

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2010

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

TABLE OF CONTENTS

	<u>Page(s)</u>
Management's Discussion and Analysis	1-9
Independent Auditors' Report	10-11
Statement of Net Assets	12
Statement of Activities	13
Balance Sheet - Governmental Funds	14
Reconciliation of the Balance Sheet of Governmental funds to the Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Notes to Financial Statements	18-38
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	39
Notes to Budgetary Comparison Schedule	40-41
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	42-43

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
P.O. BOX 683
CLINT, TEXAS 79836**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010**

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, 2010. We encourage readers to consider this information in conjunction with the basic financial statements, which begins on Page 12.

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

- Total assets decreased by approximately 1.67% due to depreciation expense for the current year.
- Total liabilities increased by 0.71% due to increased purchases using capital leases.
- Total net assets decreased by approximately \$472,000, which represents a 7.13% decrease from fiscal year ended 2009.
- Amounts invested in capital assets, net of related debt amounted to \$3,691,594.
- Unrestricted net assets, available to meet the District's on-going obligations, totaled \$2,448,153.
- At September 30, 2010, the District's governmental fund statements shows a combined ending fund balance of \$2,255,828, an increase of \$423,038 in comparison with the prior year fund balance.
- General revenues amounted to \$4,511,476 or 100.00% of all revenues.
- Program revenues decreased from the previous year from \$39,958 to \$-0-.
- The District expended no monies on infrastructure during the current year.

- The District had \$4,983,146 in net program expenses related to governmental activities.
- The District uses the general fund to maintain its financial records.

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 12-13.
- Fund financial statements on pages 14-17.
- Notes to the financial statements on pages 18-38.

This report also contains other supplementary information in addition to the financial statements.

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 a Statement of Net Assets and a Statement of Activities. These statements appear on pages 12 and 13 of this report. One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse as a result of the year's activities?" The Statement of Net Assets 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 assets* and changes in them. You can think of the District's net assets, 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 assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's jurisdiction, the availability of capital projects, and continuing local government support to assess the *overall health* of the District.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the differences between the two reported as net assets. Changes in net assets over time may indicate an improving or deteriorating financial position. Net assets are shown in two categories: 1) invested in capital assets, net of related debt, and 2) unrestricted.

The Statement of Activities presents information showing how the District's net assets changed during the fiscal year ended September 30, 2010. It provides a breakdown of revenues and expenses by functions. All changes in net assets 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 this statement 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.

Both statements 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 of the District include public safety (fire protection). The District does not engage in any business-type activities.

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 14 and 16.

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 helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

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. Page 15 provides a reconciliation of the balance sheet of governmental funds to the statement of net assets and Page 17 provides a reconciliation of the statement of revenues, expenditures and changes in funds balances of governmental funds to the statement of activities.

The District maintains its activities in the general fund.

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 18 through 38 of this report.

OTHER INFORMATION

In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information concerning the District's budgetary comparison schedules for its General Fund. The required supplementary information can be found on page 39.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's total net assets decreased by \$471,670 from \$6,611,417 to \$6,139,747.

Table 1
Net Assets (In Thousands)
September 30,

	<u>2009</u>	<u>2010</u>		<u>2009</u>	<u>2010</u>
Current and other assets	\$2,496.7	\$2,885.1	Net assets:		
Capital assets	<u>19,329.9</u>	<u>18,577.2</u>	Invested in capital assets, net of related debt	\$4,577.7	\$3,691.6
Total assets	<u>21,826.6</u>	<u>21,462.3</u>	Unrestricted	<u>2,033.7</u>	<u>2,448.1</u>
Long-term obligations	(14,752.2)	(14,885.6)	Total net assets	<u>\$6,611.4</u>	<u>\$6,139.7</u>
Other liabilities	<u>(463.0)</u>	<u>(437.0)</u>			
Total liabilities	<u>(15,215.2)</u>	<u>(15,322.6)</u>			

Net assets of the District's activities decreased 7.13% or \$471,670. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased from \$2,033,718 to \$2,448,153 at the end of fiscal year 2010. The increase can be attributed to maintaining controls over outflows to assure they do not exceed inflows.

Table 2 compares the fiscal year ended 2010 change in net assets to the 2009 change in net assets.

