \$350,000 note agreement with Southside Bank to finance vehicles and equipment. Interest is at 5.597% per annum, payable in annual installments which are specified in the contract. The note matures in March 2028 and is secured by ad valorem taxes levied and a vehicle.	142,529
The District entered into a \$480,479 note agreement with Southside Bank to refinance the Tornillo Fire Station. Interest is at 5.593% per annum, payable in annual installments which are specified in the contract. The note matures in March 2024 and is secured by ad valorem taxes levied and real estate.	84,918
The District entered into a \$721,989 note agreement with Southside Bank to refinance vehicles and equipment. Interest is at 5.555% per annum, payable in annual installments which are specified in the contract. The note matures in March 2023 and is secured by ad valorem taxes levied and vehicles.	66,313
The District entered into a \$331,500 note agreement with Trust Bank, formerly known as Branch Banking and Trust, to finance radio equipment. Interest is at 2.23% per annum, payable in annual installments which are specified in the contract. The note matures in February 2023 and is secured by equipment.	34,550

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (CONTINUED)

Notes Payable (Direct Borrowings) (Continued)

The District entered into a \$300,000 note agreement with Southside Bank to finance the construction of a radio tower. Interest is at 5.392% per annum, payable in annual installments, which are specified in the contract. The note matures in April 2023 and is secured by ad valorem taxes and equipment.	\$ 27,532
The District entered into a \$250,000 note agreement with Southside Bank to finance a vehicle. Interest is at 5.589% per annum, payable in annual installments which are specified in the contract. The note matures in March 2023 and is secured by ad valorem taxes and vehicle.	23,003
The District entered into a \$206,405 note agreement with Southside Bank to finance vehicles. Interest is at 5.797% per annum, payable in annual installments which are specified in the contract. The note matures in March 2023 and is secured by ad valorem taxes and vehicles.	<u>18,815</u>
Total notes payable (direct borrowings)	6,551,353
Less amount due within one year	<u>1,610,480</u>
Amount due after one year	<u>\$4,940,873</u>

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (CONTINUED)

Notes Payable (Direct Borrowings) (Continued)

Annual debt service for the outstanding notes is as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$1,610,480	\$ 238,782	\$1,849,262
2024	1,352,622	174,354	1,526,976
2025	1,110,873	123,127	1,234,000
2026	989,711	85,820	1,075,531
2027	1,019,614	55,915	1,075,529
2028-2029	<u>468,053</u>	<u>34,481</u>	<u>502,534</u>
Total	<u>\$6,551,353</u>	<u>\$712,479</u>	<u>\$7,263,832</u>

EMPLOYEE PENSION PLAN

Plan Description – The District participates in the Texas County & District Retirement System (TCDRS), which is a statewide, agent multiple-employer, public employee retirement system.

A brief description of the benefit terms includes the following:

- 1) All full and part-time non-temporary employees participate in the Plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.
- 2) The plan provides retirement, disability, and survivor benefits.
- 3) TCDRS is a savings-based plan. For the District's Plan, 7% of each employee's pay is deposited into his or her TCERS account per year. By law, employee accounts earn 7% interest on beginning of year balances annually. At retirement, the account is matched at an employer set percentage (current match is 250%) and is then converted to an annuity.
- 4) There are no automatic cost of living adjustments ("COLAs"). Each year, the District may elect an ad hoc COLA for its retirees (if any). There are two COLA types, each limited by actual inflation.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

EMPLOYEE PENSION PLAN (CONTINUED)

Plan Description (Continued) –

5) Benefit terms are established under the TCDRS Act. The terms may be amended as of January 1 each year but remain in conformity with the Act.

The District's contribution rate is calculated annually on an actuarial basis, although the employer may elect to contribute at a higher rate. The District contribution rate is based on the TCDRS funding policy adopted by the TCDRS Board of Trustees and must conform with the TCDRS Act. The employee contribution rates are set by the District and are currently 7%. The most recent comprehensive annual financial report for TCDRS can be found at www.tcdrs.org. Membership information is shown in the charts below.

