

**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2**

**FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2014 AND 2013

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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, 2014. We encourage readers to consider this information in conjunction with the basic financial statements, which begins on Page 3.

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 increased by approximately .32% due to an increase in cash, slightly offset by accumulated depreciation for assets purchased in the prior and current year.
- Total liabilities decreased by 7.53% due to payments of capital leases.
- Total net assets increased by approximately \$1,197,791 which represents a 22.63% increase from fiscal year ended 2013.
- Amounts invested in capital assets, net of related debt amounted to \$2,055,217.
- Unrestricted net assets, available to meet the District's on-going obligations, totaled \$4,435,837.
- At September 30, 2014, the District's governmental fund statement shows a combined ending fund balance of \$4,260,385, an increase of \$1,562,803 in comparison with the prior year fund balance.
- General revenues amounted to \$6,719,789 or 95.00% of all revenues.
- Program revenues increased from the previous year from \$73,245 to \$137,870.
- The District expended no monies on infrastructure during the year.
- The District had \$5,521,998 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 3-5.
- Fund financial statements on Pages 6-11.
- Notes to the financial statements on Pages 12-27.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2014 AND 2013

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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 3 through 5 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 years ended September 30, 2014 and 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 6 through 11.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2014 AND 2013

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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 12 through 27 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 28 through 33.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2014 AND 2013

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1  
Net Position (In Thousands)  
September 30,

	<u>2013</u>	<u>2014</u>		<u>2013</u>	<u>2014</u>
Current and other assets	\$ 3,476.7	\$ 5,437.8	Net Position:		
Capital assets	<u>16,870.2</u>	<u>14,973.8</u>	Invested in capital assets, net of related debt	\$2,434.3	\$2,055.2
Total assets	<u>20,346.9</u>	<u>20,411.6</u>	Unrestricted	<u>2,859.0</u>	<u>4,435.8</u>
Long-term obligations	(14,436.0)	(12,918.6)	Total position	<u>\$5,293.3</u>	<u>\$6,491.0</u>
Other liabilities	<u>(617.7)</u>	<u>(1,002.0)</u>			
Total liabilities	<u>(15,053.7)</u>	<u>(13,920.6)</u>			

Net position of the District's activities increased 22.63% or \$1,197.8. 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 \$2,859,000 to \$4,435,837 at the end of fiscal year 2014. The increase can be attributed to maintaining controls over outflows to assure they do not exceed inflows and additional inflows during the year related to telecommunication sales tax.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2014 AND 2013

Table 2 compares the fiscal year ended 2014 change in net position to the 2013 change in net assets.

**Table 2**  
**Changes in Net Position for 2014**  
**Compared with 2013 Activity**  
**(In Thousands)**

	<u>2013</u>	<u>2014</u>	<u>Change</u>
<b>Program revenues:</b>			
Operating grants	\$ 17.9	\$ 19.4	\$ 1.5
Capital grants	786.3	196.2	(590.1)
Charges for services	73.2	137.9	64.7
<b>General revenues:</b>			
Property taxes	2,934.5	2,916.1	(18.4)
Sales taxes	2,490.0	3,788.0	1,298.0
Other	<u>9.1</u>	<u>15.7</u>	<u>6.6</u>
<b>Total revenues</b>	<u>6,311.0</u>	<u>7,073.3</u>	<u>762.3</u>
<b>Program expenses:</b>			
Public safety	6,034.0	5,226.7	(807.3)
Interest on long-term debt	<u>688.6</u>	<u>648.8</u>	<u>(39.8)</u>
<b>Total expenses</b>	<u>6,722.6</u>	<u>5,875.5</u>	<u>(847.1)</u>
<b>Changes in net position</b>	<u>\$ (411.6)</u>	<u>\$ 1,197.8</u>	<u>\$1,609.4</u>

Sales taxes increased due to an increase in sales within the District and the collection of telecommunication sales tax.

Total expenses decreased due a decrease in the amount public safety expenses.