Table 2
Changes in Net Assets for 2010
Compared with 2009 Activity
(In Thousands)

	<u>2009</u>	<u>2010</u>	<u>Change</u>
Program revenues:			
Capital grants	\$ 39.9	\$ -0-	\$ (39.9)
General revenues:			
Property taxes	2,583.5	2,592.4	8.9
Sales taxes	1,814.6	1,852.0	37.4
Other	<u>40.6</u>	<u>67.0</u>	<u>26.4</u>
Total revenues	<u>\$4,478.6</u>	<u>\$4,511.4</u>	<u>\$ 32.8</u>

Table 2
Changes in Net Assets for 2010
Compared with 2009 Activity
(In Thousands)
(Continued)

	<u>2009</u>	<u>2010</u>	<u>Change</u>
Program expenses:			
Public safety	\$1,788.5	\$1,977.3	\$ 188.8
Depreciation	1,736.5	1,828.9	92.4
Interest on long-term debt	<u>1,109.0</u>	<u>1,176.9</u>	<u>67.9</u>
 Total expenses	 <u>4,634.0</u>	 <u>4,983.1</u>	 <u>349.1</u>
 Changes in net assets	 <u>\$ (155.4)</u>	 <u>\$ (471.7)</u>	 <u>\$(316.3)</u>

Property taxes increased due to an increase in assessed value of properties. Sales taxes also increased.

Total expenses increased due to an increase in the amount of depreciation and interest on long-term debt.

Overall, net assets decreased approximately 7% from the previous year.

Table 3 presents the 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)
September 30,

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>
General government	\$1,788.5	\$1,977.3	\$1,748.5	\$1,977.3
Depreciation	1,736.5	1,828.9	1,736.5	1,828.9
Interest on long-term debt	<u>1,109.0</u>	<u>1,176.9</u>	<u>1,109.0</u>	<u>1,176.9</u>
 Total expenses	 <u>\$4,634.0</u>	 <u>\$4,983.1</u>	 <u>\$4,594.0</u>	 <u>\$4,983.1</u>

The District received capital grants to help defray the total expenses incurred. Therefore, net cost of services was reduced by \$39,958 in 2009. The District did not receive any capital grants in 2010.

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. In particular, unreserved 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 \$2,255,828, an increase of \$423,038 in comparison with the prior year fund balance. This entire amount constitutes unreserved, undesignated fund balance, which is available for spending at the District's discretion.

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>2009</u>	<u>2010</u>	<u>Percent</u> <u>Change</u>
General	\$ <u>1,832.8</u>	\$ <u>2,255.8</u>	<u>23.1%</u>

The 23.1% increase in the general fund can be primarily attributed to the increase in taxable assessed value of property in the District's taxing area. Secondly, sales tax revenues increased by \$37,426 over the prior year.

Table 5 presents a detail of the governmental fund revenues for the fiscal year ended September 30, 2010 and a comparison with the governmental fund revenues for the prior fiscal year.

Table 5
Total Governmental Fund Revenues
(In Thousands)
September 30,

Revenue Source	2010 Amount	Percent of Total	Increase (Decrease) Over 2009	Percent Increase (Decrease)
Property taxes	\$ 2,627,891	43.8%	\$173,124	7.0%
Sales taxes	1,851,981	30.8%	37,426	2.1%
Grant income	-		(39,958)	(100.0)%
Proceeds from new capital leases	1,455,013	24.2%	855,013	142.5%
Inspection revenue	29,876	.5%	18,141	154.6%
Sale of assets	11,000	.2%	1,750	18.9%
Miscellaneous	3,534	.1%	169	5.0%
Interest earnings	<u>22,637</u>	<u>.4%</u>	<u>6,351</u>	<u>39.0%</u>
Total	<u>\$6,001,932</u>	<u>100.0%</u>	<u>\$1,052,016</u>	<u>21.2%</u>

The 7.0% increase in property taxes is due to an increase in the tax assessed value from 2009 to 2010.

GENERAL FUND BUDGETARY HIGHLIGHTS

Table 6 presents the general fund budget. There are no differences between the original budget and final budget for fiscal year 2010. Table 7 discusses the variance between the final budget and the actual results for the fiscal year.

