

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013**

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MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013

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, 2013. We encourage readers to consider this information in conjunction with the basic financial statements, which begins on Page 4.

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 4.11% due to an increase in accumulated depreciation for assets purchased in the prior and current year.
- Total liabilities decreased by 3.13% due to payments of capital leases and an increase in purchases of assets using capital lease financing for the current year.
- Total net position of \$5,293,263 decreased by \$385,989 which represents a 6.80% decrease for the year ended September 30, 2013. Total expenses over revenues was \$411,558. But the change was reduced by a prior period adjustment resulting from an understatement of sales tax revenues, overstatement of property tax revenues and an understatement of accounts payable in the previous fiscal year.
- Amounts invested in capital assets, net of related debt amounted to \$2,434,263.
- Unrestricted net assets, available to meet the District's on-going obligations, totaled \$2,859,000.
- At September 30, 2013, the District's governmental fund statement shows a combined ending fund balance of \$2,697,582, an increase of \$437,635 in comparison with the prior year fund balance.
- General revenues amounted to \$5,433,608 or 86.10% of all revenues.
- Program revenues increased from the previous year from \$55,179 to \$73,245.
- The District expended no monies on infrastructure during the year.
- The District had \$5,845,166 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 4-7.
- Fund financial statements on Pages 8-13.
- Notes to the financial statements on Pages 14-34.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013

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 Position and a Statement of Activities. These statements appear on Pages 4 through 7 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 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 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 Position 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, 2013. It provides a breakdown of revenues and expenses by function. 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 includes 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 8 through 13.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013

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.

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.

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 14 through 34 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 Pages 35 through 38.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1
Net Position (In Thousands)
September 30,

	<u>2012</u>	<u>2013</u>		<u>2012</u>	<u>2013</u>
Current and other assets	\$2,928.9	\$ 3,476.7	Net Position:		
Capital assets	<u>18,291.1</u>	<u>16,870.2</u>	Invested in capital assets, net of related debt	\$3,175.2	\$2,434.2
Total assets	<u>21,220.0</u>	<u>20,346.9</u>	Unrestricted	<u>2,504.1</u>	<u>2,859.0</u>
Long-term obligations	(15,115.9)	(14,436.0)	Total position	<u>\$5,679.3</u>	<u>\$5,293.2</u>
Other liabilities	<u>(424.8)</u>	<u>(617.7)</u>			
Total liabilities	<u>(15,540.7)</u>	<u>(15,053.7)</u>			

Net position of the District's activities decreased 6.80% or \$385,989. 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 \$2,504,068 to \$2,859,000 at the end of fiscal year 2013. The increase can be attributed to maintaining controls over outflows to assure they do not exceed inflows.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013

Table 2 compares the fiscal year ended 2013 change in net position to the 2012 change in net assets.

Table 2
Changes in Net Position for 2013
Compared with 2012 Activity
(In Thousands)

	<u>2012</u>	<u>2013</u>	<u>Change</u>
Program revenues:			
Operating grants	\$ -	\$ 17.9	\$ 17.9
Capital grants	-	786.3	786.3
Charges for services	55.2	73.2	18.0
General revenues:			
Property taxes	2,792.9	2,934.5	141.6
Sales taxes	2,205.4	2,490.0	284.6
Other	<u>5.9</u>	<u>9.1</u>	<u>3.2</u>
Total revenues	<u>5,059.4</u>	<u>6,311.0</u>	<u>1,251.6</u>
Program expenses:			
Public safety	4,745.4	6,034.0	1,288.6
Interest on long-term debt	<u>771.1</u>	<u>688.6</u>	<u>(82.5)</u>
Total expenses	<u>5,516.5</u>	<u>6,722.6</u>	<u>1,206.1</u>
Changes in net position	<u>\$ (457.1)</u>	<u>\$ (411.6)</u>	<u>\$ (45.5)</u>

Property taxes increased due to an increase in assessed value of properties. Sales taxes increased due to an increase in sales within the District.

Total expenses increased due to an increase in the amount of depreciation and public safety expenses.

Overall, the change in net position increased approximately 9.95% from the previous year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013**

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)
September 30,**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
General government	\$4,745.4	\$6,034.0	\$4,690.2	\$5,156.6
Interest on long-term debt	<u>771.1</u>	<u>688.6</u>	<u>771.1</u>	<u>688.6</u>
Total expenses	<u>\$5,516.5</u>	<u>\$6,722.6</u>	<u>\$5,461.3</u>	<u>\$5,845.2</u>

The District received \$786,268 in capital grants from FEMA for the purchase of radios and \$17,905 in grants from Texas A&M Forest Service to assist with training and workmen's compensation insurance.

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, 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 \$2,697,582 an increase of \$437,635 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
 SEPTEMBER 30, 2013

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>2012</u>	<u>2013</u>	<u>Percent Change</u>
General Fund	<u>\$2,259.9</u>	<u>\$2,697.6</u>	<u>19.37%</u>

Table 5 presents a detail of the governmental fund revenues for the fiscal year ended September 30, 2013 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	<u>2013 Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) Over 2012</u>	<u>Percent Increase (Decrease)</u>
Property taxes	\$2,914.1	46.33%	\$ 153.9	5.58%
Sales taxes	2,490.0	39.58%	284.6	12.90%
Charges for services	73.2	1.16%	18.0	32.74%
Grant income	804.2	12.78%	804.2	100.00%
Interest income	2.3	0.04%	(0.1)	(2.70)%
Sale of assets	<u>6.8</u>	<u>0.11%</u>	<u>3.3</u>	<u>94.43%</u>
Total	<u>\$6,290.6</u>	<u>100.0 %</u>	<u>\$ 1,263.9</u>	<u>292.95%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013

GENERAL FUND BUDGETARY HIGHLIGHTS

Table 6 represents the general fund budget. There are no differences between the original budget and final budget for fiscal year 2013. Table 6 discusses the variance between the final budget and the actual results for the fiscal year.

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

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Property taxes	\$2,742.0	\$2,914.1	\$ 172.1
Sales taxes	2,200.0	2,490.0	290.0
Grant income	-	804.2	804.2
Interest earnings	2.5	2.3	(0.2)
Sale of assets	-	6.8	6.8
Inspection earnings	<u>90.2</u>	<u>73.2</u>	<u>(17.0)</u>
	<u>\$5,034.7</u>	<u>\$6,290.6</u>	<u>\$ 1,255.9</u>
Expenditures:			
Total general government	<u>\$4,808.1</u>	<u>\$7,627.5</u>	<u>\$ 2,819.4</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year-end, the District had \$16,870,221 invested in capital assets, net of depreciation. This amount represents a net decrease (including addition and deletions) of \$1,420,909 or 7.77% compared to last year. The net decrease is primarily due to additions of capital assets during 2013 totaling \$1,035,105 less depreciation of total assets totaling \$2,456,014.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013

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

Table 7
Capital Assets, Net of Accumulated Depreciation

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2013</u>
Land	\$ 786,051	\$ 786,051
Construction in progress	250,000	-
Buildings and improvements	8,679,097	9,012,330
Transportation equipment	7,317,970	6,109,459
Other equipment	<u>1,258,012</u>	<u>962,381</u>
Total capital assets, net	<u>\$18,291,130</u>	<u>\$16,870,221</u>

Additional information on the District's capital assets can be found on Page 20 of this report.

Debt Administration

At year-end, the District had \$14,435,958 in outstanding capital leases payable verse \$15,115,943 last year, a decrease of 2.14%. The decrease was due to an increase in purchases of assets using capital lease financing during the year of \$1,597,001 and payments of capital leases during the year of \$2,276,986.

More detailed information about the District's long-term liabilities is presented on Pages 22-32 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.

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Board of Commissioners, President

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of El Paso County Emergency Services District #2, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise El Paso County Emergency Service District #2's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audits 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of El Paso County Emergency Services District #2, as of September 30, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i through ix and 25 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise El Paso County Emergency Services District #2's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2014, on our consideration of El Paso County Emergency Services District #2's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 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.