Overall, the change in net position increased approximately 391.0% from the previous year.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2014 AND 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>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
General government	\$6,034.0	\$5,226.7	\$5,156.6	\$4,873.2
Interest on long-term debt	<u>688.6</u>	<u>648.8</u>	<u>688.6</u>	<u>648.8</u>
 Total expenses	 <u>\$6,722.6</u>	 <u>\$5,875.5</u>	 <u>\$5,845.2</u>	 <u>\$5,522.0</u>

The District received a capital grant from Texas A&M Forest Service, which reimburses the District 90% for the purchase of a large brush truck (up to \$200,000) and \$19,430 in grants from Texas A&M Forest Service to assist with workers 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 \$4,260,385 an increase of \$1,562,803 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, 2014 AND 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>2013</u>	<u>2014</u>	<u>Percent Change</u>
General Fund	<u>\$2,697.6</u>	<u>\$4,260.4</u>	<u>57.93%</u>

Table 5 presents a detail of the governmental fund revenues for the fiscal year ended September 30, 2014 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>2014 Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) Over 2013</u>	<u>Percent Increase (Decrease)</u>
Property taxes	\$2,931.9	41.36%	\$ 17.7	0.6%
Sales taxes	3,788.0	53.43%	1,298.0	52.1%
Charges for services	137.8	1.95%	64.6	88.2%
Grant income	215.7	3.04%	(588.5)	(73.2)%
Interest income	3.3	0.05%	1.0	40.7%
Sale of assets	<u>12.4</u>	<u>0.17%</u>	<u>5.6</u>	<u>82.1%</u>
Total	<u>\$7,089.1</u>	<u>100.0 %</u>	<u>\$ 798.4</u>	<u>12.7%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2014 AND 2013

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Table 6 represents the general fund budget. There were differences between the original budget and final budget for fiscal year 2014. 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>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues:</b>			
Property taxes	\$2,922.2	\$2,931.9	\$ 9.7
Sales taxes	3,616.5	3,788.0	171.5
Grant income	-	215.7	215.7
Interest earnings	-	3.3	3.3
Sale of assets	-	12.4	12.4
Inspection earnings	<u>-</u>	<u>137.9</u>	<u>137.9</u>
	<u>\$6,538.7</u>	<u>\$7,089.2</u>	<u>\$ 550.5</u>
<b>Expenditures:</b>			
Total general government	<u>\$6,230.4</u>	<u>\$5,526.3</u>	<u>\$ 704.1</u>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

At year-end, the District had \$14,973,817 invested in capital assets, net of depreciation. This amount represents a net decrease (including addition and deletions) of \$1,896,404 or 11.24% compared to last year. The net decrease is primarily due to additions of capital assets during 2014 totaling \$626,742 less depreciation of total assets totaling \$2,514,070.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2014 AND 2013

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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>2013</u>	<u>2014</u>
Land	\$ 786,051	\$ 786,051
Construction in progress	-	-
Buildings and improvements	9,012,330	8,862,223
Transportation equipment	6,109,459	4,555,514
Other equipment	<u>962,381</u>	<u>770,029</u>
 Total capital assets, net	 <u>\$16,870,221</u>	 <u>\$14,973,817</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 \$12,918,600 in outstanding capital leases payable verse \$14,435,958 last year, a decrease of 10.5%. The decrease was due to payments of capital leases during the year of \$1,517,358.

More detailed information about the District's long-term liabilities is presented on Pages 21-26 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 years ended September 30, 2014 and 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, 2014 and 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.

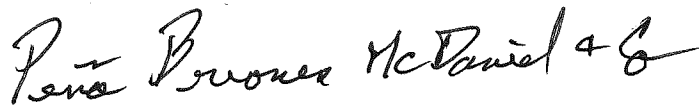
## Other Matters

### *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 28 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2015, 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.



January 21, 2015

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2STATEMENTS OF NET POSITION  
SEPTEMBER 30, 2014 AND 2013

<u>ASSETS</u>	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 3,909,276	\$ 2,333,885
Receivable, net of allowance		
Taxes	1,265,227	1,106,621
Other	214,166	185
Capital assets, net of accumulated depreciation	14,973,817	16,870,221
Prepaid insurance	45,417	32,258
Other assets	3,750	3,750
<b>TOTAL ASSETS</b>	<b>\$ 20,411,653</b>	<b>\$ 20,346,920</b>
<u>LIABILITIES</u>		
<b>Current Liabilities</b>		
Accounts payable	\$ 662,070	\$ 247,631
Payroll taxes payable	-	369
Accrued interest	339,929	369,699
<b>Long-term liabilities:</b>		
Due within one year	1,417,797	1,518,952
Due after one year	11,500,803	12,917,006
<b>TOTAL LIABILITIES</b>	<b>13,920,599</b>	<b>15,053,657</b>
<u>NET POSITION</u>		
Investment in capital assets, net of related debt	2,055,217	2,434,263
Unrestricted	4,435,837	2,859,000
<b>TOTAL NET POSITION</b>	<b>\$ 6,491,054</b>	<b>\$ 5,293,263</b>