Table 6
Original and Final Budget – General Fund
(In Thousands)

	Budgeted Amounts Original and Final
Revenues:	
Property taxes	\$ 2,524.9
Sales taxes	1,834.5
Interest earnings	17.6
Miscellaneous	<u>24.0</u>
	4,401.0
Expenditures:	
Total general government	<u>3,723.3</u>
Excess of revenues over expenditures	<u>\$ 677.7</u>

Table 7
Final Budget Versus Actual Results
(In Thousands)
General Fund

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Property taxes	\$2,524.9	\$2,627.9	\$103.0
Sales taxes	1,834.5	1,852.0	17.5
Sale of assets		11.0	11.0
Inspection revenues	24.0	29.9	5.9
Miscellaneous		3.5	3.5
Interest earnings	<u>17.6</u>	<u>22.6</u>	<u>5.0</u>
	4,401.0	4,546.9	145.9
 Expenditures:			
Total general government	<u>3,723.3</u>	<u>5,578.9</u>	<u>1,855.6</u>
 Excess (deficiency) of revenues over (under) expenditures before other financing sources	 677.7	 (1,032.0)	 (1,709.7)
 Other financing sources:			
Proceeds from new capital leases	<u>0.0</u>	<u>1,455.0</u>	<u>1,455.0</u>
 Excess of revenues and other financing sources over expenditures	 <u>\$ 677.7</u>	 <u>\$ 423.0</u>	 <u>\$ (254.7)</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year-end, the District had \$18,577,234 invested in capital assets, net of depreciation. This amount represents a net decrease (including additions and deletions) of \$752,671, or 3.89% compared to last year. The net decrease is primarily due to depreciation.

Capital assets held by the District at the end of the current year and prior years are summarized in Table 8 as follows:

Table 8
Capital Assets, Net of Accumulated Depreciation

	<u>Governmental Activities</u>	
	<u>2009</u>	<u>2010</u>
Land and buildings	\$10,127,951	\$9,833,411
Transportation equipment	7,863,443	7,550,418
Other equipment	<u>1,338,511</u>	<u>1,193,405</u>
Total capital assets, net	<u>\$19,329,905</u>	<u>\$18,577,234</u>

Additional information on the District's capital assets can be found on page 24 of this report.

Debt Administration

At year-end, the District had \$14,885,640 in outstanding capital leases payable versus \$14,752,206 last year, an increase of 0.9%. The increase was due to additional capital leases made during the year.

More detailed information about the District's long-term liabilities is presented on pages 25-37 of this report.

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, P.O. Box 683, Clint, Texas 79836.

Ray Trevizo
Board of Commissioners, President

INDEPENDENT AUDITORS' REPORT

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

I have audited the accompanying financial statements of the governmental activities of El Paso County Emergency Services District #2 (the District), as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of El Paso County Emergency Services District #2's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the El Paso County Emergency Services District #2, as of September 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 17, 2011, on my consideration of the El Paso County Emergency Services District #2's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on Pages 1 through 9 and 39, respectively, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the El Paso County Emergency Services District #2's basic financial statements. The introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

El Paso, Texas
May 17, 2011

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

STATEMENT OF NET ASSETS

September 30, 2010

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 1,967,222
Taxes receivable	792,372
Other assets	125,517
Other capital assets, net of accumulated depreciation	<u>18,577,234</u>
Total assets	<u>21,462,345</u>
<u>LIABILITIES</u>	
Payroll taxes payable	2,006
Accrued interest	434,952
Long-term liabilities:	
Due within one year	1,043,997
Due after one year	<u>13,841,643</u>
Total liabilities	<u>15,322,598</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	3,691,594
Unrestricted	<u>2,448,153</u>
Total net assets	<u>\$ 6,139,747</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2010

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>
Primary Government:					
Governmental activities:					
Public safety	\$ 1,977,359	\$ -	\$ -	\$ (1,977,359)	\$ (1,977,359)
Interest	1,176,932			(1,176,932)	(1,176,932)
Depreciation	1,828,855			(1,828,855)	(1,828,855)
	<u>4,983,146</u>			<u>(4,983,146)</u>	<u>(4,983,146)</u>

Total governmental activities

General Revenues:

Taxes:

Property taxes	2,592,450	2,592,450
Sales taxes	1,851,981	1,851,981
Interest earnings	22,637	22,637
Inspection revenue	29,876	29,876
Sale of assets	11,000	11,000
Miscellaneous	3,532	3,532
Total general revenues	<u>4,511,476</u>	<u>4,511,476</u>

Change in net assets

(471,670)

Net assets at beginning of year

6,611,417

Net assets at end of year

\$ 6,139,747

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2010

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$1,967,222
Taxes receivable	792,372
Other assets	<u>125,517</u>
Total assets	<u>2,885,111</u>
<u>LIABILITIES AND FUND BALANCE</u>	
Liabilities:	
Payroll taxes payable	2,006
Deferred revenue	<u>627,277</u>
Total liabilities	<u>629,283</u>
Fund balances:	
Unreserved	<u>2,255,828</u>
Total liabilities and fund balances	<u>\$2,885,111</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

