

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

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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, 2017 and 2016, 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 audits. 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 used 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, 2017 and 2016, and the respective changes in financial position, for the years 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, schedule of changes in net pension liability and related ratios and schedule of employer contributions on pages i through ix and 42 through 48 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 February 20, 2018, 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.



February 20, 2018
El Paso, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017 AND 2016

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, 2017. 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 decreased by approximately 5.0% due to a decrease in receivables from taxes and an increase in assets purchased, slightly offset by accumulated depreciation for assets purchased in the prior and current year.
- Total liabilities decreased by 17.7% due to payments of capital leases and by a decrease in accounts payable at year end.
- Total net position increased by \$1,096,357 which represents a 11.61% increase from fiscal year ended 2016.
- Amounts invested in capital assets, net of related debt amounted to \$5,610,040.
- Unrestricted net assets, available to meet the District's on-going obligations, totaled \$4,931,179.
- At September 30, 2017, the District's governmental fund statement shows a combined ending fund balance of \$4,573,607 an increase of \$730,698 in comparison with the prior year fund balance.
- General revenues amounted to \$6,807,868 or 98% of all revenues.
- Program revenues increased from the previous year from \$153,851 to \$163,537.
- The District expended \$623,280 on infrastructure during the year.
- The District had \$5,874,048 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 12-40.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017 AND 2016

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 position* and changes in them. You can think of the District's net position, the difference between assets, what the District owns, and liabilities, what the District owes, as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are 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 position. Changes in net position 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, 2017 and 2016. It provides a breakdown of revenues and expenses by function. All changes in net position are reported as soon as the underlying event which contributes to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only affect cash flows in future fiscal periods. Examples of such items include revenues earned and expenses incurred but not yet paid, all of which will produce changes in cash in a future fiscal period.

Both statements attempt to distinguish functions of the District that are principally supported by taxes (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees (*business-type activities*). The governmental activities of the District include public safety (fire protection). The District does not engage in any business-type activities.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District only has governmental funds. The governmental funds financial statements are on Pages 6 through 11.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017 AND 2016

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 40 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, schedule of changes in net pension liability and related ratios, and schedule of employer contributions. The required supplementary information can be found on Pages 42 through 49.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017 AND 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1
Net Position (In Thousands)
September 30,

	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>
Current and other assets	\$ 5,410.2	\$ 5,503.2	Net Position:		
Capital assets	<u>15,143.5</u>	<u>16,134.1</u>	Invested in capital assets, net of related debt	\$5,610.0	\$5,307.4
Total assets	<u>20,553.7</u>	<u>21,637.3</u>	Unrestricted	<u>4,931.2</u>	<u>4,137.4</u>
Long-term obligations	9,533.5	10,826.6	Total position	<u>\$10,541.2</u>	<u>\$9,444.8</u>
Other liabilities	<u>563.6</u>	<u>1,440.7</u>			
Total liabilities	<u>10,097.1</u>	<u>12,267.3</u>			

Net position of the District's activities decreased 11.61% or \$1,096.3. 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 \$4,137,401 to \$4,931,179 at the end of fiscal year 2017.

The District implemented GASB (Governmental Accounting Standards Board) Statement No. 68, Accounting and Financial Reporting for Pension – An Amendment of GASB Statement No. 27, which requires the setting of a deferred outflow/ inflow of resources of \$84,563 on the asset side of the statement of net position, a net pension liability of \$(15,484) on the non-current liabilities, and a cumulated effect of \$100,047 reducing the ending net position.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017 AND 2016

Table 2 compares the fiscal year ended 2017 change in net position to the 2016 change in net assets.

Table 2
Changes in Net Position for 2017
Compared with 2016 Activity
(In Thousands)

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Program revenues:			
Operating grants	\$ 60.0	\$ 5.3	\$ 54.7
Capital grants	0.0	0.0	0.0
Charges for services	102.4	148.5	(46.1)
General revenues:			
Property taxes	2,964.5	2,834.3	127.2
Sales taxes	3,727.6	3,841.7	(114.1)
Other	<u>115.9</u>	<u>99.9</u>	<u>15.9</u>
Total revenues	<u>6,970.4</u>	<u>6,929.7</u>	<u>40.7</u>
Program expenses:			
Public safety	5,388.5	4,925.9	462.6
Interest on long-term debt	<u>485.9</u>	<u>556.2</u>	<u>(59.7)</u>
Total expenses	<u>5,874.1</u>	<u>5,482.1</u>	<u>402.9</u>
Changes in net position	<u>\$ 1,096.3</u>	<u>\$ 1,447.6</u>	<u>(365.3)</u>

Sales taxes decreased due to a decrease in sales within the District and the collection of telecommunication sales tax. In addition, more operating and capital grants were received during fiscal year 2017.

Total expenses increased due a increase in the amount public safety expenses.

Overall, the change in net position increased approximately 11.61 % from the previous year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
 SEPTEMBER 30, 2017 AND 2016

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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
General government	\$5,388.2	\$4,925.9	\$5,226.0	\$4,772.0
Interest on long-term debt	<u>485.9</u>	<u>556.2</u>	<u>496.5</u>	<u>556.2</u>
Total expenses	<u>\$5,874.1</u>	<u>\$5,482.1</u>	<u>\$5,722.5</u>	<u>\$5,328.2</u>

The District received \$60,113 and \$5,341 in grants from Texas A&M Forest Service to assist with workers compensation insurance and training for 2017 and 2016, respectively.

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 \$4,573,607 an increase of \$730,698 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, 2017 AND 2016

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>2017</u>	<u>2016</u>	<u>Percent Change</u>
General Fund	<u>\$4,573.6</u>	<u>\$3,842.9</u>	<u>19.01%</u>

Table 5 presents a detail of the governmental fund revenues for the fiscal year ended September 30, 2017 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>2017 Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) Over 2016</u>	<u>Percent Increase (Decrease)</u>
Property taxes	\$2,963.00	42.52%	\$92.40	3.20%
Sales taxes	3,727.60	53.49%	-114.1	-3.00%
Charges for services	102.4	1.47%	-46.1	-31.00%
Grant income	60.1	0.86%	54.8	1025.50%
In-kind donation	0	0.00%	0.0	0.00%
Interest income	0.4	0.01%	-0.7	-16.50%
Donations	0	0.00%	0.0	0.00%
Rental income	0	0.00%	-0.4	-100.00%
Miscellaneous income	20.5	0.29%	17.5	578.50%
Gain on sale of assets	<u>94.9</u>	1.36%	<u>1.2</u>	<u>-1.20%</u>
Total	<u>\$6,968.90</u>	<u>100.00%</u>	<u>\$4.60</u>	<u>1455.50%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017 AND 2016

GENERAL FUND BUDGETARY HIGHLIGHTS

Table 6 represents the general fund budget. There were differences between the original budget and final budget for fiscal year 2017. 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>
Revenues:			
Property taxes	\$2,913.6	\$2,963.0	\$ -49.4
Sales taxes	3,810.8	3,727.6	83.2
Inspection earnings	100.9	102.4	-1.5
Grant income	26.8	60.1	-33.3
Interest earnings	0.4	0.4	-
Miscellaneous income	17.5	20.5	-3.0
Gain on sale of assets	<u>94.9</u>	<u>94.9</u>	<u>-</u>
	<u>\$6,964.9</u>	<u>\$6,968.9</u>	<u>\$ -4.0</u>
Expenditures:			
Total general government	<u>\$6,509.1</u>	<u>\$6,238.2</u>	<u>\$ 270.9</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year-end, the District had \$15,143,508 invested in capital assets, net of depreciation. This amount represents a net decrease (including addition and deletions) of \$990,586 or 6.14% compared to last year. The net decrease is primarily due to a reduction in additions of capital assets during 2017 totaling \$623,280 less depreciation of total assets totaling \$1,613,866. Also, a total of 14 vehicles were sold that were fully depreciated at year end.