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, 2014

FUNCTIONS/PROGRAMS	Expense	Program Revenues		Capital Grants and Contributions	Net Revenue (Expense) and Change in Net Position
		Charges for Services	Operating Grants and Contributions		
<b>Primary Government:</b>					
<b>Governmental Activities</b>					
Public safety	\$ 5,226,685	\$ 137,870	\$ 19,430	\$ 196,231	\$ (4,873,154)
Interest on debt	<u>648,844</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(648,844)</u>
<b>Total primary government</b>	<u>\$ 5,875,529</u>	<u>\$ 137,870</u>	<u>\$ 19,430</u>	<u>\$ 196,231</u>	<u>\$ (5,521,998)</u>
<b>General Revenues:</b>					
<b>Taxes:</b>					
					2,916,147
					3,787,955
					3,296
					<u>12,391</u>
					<u>6,719,789</u>
					<u>1,197,791</u>
					5,293,263
					<u>\$ 6,491,054</u>

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 Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Primary Government:</b>					
<b>Governmental Activities</b>					
Public safety	\$ 6,034,006	\$ 73,245	\$ 17,905	\$ 786,268	\$ (5,156,588)
Interest on debt	<u>688,578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(688,578)</u>
<b>Total primary government</b>	<u>\$ 6,722,584</u>	<u>\$ 73,245</u>	<u>\$ 17,905</u>	<u>\$ 786,268</u>	<u>\$ (5,845,166)</u>
<b>General Revenues:</b>					
<b>Taxes:</b>					
					2,934,486
					2,489,975
					2,342
					<u>6,805</u>
					<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, 2014

	<u>General Fund</u>
<u>ASSETS</u>	<u>2014</u>
Cash and cash equivalents	\$ 3,909,276
Receivables, net of allowance	
Taxes	1,265,227
Other	214,166
Prepaid insurance	45,417
Other assets	<u>3,750</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>5,437,836</u></b>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Accounts payable	\$ 662,067
Payroll taxes payable	<u>-</u>
Total liabilities	<u>662,067</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Unearned revenue - property taxes	<u>515,381</u>
Total deferred inflows of resources	<u>515,381</u>
<u>FUND BALANCE</u>	
Non-spendable	45,417
Unassigned	<u>4,214,968</u>
Total fund balance	<u>4,260,385</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ <u>5,437,833</u></b>

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

BALANCE SHEET  
GOVERNMENTAL FUNDS (CONTINUED)  
SEPTEMBER 30, 2014

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	<u>2014</u>
<b>Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position:</b>	
Amounts presented for governmental activities in the Statement of Net Position are different because:	
Fund balance- governmental funds	\$ 4,260,385
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:	
Governmental capital assets	32,866,804
Less accumulated depreciation	(17,892,987)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Accrued interest	(339,929)
Long term debt	(12,918,600)
Unearned revenue - property taxes	<u>515,381</u>
Net position of governmental activities	<u>\$ 6,491,054</u>

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2013

	<u>General Fund</u>
<u>ASSETS</u>	<u>2013</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>
<b>TOTAL ASSETS</b>	<b>\$ <u>3,476,699</u></b>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Accounts payable	\$ 247,631
Payroll taxes payable	<u>369</u>
Total liabilities	<u>248,000</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Unearned revenue - property taxes	<u>531,117</u>
Total deferred inflows of resources	<u>531,117</u>
 <u>FUND BALANCE</u>	
Non-spendable	32,258
Unassigned	<u>2,665,324</u>
Total fund balance	<u>2,697,582</u>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	 <b>\$ <u>3,476,699</u></b>

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

BALANCE SHEET  
GOVERNMENTAL FUNDS (CONTINUED)  
SEPTEMBER 30, 2013

2013

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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:

Fund balance- governmental funds	\$	2,697,582
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)
Unearned revenue - property taxes		<u>531,117</u>
Net position of governmental activities	\$	<u>5,293,263</u>