Pera Breonex McDaniel & Co

April 17, 2014

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 2,333,885
Receivable, net of allowance	
Taxes	1,106,621
Other	185
Capital assets, net of accumulated depreciation	16,870,221
Prepaid insurance	32,258
Other assets	<u>3,750</u>
TOTAL ASSETS	<u>20,346,920</u>
<u>LIABILITIES</u>	
Current Liabilities	
Accounts payable	\$ 247,631
Payroll taxes payable	369
Accrued interest	369,699
Long-term liabilities:	
Due within one year	1,518,952
Due after one year	<u>12,917,006</u>
TOTAL LIABILITIES	<u>15,053,657</u>
<u>NET POSITION</u>	
Investment in capital assets, net of related debt	2,434,263
Unrestricted	<u>2,859,000</u>
TOTAL NET POSITION	<u>\$ 5,293,263</u>

See accompanying notes to financial statements and independent auditor's report.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

FUNCTIONS/PROGRAMS	Expense	Program Revenues			Net Revenue (Expense) and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities					
Public safety	\$ 6,034,006	\$ 73,245	\$ 17,905	\$ 786,268	\$ (5,156,588)
Interest on debt	688,578	-	-	-	(688,578)
Total primary government	<u>\$ 6,722,584</u>	<u>\$ 73,245</u>	<u>\$ 17,905</u>	<u>\$ 786,268</u>	<u>\$ (5,845,166)</u>
		General Revenues:			
		Taxes:			
					2,934,486
					2,489,975
					2,342
					6,805
					<u>5,433,608</u>
					<u>(411,558)</u>
					5,679,252
					<u>25,569</u>
					5,704,821
					<u>\$ 5,293,263</u>

See accompanying notes to financial statements and independent auditor's report.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 2,333,885
Receivables, net of allowance	
Taxes	1,106,621
Other	185
Prepaid insurance	32,258
Other assets	<u>3,750</u>
TOTAL ASSETS	<u>\$ 3,476,699</u>
<u>LIABILITIES AND FUND EQUITY</u>	
<u>LIABILITIES</u>	
Accounts payable	\$ 247,631
Payroll taxes payable	369
Deferred revenues	<u>531,117</u>
Total liabilities	<u>779,117</u>
<u>FUND EQUITY</u>	
Unassigned	<u>2,697,582</u>
Total fund equity	<u>2,697,582</u>
TOTAL	<u>\$ 3,476,699</u>
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position:	
Amounts presented for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:	
Governmental capital assets	32,306,063
Less accumulated depreciation	(15,435,842)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Accrued interest	(369,699)
Long term debt	(14,435,958)
Deferred revenue	<u>531,117</u>
Net position of governmental activities	<u>\$ 5,293,263</u>

See accompanying notes to financial statements and independent auditor's report.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	<u>General Fund</u>
REVENUES	
Property and occupancy taxes	\$ 2,914,149
Sales taxes	2,489,975
Inspection revenue	73,245
Sale of assets	6,805
Grants	804,173
Interest income	<u>2,342</u>
Total revenues	<u>6,290,689</u>
EXPENDITURES	
Public safety	3,577,995
Capital outlays	1,035,105
Principal retirements	2,276,986
Interest	<u>737,366</u>
Total expenditures	<u>7,627,452</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>\$ (1,336,763)</u>
OTHER FINANCING SOURCES	
Net proceeds from new long term debt	<u>1,597,001</u>
Total other financing sources	<u>1,597,001</u>
Net change in fund balances	260,238
FUND BALANCES, Beginning, as previously reported	2,259,946
Prior period adjustment (Note 10)	<u>177,398</u>
FUND BALANCES, Beginning, as restated	2,437,344
FUND BALANCES, Ending	<u>\$ 2,697,582</u>

See accompanying notes to financial statements and independent auditor's report.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Reconciliation of Statement of Revenues, Expenditures, and Change in Fund
Balance to Statement of Activities:

Net change in fund balances- total governmental funds \$ 260,238

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Expenditure for capital assets 1,035,105
Less current year provision for depreciation (2,456,014)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 2,276,986

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 (1,597,001)

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 20,337

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 48,791

Change in net position of governmental activities \$ (411,558)

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the El Paso County Emergency Services District #2 (the District) is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America as applicable to governments and have been consistently applied in the preparation of the financial statements.

El Paso County Emergency Services District #2 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 appointed by the Commissioners of the County of El Paso, Texas that acts as the authoritative and legislative body of the entity.

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The District's reporting entity does not apply FASB pronouncements of APB opinion issued after November 30, 1989.

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.

New Accounting Pronouncements

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, implemented this year provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The District has determined they have no deferred outflows or inflows as defined by this standard.

GASB 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the District beginning with its year ending September 30, 2013. This standard requires certain items that are currently reported as assets and liabilities to be reclassified as deferred outflows resources, deferred inflows of resources, or current-period outflows and inflows. Management has not currently determined what, if any, impact implementation of this standard may have on the financial statements of the District.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the District as a whole. 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 reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Basis of Accounting

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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 fund 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.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Types and Major Funds

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 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 will be used. Current liabilities 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 fund:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those 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.

Revenues – Exchange and Non-Exchange Transactions

Revenues 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 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, revenues 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.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 purposes of reporting cash flows, the District considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Capital Assets

The District's property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. 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
Transportation equipment	5-10
Equipment	5-10

Deferred 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.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position and Fund Balance

Governmental Activities Financial Statements

When the District incurs an expense for which it may use either restricted or unrestricted net position, it uses restricted net position first unless unrestricted net position will have to be returned because they were not used. Net position on the Statement of Net Position includes the following:

Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Unrestricted net assets – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

GASB 54 “Fund Balance Reporting and Governmental Type Definitions”

In accordance with GASB Statement No. 54, Fund Balance Reporting and Government Fund Type Definitions, the District classifies governmental fund balances as follows:

Unassigned – Unassigned fund balance is the residual classification for the general funds. This classification represents fund balance that has not been assigned to other funds and does not have a specific purpose. In the government funds, other than the general funds, if expenditures incurred exceeded the amounts restricted, committed or assigned, the fund may report a negative fund balance.

Generally, the District would first apply restricted resources, then committed, assigned and unassigned resources when an expense is incurred for purposes for which more than one classification of fund balance are available.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported 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 during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

2. CASH AND CASH EQUIVALENTS

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

Category 1 - Deposits which are insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Uncollateralized, this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name.

The following is a summary of the District's cash deposits by level of risk:

	2013			Total	Total
	Category	Category	Category	Bank	Carrying
	1	2	3	Balance	Value
Government activities	\$ -	\$ -	\$ 2,340,922	\$ 2,340,922	\$ 2,333,885

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.

Custodial Credit Risk

The District places no limit on the amount the District may invest in any one issuer.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

2. CASH AND CASH EQUIVALENTS (continued)

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.

At September 30, 2013, the District had cash deposits in a banking institution with a carrying amount of \$2,340,922. Of this balance, \$250,000 is covered by Federal Depository Insurance Corporation (FDIC). In addition, the balance is covered by pledged securities with a market value of \$3,587,838 as of September 30, 2013.

3. PROPERTY TAXES

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 \$2,899,615,942 for the year ended September 30, 2013. 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 2012-2013 tax rate was \$.100, per \$100 of assessed valuation. The District incurred expenditures of \$58,150 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2013.

Allowances for uncollectible taxes are based upon historical experience in collecting property taxes.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

4. RECEIVABLES

Receivables consist of the following at September 30, 2013:

	<u>Gross</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net</u>
Governmental Activities			
Taxes	\$ 1,159,733	\$ (53,112)	\$ 1,106,621
Other	185	-	185
Total Governmental Activities	<u>\$ 1,159,918</u>	<u>\$ (53,112)</u>	<u>\$ 1,106,806</u>

5. CAPITAL ASSETS

A summary of changes in capital assets for governmental activities is listed as follows:

	<u>Balance October 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30 2013</u>
Capital assets not being depreciated:				
Land	\$ 786,051	\$ -	\$ -	\$ 786,05
Capital assets being depreciated:				
Construction in Process	250,000	278,000	(528,000)	-
Buildings and improvements	11,206,069	627,664	-	11,833,73
Transportation equipment	16,205,357	592,744	(20,500)	16,777,60
Other equipment	2,843,981	64,697	-	2,908,67
Total Capital Assets	<u>31,291,458</u>	<u>1,563,105</u>	<u>(548,500)</u>	<u>32,306,06</u>
Less accumulated depreciation				
Buildings and improvements	\$ 2,526,972	\$ 294,431	\$ -	\$ 2,821,40
Transportation equipment	8,887,387	1,801,255	(20,500)	10,668,14
Other equipment	1,585,969	360,328	-	1,946,29
Total accumulated depreciation	<u>13,000,328</u>	<u>2,456,014</u>	<u>(20,500)</u>	<u>15,435,84</u>

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

6. LONG TERM DEBT

Long-term debt of the governmental activities consists of the following obligations under capital leases entered into for the acquisition of land and buildings, transportation and other equipment for the year ended September 30, 2013:

	Balance October 1, 2012	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2013
Capital lease secured by equipment, with annual payments of \$37,138, including interest at 2.23%, maturing in February 2023 (Clint).	\$ -	\$ 331,500	\$ -	\$ 331,500
Capital lease secured by equipment, with annual payments of \$28,619, including interest at 5.597%, maturing in March 2028 (Clint).	297,403	-	11,974	285,429
Capital lease secured by fire trucks, with annual payments of \$69,997, including interest at 5.555%, maturing in March 2023 (Clint).	564,840	-	38,619	526,221
Capital lease secured by real property and improvements, with annual payments of \$106,194, including interest at 5.793%, maturing in March 2028 (Clint).	1,088,603	-	43,130	1,045,473
Capital lease secured by pumper trucks, with annual payments of \$19,905, including interest at 5.797%, maturing in March 2023 (Clint).	158,632	-	10,710	147,922
Capital lease secured by building, with annual payments of \$21,788, including interest at 1.750%, maturing in March 2017 (Fabens).	-	104,500	20,305	84,195
Capital lease secured by vehicle, with annual payments of \$79,223, including interest at 1.250%, maturing in March 2015 (Fabens).	-	155,503	-	155,503