MANAGEMENT'S DISCUSSION AND ANALYSIS
 SEPTEMBER 30, 2017 AND 2016

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>2017</u>	<u>2016</u>
Land	\$ 1,207,359	\$ 1,207,359
Buildings and improvements	8,806,010	9,178,208
Transportation equipment	3,405,569	3,773,840
Other equipment	<u>1,724,570</u>	<u>1,974,687</u>
 Total capital assets, net	 <u>\$15,143,508</u>	 <u>\$16,134,094</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 \$9,533,468 in outstanding notes and capital leases payable compared to \$10,826,633 last year, a decrease of 11.94%. The decrease was mainly due to payments of capital leases during the year of \$1,293,165.

More detailed information about the District's long-term liabilities is presented on Pages 22-31 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.

Adrian Santana
 Board of Commissioners, President

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2STATEMENTS OF NET POSITION
SEPTEMBER 30, 2017 AND 2016

<u>ASSETS</u>	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 4,020,466	4,015,354
Receivable, net of allowance		
Taxes	1,322,023	1,405,676
Other	17,699	17,422
Prepaid insurance	45,423	60,166
Other assets	4,625	4,625
Capital assets, net of accumulated depreciation	<u>15,143,508</u>	<u>16,134,094</u>
TOTAL ASSETS	<u>\$ 20,553,744</u>	<u>\$ 21,637,337</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 89,338</u>	<u>\$ 74,829</u>
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable	\$ 284,086	\$ 1,120,715
Payroll liability	21,902	18,454
Accrued interest	250,830	285,734
Pension liability	22,286	14,311
Long-term liabilities:		
Net pension liability	(15,484)	1,457
Due within one year	1,293,373	1,293,165
Due after one year	<u>8,240,095</u>	<u>9,533,468</u>
TOTAL LIABILITIES	<u>10,097,088</u>	<u>12,267,304</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 4,775</u>	<u>\$ -</u>
<u>NET POSITION</u>		
Investment in capital assets, net of related debt	5,610,040	5,307,461
Unrestricted	<u>4,931,179</u>	<u>4,137,401</u>
TOTAL NET POSITION	<u>\$ 10,541,219</u>	<u>\$ 9,444,862</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, 2017

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	\$ 5,388,153	\$ 102,424	\$ 60,113	\$ -	\$ (5,225,616)
Interest on debt	485,895	-	-	-	(485,895)
Total primary government	\$ 5,874,048	\$ 102,424	\$ 60,113	\$ -	\$ (5,711,511)
General Revenues:					
Taxes:					
					2,964,516
					3,727,581
					374
					-
					20,492
					94,905
					<u>6,807,868</u>
					1,096,357
					<u>9,444,862</u>
					<u>\$ 10,541,219</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, 2016

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
Primary Government:					
Governmental Activities					
Public safety	\$ 4,925,869	\$ 148,510	\$ 5,341	\$ -	\$ (4,772,018)
Interest on debt	<u>556,243</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(556,243)</u>
Total primary government	<u>\$ 5,482,112</u>	<u>\$ 148,510</u>	<u>\$ 5,341</u>	<u>\$ -</u>	<u>\$ (5,328,261)</u>
General Revenues:					
Taxes:					
Property taxes					2,834,333
Sales taxes					3,841,683
Interest earnings					448
Rental income					350
Miscellaneous income					3,020
Gain (loss) on sale of assets					<u>96,100</u>
Total general revenues					<u>6,775,934</u>
Change in net position					1,447,673
Net position at beginning of year					<u>7,997,189</u>
Net position at end of year					<u>\$ 9,444,862</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, 2017

	<u>General Fund</u>
 <u>ASSETS</u>	
Cash and cash equivalents	\$ 4,020,466
Receivables, net of allowance	
Taxes	1,322,023
Other	17,699
Prepaid insurance	45,423
Other assets	<u>4,625</u>
 TOTAL ASSETS	 <u>\$ 5,410,236</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>	
 <u>LIABILITIES</u>	
Accounts payable	\$ 284,086
Payroll taxes payable	21,902
Pension liability	<u>22,286</u>
Total liabilities	<u>328,274</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Unearned revenue - property taxes	<u>508,355</u>
Total deferred inflows of resources	<u>508,355</u>
 <u>FUND BALANCE</u>	
Non-spendable	45,423
Unassigned	<u>4,528,184</u>
Total fund balance	<u>4,573,607</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	 <u>\$ 5,410,236</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

BALANCE SHEET
GOVERNMENTAL FUNDS (CONTINUED)
SEPTEMBER 30, 2017

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	\$	4,573,607
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Governmental capital assets		37,511,447
Less accumulated depreciation		(22,367,939)
Long-term (asset) liability of (\$15,484) on net pension, net of the deferred outflows/ inflows of resources pension of \$83,563.		100,047
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Accrued interest		(250,830)
Long term debt		(9,533,468)
Unearned revenue - property taxes		<u>508,355</u>
Net position of governmental activities	\$	<u>10,541,219</u>

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

		<u>General Fund</u>
 <u>ASSETS</u>		
Cash and cash equivalents	\$	4,015,354
Receivables, net of allowance		
Taxes		1,405,676
Other		17,422
Prepaid insurance		60,166
Other assets		<u>4,625</u>
 TOTAL ASSETS	 \$	 <u>5,503,243</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts payable	\$	1,120,715
Payroll taxes payable		18,454
Pension liabilities		<u>14,311</u>
Total liabilities		<u>1,153,480</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>		
Unearned revenue - property taxes		<u>506,854</u>
Total deferred inflows of resources		<u>506,854</u>
 <u>FUND BALANCE</u>		
Non-spendable		60,166
Unassigned		<u>3,782,743</u>
Total fund balance		<u>3,842,909</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	 \$	 <u>5,503,243</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

BALANCE SHEET
GOVERNMENTAL FUNDS (CONTINUED)
SEPTEMBER 30, 2016

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	\$	3,842,909
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Governmental capital assets		36,888,167
Less accumulated depreciation		(20,754,073)
Long-term liability of \$1,457 on net pension, net of the deferred outflows of resources pension of \$74,829		73,372
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Accrued interest		(285,734)
Long term debt		(10,826,633)
Unearned revenue - property taxes		<u>506,854</u>
Net position of governmental activities	\$	<u>9,444,862</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, 2017 AND 2016