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

STATEMENTS OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	General Fund	
	2014	2013
<b>REVENUES</b>		
Property and occupancy taxes	\$ 2,931,883	\$ 2,914,149
Sales taxes	3,787,955	2,489,975
Inspection revenue	137,870	73,245
Sale of assets	12,391	6,805
Grants	215,661	804,173
Interest income	3,296	2,342
Total revenues	<u>7,089,056</u>	<u>6,290,689</u>
<b>EXPENDITURES</b>		
Public safety	2,712,615	3,577,995
Capital outlays	617,666	1,035,105
Principal retirements	1,517,358	2,276,986
Interest	678,614	737,366
Total expenditures	<u>5,526,253</u>	<u>7,627,452</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<u>\$ 1,562,803</u>	<u>\$ (1,336,763)</u>
<b>OTHER FINANCING SOURCES</b>		
Net proceeds from new long term debt	-	1,597,001
Total other financing sources	<u>-</u>	<u>1,597,001</u>
Net change in fund balances	1,562,803	260,238
<b>FUND BALANCES, Beginning, as previously reported</b>	2,697,582	2,259,946
Prior period adjustment	-	177,398
<b>FUND BALANCES, Beginning, as restated</b>	<u>2,697,582</u>	<u>2,437,344</u>
<b>FUND BALANCES, Ending</b>	<u>\$ 4,260,385</u>	<u>\$ 2,697,582</u>

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS (Continued)  
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

Reconciliation of Statement of Revenues, Expenditures, and Change in Fund		
Balance to Statement of Activities:	<u>2014</u>	<u>2013</u>
Net change in fund balances - total governmental funds	\$ 1,562,803	\$ 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	626,741	1,035,105
Less gain on disposal of capital assets	(9,075)	-
Less current year provision for depreciation	(2,514,070)	(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.	1,517,358	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	(15,736)	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	<u>29,770</u>	<u>48,791</u>
Change in net position of governmental activities	<u>\$ 1,197,791</u>	<u>\$ (411,558)</u>

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013

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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 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations; 2) Accounting Principles Board Opinions; 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Implementation of GASB 62 is reflected in the financial statements and notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, amends the net asset reporting requirements in Statement No. 34 and other pronouncements by incorporating deferred outflows of the resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure at net position rather than assets. Implementation of GASB 34 is reflected in the financial statements.

GASB 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of GASB 65 is reflected in the financial statements.

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.



NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures are generally recognized under the modified accrual basis of accounting when the related 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.

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.

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any item in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of resources, represents and acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unearned revenue – property taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from properties taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Nonspendable – The nonspendable fund balance includes amounts that cannot be spent because they are either no in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Generally, the District would first apply restricted resources, than committed, assigned and unassigned resources when an expense is incurred for purposes for which more than are 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.

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.

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013

2. CASH AND CASH EQUIVALENTS (Continued)

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:

	2014				
	Category 1	Category 2	Category 3	Total Bank Balance	Total Carrying Value
Government activities	\$ -	\$ -	\$ 3,967,729	\$ 3,967,729	\$ 3,909,276

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.

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.

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013

2. CASH AND CASH EQUIVALENTS (Continued)

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, 2014, the District had cash deposits in two banking institutions with a carrying amount of \$3,967,729. Of this balance, \$250,000 is covered by Federal Depository Insurance Corporation (FDIC) at each banking institution. In addition, the balance is covered by pledged securities with a market value of \$6,013,719 as of September 30, 2014.

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 \$2,867,580,029 for the year ended September 30, 2014. 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 2013-2014 tax rate was \$.100, per \$100 of assessed valuation. The District incurred expenditures of \$35,199 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2014.