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

6. LONG TERM DEBT (continued)

	Balance October 1, 2012	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2013
Capital lease secured by vehicles, with annual payments of \$77,410, including interest at 2.250%, maturing in March 2022 (Fabens).	\$ -	\$ 624,212	\$ -	\$ 624,212
Capital lease secured by vehicle, with annual payments of \$30,349, including interest at 5.930%, maturing in March 2022 (Fabens).	224,124	-	224,124	-
Capital lease secured by vehicle and, equipment with annual payments of \$25,613, including interest at 5.930%, maturing in March 2022 (Fabens).	189,147	-	189,147	-
Capital lease secured by vehicles, with annual payments of \$81,954, including interest at 5.890%, maturing in March 2022 (Fabens).	219,511	-	219,511	-
Capital lease secured by vehicles, with annual payments of \$30,349, including interest at 5.930%, maturing in March 2022 (Fabens).	224,124	-	224,124	-
Capital lease secured by Tornillo substation, with annual payments of \$46,053, including interest at 5.593%, maturing in March 2024 (Fabens).	394,861	-	23,968	370,893
Capital lease secured by main station, with annual payments of \$120,526, including interest at 5.593%, maturing in March 2024 (Fabens).	1,033,404	-	62,728	970,676

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

6. LONG TERM DEBT (continued)

	<u>Balance</u> <u>October 1,</u> <u>2012</u>	<u>Additions</u>	<u>Payments/ Retirements/ Refinanced</u>	<u>Balance</u> <u>September 30,</u> <u>2013</u>
Capital lease secured by chassis, with annual payments of \$34,008, including interest at 2.330%, maturing in March 2022 (Montana Vista).	\$ 302,453	\$ -	\$ 24,453	\$ 278,000
Capital lease secured by vehicles, with annual payments of \$46,887, including interest at 5.525%, maturing in March 2015 (Montana Vista).	126,441	-	39,902	86,539
Capital lease secured by equipment, with annual payments of \$14,472, including interest at 5.528%, maturing in March 2018 (Montana Vista).	72,234	-	10,480	61,754
Capital lease secured by vehicles and equipment, with annual payments of \$144,119, including interest at 5.555%, maturing in March 2023 (Montana Vista).	1,162,973	-	79,515	1,083,458
Capital lease secured by property, with annual payments of \$71,072, including interest at 5.793%, maturing in April 2028 (Montana Vista).	784,150	-	84,451	699,699
Capital lease secured by fire trucks, with annual payments of \$64,232, including interest at 2.330%, maturing in March 2022 (San Elizario).	571,248	-	54,616	516,632
Capital lease secured by fire trucks, with annual payments of \$90,321, including interest at 1.250%, maturing in March 2015 (San Elizario).	-	177,286	-	177,286

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

6. LONG TERM DEBT (continued)

	<u>Balance October 1, 2012</u>	<u>Additions</u>	<u>Payments/ Retirements/ Refinanced</u>	<u>Balance September 30, 2013</u>
Capital lease secured by fire truck, with annual payments of \$66,284, including interest at 4.402%, maturing in March 2015 (San Elizario).	\$ 182,548	\$ -	\$ 58,247	\$ 124,301
Capital lease secured by fire trucks, with annual payments of \$93,719, including interest at 5.960%, maturing in March 2015 (San Elizario).	250,697	-	250,697	-
Capital lease secured by fire station, with annual payments of \$158,468, including interest at 5.731%, maturing in March 2025 (San Elizario).	1,425,180	-	76,791	1,348,389
Capital lease secured by building, with annual payments of \$53,680, including interest at 2.330%, maturing in March 2022 (Socorro).	486,299	-	39,318	446,981
Capital lease secured by equipment, with annual payments of \$56,613, including interest at 5.226%, maturing in March 2020 (Socorro).	362,587	-	37,665	324,922
Capital lease secured by fire trucks, with annual payments of \$24,288, including interest at 5.589%, maturing in March 2023 (Socorro).	195,646	-	13,353	182,293
Capital lease secured by fire station, with annual payments of \$135,414, including interest at 5.755%, maturing in March 2029 (Socorro).	1,444,145	-	52,309	1,391,836

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

6. LONG TERM DEBT (continued)

	<u>Balance October 1, 2012</u>	<u>Additions</u>	<u>Payments/ Retirements/ Refinanced</u>	<u>Balance September 30, 2013</u>
Capital lease secured by fire truck and equipment, with annual payments of \$97,553, including interest at 5.755%, maturing in March 2019 (Socorro).	\$ 549,351	\$ -	\$ 65,936	\$ 483,415
Capital lease secured by quint platform, with annual payments of \$93,760, including interest at 2.780%, maturing in March 2022 (Socorro).	810,368	-	72,796	737,572
Capital lease secured by fire truck and vehicles, with annual payments of \$158,110, including interest at 5.413%, maturing in March 2014 (West Valley).	292,281	-	134,171	158,110
Capital lease secured by vehicles, with annual payments of \$23,251, including interest at 5.895%, maturing in March 2015 (West Valley).	62,270	-	19,579	42,691
Capital lease secured by main station and substation, with annual payments of \$126,399, including interest at 5.593%, maturing in March 2024 (West Valley).	1,083,755	-	65,783	1,017,972
Capital lease secured by fire truck and equipment, with annual payments of \$30,385, including interest at 5.382%, maturing in April 2028 (West Valley).	320,537	-	13,134	307,403
Capital lease secured by building and radio tower, with annual payments of \$29,016, including interest at 5.392%, maturing in April 2023 (West Valley).	236,134	-	15,450	220,684

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

6. LONG TERM DEBT (continued)

	Balance October 1, 2012	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2013
Capital lease secured by radio equipment with annual payments of \$69,780 including interest at 1.39%, maturing in March 2016 (All Locations).	\$ -	\$ 204,000	\$ -	\$ 204,000
	15,115,943	1,597,001	2,276,986	14,435,958
Less current portion				1,518,952
Long-term debt less current portion				\$ 12,917,006

The following represents future minimum lease payments as of September 30, 2013:

September 30,	Amount
2014	\$ 1,518,952
2015	1,416,521
2016	1,168,850
2017	1,150,620
2018	1,182,372
2019-2023	5,797,377
2024-2028	2,073,220
2029-2033	128,046
Total	\$ 14,435,958

**NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

7. OPERATING LEASES

The District has operating leases for rental of office space in Clint, Texas and for a copier. Future minimum payments under this operating lease are as follows:

<u>Year ended September 30,</u>	<u>Amount</u>
2014	\$ 48,410
2015	48,410
2016	47,842
2017	45,000
2018	<u>45,000</u>
Total	<u>\$ 234,662</u>

Rental expense for the year ended September 30, 2013 included in the Statement of Activities, totaled \$15,560.

8. 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 2013, 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 (Building and Contents)	\$13,587,747

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.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

9. COMMITMENTS AND CONTINGENCIES

The District does 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.

10. PRIOR PERIOD ADJUSTMENT

Revenues are recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within 60 days of fiscal year end. An adjustment of \$188,985 was posted to correct the beginning balance for property taxes receivable. An adjustment of \$458,235 was posted to record collections for August 2012 and September 2012 sales taxes that should have been recorded as accounts receivable in the prior year since revenues were received subsequent to September 30, 2012.

Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. An adjustment of \$243,681 was posted to record expenses applicable to the prior year that should have been recorded as accounts payable at September 30, 2012.

The net prior period adjustment posted was \$25,569 for government wide financial statements.

For the general fund financial statements, an adjustment of \$151,829 was posted to correct prior year's calculation of deferred revenues. Net prior period adjustment of the above and deferred revenue of \$177,398 was posted to the governmental activities financial statements.

11. SUBSEQUENT EVENTS

Subsequent events were evaluated through April 17, 2014, which is the date the financial statement were available to be issued and no items were noted.