	General Fund	
	2017	2016
REVENUES		
Property and occupancy taxes	\$ 2,963,015	\$ 2,870,600
Sales taxes	3,727,581	3,841,683
Inspection revenue	102,424	148,510
Gain (loss) on sale of assets	94,905	96,100
Grants	60,113	5,341
Rental income	-	350
Miscellaneous income	20,492	3,020
Interest income	374	448
Total revenues	<u>6,968,904</u>	<u>6,966,052</u>
EXPENDITURES		
Public safety	3,800,962	3,508,058
Capital outlays	623,280	2,474,740
Principal retirements	1,293,165	1,298,541
Interest	520,799	585,359
Total expenditures	<u>6,238,206</u>	<u>7,866,698</u>
EXCESS (DEFICIENCY) OF REVENUES UNDER EXPENDITURES	<u>730,698</u>	<u>(900,646)</u>
OTHER FINANCING SOURCES		
Net proceeds from new long term debt	-	-
Total other financing sources	-	-
Net change in fund balances	730,698	(900,646)
FUND BALANCES, Beginning	<u>3,842,909</u>	<u>4,743,555</u>
FUND BALANCES, Ending	<u>\$ 4,573,607</u>	<u>\$ 3,842,909</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS (Continued)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

Reconciliation of Statement of Revenues, Expenditures, and Change in Fund Balance to Statement of Activities:	<u>2017</u>	<u>2016</u>
Net change in fund balances - total governmental funds	\$ 730,698	\$ (900,646)
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	623,280	2,474,740
Less current year provision for depreciation	(1,613,866)	(1,491,183)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,293,165	1,298,541
Change in net pension liability from year to year that is recorded through the statement of activities and the amortization of the deferred outflow (inflow) of resources related to the pension liability	26,675	73,372
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	1,501	(36,267)
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>34,904</u>	<u>29,116</u>
Change in net position of governmental activities	<u>\$ 1,096,357</u>	<u>\$ 1,447,673</u>

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

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

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.

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

Government-Wide and Fund Financial Statements

The government-wide financial statements 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.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Types and Major Funds (Continued)

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 are 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.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Delinquent Taxes Receivable

Delinquent taxes receivable are evaluated by management throughout the year. The District performs ongoing evaluations and maintains allowances for uncollectible delinquent taxes based on factors surrounding the credit risk, historical trends and other information of the outstanding amount for each tax levy. The allowance for uncollectible delinquent taxes was \$58,244 and \$53,112 for the years ended September 30, 2017 and 2016, respectively.

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 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 has one type of item, which arises only under an accrual basis of accounting and it relates to pensions. See footnote 1, New Accounting Pronouncements and footnote 8, Employee's Retirement Plans for additional information.

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 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.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources (Continued)

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 position 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.

Nonspendable – The nonspendable fund balance includes amounts that cannot be spent because they are either not 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, and prepaid expenses.

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 are classification of fund balance are available.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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:

	2017				
	Category 1	Category 2	Category 3	Total Bank Balance	Total Carrying Value
Government activities	\$ -	\$ -	\$ 4,147,404	\$ 4,147,404	\$ 4,020,466
	2016				
	Category 1	Category 2	Category 3	Total Bank Balance	Total Carrying Value
Government activities	\$ -	\$ -	\$ 4,053,600	\$ 4,053,600	\$ 4,015,354

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

2. CASH AND CASH EQUIVALENTS (Continued)

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.

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, 2017, the District had cash deposits in one banking institutions with a bank carrying amount of \$4,147,404. 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 \$5,293,000 as of September 30, 2017.

NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017 AND 2016

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 \$3,069,051,118 and \$2,917,775,899 for the years ended September 30, 2017 and 2016. 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 2016-2017 and 2015-2016 tax rates were \$.094595 and \$0.095081 per \$100 of assessed valuation, respectively. The District incurred expenditures of \$38,897 and \$34,915 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2017 and 2016, respectively.

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

4. RECEIVABLES

Receivables consist of the following at September 30:

	2017		
	Gross	Allowance for Uncollectible Accounts	Net
Governmental Activities			
Taxes	\$ 1,380,267	\$ (58,244)	\$ 1,322,023
Other	17,699	-	17,699
Total Governmental Activities	<u>\$ 1,397,966</u>	<u>\$ (58,244)</u>	<u>\$ 1,339,722</u>
	2016		
	Gross	Allowance for Uncollectible Accounts	Net
Governmental Activities			
Taxes	\$ 1,458,788	\$ (53,112)	\$ 1,405,676
Other	17,422	-	17,422
Total Governmental Activities	<u>\$ 1,476,210</u>	<u>\$ (53,112)</u>	<u>\$ 1,423,098</u>

NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017 AND 2016

5. CAPITAL ASSETS

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

	Balance October 1, 2016	Increases	Decreases	Balance September 30, 2017
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets not being depreciated:				
Land	\$ 1,207,359	\$ -	\$ -	\$ 1,207,359
Capital assets being depreciated:				
Buildings and improvements	12,850,848	-	-	12,850,848
Transportation equipment	17,821,777	623,280	-	18,445,057
Other equipment	<u>5,008,183</u>	<u>-</u>	<u>-</u>	<u>5,008,183</u>
Total Capital Assets	<u>36,888,167</u>	<u>623,280</u>	<u>-</u>	<u>37,511,447</u>
 Less accumulated depreciation				
Buildings and improvements	3,672,640	323,193	-	3,995,833
Transportation equipment	14,047,937	991,552	-	15,039,489
Other equipment	<u>3,033,496</u>	<u>299,121</u>	<u>-</u>	<u>3,332,617</u>
Total accumulated depreciation	<u>20,754,073</u>	<u>1,613,866</u>	<u>-</u>	<u>22,367,939</u>
 Governmental Activities Capital				
Assets, net	<u>\$ 16,134,094</u>	<u>\$ (990,586)</u>	<u>\$ -</u>	<u>\$ 15,143,508</u>

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

5. CAPITAL ASSETS (Continued)

	Balance October 1, 2015	Increases	Decreases	Balance September 30, 2016
Capital assets not being depreciated:				
Land	\$ 1,207,359	\$ -	\$ -	\$ 1,207,359
Capital assets being depreciated:				
Buildings and improvements	12,291,286	559,562	-	12,850,848
Transportation equipment	17,708,381	652,121	(538,725)	17,821,777
Other equipment	3,745,126	1,263,057	-	5,008,183
Total Capital Assets	<u>34,952,152</u>	<u>2,474,740</u>	<u>(538,725)</u>	<u>36,888,167</u>
Less accumulated depreciation				
Buildings and improvements	3,414,925	257,715	-	3,672,640
Transportation equipment	13,659,914	926,748	(538,725)	14,047,937
Other equipment	2,726,776	306,720	-	3,033,496
Total accumulated depreciation	<u>19,801,615</u>	<u>1,491,183</u>	<u>(538,725)</u>	<u>20,754,073</u>
Governmental Activities Capital				
Assets, net	<u>\$ 15,150,537</u>	<u>\$ 983,557</u>	<u>\$ -</u>	<u>\$ 16,134,094</u>