September 30, 2010

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

Total fund balances of governmental funds in the balance sheet	\$ 2,255,828
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:	
Governmental capital assets	27,309,646
Less accumulated depreciation	<u>(8,732,412)</u>
	18,577,234
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Accrued interest	(434,952)
Capital leases	(14,885,640)
Deferred revenue	<u>627,277</u>
	<u>(14,693,315)</u>
NET ASSETS, GOVERNMENTAL ACTIVITIES	\$ <u>6,139,747</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

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

For the Year Ended September 30, 2010

	<u>General Fund</u>
REVENUES:	
Taxes	\$ 4,479,872
Interest earnings	22,637
Inspection revenue	29,876
Sale of assets	11,000
Miscellaneous	<u>3,534</u>
Total revenues	<u>4,546,919</u>
EXPENDITURES:	
Current:	
Public safety	1,977,359
Capital outlay	1,076,184
Debt service:	
Principal	1,321,580
Interest	<u>1,203,771</u>
Total expenditures	<u>5,578,894</u>
Net expenditures over revenues before other financing sources	<u>(1,031,975)</u>
OTHER FINANCING SOURCES:	
Proceeds from new capital leases	<u>1,455,013</u>
Total other financing sources	<u>1,455,013</u>
Net change in fund balance	423,038
FUND BALANCE AT BEGINNING OF YEAR	<u>1,832,789</u>
FUND BALANCE AT END OF YEAR	\$ <u>2,255,827</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

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

For the Year Ended September 30, 2010

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

Net change in fund balance - total governmental funds	\$ 423,038
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives:	
Expenditure for capital assets	1,076,184
Less current year provision for depreciation	(1,828,855)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,321,580
Proceeds from new capital leases are reported as other financial sources in the governmental funds, but the proceeds are reported as liabilities in the statement of net assets.	(1,455,013)
Property taxes are reported as income in the governmental funds on the modified accrual basis, but are reported as income in the statement of net assets on the full accrual basis.	(35,441)
Interest expense is reported as an expense in the governmental funds on the modified accrual basis, but is reported as an expense in the statement of net assets on the full accrual basis.	<u>26,837</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>(471,670)</u>

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

NOTES TO FINANCIAL STATEMENTS

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO THE 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, the accompanying financial statements present the activities of the District.

Based on the application of the criteria set forth by the Government Accounting Standards Board, management has determined that no component units exist, which would require inclusion in this report. Further, management is not aware of any entity which would consider the District to be a component unit.

Government-Wide and Fund Financial Statements – The government-wide financial statements (the statement of net assets 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 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. Major individual governmental funds are reported as separate columns in the fund financial statements. 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 for 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

NOTES TO THE 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.

Fund Accounting – The District uses funds 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. The District reports the following major governmental fund:

General Fund – 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

NOTES TO THE 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, includes 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 and Investments – For presentation in the financial statements, investments 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 September 1. The certified tax roll from the El Paso Central Appraisal District reflected a taxable value of \$2,620,323,175 for the year ended September 30, 2010. Taxes are due upon receipt of the tax bill and are delinquent if not paid by January 31, 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. The District's 2009-2010 tax rate was \$.100, per \$100 of assessed valuation. The District incurred expenditures of \$53,082 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2010.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 assets, 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.

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

Net Assets – Equity is classified as net assets and displayed in two components:

- 1) Invested in capital assets, net of related debt – consists of 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 assets - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Deferred Revenues – 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. Unearned revenues at the government-wide level arise only when the District receives resources before it has a legal claim to them.

DEPOSITS AND INVESTMENTS

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.

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; and
- 4) Certificates of deposit.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

DEPOSITS AND INVESTMENTS (Continued)

Investments in collateral mortgage obligations are prohibited. The maximum allowable stated maturity of any authorized investment type cannot exceed two years to maturity.

At year-end, the carrying amount of the District's deposit was \$1,967,222.

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.

Cash consists of the following at September 30, 2010:

	<u>Investment Category</u>	
Cash in bank	1	<u>\$1,967,222</u>

Interest Rate Risk - The District does not have a formal investment policy that limits 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. However, the District has no investment policy that would 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.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of September 30, 2010, all of the District's bank balance, less \$250,000 of Federal Deposit Insurance Corporation coverage, of \$1,717,222 was exposed to custodial credit risk.

