

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2012

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Certified Public Accountant

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

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**EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1
MANAGEMENT'S DISCUSSION AND ANALYSIS**

September 30, 2012

Our discussion and analysis of El Paso County Emergency Services District #1's (the District) financial performance provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2012. We encourage readers to consider this information in conjunction with the basic financial statements, which begins on Page 12.

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

FINANCIAL HIGHLIGHTS

- Total assets increased by approximately 135% due to an increase in revenues and the receipt of cash from a construction loan for a new fire station.
- Total liabilities increased by 728% due to the addition of a new construction loan.
- Total net assets of \$3,845,676 increased by \$648,591, which represents a 20% increase from fiscal year ended September 30, 2011.
- Amounts invested in capital assets, net of related debt amounted to \$735,610.
- Unrestricted net assets, available to meet the District's on-going obligations, totaled \$3,110,066.
- At September 30, 2012, the District's governmental fund statements show a combined ending fund balance of \$7,155,698, an increase of \$5,065,583, in comparison with the prior year fund balance.
- General revenues amounted to \$1,549,452, an increase of 11% from the prior year.
- Program revenues increased by \$40,917 or 206%.
- The District expended \$324,961 related to the construction of a new fire station.
- The District had \$900,861 in net program expenses related to governmental activities.
- The District uses the general fund to maintain its financial records.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- Government-wide financial statements on Pages 12-13.
- Fund financial statements on Pages 14-17.
- Notes to the financial statements on Pages 18-28.

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

(Continued)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the financial position of the District, and are similar to private sector financial statements. The government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements appear on Pages 12 and 13 of this report. One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These two statements report the District's *net assets* and changes in them. You can think of the District's net assets, the difference between assets, what the District owns, and liabilities, what the District owes, as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's jurisdiction, the availability of capital projects, and continuing local government support to assess the *overall health* of the District.

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

The Statement of Activities presents information showing how the District's net assets changed during the fiscal year ended September 30, 2012. It provides a breakdown of revenues and expenses by function. All changes in net assets are reported as soon as the underlying event which contributes to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only affect cash flows in future fiscal periods. Examples of such items include revenues earned and expenses incurred but not yet paid, all of which will produce changes in cash in a future fiscal period.

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

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District only has governmental funds. The governmental funds financial statements are on Pages 14 through 17.

(Continued)

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 18 through 28 of this report.

OTHER INFORMATION

In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information concerning the District's budgetary comparison schedules for its General Fund. The required supplementary information can be found on Pages 29 through 31.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1
Net Assets (In Thousands)
September 30,

	<u>2011</u>	<u>2012</u>		<u>2011</u>	<u>2012</u>
Current and other assets	\$2,296.7	\$ 7,388.0	Net assets:		
Capital assets	<u>1,519.2</u>	<u>1,584.8</u>	Invested in capital		
			assets, net of		
Total assets	<u>3,815.9</u>	<u>8,972.8</u>	related debt	\$ 914.8	\$ 735.6
			Unrestricted	<u>2,282.3</u>	<u>3,110.1</u>
Long-term obligations	(604.4)	(5,121.2)	Total net assets	<u>\$3,197.1</u>	<u>\$3,845.7</u>
Other liabilities	<u>(14.4)</u>	<u>(5.9)</u>			
Total liabilities	<u>(618.8)</u>	<u>(5,127.1)</u>			

(Continued)

Net assets of the District's activities increased 20% or \$648,591. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased from \$2,282,304 to \$3,110,066 at the end of fiscal year 2012. The increase can be attributed to maintaining controls over outflows to assure they do not exceed inflows and an increase in property tax revenues.

Table 2 compares the fiscal year ended 2012 change in net assets to the 2011 change in net assets.

Table 2
Changes in Net Assets for 2012
Compared with 2011 Activity
(In Thousands)

	<u>2011</u>	<u>2012</u>	<u>Change</u>
Program revenues:			
Operating grants	\$ 8.8	\$ 26.7	\$ 17.9
Charges for services	11.0	34.0	23.0
General revenues:			
Property taxes	1,314.8	1,529.9	215.1
Other	<u>78.1</u>	<u>19.5</u>	<u>(58.6)</u>
 Total revenues	 <u>1,412.7</u>	 <u>1,610.1</u>	 <u>197.4</u>
Program expenses:			
Public safety	877.8	934.1	56.3
Interest on long-term debt	<u>31.9</u>	<u>27.4</u>	<u>(4.5)</u>
 Total expenses	 <u>909.7</u>	 <u>961.5</u>	 <u>51.8</u>
 Changes in net assets	 <u>\$ 503.0</u>	 <u>\$ 648.6</u>	 <u>\$ 145.6</u>

Property taxes increased due to an increase in assessed value of properties. Interest expense decreased due to a reduction in principal on long-term debt during the year. Additional long-term debt was not incurred until the end of fiscal year 2012.