SUPPLEMENTARY INFORMATION

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2013**

	<u>Budgeted Amounts</u>			VARIANCE - FAVORABLE (UNFAVORABLE)
	<u>Original</u>	<u>Final</u>	<u>ACTUAL</u>	
REVENUES				
Taxes:				
Property	\$ 2,742,008	\$ 2,742,008	\$ 2,914,149	\$ 172,141
Sales	2,200,000	2,200,000	2,489,975	289,975
Sale of assets	-	-	6,805	6,805
Grant income	-	-	804,173	804,173
Inspection revenues	90,233	90,233	73,245	(16,988)
Interest earnings	2,500	2,500	2,342	(158)
Total revenues	<u>5,034,741</u>	<u>5,034,741</u>	<u>6,290,689</u>	<u>1,255,948</u>
EXPENDITURES				
Public safety:				
Fire control and EMS:				
Administration and salaries	683,867	683,867	330,385	(353,482)
Office rent	15,000	15,000	15,560	560
Insurance	181,421	181,421	177,131	(4,290)
Professional services	127,500	127,500	226,816	99,316
Service contracts	150,000	150,000	128,275	(21,725)
Bank charges	2,624	2,624	2,701	77
Legal	60,000	60,000	95,595	35,595
New equipment purchases	400,000	400,000	2,222,757	1,822,757
Electric	88,788	88,788	73,739	(15,049)
Heat	37,972	37,972	19,920	(18,052)
Water	12,208	12,208	17,610	5,402
Fuel	186,183	186,183	151,974	(34,209)
Communication	185,755	185,755	171,293	(14,462)
Building and grounds	125,420	125,420	249,807	124,387
Equipment maintenance and repair	50,708	50,708	30,340	(20,368)
Vehicle maintenance	156,039	156,039	219,943	63,904
Training and travel	75,000	75,000	123,108	48,108
Uniforms and bunker gear	70,058	70,058	48,971	(21,087)
Supplies	65,000	65,000	84,959	19,959
Fire fighting supplies	15,000	15,000	63,453	48,453
Medical supplies	27,172	27,172	31,733	4,561
Miscellaneous	20,833	20,833	127,030	106,197
Principal payments	1,297,064	1,297,064	2,276,986	979,922
Interest payments	774,500	774,500	737,366	(37,134)
Total expenditures	<u>4,808,112</u>	<u>4,808,112</u>	<u>7,627,452</u>	<u>2,819,340</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	226,629	226,629	(1,336,763)	(1,563,392)
Fund balance, beginning of year	-	-	<u>2,259,946</u>	<u>2,259,946</u>
Fund balance, end of year	<u>\$ 226,629</u>	<u>\$ 226,629</u>	<u>\$ 923,183</u>	<u>\$ 696,554</u>
Budget basis excess			(1,336,763)	
Non-budgeted funds			<u>1,597,001</u>	
GAAP basis excess			260,238	
Fund balance, beginning of year			2,259,946	
Prior period adjustment (Note 10)			177,398	
Fund balance, end of year			<u>\$ 2,697,582</u>	

See accompanying notes to financial statements.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2013**

1. BUDGETARY INFORMATION

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 2013.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2013**

1. BUDGETARY INFORMATION (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 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.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
SEPTEMBER 30, 2013

<u>Name of Agency/Department and Program</u>	<u>Project Period</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>FEDERAL AWARDS</u>			
<u>Department of Homeland Security</u>			
Assistance to Firefighters Grant	** 2/1/2013	97.044	\$ 786,268

** Denotes a major program

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2013**

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and state grant activity of El Paso County Emergency Services District #2 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and the State of Texas Single Audit Circular. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. OVERSIGHT AGENCY

The U.S. Department of Homeland Security is the District's oversight agency for the single audit.

3. CONTINGENCIES

The entity had in effect for the fiscal year ended September 30, 2013, the following insurance coverage:

Business Auto Coverage Liability Combined (Each Accident)	\$1,000,000
Commercial General Liability (Per Occurrence)	\$1,000,000
Commercial Property (Building and Contents)	\$13,587,747

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**INDEPENDENT AUDITOR'S 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 and each major fund of El Paso County Emergency Services District #2 (the District) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered El Paso County Emergency Services District #2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of El Paso County Emergency Services District #2's internal control. Accordingly, we do not express an opinion on the effectiveness of El Paso County Emergency Services District #2'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 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. 2013-1 through 2103-5

Compliance and Other Matters

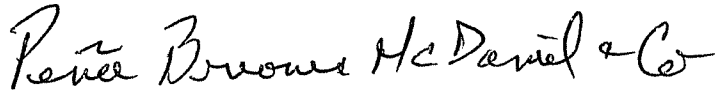
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 instances of no noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

El Paso County Emergency Service District #2's Response to Findings

El Paso County Emergency Service District #2's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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 the 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.



April 17, 2014

**SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2013**

CURRENT YEAR FINDINGS AND PRIOR YEAR FINDINGS UNCORRECTED

2013-01 and 2012-04: Improper classification (categorization) of expenses

Condition: Inspection of invoices showed two instances of improper classification (categorization of expenses). One invoice (paid in April 2013) showed items expensed that should have been capitalized and one invoice (paid in August 2013) contained three months of expense when two months should have been classified as prepaid expenses.

Criteria: Proper financial management practices promulgated by the Emergency Services District Operating Guide.

Cause: Management of the Departments and District are not reviewing invoices for proper account classification.

Effect: Improper classification of expenses if not detected, can mislead a reader of the financial statements of the District as to the total amounts charged to various expense categories. Incorrect conclusions can result. Misapplication of funds is easier to accomplish.

Recommendation: Policies and procedures of proper expense classification, with examples, should be established and disseminated to each Fire Department. These policies and procedures should include thresholds for what is a capital asset, what is a repair, etc. Budgets should be required which compare budgeted amounts to actual expenses.

Management's Response: Proper classification appear to have been met subsequent to hiring of new personnel.

2013-02 and 2012-07: Double payment for San Elizario Reimbursement Request

Condition: Inspection of San Elizario Volunteer Fire Department's reimbursement packet paid in July 2013 showed that the District reimbursed the Department based on two past due statements instead of invoices. In addition, one invoice was requested for reimbursement as being paid on credit card and then also included again as being paid by check.

Criteria: Proper financial management practices promulgated by the Emergency Services District Operating Guide.

Cause: Management and District personnel are not adequately reviewing invoices to be paid.

Effect: Reimbursing expenses based off of past due balances could result in paying expenses twice.

Recommendation: Proper internal controls need to be established in the District to ensure there is proper backup and support for expenses. Reimbursements should be made off of invoices and not statements.

**SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2013**

Management's Response: Subsequent to the hiring of personnel, this was resolved in fiscal year 2013.

2013-03 and 2012-11: Incorrect Request for Reimbursement for Montana Vista

Condition: Inspection of invoices showed two invoices (paid February 2013) were requested from reimbursement for the incorrect amount.

Criteria: Proper financial management practices promulgated by the Emergency Services District Operating Guide.

Cause: Management and District personnel are not adequately reviewing invoices to be paid.

Effect: The reimbursement to the Volunteer Fire Department for an incorrect amount may have caused abuse of District funds.

Recommendation: Management and District personnel should thoroughly review invoices and match them up to the summary sheet for reimbursement requests before payment is made.

Management's Response: Subsequent to the hiring of personnel, this was resolved in fiscal year 2013.

2013-04 and 2012-02, 2012-12: Invoices and supporting documentation not located for review

Condition: One invoice was not located for review (paid in December 2012) and one invoice (paid in June 2013) did not have supporting documentation or any indication of approval for the expense to be paid.

Criteria: Proper financial management practices promulgated by the Emergency Services District Operating Guide.

Cause: Management of the District is not reviewing all invoices or invoices have been misplaced.

Effect: Invoices should be available for review in order to determine that they were properly authorized, the services and or the goods were delivered to and received by the proper entity, and the amounts were classified appropriately.

Recommendation: Management of the District should review and/or file all invoices immediately after payment.

Management's Response: Subsequent to the hiring of personnel, this was resolved in fiscal year 2013.

**SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2013**

2013-05 and 2012-13: Reimbursement indicates payment of sales tax

Condition: Inspection of two invoices (paid in February 2013) submitted by West Valley Volunteer Fire Department for reimbursement indicates payment of sales tax.

Criteria: Proper financial management practices promulgated by the Emergency Services District Operating Guide.

Cause: Management of the Volunteer Fire Departments and the District were not reviewing invoices in enough detail to determine whether sales taxes were being charged.

Effect: Sales tax is not required to be paid by any political subdivision of the State of Texas; therefore the payment of sales tax on any invoice is unjustified.

Recommendation: Management should review all invoices for payment in enough detail to prevent payment of sales tax.

Management's Response: Subsequent to the hiring of personnel, this was resolved in fiscal year 2013.

PRIOR YEAR FINDINGS CORRECTED IN FISCAL YEAR 2012

2012-01: Fuel log

It was noted in the prior year that Volunteer Fire Departments were not submitting detailed mileage logs to describe and detail business useage of the vehicles and a lack of written policies regarding vehicle useage and fuel consumption. Effective August 8, 2012 (revised December 12, 2012), the District instituted an accounting policies and procedures manual. Fuel logs were revised to include the date, current mileage, number of gallons purchased, type of fuel purchased, vehicle identification number, year and model of the vehicle, and last four digits of the VIN.