CAPITAL ASSETS

Capital asset activity for the District for the year ended September 30, 2010, was as follows:

	<u>Balance September 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2010</u>
Land and buildings	\$11,781,597	\$	\$	\$11,781,597
Transportation equipment	12,358,223	999,057		13,357,280
Other equipment	<u>2,093,643</u>	<u>77,127</u>	<u> </u>	<u>2,170,770</u>
Total at historic cost	<u>26,233,463</u>	<u>1,076,184</u>	<u> </u>	<u>27,309,647</u>
Less accumulated depreciation for:				
Land and buildings	1,653,646	294,540		1,948,186
Transportation equipment	4,494,779	1,312,082		5,806,861
Other equipment	<u>755,131</u>	<u>222,234</u>	<u> </u>	<u>977,365</u>
Total accumulated depreciation	<u>6,903,556</u>	<u>1,828,856</u>	<u> </u>	<u>8,732,412</u>
Governmental activities capital assets, net	<u>\$19,329,907</u>	<u>\$ (752,672)</u>	<u>\$ </u>	<u>\$18,577,235</u>

Total provision for depreciation of \$1,828,855 was charged to public safety of the primary government.

DEFERRED REVENUE

Deferred revenue in the amount of \$627,277 at September 30, 2010, consisted of property tax revenue. 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. Unearned revenues at the government-wide level arise only when the District receives resources before it has a legal claim to them.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

LONG-TERM DEBT

Long-term debt of the governmental activities at September 30, 2010 consists of the following obligation under capital leases entered into for the acquisition of land and buildings, transportation equipment, and other equipment.

	Balance September 30, 2009	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2010
	_____	_____	_____	_____
Clint:				
Capital lease, Agreement No. 5019, dated October 14, 2008, payable to Southside Bank as agent for the lender, Government Capital Corp., \$350,000 original lease with interest at 5.597%, payable annually with twenty payments of \$28,619 including interest, secured by equipment.	\$ 329,652		\$ 10,170	\$ 319,482
Capital lease, Agreement No. 5177, dated February 17, 2009, payable to Southside Bank as agent for the lender, Government Capital Corp., \$206,406 original lease with interest at 5.797%, payable annually with fifteen payments of \$19,905 including interest, secured by equipment.	187,365		9,043	178,322
Capital lease, Agreement No. 5047, dated October 14, 2008, payable to Southside Bank as agent for the lender, Government Capital Corp., \$721,989 original lease with interest at 5.555%, payable annually with fifteen payments of \$69,997 including interest, secured by fire trucks.	668,926		32,837	636,089

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2009	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2010
	_____	_____	_____	_____
Clint (continued):				
Capital lease, Agreement No. 5043, dated November 4, 2008, payable to Southside Bank as agent for the lender, Government Capital Corp., \$1,283,473 original lease with interest at 5.793%, payable annually with twenty payments of \$106,194 including interest, secured by land, a training facility tower, and a burn room annex.	1,204,335		36,426	1,167,909
Fabens:				
Capital lease, dated July 12, 2005, payable to Jefferson Bank as agent for the lender, CFR, Inc., \$618,577 original lease with interest at 5.890%, payable annually with ten payments of \$81,954 including interest, secured by vehicles.	404,390		58,135	346,255
Capital lease, dated April 11, 2006, payable to Jefferson Bank as agent for the lender, CFR, Inc., \$100,000 original lease with interest at 5.890%, payable annually with five payments of \$6,000, three payments of \$13,000, one payment of \$20,000, and one payment of \$64,772 including interest, secured by furniture, fixtures, and equipment.	99,650		99,650	-

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

LONG-TERM DEBT (Continued)

	Balance September 30, 2009	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2010
	_____	_____	_____	_____
Fabens (continued):				
Capital lease, dated April 11, 2006, payable to All Points Capital as agent for the lender, CFR, Inc., \$279,079 original lease with interest at 5.890%, payable annually with one payment of \$90,000, five payments of \$21,794, one payment of \$25,698, two payments of \$42,000, and one payment of \$40,277, including interest, secured by fire station improvements.	155,188		155,188	-
Capital lease, dated June 13, 2006, payable to All Points Capital as agent for the lender, CFR Inc., \$1,240,654 original lease with interest at 5.350%, payable annually with six payments of \$86,000, three payments of \$107,732, and six payments of \$183,385, including interest, secured by fire station improvements and fire equipment.	1,155,245		1,155,245	-
Capital lease, dated June 12, 2007, payable to Ogletree LTD. as agent for the lender, CFR, Inc., \$300,000 original lease with interest at 5.93%, payable annually with fifteen payments of \$30,349 including interest, secured by a vehicle.	269,787		14,353	255,434