	<u>December 31, 2021</u>
Members:	
Inactive employees entitled but not yet receiving benefits:	13
Number of active employees	33
Average monthly salary:	\$3,486
Average age:	41.10
Average length of service in years*;	4.87
*Averages reported for active employees	
Inactive employees (or their beneficiaries) receiving benefits:	
Number of benefit recipients:	0
Average monthly benefit:	\$0

Total contributions payable to the Plan at September 30, 2022 amounted to \$25,093.

Net Pension Liability – The "Net Pension Liability" ("NPL") is the difference between the "Total Pension Liability" (TPL) and the Plan's Fiduciary Net Position ("FNP"). The TPL is the present value of pension benefits that are allocated to current members due to past service by the entry age normal actuarial cost method. The TPL includes benefits related to projected salary and service, and automatic COLAs. In addition, ad-hoc COLA's are adjusted in the TPL to the extent they are substantially automatic. The FNP is determined on the same basis as the pension plans. The District's net position was measured as of December 31, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The reported FNP as of December 31, 2021 does not reflect changes to plan investments that occurred subsequent to December 31, 2021.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

EMPLOYEE PENSION PLAN (CONTINUED)

Net Pension Liability (Continued) –

<u>Net Pension Liability/ (Asset)</u>	<u>December 31, 2021</u>
Total pension liability	\$1,482,095
Fiduciary net position	<u>1,675,834</u>
Net pension liability/(asset)	\$ <u>(193,739)</u>
Fiduciary net position as a percentage of total pension liability	113.07%
Pensionable covered payroll (1)	\$1,313,487
Net pension asset as a percentage of covered payroll	(14.75%)
Discount rate (2)	7.60%
Long-term expected rate of return, net of investment expense	7.60%
Municipal bond rate (3)	Does not apply

- (1) Payroll is calculated based on contributions as reported to TCDRS.
- (2) 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.
- (3) The Plan's fiduciary net position is 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.

Other Actuarial Assumptions – The actuarial assumptions that determined the total pension asset as of December 31, 2021 were based on the results of an actuarial experience study for the period January 1, 2017 through December 31, 2020, except where required to be different by GASB 68. The economic assumptions were reviewed at the March 2021 TCDRS Board of Trustees meeting and revised assumptions were adopted. These revisions included reductions in the investment return, wage growth, and maximum payroll growth assumptions. The assumptions are reviewed annually for continued compliance with the relevant actuarial standards of practice.

Actuarial Methods and Assumptions Used for GASB Calculations – All actuarial methods and assumptions used for this GASB analysis were the same as those used in the December 31, 2021 funding valuation, except as noted below and throughout this report.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

EMPLOYEE PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions Used for GASB Calculations (Continued) –

The following are key assumptions and methods used:

Valuation Timing	Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.
Actuarial Cost Method	Entry Age (level percent of pay) (1)
Amortization Method	
Recognition of economic/demographic gains or losses	Straight-line amortization over expected working life
Recognition of assumptions changes or inputs	Straight-line amortization over expected working life
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	2.50%
Salary Increases	The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.00% (made up of 2.50% inflation and 0.50% productivity increase assumptions) and a merit, promotion, and longevity component that on average approximates 1.70% per year for a career employee.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

EMPLOYEE PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions Used for GASB Calculations (Continued) –

Investment Rate of Return	7.60% (Gross of administrative expenses)
Cost-of-Living Adjustments	Cost-of-living adjustments for El Paso County Emergency Services District #2 are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost of living adjustments is included in the funding valuation.
Retirement Age	Average age 61.
Turnover	New employees are assumed to replace any terminated members and have similar entry ages.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

EMPLOYEE PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions Used for GASB Calculations (Continued) –

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.