6. UNEARNED REVENUE

Unearned revenue in the amount of \$508,355 and \$506,854 at September 30, 2017 and 2016 consisted of property tax revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Governmental funds report unearned 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 revenue received after 60 days is fully recognized as revenue on the government-wide statements. Unearned revenue 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, 2017 AND 2016

7. 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, 2017:

	Balance October 1, 2016	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2017
Capital lease secured by equipment, with annual payments of \$37,138, including interest at 2.23%, maturing in February 2023 (Clint).	\$ 240,000	\$ -	\$ 32,000	\$ 208,000
Capital lease secured by equipment, with annual payments of \$28,619, including interest at 5.597%, maturing in March 2028 (Clint).	245,333	-	14,889	230,444
Capital lease secured by fire trucks, with annual payments of \$69,997, including interest at 5.555%, maturing in March 2023 (Clint).	397,006	-	47,943	349,063
Capital lease secured by real property and improvements, with annual payments of \$106,194, including interest at 5.793%, maturing in March 2028 (Clint).	900,502	-	54,027	846,475
Capital lease secured by pumper trucks, with annual payments of \$19,905, including interest at 5.797%, maturing in March 2023 (Clint).	111,923	-	13,417	98,506
Capital lease secured by building, with annual payments of \$21,788, including interest at 1.750%, maturing in March 2017 (Fabens).	21,604	-	21,604	-
Capital lease secured by vehicles, with annual payments of \$77,410, including interest at 2.250%, maturing in March 2022 (Fabens).	429,971	-	67,735	362,236

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

7. LONG TERM DEBT (continued)

	Balance October 1, 2016	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2017
Capital lease secured by Tornillo substation, with annual payments of \$46,053, including interest at 5.593%, maturing in March 2024 (Fabens).	\$ 290,641	\$ -	\$ 29,797	\$ 260,844
Capital lease secured by main station, with annual payments of \$120,526, including interest at 5.593%, maturing in March 2024 (Fabens).	760,648	-	77,983	682,665
Capital lease secured by chassis, with annual payments of \$34,008, including interest at 2.330%, maturing in March 2022 (Montana Vista).	192,312	-	29,920	162,392
Capital lease secured by equipment, with annual payments of \$14,472, including interest at 5.528%, maturing in March 2018 (Montana Vista).	26,709	-	12,995	13,714
Capital lease secured by vehicles and equipment, with annual payments of \$144,119, including interest at 5.555%, maturing in March 2023 (Montana Vista).	817,413	-	98,712	718,701
Capital lease secured by property, with annual payments of \$71,072, including interest at 5.793%, maturing in April 2028 (Montana Vista).	602,675	-	40,724	561,951
Capital lease secured by fire trucks, with annual payments of \$64,232, including interest at 2.330%, maturing in March 2022 (San Elizario).	354,792	-	56,510	298,282

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

7. LONG TERM DEBT (continued)

	Balance October 1, 2016	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2017
Capital lease secured by fire station, with annual payments of \$158,468, including interest at 5.731%, maturing in March 2025 (San Elizario).	\$ 1,090,585	\$ -	\$ 95,967	\$ 994,618
Capital lease secured by building, with annual payments of \$53,680, including interest at 2.330%, maturing in March 2022 (Socorro).	309,208	-	48,106	261,102
Capital lease secured by equipment, with annual payments of \$56,613, including interest at 5.226%, maturing in March 2020 (Socorro).	200,096	-	46,177	153,919
Capital lease secured by fire trucks, with annual payments of \$24,288, including interest at 5.589%, maturing in March 2023 (Socorro).	137,586	-	16,598	120,988
Capital lease secured by fire station, with annual payments of \$135,414, including interest at 5.755%, maturing in March 2029 (Socorro).	1,216,147	-	65,428	1,150,719
Capital lease secured by fire truck and equipment, with annual payments of \$97,553, including interest at 5.755%, maturing in March 2019 (Socorro).	261,948	-	82,478	179,470
Capital lease secured by quint platform, with annual payments of \$93,760, including interest at 2.780%, maturing	511,640	-	79,536	432,104

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

7. LONG TERM DEBT (continued)

	Balance October 1, 2016	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2017
Capital lease secured by main station and substation, with annual payment of \$126,399, including interest at 5.593%, maturing in March 2024 (West Valley).	\$ 797,710	\$ -	\$ 81,786	\$ 715,924
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).	263,604	-	16,198	247,406
Capital lease secured by building and radio tower, with annual payment of \$29,016, including interest at 5.392% maturing in April 2023 (West Valley).	165,538	-	20,090	145,448
Capital lease secured by a loader backhoe, with annual payments of \$36,504, including interest at 4% maturing in December 2016 (West Valley).	33,335	-	33,335	-
Note payable secured by its ad valorem taxes with annual payments of \$116,553, including interest at 1.640% maturing in March 2020 (All Locations).	447,704	-	109,210	338,494
	<u>\$ 10,826,633</u>	<u>\$ -</u>	<u>\$ 1,293,165</u>	<u>\$ 9,533,468</u>
				<u>1,293,373</u>
				<u>\$ 8,240,095</u>

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

7. LONG TERM DEBT (continued)

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, 2016:

	Balance October 1, 2015	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2016
Capital lease secured by equipment, with annual payments of \$37,138, including interest at 2.23%, maturing in February 2023 (Clint).	\$ 271,500	\$ -	\$ 31,500	\$ 240,000
Capital lease secured by equipment, with annual payments of \$28,619, including interest at 5.597%, maturing in March 2028 (Clint).	259,433	-	14,100	245,333
Capital lease secured by fire trucks, with annual payments of \$69,997, including interest at 5.555%, maturing in March 2023 (Clint).	442,426	-	45,420	397,006
Capital lease secured by real property and improvements, with annual payments of \$106,194 including interest at 5.797%, maturing in March 2023 (Clint).	951,572	-	51,070	900,502
Capital lease secured by pumper trucks, with annual payments of \$19,905, including interest at 5.797%, maturing in March 2023 (Clint).	124,605	-	12,682	111,923
Capital lease secured by building, with annual payments of \$21,788, including interest at 1.750%, maturing in March 2017 (Fabens).	42,834	-	21,230	21,604

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

7. LONG TERM DEBT (continued)

	Balance October 1, 2015	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2016
Capital lease secured by vehicles, with annual payments of \$77,410, including interest at 2.250%, maturing in March 2022 (Fabens).	496,215	-	66,244	429,971
Capital lease secured by Tornillo substation, with annual payments of \$46,053, including interest at 5.593%, maturing in March 2024 (Fabens).	318,860	-	28,219	290,641
Capital lease secured by main station, with annual payments of \$120,526, including interest at 5.593%, maturing in March 2024 (Fabens).	834,500	-	73,852	760,648
Capital lease secured by chassis, with annual payments of \$34,008, including interest at 2.330%, maturing in March 2022 (Montana Vista).	221,543	-	29,231	192,312
Capital lease secured by equipment, with annual payments of \$14,472, including interest at 5.528%, maturing in March 2018 (Montana Vista).	39,025	-	12,316	26,709
Capital lease secured by vehicles and equipment, with annual payments of \$144,119, including interest at 5.555%, maturing in March 2023 (Montana Vista).	910,930	-	93,517	817,413
Capital lease secured by property, with annual payments of \$71,072, including interest at 5.793%, maturing in April 2028 (Montana Vista).	627,154	-	24,479	602,675