2012-03: Lack of justification for travel, training and meal reimbursements

It was noted in the prior year that reimbursements submitted by the Volunteer Fire Departments for reimbursement of travel, training, and meal expenses had a lack of documentation or proper justifications for travel/training purposes. Effective August 8, 2012 (revised December 12, 2012), the District instituted an accounting policies and procedures manual. All employees and volunteers receive a per diem allowance for travel related expenses. All supporting invoices will be required to be attached and the District will not reimburse any expenditure without accurate and proper supporting invoices.

**SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2013**

2012-05: West Valley Reimbursement

It was noted in the prior year that West Valley Fire Department was reimbursed for duplicate payments for contract work performed. Management determined that there was not a duplication of payment and resolved the issue.

2012-06: Clint Fire Department Timesheet

It was noted in the prior year that an individual's timesheet was incomplete as to the number of hours worked and was paid for hours not recorded on the timesheet. Management has implemented policies and procedures to strengthen controls over payroll. The District also started using a web-based time reporting system in August 2013.

2012-08: Volunteer Fire Departments are not submitting adequate books and records to the District to review

It was noted in the prior year that management of Volunteer Fire Departments did not have journals, check registers, ledgers or other reports necessary to determine financial position or results of operations. Also, budgets at the Department level did not exist. Effective August 8, 2012 (revised December 12, 2012), the District instituted an accounting policies and procedures manual. Management has provided training for all Departments and established a universal chart of accounts to assist in producing monthly financial statements. Bank reconciliations are submitted to the District Administrator on a monthly basis for review and Departments prepare a budget for each of their respective departments based on size and need.

2012-09: Volunteer Fire Departments not abiding by certain financial reporting obligations

It was noted in the prior year that Volunteer Fire Departments were not submitting financial reports as required by the District. In addition no Department budgets were prepared. Effective August 8, 2012 (revised December 12, 2012), the District instituted an accounting policies and procedures manual. Administrative Assistants have been hired for all Departments to maintain general ledgers and chart of accounts to ensure that the department is abiding by the policies and procedures outlined in the financial policies and procedures manual. Departments prepare a budget for each of their respective departments based on size and need.

**SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2013**

2012-10: Schmid, Broaddus, Nugent, and Gano, P.C. audit of San Elizario Fire Department

It was noted in Schmid, Broaddus, Nugent, and Gano, P.C.'s audit report dated August 6, 2012 that there were reimbursement requests submitted that lacked supporting documentation and the District paid for duplicate amounts. Effective August 8, 2012 (revised December 12, 2012), the District instituted an accounting policies and procedures manual. Administrative Assistants have been hired for all Departments to maintain general ledgers and chart of accounts to ensure that the department is abiding by the policies and procedures outlined in the financial policies and procedures manual.

2012-13: San Elizario Volunteer Fire Department reimbursement indicates payment of sales tax

It was noted in the prior year that management of the Volunteer Fire Departments and District personnel are not reviewing invoices in enough detail to determine whether sales taxes are being charged. Effective August 8, 2012 (revised December 12, 2012), the District instituted an accounting policies and procedures manual with a policy that sales tax will not be paid to any parties. Management has provided training on allowability of expenditures, including sales tax and hired a new District Administrator in July 2013.

2012-14: District Management contracted with Schmid, Broaddus, Nugent and Gane, P.C. for a special purpose engagement for Montana Vista Volunteer Fire Department, Fabens Volunteer Fire Department, and West Valley Volunteer Fire Department

It was noted in the prior year that for all three Volunteer Fire Departments there was a lack of determination of whether the reimbursement was for authorized locations, lack of supporting documentation, Departments were paid for duplicate amounts, and expenses possibly benefitted someone who was not authorized to receive any benefits from the Department. Effective August 6, 2012 (revised December 12, 2012), the District instituted an accounting policies and procedures manual. The District has since implemented policies and procedures noted in manual. In addition, management's responses to Findings 2012-08, 2012-09, and 2012-10 also apply to this finding.

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited El Paso County Emergency Services District #2's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of El Paso County Emergency Services District #2's major federal program for the year ended September 30, 2013. El Paso County Emergency Services District #2's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of El Paso County Emergency Services District #2's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about El Paso County Emergency Services District #2's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of El Paso County Emergency Services District #2's compliance.

Opinion on Each Major Federal Program

In our opinion, El Paso County Emergency Services District #2, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

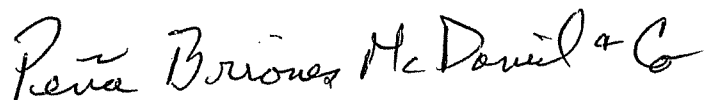
Report on Internal Control Over Compliance

Management of El Paso County Emergency Services District #2, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered El Paso County Emergency Services District #2's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of El Paso County Emergency Services District #2's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



El Paso, Texas
April 17, 2014

**SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2013**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(es) identified not considered to be material weaknesses?

X Yes _____ none reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(es) identified not considered to be material weaknesses?

_____ Yes X none reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

_____ Yes X No

Identification of major programs:

CFDA Number

97.044

Name of Federal Program or Cluster

Assistance to Firefighters Grants (AFG)

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

El Paso County Emergency Services District #2

qualified as a low-risk auditee

_____ Yes X No

**SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SEPTEMBER 30, 2013**

Section II - Financial Statement Findings

See pages 31-35

Section III. Findings and Questioned Costs for Federal Awards

Current Year

None

Prior Year Findings

None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS

Finding #2012-1

Condition: In reviewing fuel reimbursements for the Volunteer Fire Departments, no departments submit detailed vehicle mileage logs to describe and detail business usage of the vehicles. There is a lack of written policies regarding vehicle usage and fuel consumption.

Effect: Not submitting vehicle logs with the reimbursement may encourage charging fuel purchases for personal use.

Cause: Management of the Volunteer Fire Departments submits receipts of fuel purchases but do not submit logs substantiating business use.

Criteria: Proper financial management practices promulgated by the Emergency Services District Operating Guide.

Recommendation: Management of the Volunteer Fire Departments should be required to submit mileage logs to substantiate business usage or not receive reimbursements for fuel.

Management's Response: We concur with the above finding. Effective August 8, 2012, (revised November 14, 2012) the District instituted a financial policies and procedures manual. The procedures require the use and maintenance of fuel logs in all District vehicles. The fuel logs include the date, current mileage, the number of gallons purchased, the type of fuel purchased, the vehicle identification number, the year and model of the vehicle, and the last four digits of the VIN. In the event that a request for fuel reimbursement appears unreasonable, Department Chiefs and the District Administrator will examine the fuel logs and investigate the variance promptly. The policy was implemented and followed for all of fiscal 2013.

See page 13 of the Financial Policies and Procedures Manual and APPENDIX F

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding #2012-2

Condition: Inspection of invoices submitted by the Volunteer Fire Departments for reimbursement indicates few approvals, justifications or reasons for any purchases. Expense reimbursements are normally accepted and paid without such justification. Some expenses are from personal credit card statements or receipts and lack detailed information. Many reimbursements are from copies or statements, without the original invoices attached. Shipping addresses sometimes were not the addresses of the individual fire departments. Repairs and Maintenance of vehicles are difficult to track.

Effect: Lack of justifications on purchases exposes the District to a greater possibility that purchases may be reimbursed for personal items. This can result in misappropriation and abuse of District funds.

Cause: Management of the Volunteer Fire Departments does not submit proper justifications or approvals for many of their reimbursement request

Criteria: Proper financial management practices promulgated by the Emergency Services District Operating Guide.

Recommendation: Management should submit justifications and approvals to properly substantiate business purposes of purchases. Reimbursements of personal credit cards should be discontinued. Internal controls regarding approval and payment of reimbursements should be established. Expense reimbursements which do not have proper documentation attached should be rejected.

Management's Response: We concur with the above finding. Effective August 8, 2012, (revised November 12, 2012) the District instituted a financial policies and procedures manual. The manual documents the procedures for verification, approval, and payment of department expenses. All questioned costs will be promptly documented and reported to the board Treasurer by the District Administrator. If unallowable, inaccurate, or duplicate charges are included in a reimbursement request, the amount will be deducted from the department's reimbursement and a recalculated total will be noted on the reimbursement cover sheet. In addition, the Board of Commissioners will examine and approve all department requests for reimbursement at the monthly meeting prior to replenishing the departments' operating funds. The use of personal credit cards for reimbursements submitted to the District has been discontinued. The policies and procedures have been fully implemented and followed for fiscal 2013.

See page 13 of the Financial Policies and Procedures Manual.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding #2012-3

Condition: Inspection of travel, training and meal reimbursements submitted by the Volunteer Fire Departments for reimbursement indicates almost complete lack of documentation or proper justifications for the travel/training expenses. In addition, meal reimbursements do not describe business purpose. Per diem amounts are issued to individuals without supporting calculations. There are no supporting documents such as attendance records or certificates of completion to show courses or seminars were necessary for the needs of each fire department. There are no uniform procedures established for travel expenses (such as calculating per diem amounts) and meals as each department apparently uses different forms or methods.