- (1) Individual entry age normal cost method, as required by GASB 68, used for GASB calculations. Note that a slightly different version of the entry age normal cost method is used for the funding actuarial valuation.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

EMPLOYEE PENSION PLAN (CONTINUED)

Schedule of Changes in Net Pension Liability/(Asset) – The change in the reported net pension liability for the measurement period ended December 31, 2021 is as follows:

	Total Pension Liability (a)	Increase (Decrease) Fiduciary Net Position (b)	Net Pension Liability/ (Asset) (a)-(b)
Balance as of December 31, 2020	\$1,206,030	\$1,209,057	\$ (3,027)
Changes for the year:			
Service cost	215,776		215,776
Interest on total pension liability	106,458		106,458
Effect of economic/demographic gains or losses	(21,896)		(21,896)
Effect of assumptions changes or inputs	18,585		18,585
Refund of contributions	(42,858)	(42,858)	
Administrative expenses		(907)	907
Member contributions		91,944	(91,944)
Net investment income		285,857	(285,857)
Employer contributions		127,408	(127,408)
Other	<u> </u>	<u>5,333</u>	<u>(5,333)</u>
Balance as of December 31, 2021	<u>\$1,482,095</u>	<u>\$1,675,834</u>	<u>\$(193,739)</u>

A schedule of changes in net pension liability and related ratios, in addition to the information above, includes multi-year trend information and is presented in the Required Supplementary Information section and can be found on Page 57 of this report.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

EMPLOYEE PENSION PLAN (CONTINUED)

Long-Term Expected Rate of Return – The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2022 information for a 10-year time horizon. Note that the valuation assumption for long-term expected return is reassessed at a minimum of every four years and is set based on a long-term time horizon. The TCDRS Board of Trustees adopted the current assumption at their March 2021 meeting. The assumption for the long-term expected return is reviewed annually for continued compliance with the relevant actuarial standards of practice.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Geometric Real Rate of Return</u>
U.S. Equities	11.50%	3.80%
Global Equities	2.50%	4.10%
International Equities - Developed Markets	5.00%	3.80%
International Equities - Emerging Markets	6.00%	4.30%
Investment-Grade Bonds	3.00%	(0.85)%
Strategic Credit	9.00%	1.77%
Direct Lending	16.00%	6.25%
Distressed Debt	4.00%	4.50%
REIT Equities	2.00%	3.10%
Master Limited Partnerships (MLPs)	2.00%	3.85%
Private Real Estate Partnerships	6.00%	5.10%
Private Equity	25.00%	6.80%
Hedge Funds	6.00%	1.55%
Cash Equivalents	2.00%	(1.05)%

Depletion of Plan Assets/GASB Discount Rate – The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the expected rate of return on pension plan investments.
2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

EMPLOYEE PENSION PLAN (CONTINUED)

Depletion of Plan Assets/GASB Discount Rate (Continued) – Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years.

The determination of a future date when plan investments are not sufficient to pay projected benefit payments is often referred to as a depletion date projection. A depletion date projection compares projections of the pension plan's fiduciary net position to projected benefit payments and aims to determine a future date, if one exists, when the fiduciary net position is projected to be less than projected benefit payments. If an evaluation of the sufficiency of the projected fiduciary net position compared to projected benefit payments can be made with sufficient reliability without performing a depletion date projection, alternative methods to determine sufficiency may be applied.

In order to determine the discount rate to be used by the employer, an alternative method to determine the sufficiency of the fiduciary net position in all future years has been used. The alternative method reflects the funding requirements under the employer's funding policy and the legal requirements under the TCDRS Act.

1. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods.
2. Under TCDRS Act, the employer is legally required to make the contribution specified in the funding policy.
3. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost.
4. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable.