(Continued)

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

**Table 3
Governmental Activities
(In Thousands)
September 30,**

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
General government	\$877.8	\$934.1	\$858.0	\$873.4
Interest on long-term debt	<u>31.9</u>	<u>27.4</u>	<u>31.9</u>	<u>27.4</u>
Total expenses	<u>\$909.7</u>	<u>\$961.5</u>	<u>\$889.9</u>	<u>\$900.8</u>

The increase in total costs is due to a spike in current year costs associated with professional fees and the addition of the fire marshal to the District’s payroll.

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 \$7,155,698 an increase of \$5,065,583 in comparison with the prior year fund balance. Of this amount, \$7,105,698 (or 99.3%) constitutes unassigned, undesignated fund balance, which is available for spending at the District's discretion. Of the total fund balances, \$50,000 (or .7%), is committed for capital outlay for communications equipment.

(Continued)

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

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

	<u>2011</u>	<u>2012</u>	<u>Percent Change</u>
General Fund	<u>\$2,090.1</u>	<u>\$7,155.7</u>	<u>242%</u>

The 242% increase in the general fund balance can be primarily attributed to the receipt of proceeds on long-term debt related to the construction of the new fire station.

Table 5 presents a detail of the governmental fund revenues for the fiscal year ended September 30, 2012 and a comparison with the governmental fund revenues for the prior fiscal year.

Table 5
Total Governmental Fund Revenues
September 30,

Revenue Source	<u>2012</u> <u>Amount</u>	<u>Percent</u> <u>of Total</u>	<u>Increase</u> <u>(Decrease)</u> <u>Over 2011</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u>
Property taxes	\$1,541,656	95.05%	\$ 233,214	17.82%
Charges for services	33,975	2.09%	22,950	208.20%
Grant income	26,734	1.65%	17,967	204.90%
Investment income	5,456	.34%	8,501	279.20%
Miscellaneous	<u>14,081</u>	<u>.87%</u>	<u>(67,038)</u>	<u>(82.60)%</u>
Total	<u>\$1,621,902</u>	<u>100.0 %</u>	<u>\$ 215,594</u>	<u>15.3%</u>

The 17.82% increase in property taxes is due to an increase in the tax assessed value from \$1,286,943,040 to \$1,367,094,924.

The increase in charges for services is due to the fact that the District conducted more inspections than in the previous year.

The District received a grant from the Texas Forest Service to assist with the payment of workmen's compensation insurance.

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GENERAL FUND BUDGETARY HIGHLIGHTS

There are no differences between the original budget and final budget for fiscal year 2012. Table 6 discusses the variance between the final budget and the actual results for the fiscal year.

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

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Property taxes	\$1,276.3	\$1,541.7	\$ 265.4
Contributions	.5		(.5)
Grant income	17.7	26.7	9.0
Investment earnings (losses)	33.6	5.5	(28.1)
Revenue recovery	<u>34.8</u>	<u>34.0</u>	<u>(0.8)</u>
	<u>\$1,362.9</u>	<u>\$1,607.9</u>	<u>\$ 245.0</u>
Expenditures:			
Total general government	<u>\$1,362.9</u>	<u>\$1,102.7</u>	<u>\$ 260.2</u>

The number of calls for the year ended September 30, 2012 amounted to 1,466, and were comprised of the following:

<u>Type of Calls</u>	<u>Number of Calls</u>
Fire	94
Other	<u>1,372</u>
	<u>1,466</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's financial statements present capital assets in two categories: those assets subject to depreciation (such as buildings and equipment) and those not subject to depreciation (such as land).

At year-end, the District had \$1,584,809 invested in capital assets, net of depreciation. This amount represents a net increase (including additions and deletions) of \$65,596, or 4% compared to last year. The net increase is primarily due to the capitalization of expenses related to construction of the new fire station.