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

7. LONG TERM DEBT (continued)

	Balance October 1, 2015	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2016
Capital lease secured by fire trucks, with annual payments of \$64,232, including interest at 2.330%, maturing in March 2022 (San Elizario).	410,000	-	55,208	354,792
Capital lease secured by fire station, with annual payments of \$158,468, including interest at 5.731%, maturing in March 2025 (San Elizario).	1,181,350	-	90,765	1,090,585
Capital lease secured by building, with annual payments of \$53,680, including interest at 2.330%, maturing in March 2022 (Socorro).	356,206	-	46,998	309,208
Capital lease secured by equipment, with annual payments of \$56,613, including interest at 5.226%, maturing in March 2020 (Socorro).	243,718	-	43,619	200,099
Capital lease secured by fire trucks, with annual payments of \$24,288, including interest at 5.589%, maturing in March 2023 (Socorro).	153,306	-	15,720	137,586
Capital lease secured by fire station, with annual payments of \$135,414, including interest at 5.755%, maturing in March 2029 (Socorro).	1,278,016	-	61,869	1,216,147

NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017 AND 2016

7. LONG TERM DEBT (continued)

	Balance October 1, 2015	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2016
Capital lease secured by fire truck and equipment, with annual payments of \$97,553, including interest at 5.755%, maturing in March 2019 (Socorro).	339,938	-	77,990	261,948
Capital lease secured by quint platform, with annual payments of \$93,760, including interest at 2.780%, maturing in March 2022 (Socorro).	589,055	-	77,415	511,640
Capital lease secured by main station and, substation, with annual payment of \$126,399, including interest at 5.593% maturing in March 2024 (West Valley).	875,161	-	77,451	797,710
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).	278,975	-	15,371	263,604
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).	185,433	-	19,895	165,538

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

7. LONG TERM DEBT (continued)

	Balance October 1, 2015	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2016
Capital lease secured by radio equipment with annual payments of \$69,780 including interest at 1.39%, maturing in March 2016 (All Locations).	68,891	-	68,891	-
Capital lease secured by a loader backhoe, with annual payments of \$36,504, including interest at 4% maturing in December 2016 (West Valley).	68,778	-	35,443	33,335
Note payable secured by its ad valorem taxes with annual payments of \$116,553, including interest at 1.640% maturing in March 2020 (All Locations).	555,750	-	108,046	447,704
	<u>\$ 12,125,174</u>	<u>\$ -</u>	<u>\$ 1,298,541</u>	10,826,633
Less current portion				<u>1,293,165</u>
Long-term debt less current portion				<u>\$ 9,533,468</u>

NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017 AND 2016

7. LONG TERM DEBT (continued)

The following represents future minimum lease payments as of September 30, 2017:

<u>September 30,</u>	<u>Amount</u>
2018	\$ 1,293,373
2019	1,336,288
2020	1,298,866
2021	1,182,421
2022	1,237,686
2023-2027	2,748,039
2028-2032	<u>436,795</u>
Total	<u>\$ 9,533,468</u>

8. EMPLOYEES' RETIREMENT PLANS

DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description

The District participates in an agent multiple-employer defined benefit pension plan. The plan is administered by the Texas County & District Retirement System (TCDRS). TCERS was created in 1967 by the Texas counties and districts to provide their employees with retirement, disability and survivor benefits. TCERS is governed by the Texas Legislature and overseen by an independent board of trustees, which is responsible for the administration of the system. TCERS does not receive state funding. Each plan is funded independently by the county or district, its employees and by investment earnings. The plan provides pensions for all regular full time employees of the District.

Pension Plan Fiduciary Net Position

Detailed information about the District's Texas County & District Retirement System (TCERS)'s fiduciary net position is available and can be obtained at www.tcdrs.org or by writing to TCERS at 901 MoPac Expwy South, Barton Oaks Bldg. # 4, Ste. 500, Austin, TX 78746 or P.O. Box 2034, Austin, TX 78768-2034 or by calling 800-651-3848.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

8. EMPLOYEES' RETIREMENT PLANS (Continued)

General Information About the Pension Plan (Continued)

Benefits Provided

TCDRS is not a one-size-fits-all system. Each employer maintains its own customized plan of retirement benefits. A percentage of each employee's paycheck is deposited into his or her TCDRS account on monthly basis. The employee's savings grow, by law, at a rate of 7%, compounded annually. The employer contribution, based on the elected matching, is also deposited in each employee's account. At retirement, the employee's account balance is combined with employer matching and converted into a lifetime monthly benefit.

Contributions

TCDRS is a model for responsible, disciplined funding. TCDRS does not receive any state funding, as an agent, multiple-employer plan, each participating employer in the system funds its plan independently. A combination of three elements funds each employer's plan; employee deposits, employer contributions and investment income.

- The deposit rate for employees is 4%, 5%, 6% or 7% of compensation, as adopted by employer's governing body.
- Participating employers are required to contribute at actuarially determined rates to ensure adequate funding for each employer's plan. Employer contribution rates are determined annually and approved by the TCDRS Board of Trustee.
- Investment income funds a large part of the benefits employees earn.

Pursuant to state law, employers participating in the system must pay 100% of their actuarially determined required contributions on an annual basis.

Each employer has the opportunity to make additional contributions in excess of its annual required contribution rate either by adopting an elected rate that is higher than the required rate or by making additional contributions on an ad hoc basis. Employers may make additional contributions to pay down their liabilities faster, pre-fund benefit enhancements and/or buffer against future adverse experience.

In addition, employers annually review their plans and may adjust benefits and costs based on their local needs and budgets. Although accrued benefits may not be reduced, employers may reduce future benefit accruals and immediately reduce costs. For the year ended September 30, 2016, all employees contributed 7.00% of compensation and the District made monthly contributions, as annually determined by TCDRS's actuary report, of 11.08%. The District agreed to make monthly contributions to TCDRS at a rate that equals or exceeds the required rate annually determined by an independent actuarial firm hired by TCDRS. At retirement, the District will match 250% of employees' final account balance.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

8. EMPLOYEES' RETIREMENT PLANS (Continued)

General Information About the Pension Plan (Continued)

Contributions (Continued)

Employees will receive service time for the years worked prior to the District's participation in TCDRS. In addition to service time, the District can provide monetary prior service credit. Monetary prior service credit shall be computed at 0%. The District's employees must work 8 years to be vested. Once vested, an employee has earned the right to receive a lifetime monthly retirement benefit and is eligible to retire at age 60. The District also adopts the Rule of 75, which gives all vested employees the right to retire and receive a lifetime monthly benefit when the employee's age plus years or service equal 75 or greater. Additionally, any employee with 20 years of service, regardless of age, will also have the right to retire and receive a lifetime monthly benefit.