Based on the above, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected level of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

EMPLOYEE PENSION PLAN (CONTINUED)

Depletion of Plan Assets/GASB Discount Rate (Continued) – Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return of the investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, a discount rate of 7.60% has been used. This rate reflects the long-term assumed rate of return on assets for funding purposes of 7.50%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

Sensitivity Analysis – The following presents the net pension liability of the District, calculated using the discount rate of 7.60%, as well as what the District net position liability 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>December 31, 2021</u>		
	1% Decrease <u>6.60%</u>	Current Discount Rate <u>7.60%</u>	1% Increase <u>8.60%</u>
Total pension liability	\$1,795,704	\$1,482,095	\$1,231,355
Less fiduciary net position	<u>1,675,834</u>	<u>1,675,834</u>	<u>1,675,834</u>
Net pension liability/(asset)	\$ <u>119,870</u>	\$(<u>193,739</u>)	\$(<u>444,479</u>)

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

EMPLOYEE PENSION PLAN (CONTINUED)

Net Pension Expense – Pension expense for the year ended September 30, 2022 is recognized by the District as follows:

<u>Pension Expense/(Income)</u>	<u>January 1, 2021 to December 31, 2021</u>
Service cost	\$215,776
Interest on total pension liability	106,458
Administrative expenses	907
Member contributions	(91,944)
Expected investment on return, net of investment expenses	(98,637)
Recognition of deferred inflows/outflows of resources:	
Recognition of economic/demographic gains and losses	(403)
Recognition of assumption changes or inputs	15,026
Recognition of investment gains or losses	(41,285)
Other	<u>(5,333)</u>
Net pension expense	<u>\$100,565</u>

As of September 30, 2022, the deferred inflows and outflows of resources are as follows:

	<u>September 30, 2022</u>	
	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$33,198	\$ 30,069
Changes of assumptions	3,580	93,548
Net difference between projected and actual earnings	165,424	
Contributions made subsequent to measurement date	<u> </u>	<u>137,262</u>
	<u>\$202,202</u>	<u>\$260,879</u>

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

EMPLOYEE PENSION PLAN (CONTINUED)

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year Ended December 31,

2022	\$113,105
2023	(34,406)
2024	(25,549)
2025	(22,813)
2026	14,175
Thereafter	<u>14,165</u>
	<u>\$ 58,677</u>

RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; damage to, and theft or destruction of assets; errors and omissions; injuries to volunteer firefighters and natural disaster, for which commercial insurance is carried. Claims expenditures and liabilities are reported when it is probable that a loss has occurred, and the amounts of loss can be reasonably estimated.

During fiscal year ended September 30, 2022, the District contracted with the VFIS of Texas, Inc. for liability, property, and crime damage. Coverages provided by the Company are as follows:

Business Auto Coverage Liability Combined (Each Accident)	\$1,000,000
Commercial General Liability (Per Occurrence)	\$1,000,000
Commercial Property	\$21,306,817
Public Official Errors (Per Occurrence)	\$1,000,000
Fair Labor Standards Act (Per Occurrence)	\$100,000
Blanket Portable Equipment	\$479,461
Employee Dishonesty (per Employee)	\$100,000

There were no settlements that exceeded insurance coverage in the last three years.

Workers' compensation coverage is maintained by paying premiums to Texas Mutual Insurance Company. The premium is calculated based upon accident history and administrative costs.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

COMMITMENTS AND CONTINGENCIES

Volunteer Fire Departments

The District normally maintains operating agreements with six volunteer fire departments: Fabens Fire Department, Socorro Fire Department, Clint Fire Department, Montana Vista Fire and Rescue, San Elizario Fire and Rescue, and West Valley Fire Department. The agreements are renewed on an annual basis, or each time a department elects a Fire Chief. Each Volunteer Fire Department independently appoints a Fire Chief and maintains its own by-laws and tax-exempt status.

The purpose of the operating agreements is so each volunteer fire department can operate a fire prevention, protection and fighting operation, as well as an emergency medical first responder program in the geographic areas of the communities identified by the ESD map. Each Department is responsible to:

- (1) Provide, procure, and maintain volunteer personnel, supplies, and material necessary for the operation of each fire station,
- (2) Provide necessary training to fire prevention, firefighting, and medical assistance personnel,
- (3) Conduct annual workshops, and
- (4) Safeguard and maintain District property.

At September 30, 2022, \$53,977 was due to volunteer fire departments.