The fire station, located at 14151 Nunda, is one building with six bays. The building has a self-contained apartment to house the Life Ambulance Crew, along with a training room, day room for the firefighters and a small exercise room. Office space is dedicated to the dispatch office, the Fire Chief's office, and an office for administration.

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Rolling stock is comprised of the following:

- (1) 2002 Freightliner Class A Pumper
- (2) 1997 Freightliner Class A Pumper
- (3) 2004 Ford F-550 Attack Pumper and Rescue Unit
- (4) 2002 Ford F-350 Squad for personnel and extra gear
- (5) 2003 Ford F-250 Command Vehicle
- (6) 2005 Pierce Tanker
- (7) 2004 Ford Expedition Command I
- (8) 2008 Chevrolet Tahoe
- (9) 2009 Pierce Brush Truck (2)
- (10) 2007 Pierce Quint Truck
- (11) 2009 Chevrolet Tahoe (2)
- (12) 2008 Ford F150 Truck
- (13) 2011 Chevrolet Suburban Medical Response Vehicle

Additional equipment that sets our department aside from other departments is as follows:

- (1) Thermal Imager
- (2) Jaws of Life
- (3) Full Medical Gear
- (4) SCBA Packs
- (5) Cascade System to refill SCBA bottles
- (6) Digital recording device for recording every call to verify the authenticity of the information on reports
- (7) Radio Repeater to expand the radio coverage within our full district

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>2011</u>	<u>2012</u>
Land	\$ 179,764	\$ 179,764
Construction in progress		324,961
Buildings and improvements	279,677	267,667
Heavy trucks	878,814	719,879
Equipment	<u>180,957</u>	<u>92,538</u>
 Total capital assets, net	 <u>\$1,519,212</u>	 <u>\$1,584,809</u>

Additional information on the District's capital assets can be found on Page 23 of this report.

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Debt Administration

At year-end, the District had \$5,121,238 in outstanding long-term debt. Long-term debt amounted to \$604,431 last year, an increase of 747%.

More detailed information about the District's long-term liabilities is presented on Pages 24 and 25 of this report.

Economic Factors

The District is comprised of 155 square miles. The populated area totals approximately 50 square miles. The remainder is unpopulated desert area.

The District has 33 active members, of which 20 are Emergency Medical Technicians (EMT's). Since 1988, several members have passed the State Certification for becoming basic firefighters. In the past few years, some of the recent high school graduates have gone to the Community College and taken courses in Fire Technology. The department has 15 certified firefighters, and 14 are medically certified, as well. Training is conducted every Wednesday by Certified Training Specialists in areas related to Fire Technology.

Training is also made available to firefighters to attend various seminars conducted in Texas and outside the State, as needed. The firefighters are required to attend a number of sessions in order to maintain their standing within the department and for the State Fireman's and Fire Marshal's Association.

The citizens of the community are fortunate to have the District rated by the Insurance Standards Organization (ISO) at 5/9. This is the highest rating available to an all volunteer department. The average response time for a call into the District is 6.9 minutes to be on the scene.

The District began charging for its services to communities outside the District boundaries during fiscal year 2004. These additional revenues will assist the District in maintaining existing equipment and facilities.

It is important that the District continue to train its volunteers and procure state of the art equipment in order to be able to provide the citizens of the District with a continued quick and effective response to the needs of the community.

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, 14151 Nunda, Horizon City, Texas 79928.

Marvin Mclelland
Board of Commissioners, President

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
El Paso County Emergency Services District #1
Horizon City, Texas

I have audited the accompanying financial statements of the governmental activities of El Paso County Emergency Services District #1 (the District), as of and for the year ended September 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of El Paso County Emergency Services District #1's management. My responsibility is to express opinions on these financial statements based on my audit.

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

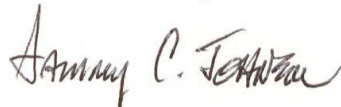
In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the El Paso County Emergency Services District #1, as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 4, 2013, on my consideration of the District's internal control over financial reporting and on my tests 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

(Continued)

To the Board of Commissioners
El Paso County Emergency Services District #1
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 1 through 9 and 29 through 31, respectively, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script, reading "Sammy C. Johnson".