Effect: Lack of proper documentation on travel, training and meal expenses exposes the District to abuse in this area. This makes it difficult to determine if such expenses are for legitimate business purposes benefiting the department and the District.

Cause: Management of the Volunteer Fire Departments does not submit proper supporting documentation for travel, training and meal expenses.

Criteria: Proper financial management practices promulgated by the Emergency Services District operating guide.

Recommendation: Travel/Training policies and procedures should be set up for each Volunteer Fire Department. Reimbursement requests for travel and meals should not be paid without proper documentation.

Management's Response: We concur with the above finding. Effective August 8, 2012, (revised November 14, 2012) the District instituted a financial policies and procedures manual. Under the policies and procedures, all employees and volunteers will receive a per diem allowance for travel related expenses. A waiver for the receipt of per diem funds will be prepared by the Department Chief which includes the total per diem amount per participant (per diem rate times the number of days) and the names of the participants. The Department Chief will sign and issue checks to the participants based on the information presented on the waiver. Upon receipt of the check, the participant will sign the waiver acknowledging the receipt of per diem funds and a copy of the waiver will be filed by the District Administrator. If traveling for training, the certificate of completion must be presented to the Department Chief as proof of attendance. A copy will be retained by the Department Chief.

Per diem amounts will be based on current GSA (U.S. General Services Administration) rates. These can be located at www.gsa.gov. The policies and procedures have been fully implemented and followed for fiscal 2013. In addition, the District has implemented the use of software which captures a copy of all invoices and organizes the expenditures in a format consistent with the District's general ledger coding. All departments are required to use the same format for reimbursement requests. All supporting invoices are required to be attached. The District will not reimburse any expenditure without accurate and proper supporting invoices.

See page 12 of the Financial Policies and procedures Manual.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding #2012-4

Condition: Expense reimbursement requests show many instances of improper classification (categorization) of expenses. For example, it was noted that promotional items were incorrectly charged to equipment purchases, professional services are incorrectly charged to new equipment purchases, etc. There is a lack of controls, checks and balances, uniformity when dealing with expenses, proper reimbursement, and usage of funds.

Effect: Improper classification of expenses, if not detected, can mislead a reader of the financial statements of the District as to the total amounts charged to the various expense categories. Incorrect conclusions can result. Misappropriation of funds is easier to accomplish.

Cause: Management submits reimbursement requests which often have errors in categorizing expenses.

Criteria: Proper financial management practices promulgated by the Emergency Services Districts Operating Guide.

Recommendation: Policies and procedures of proper expense classification, with examples, should be established and disseminated to each fire department. These policies and procedures should include thresholds for what is a capital asset, what is a repair, what is charged into administration expenses, etc. Budgets should be required which compare budgeted amounts to actual expenses.

Management's Response: We concur with the above finding. Effective August 8, 2012, (revised November 14, 2012) the District instituted a financial policies and procedures manual. The manual requires the use of a reimbursement cover sheet which itemizes total expenses by natural category. Reimbursement packages must include the following: copies of all checks issued during the month, and substantiating original invoices or other supporting documentation. The Department Chief will review the reimbursement package for completeness and accuracy prior to presenting it to the District Administrator for reimbursement. All information is required to be scanned into "Neat Receipts" which produces a report that is submitted to the District by each station.

To facilitate the implementation of and the adherence to the above procedures, the District hired an Administrative Assistant for each Department. Training was provided on "QuickBooks" to all Administrative Assistants by an external accounting firm and specifically addressed the allowability of the expenditure, expense classification, authorization, timely submission, and budgeting. All Departments are now in the process of implementing "Neat Receipts" to scan all required information and generate a uniform reimbursement cover sheet. This procedure is required for all departments and is expected to be fully implemented with the submission of the August 2013 reimbursement requests.

Budgets have been prepared for each department and will be inputted into "QuickBooks" for each department. On a monthly basis, a budget to actual report will be prepared and presented to the Board of Commissioners.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS (CONTINUED)

In addition, in July 2013, the District hired a new Administrator with over 9 years of bookkeeping experience. Although new with regard to administrative duties, she has experience with the general ledger and the organization of supporting information. She also has a significant amount of experience with respect to payroll, accounts payable, receivables, and cash management. The new Administrator was instrumental in implementing many of the policies and procedures while she was employed with the external accounting firm. She became familiar with existing District policies and procedures as well as made suggestions and recommendations to improve District bookkeeping and payroll procedures and documentation. Emphasis was placed on the proper organization of supporting invoices and other documents so that going forward the Districts books and records are accurately maintained in a timely manner.

Also, see page 12 of the Financial Policies and Procedures Manual

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding #2012-5

Condition: Questioned costs. In December 2011, there was a reimbursement to West Valley Fire Department for a contract from Design Construction Co. The invoice was dated December 15, 2011 and was reimbursed by check #5153 in the amount of \$2,488. A similar invoice dated February 18, 2012 that lacked an invoice number was paid by check #5268 in the amount of \$2,488. It appears that a duplicate payment was made to the contractor, therefore the cost is questioned.

Effect: Payment of duplicate invoices may have caused abuse of District funds.

Cause: Management failed to review invoices and lacked an accounting system to determine if duplicate invoices are being paid.

Criteria: Proper financial management practices as promulgated by the Emergency Services Districts Operating Guide.

Recommendation: Proper internal controls need to be established in the Departments and in the District to ensure there is proper review and monitoring for reimbursable expenditures. If duplicate invoices are submitted for reimbursement, the expense should not be reimbursed.

Management's Response: We do not concur with this finding. West Valley Fire Department contracted with Design Construction on two separate contracts. One contract was for the painting of the interior of the entire building for \$7,300. This amount was paid for with check 5705 on 12/15/11. In addition, West Valley also contracted with Design Construction to supply 4 sheets for the lower burn room plus 4 corner trims and 3 sheets for the second floor burn room plus 2 corner angles. A down payment of was paid in the amount of \$3,000 with check 5606 with a balance of \$2,488 remaining. The remainder was paid with check 5797 on 2/21/12. When the request for reimbursement was completed for the District by West Valley personnel for the December disbursements totaling \$10,300, West Valley personnel inadvertently claimed for reimbursement the amount paid with check 5705 (\$7,300) and 5797 (\$2,488 – balance remaining rather than the down payment amount of \$3,000) totaling \$9,788. In February, when the work was completed, West Valley paid the remaining balance of \$2,488 to Design Construction with check 5797 and claimed that amount on the February request for reimbursement to the District. It appears that West Valley requested reimbursement twice, when in fact, the District was under-billed for the amount paid by West Valley to Design Construction for the work in the burn rooms. The District should have been billed for an additional \$512 (\$3,000 down payment made less the balance remaining amount of \$2,488 which was billed when the work was completed).

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2012-6

Condition: Questioned costs. In July, 2012, there was a reimbursement to the Clint Fire Department for an individual (Jose Melendez). The examination of his timesheet revealed that the timesheet was incomplete as to the number of hours he worked. He was paid for hours that were not recorded on the timesheet.

Effect: The District overpaid the reimbursement for hours that were not recorded on an individual's timesheet.

Cause: Management and District personnel are paying individuals based on timesheets that are not complete.

Criteria: Proper financial management practices as promulgated by the Emergency Services Districts Operating Guide.

Recommendation: Management and District personnel should require complete timesheets of all hours worked. In addition, the timesheets should be signed and dated by the employee and approved and dated by a supervisor.

Management's Response: We concur with the above finding. The individual had reported the first four hours of the day and then noted when he began work again after lunch. He did not report the end time of his day. Instead the total hours worked for that day were reported and the time cards were signed by the employee. The individual was in fact present at work for those days and for the amount of time reported on the time card. Currently there are policies and procedures in place which require the employees to report the time in and the time out directly on the time card rather than just the total hours worked. Management will review the timecards more thoroughly to assure that the time in and time out is properly noted by the employee. District personnel will be provided with in-house training on how to complete their timesheets in July 2013. Management is also considering the use of a web-based time reporting system to reduce the risk of potential erroneous time reports in the near future.

In addition, the District hired the services of an external accounting firm to train District personnel on the implementation of the new policies and procedures related to payroll. The independent auditor's recommendations with respect to payroll procedures have been followed since training began in January 2013. District personnel are now processing payroll in adherence to the revised policies with little or no help from the external accounting firm. Also, with the addition of the new District Administrator in July 2013, who has over nine years experience in payroll policies and procedures, there will be continued supervision of the payroll process.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding #2012-7

Condition: The San Elizario Volunteer Fire Department does not submit invoices for reimbursement on a timely basis and there is often no proof of payment or attached invoices.

Effect: The District reimbursed fuel purchases without proper documentation.

Cause: Management did not submit backup detail of the fuel purchases.

Criteria: Proper financial management practices as promulgated by the Emergency Services Districts Operating Guide

Recommendation: Policies and procedures should be initiated whereby Volunteer Fire Departments submit proper documentation on expense reimbursements.