Town of Horizon Police Department – Dispatching Services

The District entered into an interlocal agreement with the Town of Horizon City, Texas (“the Town”) in which the Town’s public safety department will provide dispatching services to the District, including but not limited to providing staff 24 hours a day, 7 days a week, to answer emergency services and dispatch responses for District personnel. The original period of the contract began on March 1, 2015 and ended on September 30, 2015. The contract is renewed every year unless both parties agree to terminate the agreement. Total compensation for the services provided by the Town during the year ended September 30, 2022 was \$361,304. The agreement requires the annual contract amount to be revisited every year and approved by both parties. The contract amount for fiscal year 2023 is \$473,954.

Litigation

The District is subject to potential litigation in the normal course of its operations. In management’s opinion, the District is adequately insured to cover the cost, if any, of such potential litigation. Management does not believe that any current pending litigation will result in a significant financial impact on the District.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

ADOPTION OF NEW ACCOUNTING STANDARDS

For 2022, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. GASB Statement No. 87 enhances the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. These changes were incorporated in the District's 2022 financial statements, but did not have an effect on the beginning net position.

In June 2018, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, was issued. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. These changes were incorporated into the District's 2022 financial statements, but did not have an effect on the beginning net position.

SUBSEQUENT EVENTS

On November 2, 2022 the District entered into a \$680,000 note agreement with Zions Bancorporation to finance the purchase of a fire truck. Interest is at 4.100% per annum, payable in semi-annual installments which are specified in the agreement. The note matures in March 2028 and is secured by ad valorem taxes levied and assessed on the proceeds of taxable property in the District.

Subsequent events were evaluated through February 21, 2023, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended September 30, 2022

	<u>Budgeted Amounts</u>		Actual Amounts Budgetary	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Basis</u>	
Revenues:				
Taxes:				
Sales taxes	\$4,163,000	\$4,440,462	\$ 4,559,549	\$ 119,087
Property taxes	4,314,359	4,465,173	4,487,687	22,514
Proceeds from sale of capital assets		512,895	508,652	(4,243)
Grant income		202,177	43,117	(159,060)
Charges for services	110,000	412,230	412,230	
Interest income		675	675	
Reserve funds	1,309,487	1,309,487		(1,309,487)
Other income		93,644	10,254	(83,390)
	<u>9,896,846</u>	<u>11,436,743</u>	<u>10,022,164</u>	<u>(1,414,579)</u>
Total revenues				
Expenditures:				
Public safety:				
Material and services	3,223,604	3,171,710	2,714,296	457,414
Salaries and benefits	2,304,435	2,334,806	2,151,535	183,271
Capital outlay	2,193,200	2,758,115	1,326,762	1,431,353
Debt service:				
Principal payments	1,869,018	1,869,018	1,869,017	1
Interest payments	306,589	306,589	306,542	47
	<u>9,896,846</u>	<u>10,440,238</u>	<u>8,368,152</u>	<u>2,072,086</u>
Total expenditures				
Excess of revenues over expenditures		996,505	1,654,012	657,507
Fund balance, beginning of year	<u>6,122,084</u>	<u>6,122,084</u>	<u>6,122,084</u>	
Fund balance, end of year	<u>\$ 6,122,084</u>	<u>\$ 7,118,589</u>	<u>\$ 7,776,096</u>	<u>\$ 657,507</u>

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
(CONTINUED)**

Year Ended September 30, 2022

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance
	Original	Final		
Budget basis excess			\$ 1,654,012	
GAAP basis excess			1,654,012	
Fund balance, beginning of year			<u>6,122,084</u>	
Fund balance, end of the year			<u>\$ 7,776,096</u>	

See notes to required supplementary information
and independent auditors' report.