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

LONG-TERM DEBT (Continued)

	Balance September 30, 2009	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2010
	_____	_____	_____	_____
Fabens (continued):				
Capital lease, dated June 12, 2007, payable to Community Bank as agent for the lender, CFR, Inc., \$300,000 original lease with interest at 5.93%, payable annually with fifteen payments of \$30,349 including interest, secured by a vehicle.	269,787		14,353	255,434
Capital lease, dated June 12, 2007, payable to Jefferson Bank as agent for the lender, CFR, Inc., \$253,181 original lease with interest at 5.93%, payable annually with fifteen payments of \$25,613 including interest, secured by vehicle and equipment.	227,684		12,113	215,571
Capital lease, dated October 12, 2007, payable to Jefferson Bank as agent for the lender, CFR, Inc., \$465,018 original lease with interest at 5.49%, payable annually with nine payments of \$31,000, five payments of \$56,000, and one payment of \$212,072 including interest, secured by fire station and equipment.	408,754		408,754	-

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2009	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2010
	_____	_____	_____	_____
Fabens (continued):				
Capital lease, Agreement No. 5410, dated January 12, 2010, payable to Southside Bank as agent for the lender, Government Capital Corp., \$1,257,481 original lease with interest at 5.593%, payable annually with fifteen payments of \$120,526 including interest, secured by Fabens main fire station.		1,257,481	108,413	1,149,068
Montana Vista				
Capital lease, Agreement No. 5015, dated August 5, 2008, payable to Southside Bank as agent for the lender, Government Capital Corp., \$111,176 original lease with interest at 5.528%, payable annually with ten payments of \$14,472 including interest, secured by equipment.	100,493		8,917	91,576
Capital lease, Agreement No. 5044, dated January 13, 2009, payable to Southside Bank as agent for the lender, Government Capital Corp., \$940,201 original lease with interest at 5.50%, payable annually with twenty payments of \$71,072 including interest, secured by land.	876,697		29,429	847,268

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2009	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2010
	_____	_____	_____	_____
Montana Vista (continued):				
Capital lease, Agreement No. 5045, dated January 13, 2009, payable to Southside Bank as agent for the lender, Government Capital Corp., \$1,507,216 original lease with interest at 5.555%, payable annually with fifteen payments of \$144,119 including interest, secured by pumpers, tankers, vehicles and equipment. 1,377,284			67,612	1,309,672
Capital lease, Agreement No. 5444, dated March 17, 2010, payable to Southside Bank as agent for the lender, Government Capital Corp., \$200,000 original lease with interest at 5.525%, payable annually with five payments of \$46,887 including interest, secured by vehicles.		200,000		200,000
San Elizario:				
Capital lease, dated September 10, 2002, payable to Marquette Bank as agent for CFR Inc., \$800,000 original lease with interest at 4.855%, payable annually with four payments of \$99,988 and one payment of \$84,558, and six payments of \$84,326 including interest, secured by land and fire station.	230,265		73,146	157,119

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

LONG-TERM DEBT (Continued)

	Balance September 30, 2009	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2010
	_____	_____	_____	_____
San Elizario (continued):				
Capital lease, dated April 12, 2005, payable to Jefferson Bank as agent for the lender, CFR Inc., \$698,398 original lease with interest at 5.96%, payable annually with ten payments of \$93,719 including interest, secured by two rescue pumps.	461,425		66,218	395,207
Capital lease, dated September 12, 2006 payable to Banco Popular as agent for the lender CFR, Inc., \$1,574,876 original lease with interest at 5.364%, payable annually with six payments of \$85,000, three payments of \$185,000 and six payments of \$229,628 including interest, secured by station improvements and fire equipment.	1,499,554		1,499,554	-
Capital lease, Agreement No. 5438, dated June 8, 2010, payable to Southside Bank as agent for the lender, Government Capital Corp., \$1,585,600 original lease with interest at 5.731%, payable annually with fifteen payments of \$158,468 including interest, secured by fire station.		1,585,600		1,585,600