Management's Response: We concur with the above finding. Effective August 8, 2012, (revised November 14, 2012) the District instituted a financial policies and procedures manual. The manual documents the procedures for verification, approval, and payment of department expenses. It is now the policy of the District that charges should be submitted for reimbursement no more than three months subsequent to the date that the expenditure was incurred. It is the responsibility of the Administrative Assistants to submit the reimbursement requests in a timely manner. If in any event, expenditures are submitted for reimbursement more than three months subsequent to the date the cost was incurred, those expenditures will be submitted with a separate expense summary sheet and include an explanation as to why the expenditure was not submitted on a timely basis. Expenditures that are not submitted timely will not be reimbursed until the District Administrator has had ample time to research the expenditure to ensure that it is valid. An original vendor invoice is preferred. Generally, monthly statements will not constitute supporting documentation. If a statement is submitted, only the current charges will be reimbursed. Balance forward amounts will not be reimbursed. The policies and procedures were fully implemented and followed for fiscal 2013.

With respect to fuel purchases, the San Elizario Fire Department provides a monthly statement for fuel purchases. The statement provides a monthly detail of the activity in the fuel account. It indicates the person fueling (by designated PIN#), the date, and the amount. Such information is now being provided to the District in the monthly reimbursement package.

See pages 11 and 12 of the Financial Policies and Procedures Manual.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding #2012-8

Condition: In reviewing the bank statements and financial records of the Volunteer Fire Departments it should be noted that the departments do not have journals, check registers, ledgers or reports necessary to determine financial position or results of operations. Budgets at the department level do not exist. There is no proof of reconciled bank statements.

Effect: The District cannot be assured that reimbursement amounts are properly posted and accounted for. The District cannot obtain any reasonable assurance that taxpayer funds are adequately safeguarded.

Cause: Management of the departments have not submitted adequate books, records to the District for review.

Criteria: Proper financial management practices as promulgated by the Emergency Services Districts Operating Guide.

Recommendation: Policies and procedures should be initiated whereby Volunteer Fire Departments submit adequate reports and records for review by the District. Contracts between the District and the departments should be reviewed and modified where necessary to require that the departments submit a proposed budget and monthly receipts and expenditures report compared against the budgeted amounts. Each Volunteer Fire Department should submit an annual independent audit. This is in accordance with the Emergency Services Districts Operating Guide distributed by the Texas Department of Rural Affairs at www.tdra.state.tx.us.

Management's Response: We concur with the above finding. Effective August 8, 2012, (revised November 14, 2012) the District instituted a financial policies and procedures manual. The manual documents the procedures for maintenance of the general ledger and chart of accounts, cash and cash management, cash disbursements, purchasing, payroll and related polices, budgeting, fixed asset management, and notes payables. The District engaged external auditors to verify the accuracy and allowability of the expenditures submitted to the District for reimbursement for each individual department. Such engagements have been performed on West Valley and San Elizario. Fabens and Montana Vista are currently in the process of being completed.

The District also has contracted for the services of the external accounting firm to train and assist in the day to day accounting duties. Each department will have the same chart of accounts and will be able to produce the same financial reports on a monthly basis with the use of "Neat Receipts" software as described in **Finding 2012-4**, above. Over time, District personnel have become more independent in generating accounts payable and payroll. With the hiring of the new District Administrator, who has over 9 years experience in reconciling bank statements to the general ledger, all bank accounts will now be reconciled in-house rather than using the services of an external accounting firm. This will save the District a significant amount of money in accounting fees. The new Administrator will also be able to provide technical assistance and training to all administrative assistants.

Currently, Department Chiefs have developed a budget for each of their respective departments based on each department's size and needs. The budgetary process has been implemented for fiscal 2013 and is in process for 2014. *See applicable sections of the Financial Policies and Procedures Manual.*

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding #2012-9

Condition: After reviewing the contractual agreements between the individual Volunteer Fire Departments and the District, it was noted that the departments were not abiding by certain financial reporting obligations required to be provided to the District. It was also noted that there were no approved budgets submitted by any of the departments. Therefore, reimbursements could not be compared to a set allowable amount. This, in essence, provides the Departments a “blank check book” to obtain reimbursements.

Effect: Since the District does not receive proper financial information from the departments, the District cannot evaluate whether the distribution of taxpayer funds in the form of reimbursements from the District to the departments are properly used and accounted for.

Criteria: The following contractual provisions were not complied with:

Within ten (10) days following the end of each reporting period the following reports should have been submitted:

1. Section 12 (a). Reports. No monthly reports indicating receipts including budget accounts were received by the District from the departments.

Within one-hundred-twenty days (120) after the end of the fiscal year the following report should have been submitted:

1. Section 12 (b). No complete financial report showing all financial data, statements and reports required to comply with generally accepted auditing standards and an administrative report giving the total of all activities of the year was received from any of the departments. There was no indication that an independent certified public accountant prepared a financial report for any of the departments.

Recommendation: The District should take immediate steps to ensure the departments have qualified accounting personnel located at the department level to ensure the required financial reports can be provided. The District, as a first step, should hire a qualified accountant to oversee all financial operations at the District and department level. The accountant would be charged with the responsibility of setting up the proper financial reporting systems at the department level. The accountant should be able to enforce and monitor the reporting provisions as spelled out in the contracts with each department. Only then can the District be assured taxpayer funds are properly accounted for and used properly.

Management's Response: We concur with the above finding. Effective August 8, 2012, (revised November 14, 2012) the District instituted a financial policies and procedures manual. In addition, Administrative Assistants have been hired at all of the District's departments to maintain the general ledgers and chart of accounts at each individual department and to ensure the department is abiding by the policies and procedures outlined in the financial policies and procedures manual.

Also, see response for finding 2012-08 on the preceding page 9. That response is also appropriate for this finding.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding #2012-10

Condition: Management of the District, after reviewing an audit completed by the El Paso County Auditor's Office on December 20, 2011, requested a specific audit of one of the individual Volunteer Fire Departments, the San Elizario Volunteer Fire Department. Management of the District contracted with Schmid, Broadus, Nugent, and Gano, P.C. to do the specific audit. Their report dated August 6, 2012 is summarized as follows:

- 1) Expenditures submitted for reimbursement without sufficient supporting documentation, including expenditures submitted without receipts or invoices amounting to \$27,825.58.
- 2) Unsupported balances forward on invoices or statements submitted for reimbursement amounting to \$15,499.01. These items have not been specifically identified as duplicate payments. However, the payment in a balance forward statement results in a potential for duplication of payment.
- 3) Invoices submitted and reimbursed on multiple occasions amounting to \$33,799.88.
- 4) Duplicate utility payments due to balances carried forward amounting to \$6,732.95. These items have been specifically identified as duplicate payments.
- 5) Expenditures reimbursed for items with questionable business purposes amounting to \$13,871.54.
- 6) Expenditures for merchandise or services billed or delivered to 12538 Camino De La Rosa amounting to \$34,973.52. To our knowledge, the San Elizario's only physical address is on the corner of San Elizario Road and Socorro Street.
- 7) Expenditures for merchandise or services billed or delivered to any addresses other than San Antonio Road or Camino De La Rosa amounting to \$13,329.02.
- 8) Expenditures incurred in excess of six months prior to submission of request for reimbursement amounting to \$12,691.01. We consider these items to be at risk for having been reimbursed on one or more occasions outside the time period covered by this engagement.

Effect: The District reimbursed the San Elizario Volunteer Fire Department without sufficient supporting documentation, paid for amounts submitted as statements, and paid for duplicate amounts, which all lead to the possibility of misuse of District funds.

Cause: Management of the Volunteer Fire Department submitted reimbursement requests without sufficient supporting documentation as well as submitting reimbursement requests for duplicate payments.

Criteria: Proper financial management practices as promulgated by the Emergency Services Districts Operating Guide.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding #2012-10 (Continued)

Recommendation: Proper internal controls need to be established in the District to ensure there is proper back up and support for reimbursable expenditures. If proper documentation is not present, the expense should not be reimbursed.

Management's Response: We concur with the above finding. Effective August 8, 2012, (revised on November 14, 2012) the District instituted a financial policies and procedures manual. The manual documents the procedures for verification, approval, and payment of department expenses. All questioned costs will be promptly documented and reported to the board Treasurer by the District Administrator. If unallowable, inaccurate, or duplicate charges are included in a reimbursement request, the amount will be deducted from the department's reimbursement and a recalculated total will be noted on the reimbursement cover sheet. In addition, the Board of Commissioners will examine and approve all department requests for reimbursement at the monthly meeting prior to replenishing the departments' operating funds.

The San Elizario Volunteer Fire Dept has provided additional documentation to support expenditures not previously submitted to the District.