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**

SIGNIFICANT ACCOUNTING POLICIES

Budgetary Basis of Accounting – The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (“GAAP”). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenses are recognized on the cash and encumbrances basis. Revenues are budgeted in the year that receipt is expected, and expenditures are budgeted in the year that the applicable purchase orders are expected to be issued. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

BUDGET PROCESS AND CALENDAR

Budgetary Process – The budgetary process is prescribed by provisions of Title 4, Chapter 102, of the Local Government Code of the Texas Legislature and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the certificate of estimated resources and the appropriation resolution, both of which are prepared on the budgetary basis of accounting.

The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified by resolution of the District Board. All funds are required to be budgeted and appropriated. The level of budgetary control is at the object level for the District. Any budgetary modifications at this level may only be made by resolution of the District Board.

Under the District's by-laws, revenues not specifically related to a particular fund shall be deposited into the District's General Fund. Monies can only be transferred from the General Fund by resolution of the District Board.

Estimated Resources – As part of the District's budgetary process, the Board approves the official estimated resources. The official estimated resources states the projected revenue of the General Fund. Prior to September 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the official estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about October 1, the estimated resources is amended to include any unencumbered balances from the preceding year. The estimated resources may be further amended during the year if the Board determines that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year ended September 30, 2022.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
(CONTINUED)**

BUDGET PROCESS AND CALENDAR (CONTINUED)

Appropriations – An annual appropriation resolution must be passed by September 15 of the preceding year for the period October 1 to September 30. The appropriation resolution fixes spending authority at the fund and object level. The appropriation resolution may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among funds and objects within a fund may be modified during the year only by a resolution of the Board. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriations in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as final budgeted amounts in the schedules of budgetary comparison represent the final appropriation amounts, including all supplemental appropriations.

Lapsing of Appropriations – At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the General Fund and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be re-appropriated.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

There were no categories for which actual expenditures exceeded budget appropriations. Excess appropriations of capital outlay of \$1,431,353 were rolled-over to the fiscal year ending September 30, 2023 and are included in total committed fund balance as of September 30, 2022.

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
YEARS ENDED DECEMBER 31, 2012 THROUGH 2021**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Years 2012 - 2014</u>
Total Pension Liability								
Service cost	\$ 215,776	\$ 178,402	\$ 164,947	\$ 161,666	\$ 145,296	\$ 127,824	\$ 99,145	N/A
Interest on total pension liability	106,458	83,665	64,374	49,084	31,188	13,433	3,595	N/A
Effect of plan changes							(9,664)	N/A
Effect of assumption changes or inputs	18,585	102,979			(6,560)		1,049	N/A
Effect of economic/demographic (gains) or losses	(21,896)	(1,242)	7,190	(19,372)	40,311	(4,688)	9,046	N/A
Benefit payments/refund of contributions	(42,858)	(24,084)		(11,554)				N/A
Net change in total pension liability	276,065	339,720	236,511	179,824	210,235	136,569	103,171	N/A
Total pension liability, beginning	1,206,030	866,310	629,799	449,975	239,740	103,171		N/A
Total pension liability, ending	1,482,095	1,206,030	866,310	629,799	449,975	239,740	103,171	N/A
Fiduciary Net Position								
Employer contributions	127,408	119,575	110,261	102,461	98,641	86,150	62,894	N/A
Member contributions	91,944	86,291	79,570	73,941	69,676	54,427	39,735	N/A
Investment income net of investment expenses	285,857	96,095	102,924	(6,830)	39,961	7,762	(872)	N/A
Benefit payments/refund of contributions	(42,858)	(24,084)		(11,554)				N/A
Administrative expenses	(907)	(885)	(705)	(504)	(310)	(84)	(38)	N/A
Other	5,333	5,470	6,628	4,957	2,253	5,255	(4)	N/A
Net change in fiduciary net position	466,777	282,462	298,678	162,471	210,221	153,510	101,715	N/A
Fiduciary net position, beginning	1,209,057	926,595	627,917	465,446	255,225	101,715		N/A
Fiduciary net position, ending	1,675,834	1,209,057	926,595	627,917	465,446	255,225	101,715	N/A
Net pension liability (asset)	\$ (193,739)	\$ (3,027)	\$ (60,285)	\$ 1,882	\$ (15,471)	\$ (15,485)	\$ 1,456	N/A
Fiduciary net position as a percentage of total pension liability	113.07%	100.25%	106.96%	99.70%	103.44%	106.46%	98.59%	N/A
Pensionable covered payroll	\$ 1,313,487	\$ 1,232,729	\$ 1,136,718	\$ 1,056,299	\$ 995,368	\$ 777,533	\$ 567,640	N/A
Net pension liability (asset) as a percentage of covered payroll	(14.75%)	(0.25%)	(5.30%)	0.18%	(1.55%)	(1.99%)	0.26%	N/A