El Paso, Texas
May 4, 2013

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

STATEMENT OF NET ASSETS

September 30, 2012

<u>ASSETS</u>	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 5,525,624
Investments	1,392,213
Taxes receivable	364,083
Other receivables	29,967
Prepaid insurance	8,106
Loan origination fees, net	67,979
Capital assets, net of accumulated depreciation	<u>1,584,809</u>
Total assets	<u>8,972,781</u>
<u>LIABILITIES</u>	
Accrued liabilities	5,867
Due within one year:	
Notes payable	139,000
Capital lease	83,950
Due after one year:	
Notes payable	4,458,000
Capital lease	<u>440,288</u>
Total liabilities	<u>5,127,105</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	735,610
Unrestricted	<u>3,110,066</u>
Total net assets	<u>\$ 3,845,676</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

STATEMENT OF ACTIVITIES

Year Ended September 30, 2012

FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Revenue (Expense) and Change in Net Assets</u>
		<u>Charges for Services and Fees</u>	<u>Operating Grants and Contributions</u>	
Primary government:				
Governmental activities:				
Public safety	\$934,136	\$33,975	\$26,734	\$ (873,427)
Interest on long-term debt	<u>27,434</u>	<u> </u>	<u> </u>	<u>(27,434)</u>
Total primary government	<u>\$961,570</u>	<u>\$33,975</u>	<u>\$26,734</u>	<u>(900,861)</u>
		General revenues:		
		Taxes:		
		Property taxes		1,529,915
		Investment earnings		5,456
		Miscellaneous		<u>14,081</u>
		Total general revenues		<u>1,549,452</u>
		Change in net assets		648,591
		Net assets at beginning of year		<u>3,197,085</u>
		Net assets at end of year		<u>\$3,845,676</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2012

<u>ASSETS</u>	<u>General Fund</u>
Cash and cash equivalents	\$5,525,624
Investments	1,392,213
Taxes receivable	364,083
Other receivables	29,967
Prepaid insurance	<u>8,106</u>
 Total assets	 <u>\$7,319,993</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
Liabilities:	
Accounts payable and accrued liabilities	\$ 5,867
Deferred revenue	<u>158,428</u>
 Total liabilities	 <u>164,295</u>
 Fund balances:	
Assigned for capital outlays	50,000
Unassigned	<u>7,105,698</u>
 Total fund balances	 <u>7,155,698</u>
 Total liabilities and fund balances	 <u>\$7,319,993</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF NET ASSETS

September 30, 2012

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

Total fund balances of governmental funds in the balance sheet		\$7,155,698
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Governmental capital assets	3,606,240	
Less accumulated depreciation	<u>(2,021,431)</u>	1,584,809
Other assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Loan origination fees	78,130	
Less accumulated amortization	<u>(10,151)</u>	67,979
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Notes payable	(4,597,000)	
Capital leases	(524,238)	
Deferred revenue	<u>158,428</u>	<u>(4,962,810)</u>
NET ASSETS, GOVERNMENTAL ACTIVITIES		<u>\$3,845,676</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended September 30, 2012

	<u>General Fund</u>
Revenues:	
Property taxes	\$1,541,656
Charges for services	33,975
Grant income	26,734
Investment earnings	5,456
Miscellaneous	<u>14,081</u>
Total revenues	<u>1,621,902</u>
Expenditures:	
Current:	
Public safety	670,126
Capital outlay	324,961
Debt service:	
Principal	80,193
Interest	<u>27,434</u>
Total expenditures	<u>1,102,714</u>
Excess of revenue over expenditures	519,188
Other financing sources:	
Proceeds on long-term debt	<u>4,546,395</u>
Net change in fund balance	5,065,583
Fund balance at beginning of year	<u>2,090,115</u>
Fund balance at end of year	<u>\$7,155,698</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

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

Year Ended September 30, 2012

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

Net change in fund balance - total governmental funds		\$5,065,583
Governmental funds report capital outlays and loan origination costs as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives:		
Expenditure for capital assets	324,961	
Less current year provision for depreciation	(259,364)	
Less current year provision for amortization	<u>(4,646)</u>	60,951
The issuance of long-term debt is another financing source in the fund statements but an increase in long-term liabilities on the government-wide statements.		(4,546,395)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		80,193
Certain items reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenue in the governmental funds:		
Change in deferred revenue		<u>(11,741)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 648,591</u>

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

NOTES TO FINANCIAL STATEMENTS

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO FINANCIAL STATEMENTS

ORGANIZATION AND OPERATIONS

El Paso County Emergency Services District #1 (the District) was created for the purpose of saving lives, the protection of property endangered by fires and other emergencies, and to promote the teaching and practices of fire and accident prevention. The District is a taxing entity and is a political subdivision of the State of Texas. The District was formed as provided by Article III, Section 48-e of the Texas Constitution. The District is administered by a Board of Commissioners (Commissioners), appointed by the Commissioners of the County of El Paso, Texas, that acts as the authoritative and legislative body of the entity.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - As required by generally accepted accounting principles, the accompanying financial statements present the activities of the District.