Net Pension Liability

The District's net pension liability and the total pension liability used to calculate the net pension liability is determined by an actuarial valuation as of the previous calendar year. The District's net pension liability at September 30, 2017 was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

8. EMPLOYEES' RETIREMENT PLANS (Continued)

Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Cost Method	Entry Age Normal
Amortization Method	
Recognition of economic/demographic gains or losses	Straight-Line amortization over Expected Working Life
Recognition of assumptions changes or inputs	Straight-Line amortization over Expected Working Life
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Corridor	None
Inflation	3.00%
Salary Increases	Varies by age and service. 4.9% average over career including inflation
Investment Rate of Return	8.10%
Cost-of-Living Adjustments	Cost-of-Living Adjustments for El Paso County Emergency Services District #2 are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation.
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	
Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.
Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees	RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

8. EMPLOYEES' RETIREMENT PLANS (Continued)

Net Pension Liability (Continued)

Actuarial Assumptions (Continued)

Except where indicated in the section of this GASB 68 report entitled "Actuarial Methods and Assumptions Used for GASB Calculations", the assumptions used in this analysis for the December 31, 2016 financial reporting metrics are the same as those used in the December 31, 2016 actuarial valuation analysis for El Paso County Emergency Services District #2.

Following is a description of the assumptions used in the December 31, 2016 actuarial valuation analysis for El Paso County Emergency Services District #2. This information may also be found in the El Paso County Emergency Services District #2 December 31, 2016 Summary Valuation Report.

Economic Assumptions

TCDRS system-wide economic assumptions:

Real rate of return	5.1%
Inflation	3.0%
Long-term investment return	8.1%

The assumed long-term investment returns of is net after investment and administrative expenses. It is assumed returns will equal the nominal annual rate of 8.1% for calculating the actuarial accrued liability and the normal cost contribution rate for the retirement plan of each participating employer.

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee.

Long Term Expectation Rate of Return

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant, Cliffwater LLC. The numbers shown are based on January 2016 information for a 7-10 year time horizon.

Note that the valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon; the most recent analysis was performed in 2013.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

8. EMPLOYEES' RETIREMENT PLANS (Continued)

Net Pension Liability (Continued)Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Geometric Real Rate of Return*</u>
US Equities	13.50%	4.70%
Private Equity	16.00%	7.70%
Global Equities	1.50%	5.00%
International Equities-Developed	10.00%	4.70%
International Equities- Emerging	7.00%	5.70%
Investment-Grade Bonds	3.00%	0.60%
High-Yield Bonds	3.00%	3.70%
Opportunistic Credit	2.00%	3.83%
Direct Lending	10.00%	8.15%
Distressed Debt	3.00%	6.70%
REIT Equities	2.00%	3.85%
Master Limited Partnerships	3.00%	5.60%
Private Real Estate Partnerships	6.00%	7.20%
Hedge Funds	20.00%	3.85%
	<u>100.00%</u>	

* Geometric real rates of return in addition to assumed inflation of 2.0%, per Cliffwater's 2017 capital market assumptions.

Discount Rate

The discount rate used to measure the total pension liability was 8.10%. The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

- The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

8. EMPLOYEES' RETIREMENT PLANS (Continued)

Net Pension Liability (Continued)Actuarial Assumptions (Continued)Discount Rate (Continued)

achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.

- The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Changes in the Net Pension Liability / (Asset)

Changes in Net Pension Liability / (Asset)	Changes in Net Pension Liability/(Asset)		
	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/(Asset) (a) - (b)
Balances as of December 31, 2015	\$ 103,171	\$ 101,714	\$ 1,457
Changes for the year:			
Service cost	127,824	-	127,824
Interest on total pension liability	13,433	-	13,433
Effect of plan changes	-	-	-
Effect of economic/demographic gains and losses	(4,688)	-	(4,688)
Effect of assumptions changes or input	-	-	-
Refund of contributions	-	-	-
Benefit payments	-	-	-
Administrative expenses	-	(84)	84
Member contributions	-	54,427	(54,427)
Net investment income	-	7,762	(7,762)
Employees contribution	-	86,150	(86,150)
Other	-	5,255	(5,255)
Balance as of December 31, 2016	<u>\$ 239,740</u>	<u>\$ 255,224</u>	<u>\$ (15,484)</u>

Discount Rate Sensitivity Analysis

The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the El Paso County Emergency Services District #2 net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

8. EMPLOYEES' RETIREMENT PLANS (Continued)

Changes in the Net Pension Liability / (Asset) (Continued)

	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total pension liability	\$ 292,616	\$ 239,740	\$ 198,508
Fiduciary net position	<u>255,224</u>	<u>255,224</u>	<u>255,224</u>
Net pension liability/(asset)	<u>\$ 37,392</u>	<u>\$ (15,484)</u>	<u>\$ (56,716)</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2017, the District reported its deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 4,775	\$ 6,426
Changes in assumptions	-	745
Net difference between projected and actual earnings	-	6,947
Contributions made subsequent to measurement date	<u>-</u>	<u>75,220</u>
	<u>\$ 4,775</u>	<u>\$ 89,338</u>

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

8. EMPLOYEES' RETIREMENT PLANS (Continued)

Changes in the Net Pension Liability / (Asset) (Continued)

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

Year ended December 31,	Amount
2018	\$ 77,919
2019	2,699
2020	1,702
2021	449
2022	1,794
	\$ 84,563

At September 30, 2017 and 2016, \$74,180 and \$10,803 was recognized as pension expense and reduction of deferred outflow of resources, respectively.

Payable to the Pension Plan

At September 30, 2017 and 2016, the District reported a payable of \$22,286 and \$14,311 for the outstanding amount of contributions to the pension plan required for the years ended, respectively.

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.

NOTES TO FINANCIAL STATEMENTS
 SEPTEMBER 30, 2017 AND 2016

10. 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>
2018	\$ 45,210
2019	<u>660</u>
Total	<u>\$ 45,870</u>

Rental expense for the years ended September 30, 2017 and 2016 included in the Statement of Activities, totaled \$71,338 and \$65,744, respectively.

11. 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 2017, 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)	\$15,705,516

Workers' compensation coverage is maintained by paying premiums to VFIS of Texas, Inc. The premium is calculated based upon accident history and administrative costs.