This schedule is presented to illustrate the requirement to show information for 10 years; however, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 67/68, they should not be shown here. We have, therefore, shown only years for which the new GASB statements have been implemented.

See independent auditors' report.

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
YEARS ENDED DECEMBER 31, 2012 THROUGH 2021**

<u>Year Ended December 31,</u>	<u>Actuarially Determined Contribution (1)</u>	<u>Actual Employer Contribution (1)</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll (2)</u>	<u>Actual Contributions as a % Covered Payroll</u>
2012	\$	\$	\$	\$	
2013					
2014					
2015	62,894	62,894		567,640	11.1%
2016	86,150	86,150		777,533	11.1%
2017	98,641	98,641		995,368	9.9%
2018	102,461	102,461		1,056,299	9.7%
2019	108,216	110,261	(2,045)	1,136,718	9.7%
2020	115,383	119,575	(4,192)	1,232,729	9.7%
2021	125,044	127,408	(2,364)	1,313,487	9.7%

(1) 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.

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

See independent auditors' report.

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Valuation Date 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.

Methods and Assumptions Used to Determine Contribution Rates -

Actuarial Cost Method	Entry age.
Amortization Method	Level percentage of payroll, closed.
Remaining Amortization Period	19.1 years (based on contribution rate calculated in 12/31/2021 valuation).
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%, net of administrative and investment expenses, including inflation.
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement is 61.
Mortality	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected. 2019: New inflation, mortality and other assumptions were reflected.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(CONTINUED)**

Methods and Assumptions Used to Determine Contribution Rates – (Continued)

Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2015: No changes in plan provisions were reflected in the Schedule.
	2016: No changes in plan provisions were reflected in the Schedule.
	2017: New Annuity Purchase Rates were reflected for benefits earned after 2017.
	2018: No changes in plan provisions were reflected in the Schedule.
	2019: No changes in plan provisions were reflected in the Schedule.
	2020: No changes in plan provisions were reflected in the Schedule.
2021: No changes in plan provisions were reflected in the Schedule.	

* Only changes that affect the benefit amount and that are effective 2015 and thereafter are shown in the notes to the Schedule.

AUDITORS' SECTION

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*

To the Board of Commissioners
El Paso County Emergency Services District #2

We have audited, in accordance with the 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 of El Paso County Emergency Services District #2 (“the District”), a discrete component unit of County of El Paso, Texas, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated February 21, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

(Continued)

To the Board of Commissioners
El Paso County Emergency Services District #2

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 determination of 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*.

El Paso County Emergency Services District #2’s Response to Finding

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

Purpose of this Report

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

SBNG, PC

El Paso, Texas
February 21, 2023

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended September 30, 2022

I. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of El Paso County Emergency Services District #2.
2. There is a significant deficiency disclosed by the audit of the financial statements of El Paso County Emergency Services District #2 as reported in the 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*.
3. There are no instances of non-compliance material to the financial statements of El Paso County Emergency Services District #2, which would be required to be reported in accordance with *Government Auditing Standards*.