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenue. The District only has one governmental fund.

Measurement Focus, Basis of Accounting, and Financial Presentation - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Presentation (Continued) -

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

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

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

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

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

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

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

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Cash and Cash Equivalents and Investments - For presentation in the financial statements, investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an original maturity of more than three months are reported as investments. Investments are recorded at fair value, which is based on quoted market prices.

Property Tax Calendar - The District is responsible for the assessment, collection, and apportionment of property taxes. The Board of Commissioners levies property taxes on September 1. The certified tax roll from the El Paso Central Appraisal District reflected a taxable value of \$1,367,094,924 for the year ended September 30, 2012. 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 2011-2012 tax rate was \$.091596, per \$100 of assessed valuation. The District incurred expenditures of \$18,192 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2012.

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

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued) - Depreciation is determined using the straight-line method over the following estimated useful lives of the capital assets:

Buildings and improvements	40 years
Heavy trucks	10 years
Equipment	3-10 years

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Long-term issuance costs are deferred and amortized over the life of the loan using the straight-line method. Issuance costs are reported as loan origination fees. In the governmental fund financial statements, loan issuance costs are recognized during the current period. The face amount of debt issued is reported as other financing sources. Loan issuance costs are reported as debt service expenditures.

Reservations of Fund Balance - Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. Unassigned fund balances are available for any purpose; these amounts can be reported only in the District's general fund. Assigned fund balances can only be spent for specific purposes determined by a formal action of the Board of Commissioners. Fund equity assignments have been established for future acquisitions of equipment. If assigned and unassigned assets are available for the same purpose, the assigned assets will be used before unassigned assets. At September 30, 2012, the Board of Commissioners assigned \$50,000 for communication equipment.

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

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

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

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

DEPOSITS AND INVESTMENTS

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

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

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

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

- 1) Commercial paper;
- 2) Bankers’ acceptances;
- 3) Repurchase agreements; and
- 4) Certificates of deposit.

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

Investment categories are as follows:

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

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

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

Investments are reported at fair value which approximates cost. The certificate of deposits are maintained with Morgan Stanley in the name of El Paso County Emergency Services District #1. All certificate of deposits have a carrying amount of or less than \$250,000 at each of the institutions. Cash and certificate of deposits are classified as Investment Category 1.

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.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

DEPOSITS AND INVESTMENTS (Continued)

Credit Risk - State law limits investments to the types described above. However, the District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer. 100% of the District's investments are in certificates of deposit held at Morgan Stanley.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of September 30, 2012, none of the District's bank balance of \$5,591,433 was exposed to custodial credit risk.

CAPITAL ASSETS

Capital asset activity for the District for the year ended September 30, 2012, was as follows:

	<u>September 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>September 30, 2012</u>
Land	\$ 179,764	\$	\$	\$179,764
Construction in progress		324,961		324,961
Buildings and improvements	480,395			480,395
Heavy trucks	1,976,522			1,976,522
Equipment	<u>644,599</u>	_____	_____	<u>644,599</u>
	<u>3,281,280</u>	<u>324,961</u>	_____	<u>3,606,241</u>
Less accumulated depreciation for:				
Buildings and improvements	200,718	12,010		212,728
Heavy trucks	1,097,708	158,935		1,256,643
Equipment	<u>463,642</u>	<u>88,419</u>	_____	<u>552,061</u>
Total accumulated depreciation	<u>1,762,068</u>	<u>259,364</u>	_____	<u>2,021,432</u>
Governmental activities				
Capital assets, net	<u>\$1,519,212</u>	<u>\$ 65,597</u>	<u>\$ _____</u>	<u>\$1,584,809</u>

Total provision for depreciation of \$259,364 was charged to public safety of the primary government. Capital assets pledged as security for long-term debt had a cost of \$822,475.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

DEFERRED REVENUE

Deferred revenue in the amount of \$158,428 at September 30, 2012, consisted of property tax revenue. Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Unearned revenues at the government-wide level arise only when the District receives resources before it has a legal claim to them.