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

12. SUBSEQUENT EVENTS

Subsequent events were evaluated through February 20, 2018, which is the date the financial statement were available to be issued and no items were noted.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2017**

	Budgeted Amounts			VARIANCE - FAVORABLE (UNFAVORABLE)
	Original	Final	ACTUAL	
REVENUES				
Taxes:				
Property	\$ 3,055,468	\$ 2,913,647	\$ 2,963,015	\$ 49,368
Sales	3,815,936	3,810,834	3,727,581	(83,253)
Sale of assets	-	94,906	94,905	(1)
Grant income	5,784	26,820	60,113	33,293
Inspection revenues	145,317	100,887	102,424	1,537
Maintenance department income	50,000	-	-	-
Miscellaneous	2,234	17,476	20,492	3,016
Interest earnings	-	356	374	18
Total revenues	<u>7,074,739</u>	<u>6,964,926</u>	<u>6,968,904</u>	<u>3,978</u>
EXPENDITURES				
Public safety:				
Fire control and EMS:				
Administration and salaries	1,035,590	1,035,590	1,037,088	(1,498)
Pension contribution	101,313	101,313	100,855	458
Office rent	55,500	55,500	55,500	-
Insurance	347,350	368,926	372,486	(3,560)
Professional services	788,523	709,121	208,368	500,753
Dispatch services	20,000	20,000	335,188	(315,188)
Service contracts	150,000	150,000	125,000	25,000
Bank charges	5,378	5,378	2,181	3,197
Legal	45,000	48,723	56,115	(7,392)
New equipment purchases	650,000	650,000	871,505	(221,505)
Electric	82,497	87,497	95,791	(8,294)
Cable	14,756	14,756	12,639	2,117
Heat	26,961	26,961	27,694	(733)
Water	19,107	19,107	18,187	920
Trash	10,020	10,020	8,607	1,413
Fuel	121,592	121,591	108,511	13,080
Communication	124,350	124,350	96,228	28,122
Dues & subscriptions	49,158	49,158	44,212	4,946
Building and grounds	63,356	92,504	104,504	(12,000)
Equipment maintenance and repair	46,306	46,306	52,109	(5,803)
Vehicle maintenance	156,388	242,567	239,112	3,455
Volunteer clearance	44,000	44,000	32,384	11,616
Training and travel	169,155	169,155	129,892	39,263
Uniforms and bunker gear	84,224	73,054	79,895	(6,841)
Supplies	53,966	53,966	52,508	1,458
Fire fighting supplies	76,298	76,298	76,311	(13)
Medical supplies	43,133	43,133	47,286	(4,153)
Miscellaneous	46,037	65,006	34,086	30,920
Principal payments	1,313,165	1,313,165	1,293,165	20,000
Interest payments	571,797	571,797	520,799	50,998
Total expenditures	<u>6,314,920</u>	<u>6,388,942</u>	<u>6,238,206</u>	<u>150,736</u>

See accompanying notes to financial statements.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2017**

	<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	760,344	575,984	730,698	154,714
OTHER FINANCING SOURCES				
Net proceeds from new long term debt	-	-	-	-
Total other financing sources	-	-	-	-
NET CHANGE IN FUND BALANCE	<u>760,344</u>	<u>575,984</u>	<u>730,698</u>	<u>154,714</u>
Fund balance, beginning of year	-	-	3,842,909	3,842,909
Fund balance, end of year	<u>\$ 760,344</u>	<u>\$ 575,984</u>	<u>\$ 4,573,607</u>	<u>\$ 3,997,623</u>
Budget basis excess			730,698	
Non-budgeted funds			-	
GAAP basis excess			730,698	
Fund balance, beginning of year			<u>3,842,909</u>	
Fund balance, end of year			<u>\$ 4,573,607</u>	

See accompanying notes to financial statements.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2016**

	<u>Budgeted Amounts</u>			VARIANCE - FAVORABLE (UNFAVORABLE)
	<u>Original</u>	<u>Final</u>	ACTUAL	
REVENUES				
Taxes:				
Property	\$ 2,773,934	\$ 2,773,934	\$ 2,870,600	\$ 96,666
Sales	3,793,870	3,793,870	3,841,683	47,813
Sale of assets	-	91,600	96,100	4,500
Grant income	-	3,856	5,341	1,485
Inspection revenues	80,000	94,762	148,510	53,748
In-kind donations	-	-	-	-
Donations	-	-	-	-
Rental income	-	-	350	350.00
Miscellaneous	-	1,295	3,020	1,725.00
Interest earnings	-	452	448	(4.00)
Total revenues	<u>6,647,804</u>	<u>6,759,769</u>	<u>6,966,052</u>	<u>206,283</u>
EXPENDITURES				
Public safety:				
Fire control and EMS:				
Administration and salaries	927,261	922,011	815,236	106,775
Pension contribution	93,771	93,771	84,175	9,596
Office rent	48,750	59,000	51,125	7,875
Insurance	368,181	368,181	344,032	24,149
Professional services	589,855	625,855	213,671	412,184
Dispatch services	268,258	268,258	268,258	-
Service contracts	150,000	150,000	150,000	-
Bank charges	7,172	7,115	4,040	3,075
Legal	45,000	45,000	55,991	(10,991)
New equipment purchases	2,931,947	3,095,589	2,867,779	227,810
Electric	114,452	84,541	84,781	(240)
Cable	9,310	11,310	12,270	(960)
Heat	82,532	78,532	25,189	53,343
Water	11,588	12,358	14,949	(2,591)
Trash	8,606	9,606	8,411	1,195
Fuel	150,900	136,071	96,113	39,958
Communication	108,606	109,355	99,755	9,600
Dues & subscriptions	38,216	40,804	44,474	(3,670)
Building and grounds	43,262	222,645	63,231	159,414
Equipment maintenance and repair	152,984	134,133	55,141	78,992
Vehicle maintenance	153,668	156,226	220,113	(63,887)
Volunteer clearance	43,403	38,735	21,932	16,803
Training and travel	158,964	165,964	119,877	46,087
Uniforms and bunker gear	83,343	76,805	59,598	17,207
Supplies	77,208	84,739	51,352	33,387
Fire fighting supplies	310,368	160,499	78,878	81,621
Medical supplies	34,225	34,225	28,524	5,701
Miscellaneous	46,037	65,006	43,903	21,103
Principal payments	1,313,165	1,313,165	1,298,541	14,624
Interest payments	571,797	571,797	585,359	(13,562)
Total expenditures	<u>8,942,829</u>	<u>9,141,297</u>	<u>7,866,698</u>	<u>1,274,599</u>

See accompanying notes to financial statements.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2016**

	Budgeted Amounts		ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
	Original	Final		
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,295,025)	(2,381,528)	(900,646)	1,480,882
OTHER FINANCING SOURCES				
Net proceeds from new long term debt	-	-	-	-
Total other financing sources	-	-	-	-
NET CHANGE IN FUND BALANCE	(2,295,025)	(2,381,528)	(900,646)	1,480,882
Fund balance, beginning of year	-	-	4,743,555	4,743,555
Fund balance, end of year	<u>\$ (2,295,025)</u>	<u>\$ (2,381,528)</u>	<u>\$ 3,842,909</u>	<u>\$ 6,224,437</u>
Budget basis excess			(900,646)	
Non-budgeted funds			-	
GAAP basis excess			(900,646)	
Fund balance, beginning of year			<u>4,743,555</u>	
Fund balance, end of year			<u>\$ 3,842,909</u>	

See accompanying notes to financial statements.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS
YEAR ENDED DECEMBER 31, 2016 and 2015