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2009	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2010
	_____	_____	_____	_____
Socorro:				
Capital lease, dated March 8, 2005, payable to Bank of the West as agent for the lender, CFR, Inc., \$913,597 original lease with interest at 5.970%, payable annually with ten payments of \$108,758, including interest, secured by vehicles.	694,378		694,378	-
Capital lease, Agreement No. 5020, dated October 14, 2008, payable to Southside Bank as agent for the lender, Government Capital Corporation, \$250,000 original lease with interest at 5.5890%, payable annually with fifteen payments of \$24,288 including interest, secured by equipment.	231,612		11,343	220,269
Capital lease, Agreement No. 5325, dated October 13, 2009, payable to Southside Bank as agent for the lender, Government Capital Corp., \$749,870 original lease with interest at 5.755%, payable annually with ten payments of \$97,553 including interest, secured by a fire truck and vehicle.		749,870	79,212	670,658

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2009	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2010
	_____	_____	_____	_____
Socorro (continued):				
Capital lease Agreement No. 5313, dated October 13, 2009, payable to Southside Bank as agent for the lender, Government Capital Corp., \$1,635,784 original lease with interest at 5.755%, payable annually with twenty payments of \$135,414 including interest, secured by land.		1,635,784	95,407	1,540,377
Capital lease, Agreement No. 5473, dated April 13, 2010, payable to Southside Bank as agent for the lender, Government Capital Corp., \$433,835 original lease with interest at 5.226%, payable annually with ten payments of \$56,613 including interest, secured by a pumper, tanker, and misc. equipment.		433,835		433,835
West Valley:				
Capital lease, dated August 3, 2004, payable to Bank of the West as agent for the lender, CFR, Inc., \$1,235,000 original lease with interest at 5.413%, payable annually with ten payments of \$158,110 including interest, secured by trucks and vehicle.	676,792		121,476	555,316

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2009	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2010
	_____	_____	_____	_____
West Valley (continued):				
Capital lease, dated October 7, 2004, payable to Bank of the West as agent for the lender, CFR, Inc., \$1,385,000 original lease with interest at 5.148%, payable with ten payments of \$92,773 and five payments of \$248,321 including interest, secured by land, fire and sub stations, and training facility.	1,233,069		1,233,069	-
Capital lease, Agreement No. 5018, dated September 23, 2008, payable to Southside Bank as agent for the lender, Government Capital Corporation, \$300,000 original lease with interest at 5.392%, payable annually with fifteen payments of \$29,016 including interest, secured by tanker.	280,151		13,910	266,241
Capital lease, Agreement No. 5016, dated September 23, 2008, payable to Southside Bank as agent for the lender, Government Capital Corporation, \$375,000 original lease with interest at 5.382% payable annually with twenty payments of \$30,385 including interest, secured by a Pumper truck and equipment.	356,051		11,223	344,828

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

LONG-TERM DEBT (Continued)

	Balance September 30, 2009	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2010
	_____	_____	_____	_____
West Valley (continued):				
Capital lease, dated March 8, 2005, payable to Bank of the West as agent for the lender, CFR, Inc., \$1,587,134 original lease with interest at 5.970%, payable with twelve payments of \$148,000 and three payments of \$257,774 including interest, secured by land, fire station, tower, and training facility.	1,353,671		1,353,671	-
Capital lease, Agreement No. 5408, dated January 12, 2010, payable to Southside Bank as agent for the lender, Government Capital Corp., \$1,318,751 original lease with interest at 5.593%, payable annually with fifteen payments of \$126,399 including interest, secured by fire station, training facility and sub station.		1,318,751	113,696	1,205,055
Capital lease, Agreement No. 5514, dated July 13, 2010, payable to Southside Bank as agent for the lender, Government Capital Corp., \$100,000 original lease with interest at 5.895%, payable annually with five payments of \$23,251 including interest, secured by a vehicle.		100,000		100,000

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2009	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2010
	_____	_____	_____	_____
Tornillo:				
Capital lease, Agreement No. 5411, dated January 12, 2010, payable to Southside Bank as agent for the lender, Government Capital Corp., \$480,479 original lease with interest at 5.593%, payable annually with fifteen payments of \$46,053 including interest, secured by Tornillo fire station.	_____	480,479	41,424	439,055
	<u>\$14,752,205</u>	<u>\$7,761,800</u>	<u>\$7,628,365</u>	<u>\$14,885,640</u>

Annual debt service requirements for the capital leases are as follows:

<u>Year Ending September 30:</u>	<u>Amount</u>
2011	\$ 1,043,997
2012	1,078,632
2013	1,054,300
2014	1,113,570
2015	1,018,067
Thereafter	<u>9,577,074</u>
	<u>\$14,885,640</u>

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

LEASES

Capital leases

The District has entered into certain capital lease agreements under which the related equipment will become the property of the District when all the terms of the lease agreements are met. Such agreements are included with capital lease obligations.