LONG-TERM DEBT

The following is a summary of changes in governmental activities long-term debt for the year ended September 30, 2012:

	<u>Balance at September 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at September 30, 2012</u>	<u>Due Within One Year</u>
Notes payable	\$	\$4,597,000		\$4,597,000	\$139,000
Capital leases	<u>604,431</u>	<u> </u>	<u>80,193</u>	<u>524,238</u>	<u>83,950</u>
	<u>\$604,431</u>	<u>\$4,597,000</u>	<u>\$80,193</u>	<u>\$5,121,238</u>	<u>\$222,950</u>

The District entered into a \$4,597,000 note agreement with TIB - the Independent Bankers bank to finance the acquisition and construction of a fire station. Interest is at 3.25% per annum, payable in annual installments which are specified in the contract. The note matures in September 2029 and is secured by ad valorem taxes levied and assessed on the proceeds of taxable property in the District.

Annual debt service for the outstanding note is as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 139,000	\$ 218,525	\$ 357,525
2014	216,000	141,375	357,375
2015	223,000	134,241	357,241
2016	230,000	126,880	356,880
2017	238,000	119,275	357,275
Thereafter	<u>3,551,000</u>	<u>737,181</u>	<u>4,288,181</u>
Total	<u>\$4,597,000</u>	<u>\$1,477,477</u>	<u>\$6,074,477</u>

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

CAPITAL LEASE OBLIGATION

Capital lease obligation of the governmental activities at September 30, 2012 consists of the following obligation under capital lease entered into for the acquisition of rolling stock:

Capital lease originating in November, 2008, in the original amount of \$850,000, with annual interest at 4.685%. Annual principal payments, including interest, are in the amount of \$108,508 during the first five years, and \$56,150 thereafter, maturing in March 2023. Secured by Pierce Brush truck, Pierce Quint truck, and Chevy Tahoe.	\$524,238
Less amount due in less than one year	<u>83,950</u>
	<u>\$440,288</u>

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 83,950	\$ 24,558	\$108,508
2014	35,524	20,626	56,150
2015	37,188	18,962	56,150
2016	38,930	17,220	56,150
2017	40,754	15,396	56,150
Thereafter	<u>287,892</u>	<u>49,000</u>	<u>336,892</u>
	<u>\$524,238</u>	<u>\$145,762</u>	<u>\$670,000</u>

For governmental activities, long-term liabilities are liquidated by the general fund. The related equipment will become the property of the District when all the terms of the lease agreement are met.

Equipment and related accumulated depreciation under capital leases are as follows:

Equipment	\$822,475
Less accumulated depreciation	<u>328,990</u>
Net value	<u>\$493,485</u>

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

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

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 2012, the District contracted with the VFIS of Texas, Inc. for liability, property, and crime damage. Coverages provided by the Company are as follows:

Public Official Errors and Omissions Liability (Per Occurrence)	\$1,000,000
Business Auto Coverage Liability Combined (Each Accident)	\$1,000,000
Commercial General Liability (Per Occurrence)	\$3,000,000
Commercial Property	\$577,371
Blanket Portable Equipment	Guaranteed Replacement Cost Coverage
Crime Insurance:	
Employee Dishonesty (Per Occurrence)	\$100,000
Surety Bond	\$100,000

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

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

COMMITMENTS AND CONTINGENCIES

As of September 30, 2012, the District did not have any claims, pending litigation, long-term commitments, or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

CONCENTRATIONS OF CREDIT RISK ARISING FROM DEPOSITS IN EXCESS OF INSURED LIMITS

The District maintains interest-bearing cash balances with several financial institutions. Deposits are insured by the Federal Deposit Insurance Corporation (FDIC) at each institution up to \$250,000. In addition, account balances have pledged securities with a market value of \$5,562,617. At times, the interest-bearing cash balances may exceed federally insured amounts; however, the District does not believe that it is exposed to any significant credit risk on uninsured amounts. At September 30, 2012, the District's cash balances were fully insured.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

**CONCENTRATIONS OF CREDIT RISK ARISING FROM DEPOSITS IN EXCESS OF
INSURED LIMITS (Continued)**

Deposits held in non-interest bearing transaction accounts are fully insured, regardless of the amount in the account, at all FDIC-insured institutions. This program guarantees all cash balances maintained in non-interest bearing accounts to be fully secured.