It should be noted that the areas of concern listed on the preceding page (items 1 through 8) precipitated the Board's concern and motivation for generating and implementing the financial policies and procedures manual. It was also at the Board's direction that the need for Administrative Assistants for each department was aggressively addressed and implemented. Continued efforts have been made to review each of the remaining departments during fiscal year ending 2013 to assure that all departments are complying with the current financial policies and procedures. In addition, at the October 10, 2012 Board meeting, the Board of Commissioners required that two additional departments be reviewed in 2013 and such reviews will continue two departments at a time, until all departments have been reviewed. The reviews will include the fiscal years ended 2011 and 2012. If any problems are noted, fiscal year ended 2010 will also be reviewed.

As previously discussed, the District has hired a new District Administrator. The new Administrator has a strong bookkeeping background and has been instrumental in organizing the books and records of the District. The new Administrator will also be a valuable resource to all departments with respect to all bookkeeping matters and will also be able to provide technical assistance on an as needed basis.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding #2012-11

Condition: Questioned cost. A reimbursement to the Montana Vista Fire Department in October, 2011 paid for an invoice that didn't have a vendor's name on the invoice. The invoice amount was \$1,625.

Effect: The reimbursement to the Volunteer Fire Department for an invoice without a vendor's name on may have caused abuse of District funds.

Cause: Management and District personnel are not adequately reviewing invoices to be paid.

Criteria: Proper financial management practices as promulgated by the Emergency Services Districts Operating Guide.

Recommendation: All invoices submitted to the District for payment must be from a vendor whose name appears on the invoice. District personnel responsible for reimbursing the Departments should not reimburse invoices if they cannot determine the name of the vendor based on a review of the invoice.

Management's response: We concur with the above finding. The invoice was paid with a credit card by the Montana Vista Fire Dept. The invoice is pre-numbered but does have the name of the vendor printed on it. The District currently has policies and procedures in place which requires all vendor invoices to be legible, mathematically correct and imprinted with the vendor's name. After further investigation and discussions with the vendor, the invoice was determined to be invalid. The amount has been requested for reimbursement by the District from Montana Vista. In addition, the use of all credit cards has been eliminated at Montana Vista. Only fuel charges paid for with fuel cards in the District's name are reimbursed by the District. The previous Chief resigned during 2013 and a new Chief has been installed.

District management will continue to follow existing policies and procedures with extra care taken in examining the required information on each invoice provided for reimbursement. District management does not believe that this type of error will occur in the future.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Finding #2012-12

Condition: Several invoices were not located for review.

Effect: Invoices should be available for review in order to determine they were properly authorized, the services and or the goods were delivered to and received by the proper entity, and the amounts were classified appropriately.

Cause: Management of the District is not reviewing all reimbursement packages submitted by the Volunteer Fire Departments, or the invoices have been misplaced.

Criteria: Proper financial management practices promulgated by the Emergency Services District Operating Guide.

Recommendation: Management of the District should review and/or file all invoices immediately after payment.

Management's Response: We concur with this finding. The District has hired the services of an external accounting firm to assist with the implementation of all the policies and procedures required in the financial policies and procedures manual (revised November 14, 2012). It is the policy of the District that all expenditures be supported with a valid invoice. The invoice should be retained as evidence of the expenditure in an orderly fashion. The external accounting firm has been training District personnel with respect to the financial policies and procedures and implementation of the majority of the policies and procedures has occurred in fiscal 2013.

In July 2013, the District hired a new Administrator. As previously discussed, the new Administrator will not only provide technical assistance to Administrative Assistants, but also enforce all policies and procedures with respect to the review and verification of supporting invoices and be responsible for assuring that all documentation is properly retained by the District.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

Finding #2012-13

Condition: Inspection of an invoice submitted by the San Elizario Volunteer Fire Department for reimbursement indicates payment of sales tax.

Effect: Sales tax is not required to be paid by any political subdivision of the State of Texas; therefore the payment of sales tax on any invoice is unjustified.

Cause: Management of the Volunteer Fire Departments and the District personnel are not reviewing invoices in enough detail to determine whether sales taxes are being charged.

Criteria: Proper financial management practices promulgated by the Emergency Services District Operating Guide.

Recommendation: Management should review all invoices for payment in enough detail to prevent payment of sales tax.

Management's Response: We concur with this finding. The District has hired the services of an external accounting firm to assist with the implementation of all the policies and procedures required in the financial policies and procedures manual (revised November 14, 2012). It is the policy of the District that sales tax not be paid to any parties. We consider this finding to be an isolated incident. The external accounting firm has trained San Elizario personnel with respect to the financial policies and procedures and implementation of the majority of the policies and procedures has occurred in fiscal 2013. Sales tax is not a valid expenditure and has been communicated to all departments by the District. This policy has been implemented for all of fiscal 2012 and fiscal 2013.

In addition, the external accounting firm has also provided training on the allowability of expenditures, including sales tax. In July 2013, the district hired a new Administrator. The new Administrator has 9 years of experience in reviewing the allowability of expenditures as well as which general ledger account such expenditures should be coded to. The new Administrator will also provide technical assistance to the Administrative Assistants to assure that sales tax is neither paid by the departments nor reimbursed by the District.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding #2012-14

Condition: Management of the District, after reviewing a special purpose engagement completed by the accounting firm of Schmid, Broadus, Nugent and Gano, P.C., which included three of the individual volunteer fire departments, Montana Vista Volunteer Fire Department, Fabens Volunteer Fire Department, and West Valley Fire Department, reported the following:

Montana Vista Volunteer Fire Department

- 1) Reimbursement of expenses for utility bills with addresses other than that of the address of the Volunteer Fire Department.
- 2) Reimbursement of expenses for Viva Chevrolet invoices indicating an address other than that of the Volunteer Fire Department, and large amounts of repair expenses charged on Robert Ostrenga's credit cards with no invoices.
- 3) Reimbursement of expenses for "fast food purchases" to McDonald's, Peter Piper Pizza, Red Lantern, Pizza Hut, Subway, etc.
- 4) Reimbursement of expenses for the following vendors where the uniforms and equipment purchased was shipped to an address other than that of the Volunteer Fire Departments:
 - a) PMI
 - b) Uniforms of Texas
 - c) Ferrera
- 5) Reimbursement for a duplicate receipt from Wal-Mart in the amount of \$203.36.
- 6) Reimbursement of expenses for CE Solutions delivered to an address other than that of the Volunteer Fire Department.
- 7) Reimbursement of expenses for many purchases from Amazon that were shipped to an address other than that of the Volunteer Fire Department.
- 8) Reimbursement of expenses for cell phone insurance for Kristina Younger.
- 9) Reimbursement of expenses for the payroll of Wendy Younger where the payroll rate on the timesheet differs from the amount paid.

West Valley Volunteer Fire Department

- 1) An invoice submitted was reimbursed twice by the District amounting to \$130.50. Upon notification to Chief Adler, the amount was reimbursed back to the District per check dated January 2, 2013, check number 6223. This item is considered resolved as of the date of this letter. The date of the letter was January 7, 2013.

Effect: The District reimbursed the Montana Vista Volunteer Fire Department without determining whether the reimbursement was for authorized locations, authorized shipment locations. In addition, the District paid for items without proper supporting documentation, paid for duplicate amounts, and paid for expenses that possibly benefitted someone who was not authorized to receive any benefits from the Department. Finally, the District paid for payroll of an employee without proper supporting documentation.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding #2012-14 (Continued)

Cause: management of the Volunteer Fire Department submitted reimbursement requests without sufficient supporting documentation as well as submitted reimbursement requests for duplicate payment. They also submitted reimbursement requests for expenses without determining whether the reimbursement was for authorized locations, and authorized shipment locations. In addition, they did not calculate payroll properly for wages paid to an employee.

Criteria: Proper financial management practices as promulgated by the Emergency Services District's Operating Guide.

Recommendation: Proper internal controls need to be established in the District to ensure there is proper back up and support for reimbursable expenditures. If proper documentation is not present, the expense should not be reimbursed.

Management's Response: The West Valley duplicate payment of \$130.50 was repaid to the District as soon it was discovered. The findings that are listed with respect to Montana Vista are preliminary findings of a separate review conducted by another accounting firm. Such items have not yet been presented to the Board of Commissioners for review by either the other accounting firm or Mr. Johnson. The report by the external accounting firm is expected to be presented at the July 2013 meeting, at which time, management will address the validity of any discrepancies noted. It is not management's intent to take such findings lightly, however, we cannot comment on their validity until such information has been properly provided to us. Once provided, it is the Board's intent to institute any additional policies and procedures necessary to prevent such discrepancies from occurring again.

The District has implemented policies and procedures as described in its financial policies and procedures manual (revised November 14, 2012). In addition, management's responses to **Findings 2012-2, 2012-8, 2012-9, 2012-10, 2012-11, and 2012-12**, also apply to this finding.

It should be noted that the Chief during the period of review has since resigned as well as his assistant. A new Chief has been installed and several additional internal controls have been implemented to eliminate the risk of these types of issues from recurring. The use of credit cards has been strictly forbidden until the Board of Commissioners has determined that other internal controls have been implemented and are effectively working at Montana Vista.