	2016	2015
<u>Total Pension Liability</u>		
Service cost	\$ 127,824	\$ 99,145
Interest on total pension liability	13,433	3,595
Effect of plan changes	-	(9,664)
Effect of assumption changes or input	-	1,049
Effect of economic/demographic (gains) or losses	(4,688)	9,046
Benefit payments/refunds of contributions	-	-
Net change in total pension liability	<u>136,569</u>	<u>103,171</u>
Total pension liability, beginning	<u>103,171</u>	<u>-</u>
Total pension liability, ending (a)	<u>239,740</u>	<u>103,171</u>
<u>Fiduciary Net Position</u>		
Employer contributions	86,150	62,894
Member contributions	54,427	39,735
Investment income net of investment expenses	7,762	(872)
Benefit payment/refunds of contributions	-	-
Administrative expenses	(84)	(38)
Other	5,255	(5)
Net change in fiduciary net position	<u>153,510</u>	<u>101,714</u>
Fiduciary net position, beginning	<u>101,714</u>	<u>-</u>
Fiduciary net position, ending (b)	<u>255,224</u>	<u>101,714</u>
Net pension liability/(asset), ending =(a) - (b)	<u>\$ (15,484)</u>	<u>\$ 1,457</u>
Fiduciary net position as a % of total pension liability	106.46%	98.59%
Pensionable covered payroll	\$ 777,533	\$ 567,640
Net pension liability as a % of covered payroll	-1.99%	0.26%

* The amounts presented above are as of the measurement date of the net pension liability (NPL),

** Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
YEAR ENDED DECEMBER 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 86,150	\$ 62,894
Actual employer contribution	<u>86,150</u>	<u>62,894</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Pensionable covered payroll	777,533	567,640
Contributions as a percentage of Covered-employee payroll	11.1%	11.1%

* The amounts presented above are as of the measurement date of the net pension liability (NPL),

** Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

*** Payroll is calculated based on contributions as reported to TCDRS.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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 state 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 are 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 2017.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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.

2. CHANGES OF BENEFITS TERMS

No changes in plan provisions for the year ended December 31, 2016 and 2015.

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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, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 20, 2018.

Internal Control over Financial Reporting

In planning and performing our audits 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

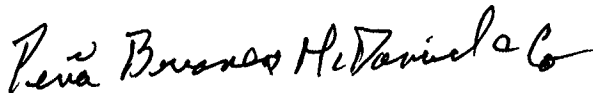
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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 an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



February 20, 2018
El Paso, Texas

PEÑA BRIONES MCDANIEL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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

In planning and performing our audit of the financial statements of El Paso County Emergency Services District #2 (the District) for the years ended September 30, 2017 and 2016, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

During our audit we did not become aware of matters that we would normally offer for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions. This letter does not affect our report dated February 20, 2018, on the financial statements of the Organization.

Accounting

Based on the test work performed during our audit, we concluded that the District appears to have appropriate systems' of internal controls. We did not note any material deficiencies in the accounting policies or procedures included in the audit.

Capital Assets Management

Observations

Internal financial statements are prepared using fund accounting which excludes capital assets. Generally accepted accounting principles (GAAP) require the depreciation of capital assets over their useful lives. The District has relied upon the external auditors to prepare the depreciation of capital assets.

The District maintains a master listing of capital assets, however for old many items; the listing does not contain original basis (purchased price or donated value). The capital asset listing has items acquired before 2008 as a lump sum of fully depreciated assets. No annual physical inventory is conducted by the District staff. The physical inventory was reconciled to the District's GAAP financial statements based on an estimated market value determined a few years ago.

The District has a system to track disposal of capital assets, however due to the grouping of capital assets on the listing and capital assets with no basis, the District is unable to identify these specific assets and remove them and the related accumulated depreciation from the capital assets listing, however they were removed in total from the pre 2009 grouping.



Recommendation

We recommend that the District perform an annual physical inventory, and the District should assign values to all capital assets. The values should be based upon the purchase price, if available, or estimated value at the time the capital asset was acquired. With this detail, the District can assign useful lives to capital assets and calculate and maintain depreciation schedules. This detailed listing then can be used to adjust the GAAP financial statements.

Long Term Debt

Internal financial statements are prepared using fund accounting which excludes long term debt. Generally accepted accounting principles (GAAP) require that long term payments be broken down between principal and interest. Upon examining all payments, we noticed they are booked the payments only to principal. The District has relied upon the external auditors to recorded long term debt correctly at year end.

To avoid any large variances of principal balance on periodic financial reports, we recommend booking the payments according to an amortization schedule. This would prevent large adjustments at the end of the year to bring the notes their correct amounts.

Cash Disbursements

Although the policies and procedures manual requires Board approval for purchases greater than \$10,000, there are exceptions to this policy, including items that have been budgeted and if the district approves urgent repairs, there is no need for the department to request through the agenda. The board is giving the district office authority to approve these changes. The District should update the policies and procedures manual to formally list situations where Board approval is not needed for expenses over \$10,000.

General Operations of the Organization

The District appears to have proper controls in place to manage the grant monies it receives. Proper documentation for expenses and allocation were readily available and support the entity's account classification.

We wish to thank Management and the staff for their assistance during the audit.

This report is intended solely for the information and use of the Board of Commissioners, management and others within the District and is not intended to be, and should not be, used by anyone other than these specified parties.



February 20, 2018

EL PASO COUNTY EMERGENCY SERVICES
 FIVE YEAR FINANCIAL SUMMARY
 YEARS ENDED SEPTEMBER 30, 2017, 2016, 2015, 2014, AND 2013

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
CURRENT ASSETS	6,703,609	5,578,072	5,635,667	5,437,836	3,476,699
TOTAL ASSETS	20,643,082	21,712,166	20,786,204	20,411,653	20,346,920
CURRENT LIABILITIES	579,104	2,733,836	1,977,241	2,419,793	567,072
TOTAL LIABILITIES	10,101,863	12,267,304	12,789,015	13,920,599	15,053,657
NET ASSETS	<u>10,541,219</u>	<u>9,444,862</u>	<u>7,997,189</u>	<u>6,491,054</u>	<u>5,293,263</u>
GOVERNMENT ACTIVITY EXPENSES	5,874,048	5,482,112	6,197,284	5,875,529	6,722,584
GOVERNMENT ACTIVITY REVENUES	<u>162,537</u>	<u>153,851</u>	<u>780,157</u>	<u>353,531</u>	<u>877,418</u>
NET GOVERNMENT COST	<u>(5,711,511)</u>	<u>(5,328,261)</u>	<u>(5,417,127)</u>	<u>(5,521,998)</u>	<u>(5,845,166)</u>
TAXES AND OTHER REVENUE	<u>6,807,868</u>	<u>6,775,934</u>	<u>6,923,262</u>	<u>6,719,789</u>	<u>5,433,608</u>
NET EXPENSES (OVER) UNDER REVENUES	<u>1,096,357</u>	<u>1,447,673</u>	<u>1,506,135</u>	<u>1,197,791</u>	<u>(411,558)</u>