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

4. RECEIVABLES

Receivables consist of the following at September 30, 2014:

	<u>Gross</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net</u>
Governmental Activities			
Taxes	\$ 1,318,339	\$ (53,112)	\$ 1,265,227
Other	214,166	-	214,166
Total Governmental Activities	<u>\$ 1,532,505</u>	<u>\$ (53,112)</u>	<u>\$ 1,479,393</u>

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013

## 5. CAPITAL ASSETS

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

	Balance October 1, 2013	Increases	Decreases	Balance September 30, 2014
<b>Capital assets not being depreciated:</b>				
Land	\$ 786,051	\$ -	\$ -	\$ 786,051
<b>Capital assets being depreciated:</b>				
Buildings and improvements	11,833,733	146,047	-	11,979,780
Transportation equipment	16,777,601	300,076	(66,000)	17,011,677
Other equipment	<u>2,908,678</u>	<u>180,619</u>	<u>-</u>	<u>3,089,297</u>
Total Capital Assets	<u>32,306,063</u>	<u>626,742</u>	<u>(66,000)</u>	<u>32,866,805</u>
 <b>Less accumulated depreciation</b>				
Buildings and improvements	\$ 2,821,403	\$ 296,154	\$ -	\$ 3,117,557
Transportation equipment	10,668,142	1,844,945	(56,924)	12,456,163
Other equipment	<u>1,946,297</u>	<u>372,971</u>	<u>-</u>	<u>2,319,268</u>
Total accumulated depreciation	<u>15,435,842</u>	<u>2,514,070</u>	<u>(56,924)</u>	<u>17,892,988</u>
 <b>Governmental Activities Capital</b>				
Assets, net	<u>\$ 16,870,221</u>	<u>\$ (1,887,328)</u>	<u>\$ (9,076)</u>	<u>\$ 14,973,817</u>

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 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, 2014:

	Balance October 1, 2013	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2014
Capital lease secured by equipment, with annual payments of \$37,138, including interest at 2.23%, maturing in February 2023 (Clint).	\$ 331,500	\$ -	\$ 29,500	\$ 302,000
Capital lease secured by equipment, with annual payments of \$28,619, including interest at 5.597%, maturing in March 2028 (Clint).	285,429	-	12,644	272,785
Capital lease secured by fire trucks, with annual payments of \$69,997, including interest at 5.555%, maturing in March 2023 (Clint).	526,221	-	40,765	485,456
Capital lease secured by real property and improvements, with annual payments of \$106,194, including interest at 5.793%, maturing in March 2028 (Clint).	1,045,473	-	45,629	999,844
Capital lease secured by pumper trucks, with annual payments of \$19,905, including interest at 5.797%, maturing in March 2023 (Clint).	147,922	-	11,330	136,592
Capital lease secured by building, with annual payments of \$21,788, including interest at 1.750%, maturing in March 2017 (Fabens).	84,195	-	20,499	63,696



NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013

6. LONG TERM DEBT (continued)

	Balance October 1, 2013	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2014
Capital lease secured by vehicle, with annual payments of \$79,223, including interest at 1.250%, maturing in March 2015 (Fabens).	\$ 155,503	\$ -	\$ 77,258	\$ 78,245
Capital lease secured by vehicles, with annual payments of \$77,410, including interest at 2.250%, maturing in March 2022 (Fabens).	624,212	-	63,209	561,003
Capital lease secured by Tornillo substation, with annual payments of \$46,053, including interest at 5.593%, maturing in March 2024 (Fabens).	370,893	-	25,309	345,584
Capital lease secured by main station, with annual payments of \$120,526, including interest at 5.593%, maturing in March 2024 (Fabens).	970,676	-	66,236	904,440
Capital lease secured by chassis, with annual payments of \$34,008, including interest at 2.330%, maturing in March 2022 (Montana Vista).	278,000	-	27,900	250,100
Capital lease secured by vehicles, with annual payments of \$46,887, including interest at 5.525%, maturing in March 2015 (Montana Vista).	86,539	-	42,106	44,433
Capital lease secured by equipment, with annual payments of \$14,472, including interest at 5.528%, maturing in March 2018 (Montana Vista).	61,754	-	11,059	50,695

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013

6. LONG TERM DEBT (continued)

	Balance October 1, 2013	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2014
Capital lease secured by vehicles and equipment, with annual payments of \$144,119, including interest at 5.555%, maturing in March 2023 (Montana Vista).	\$ 1,083,458	\$ -	\$ 83,933	\$ 999,525
Capital lease secured by property, with annual payments of \$71,072, including interest at 5.793%, maturing in April 2028 (Montana Vista).	699,699	-	35,431	664,268
Capital lease secured by fire trucks, with annual payments of \$64,232, including interest at 2.330%, maturing in March 2022 (San Elizario).	516,632	-	52,695	463,937
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	-	88,080	89,206
Capital lease secured by fire truck, with annual payments of \$66,284, including interest at 4.402%, maturing in March 2015 (San Elizario).	124,301	-	60,522	63,779
Capital lease secured by fire station, with annual payments of \$158,468, including interest at 5.731%, maturing in March 2025 (San Elizario).	1,348,389	-	81,193	1,267,196
Capital lease secured by building, with annual payments of \$53,680, including interest at 2.330%, maturing in March 2022 (Socorro).	446,981	-	44,858	402,123