The following presents future minimum lease payments as of September 30, 2010:

<u>Year Ending September 30:</u>	<u>Amount</u>
2011	\$ 1,043,997
2012	1,078,632
2013	1,054,300
2014	1,113,570
2015	1,018,067
Thereafter	<u>9,577,074</u>
	<u>\$14,885,640</u>

Amortization of leased equipment under capital assets is included with depreciation expense.

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 2010, the District contracted with the VFIS of Texas, Inc. for liability, property, and crime damage. Coverage's 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	\$6,825,030

The District had no changes in insurance coverage from the prior year and there were no settlements that exceeded insurance coverage in the last eight years.

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

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

COMMITMENTS AND CONTINGENCIES

As of September 30, 2010, the District did not have any claims, pending litigation, long-term commitments, or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND**

For the Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u> <u>Budgetary</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Basis</u>	
REVENUES:				
Taxes:				
Property taxes	\$2,524,862	\$2,524,862	\$ 2,627,891	\$ 103,029
Sales tax	1,834,461	1,834,461	1,851,981	17,520
Intergovernmental:				
Grant income				
Sale of assets			11,000	11,000
Inspection revenues			29,876	29,876
Miscellaneous	24,000	24,000	3,534	(20,466)
Interest earnings	<u>17,600</u>	<u>17,600</u>	<u>22,637</u>	<u>5,037</u>
Total revenues	<u>4,400,923</u>	<u>4,400,923</u>	<u>4,546,919</u>	<u>145,996</u>
EXPENDITURES:				
Public safety:				
Fire control and EMS:				
Administration and insurance	316,000	316,000	433,169	(117,169)
Building and grounds	335,000	335,000	148,309	186,691
Communication	122,000	122,000	146,861	(24,861)
Electric	80,000	80,000	73,606	6,394
Heat	19,000	19,000	21,903	(2,903)
Water	9,800	9,800	12,290	(2,490)
Equipment maintenance and repair	37,000	37,000	77,400	(40,400)
Equipment purchases	320,000	320,000	171,218	148,782
Vehicle maintenance	165,000	165,000	248,999	(83,999)
Fire-fighting supplies	9,000	9,000	18,356	(9,356)
Medical supplies	26,000	26,000	35,013	(9,013)
Fuel (Gasoline/Diesel)	130,000	130,000	163,778	(33,778)
Miscellaneous	9,000	9,000	7,734	1,266
Professional services	230,000	230,000	99,854	130,146
Salaries and benefits	21,500	21,500	65,654	(44,154)
Service contracts	72,000	72,000	53,082	18,918
Supplies	22,000	22,000	40,457	(18,457)
Training and travel	80,000	80,000	99,723	(19,723)
Uniforms and bunker gear	120,000	120,000	59,953	60,047
Capital outlay			1,076,184	(1,076,184)
Capital lease payments	1,600,000	1,600,000	1,321,580	278,420
Interest payments			<u>1,203,771</u>	<u>(1,203,771)</u>
Total expenditures	<u>3,723,300</u>	<u>3,723,300</u>	<u>5,578,894</u>	<u>(1,855,594)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>677,623</u>	<u>677,623</u>	<u>(1,031,975)</u>	<u>(1,709,598)</u>
OTHER FINANCING SOURCES:				
Proceeds from new capital leases			<u>1,455,013</u>	<u>1,455,013</u>
Total other financing sources			<u>1,455,013</u>	<u>1,455,013</u>
Excess of revenues and other financing sources over expenditures	<u>\$ 677,623</u>	<u>\$ 677,623</u>	<u>\$ 423,038</u>	<u>\$ (254,585)</u>

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO BUDGETARY COMPARISON SCHEDULE

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 2010.

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.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO BUDGETARY COMPARISON SCHEDULE
(CONTINUED)**

BUDGET PROCESS AND CALENDAR (Continued)

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 appropriated.

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 expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. 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.

**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
Clint, Texas

I have audited the financial statements of the governmental activities of El Paso County Emergency Services District #2 (the District), as of and for the year ended September 30, 2010, which collectively comprise the District's basic financial statements and have issued my report thereon dated May 17, 2011. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the finance committee, management, Board of Commissioners, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

El Paso, Texas
May 17, 2011