GASB NO. 63

In June 2011, the Governmental Accounting Standards Board (GASB) approved statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (Statement). This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Additionally, this statement amends the net asset reporting requirements in Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming the measure as net position, rather than net assets.

The provisions of GASB No. 63 must be implemented by the District no later than the fiscal year beginning October 1, 2012. Implementation will require the District to change the method of presentation used for items that represent either consumption of net assets or the acquisition of net assets by the government that are applicable to future reporting periods and to rename the residual net position, rather than net assets.

GASB NO. 65

In March 2012, the Accounting Standards Board (GASB) approved statement No. 65, *Items Previously Reported as Assets and Liabilities* (Statement). This Statement provides additional guidance regarding financial statement elements to be classified as deferred outflows of resources and deferred inflows of resources and the impact of those financial statement elements, such as major fund determination.

The provisions of GASB No. 65 must be implemented by the District no later than the fiscal year beginning October 1, 2013. Implementation will require the District to reconsider the classification of items that are considered to be deferred outflows of resources and deferred inflows of resources and to reconsider its determination of major funds.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

SUBSEQUENT EVENTS

The District received a \$7,798 grant in 2013 for training and expenses related to the library. The grant is on a reimbursement basis and all funds were expended as of May 4, 2013.

Subsequent events were evaluated through May 4, 2013, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended September 30, 2012

	<u>Budgeted Amounts</u>		Actual	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	Amounts Budgetary Basis	
Revenues:				
Taxes:				
Property taxes	\$1,276,300	\$1,276,300	\$1,541,656	\$ 265,356
Contributions	477	477		(477)
Intergovernmental:				
Grant income	17,728	17,728	26,734	9,006
Revenue recovery	34,797	34,797	33,975	(822)
Investment earnings	<u>33,613</u>	<u>33,613</u>	<u>5,456</u>	<u>(28,157)</u>
Total revenues	<u>1,362,915</u>	<u>1,362,915</u>	<u>1,607,821</u>	<u>244,906</u>
Expenditures:				
Public safety:				
Fire control and EMS:				
Salaries and benefits	157,000	157,000	80,419	76,581
Material and services	591,200	591,200	589,707	1,493
Capital outlay	506,195	506,195	324,961	181,234
Principal payments	80,200	80,200	80,193	7
Interest payments	<u>28,320</u>	<u>28,320</u>	<u>27,434</u>	<u>886</u>
Total expenditures	<u>1,362,915</u>	<u>1,362,915</u>	<u>1,102,714</u>	<u>260,201</u>
Excess of revenues over expenditures			505,107	505,107
Fund balance, beginning of year	_____	_____	<u>2,090,115</u>	<u>2,090,115</u>
Fund balance, end of year	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$2,595,222</u>	<u>\$2,595,222</u>
Budget basis excess			\$ 505,107	
Non-budgeted funds			<u>4,560,476</u>	
GAAP basis excess			5,065,583	
Fund balance, beginning of year			<u>2,090,115</u>	
Fund balance, end of the year			<u>\$7,155,698</u>	

See notes to budgetary comparison schedule
and independent auditor's report.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO BUDGETARY COMPARISON SCHEDULE

BUDGET PROCESS AND CALENDAR

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

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

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

Estimated Resources - As part of the District's budgetary process, the Board approves the official estimated resources. The official estimated resources states the projected revenue of the General Fund. Prior to September 30, the District must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the official estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about October 1, the estimated resources is amended to include any unencumbered balances from the preceding year. The estimated resources may be further amended during the year if the Board determines that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year ended 2012.

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

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

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

BUDGET PROCESS AND CALENDAR (Continued)

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

Budgetary Basis of Accounting - The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Commissioners
El Paso County Emergency Services District #1
Horizon City, Texas

I have audited the financial statements of the governmental activities of El Paso County Emergency Services District #1 (the District), as of and for the year ended September 30, 2012, which collectively comprise the District's basic financial statements and have issued my report thereon dated May 4, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of El Paso County Emergency Services District #1, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *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.

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

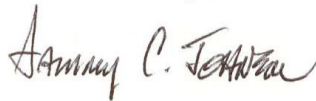
(Continued)

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El Paso County Emergency Services District #1
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Compliance and Other Matters

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

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

A handwritten signature in cursive script that reads "Jimmy C. Johnson".

El Paso, Texas
May 4, 2013