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013

6. LONG TERM DEBT (continued)

	Balance October 1, 2013	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2014
Capital lease secured by equipment, with annual payments of \$56,613, including interest at 5.226%, maturing in March 2020 (Socorro).	\$ 324,922	\$ -	\$ 39,634	\$ 285,288
Capital lease secured by fire trucks, with annual payments of \$24,288, including interest at 5.589%, maturing in March 2023 (Socorro).	182,293	-	14,099	168,194
Capital lease secured by fire station, with annual payments of \$135,414, including interest at 5.755%, maturing in March 2029 (Socorro).	1,391,836	-	55,319	1,336,517
Capital lease secured by fire truck and equipment, with annual payments of \$97,553, including interest at 5.755%, maturing in March 2019 (Socorro).	483,415	-	69,732	413,683
Capital lease secured by quint platform, with annual payments of \$93,760, including interest at 2.780%, maturing in March 2022 (Socorro).	737,572	-	73,225	664,347
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).	158,110	-	158,110	-
Capital lease secured by vehicles, with annual payments of \$23,251, including interest at 5.895%, maturing in March 2015 (West Valley).	42,691	-	19,458	23,233

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013

6. LONG TERM DEBT (continued)

	October 1, 2013	Additions	Retirements/ Refinanced	September 30, 2014
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).	\$ 1,017,972	\$ -	\$ 69,463	\$ 948,509
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).	307,403	-	13,841	293,562
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).	220,681	-	17,161	203,520
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	-	67,160	136,840
	<u>14,435,958</u>	<u>-</u>	<u>1,517,358</u>	<u>12,918,600</u>
Less current portion				<u>1,417,797</u>
Long-term debt less current portion				<u>\$ 11,500,803</u>

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013

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6. LONG TERM DEBT (continued)

The following represents future minimum lease payments as of September 30, 2014:

<u>September 30,</u>	<u>Amount</u>
2015	\$ 1,418,084
2016	1,168,850
2017	1,150,621
2018	1,182,372
2019	1,223,466
2020-2024	5,271,614
2025-2028	<u>1,503,593</u>
Total	<u>\$ 12,918,600</u>

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>
2015	48,410
2016	47,842
2017	45,000
2018	<u>45,000</u>
Total	<u>\$ 186,252</u>

Rental expense for the year ended September 30, 2014 included in the Statement of Activities, totaled \$45,000.

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014 AND 2013

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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 2014, 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)	\$13,052,492

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

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

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. SUBSEQUENT EVENTS

Subsequent events were evaluated through January 21, 2015, 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, 2014**

	<u>Budgeted Amounts</u>		<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes:				
Property	\$ 2,883,389	\$ 2,922,205	\$ 2,931,883	\$ 9,678
Sales	2,485,890	3,616,502	3,787,955	171,453
Sale of assets	-	-	12,391	12,391
Grant income	-	-	215,661	215,661
Inspection revenues	-	-	137,870	137,870
Interest earnings	-	-	3,296	3,296
Total revenues	<u>5,369,279</u>	<u>6,538,707</u>	<u>7,089,056</u>	<u>550,349</u>
<b>EXPENDITURES</b>				
Public safety:				
Fire control and EMS:				
Administration and salaries	507,558	431,807	363,517	(68,290)
Office rent	45,000	45,000	45,000	-
Insurance	277,042	278,925	185,762	(93,163)
Professional services	431,535	504,273	419,857	(84,416)
Service contracts	150,000	150,000	150,000	-
Bank charges	3,927	4,011	3,255	(756)
Legal	70,000	70,000	43,198	(26,802)
New equipment purchases	574,863	1,196,965	931,148	(265,817)
Electric	82,776	81,788	78,024	(3,764)
Cable	9,665	11,512	9,412	(2,100)
Heat	26,545	24,672	23,832	(840)
Water	13,832	13,403	10,254	(3,149)
Trash	9,551	10,219	9,402	(817)
Fuel	172,825	170,011	153,874	(16,137)
Communication	146,495	126,495	110,392	(16,103)
Dues & subscriptions	8,545	30,031	30,031	-
Building and grounds	135,774	106,079	96,669	(9,410)
Equipment maintenance and repair	54,305	34,367	31,431	(2,936)
Vehicle maintenance	185,973	145,958	132,162	(13,796)
Volunteer clearance	4,223	23,490	10,755	(12,735)
Training and travel	132,496	99,022	81,206	(17,816)
Uniforms and bunker gear	36,061	227,736	209,025	(18,711)
Supplies	63,073	65,399	58,814	(6,585)
Fire fighting supplies	89,692	96,779	73,930	(22,849)
Medical supplies	41,041	42,604	38,354	(4,250)
Miscellaneous	74,882	43,894	30,977	(12,917)
Principal payments	1,510,804	1,510,804	1,517,358	6,554
Interest payments	685,168	685,168	678,614	(6,554)
Total expenditures	<u>5,543,651</u>	<u>6,230,412</u>	<u>5,526,253</u>	<u>(704,159)</u>