(Continued)

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

**SCHEDULE OF FINDINGS AND RESPONSES
(CONTINUED)**

Year Ended September 30, 2022

**II. AUDIT FINDINGS RELATING TO THE FINANCIAL STATEMENTS
WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH
“GOVERNMENT AUDITING STANDARDS”**

Finding No. 2022-001 –Equipment Inventory Listing Completeness (Repeat with modification)

Criteria: The District’s largest assets consist of buildings, firefighting equipment, medical equipment, vehicles, furniture, and computer equipment. In order to ensure that these assets are properly safeguarded, the District must maintain a system of equipment control that helps identify and track assets. This system includes performing at least a monthly verification of inventory and updating the inventory listing with enough detail to identify the asset. Due to the complexity of tracking these items, controls over equipment inventory should be monitored through the entire fiscal year.

Condition: The District has adopted a formal written policy to track and safeguard equipment. The District has appointed an individual to be responsible for maintaining a system of equipment control to provide a safeguard against loss and to facilitate effective utilization. During our audit, we noted that a monthly verification of inventory is being performed by the responsible individual; however, the listing of inventory is not yet complete with respect to obsolete items. Although obsolete items have been identified and placed in a specific location, the inventory listing is still showing these items as active in the inventory listing (5 out of 27 instances). In addition, 9 out of 27 items tested were missing serial numbers in the inventory listing.

Cause: The District’s equipment and inventory control procedures have not been fully implemented.

Effect: The current control procedures are not likely to detect or prevent a misappropriation or misuse of equipment in a timely manner.

Recommendation: We recommend that the District continue to strengthen the controls with respect to equipment inventory. Serial numbers should be an essential attribute listed for each item in the inventory listing. In addition, we recommend that the District follows its property disposal procedures included in the inventory policy. Obsolete items should be retired from the inventory control system as soon as approved by the appropriate level of management. We also recommend that the District designate an individual in each fire department to perform monthly inventory verifications. This procedure will enhance the control of equipment at the fire department level and will allow the District to have a more accurate and complete inventory listing for each fire department. Such reports should be subject to management review and approval.

Management’s Response: Management agrees with auditor recommendation. Refer to Corrective Action Plan for expected date of completion.

See independent auditors’ report.

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
(A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2022

Finding 2021-001:

Update of Equipment Inventory Listing

Prior Year Response: Management agrees with the condition described. The District has put in place an inventory policy that will help keep all District owned assets in check; the District has been performing monthly verification of inventory to ensure assets are in check; however, obsolete inventory items have not been removed from the inventory control and the District is unable to produce all the necessary information for inventory purchased prior to the implementation of the policy. The District will review obsolete items and remove items no longer in use and with no salvageable value from the inventory list. The District will identify those items that have completed their useful life but are still in use, and will assign a salvage value to those items. The District will clarify on its policy that serial numbers, costs per item, and assigned department, will be tracked for equipment purchased after the implementation of the policy. For older equipment still in use, the District will assign a salvage value and track on its list.

Current Status: This item has not been entirely corrected and is a repeat finding with modification for the current year. See Finding 2022-001.

See independent auditors' report.



El Paso County Emergency Services District #2

16001 Socorro Road
Fabens, TX 79838
PO Box 265
Fabens, TX 79838
Telephone (915) 851-0304
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EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2 (A COMPONENT UNIT OF THE COUNTY OF EL PASO, TEXAS)

CORRECTIVE ACTION PLAN

Year Ended September 30, 2022

Finding 2022-001:

Equipment Inventory Listing Completeness (Repeat with Modification)

Management's view:

The District has initiated corrective action by performing monthly verification of inventory. Although obsolete items have been identified and placed in a secure location, they have not yet been removed from the inventory control system. Therefore, the District is unable to produce a complete and accurate report.

Proposed corrective action:

- The District will keep identifying obsolete items and remove them from the inventory control system.
- The District will identify those items that have completed their end of life but are still in use, and will assign a value to those items.
- The District will amend the current inventory policy to include an effective implementation date as of January 1, 2021.
- The District will track all property by serial number or tag number when applicable, location, and department on all equipment purchased after the implementation date of the inventory policy.
- The District will appoint an individual in each fire department to maintain an inventory listing of items in use.

Anticipated correction date: September 30, 2023.

Responsible official: Chief Rogelio Esparza