See accompanying notes to financial statements.



EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND (CONTINUED)  
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Budgeted Amounts</u>		<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
	<u>Original</u>	<u>Final</u>		
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(174,372)	308,295	1,562,803	1,737,175
Fund balance, beginning of year	-	-	2,697,582	2,697,582
Fund balance, end of year	<u>\$ (174,372)</u>	<u>\$ 308,295</u>	<u>\$ 4,260,385</u>	<u>\$ 4,434,757</u>
Budget basis excess			1,562,803	
Non-budgeted funds			-	
GAAP basis excess			1,562,803	
Fund balance, beginning of year			2,697,582	
Fund balance, end of year			<u>\$ 4,260,385</u>	

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

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

	<u>Budgeted Amounts</u>		<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
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	2,342
Total revenues	<u>5,034,741</u>	<u>5,034,741</u>	<u>6,290,689</u>	<u>1,258,448</u>
<b>EXPENDITURES</b>				
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)
Cable	-	-	-	-
Heat	37,972	37,972	19,920	(18,052)
Water	12,208	12,208	17,610	5,402
Trash	-	-	-	-
Fuel	186,183	186,183	151,974	(34,209)
Communication	185,755	185,755	171,293	(14,462)
Dues and subscriptions	-	-	-	-
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
Volunteer clearance	-	-	-	-
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>

See accompanying notes to financial statements

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

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

	<u>Budgeted Amounts</u>		<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
	<u>Original</u>	<u>Final</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			<u>177,398</u>	
Fund balance, end of year			<u>\$ 2,697,582</u>	

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO THE SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2014

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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 2014.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO THE SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2014

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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.

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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 years ended September 30, 2014 and 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 January 21, 2015.

**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.

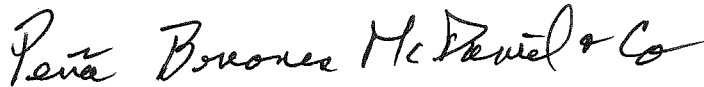
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not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

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

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of 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.



January 21, 2015

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

SCHEDULE OF FINDINGS AND RESPONSES  
SEPTEMBER 30, 2014 AND 2013

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**PRIOR YEAR FINDINGS CORRECTED IN FISCAL YEAR 2013**

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

It was noted in the prior year that invoices were improperly classified (categorization of expenses). Proper classification appears to have been met subsequent to hiring of new personnel.

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

It was noted in the prior year that the District reimbursed a Volunteer Fire Department based on two past due statements instead of invoices. This was resolved subsequent to hiring of new personnel.

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

It was noted in the prior year that two invoices were requested from reimbursement for the incorrect amount. This was resolved subsequent to hiring of new personnel.

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

It was noted in the prior year that an invoice was not located and another one did not have supporting documentation or any indication of approval for the expense to be paid. This was resolved subsequent to hiring of new personnel.

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

It was noted in the prior year that two invoices submitted by the West Valley Volunteer Fire Department for reimbursement indicates payment of sales tax. This was resolved subsequent to hiring of new personnel.

**CURRENT YEAR FINDINGS AND PRIOR YEAR FINDINGS UNCORRECTED**

None