

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2015 AND 2014

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, 2015

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, 2015. We encourage readers to consider this information in conjunction with the basic financial statements, which begin on Page 15.

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 6% due to depreciation expense of capital assets and deficit spending.
- Total liabilities decreased by 7% due to annual and semi-annual payments on notes payable and capital lease.
- Total net position of \$3,636,379 decreased by \$147,960, which represents a decrease of 4% for the year ended September 30, 2015 as a result of deficit spending.
- Amounts invested in capital assets, net of related debt amounted to \$1,875,127.
- Unrestricted net position, available to meet the District's on-going obligations, totaled \$1,761,252.
- At September 30, 2015, the District's governmental fund statements show a combined ending fund balance of \$1,594,409, a decrease of \$127,899 or 7.4%.
- General revenues amounted to \$1,690,211, an increase of 8% from the prior year.
- Program revenues and grant income decreased by \$124,913 or 58%. The District received a capital grant of \$132,397 for communication equipment in 2014. The grant consisted of an in-kind donation of equipment awarded by the El Paso County 911 District and was not expected to be a recurring award for 2015.
- The District expended \$128,756 in capital expenditures for rescue equipment.
- The District had \$1,832,787 in net program expenses related to governmental activities. This represents a 21% increase from prior year
- The District uses the general fund to maintain its financial records.
- The District recognized the Horizon Volunteer Fire Department, Inc, ("HVFD") as a blended component unit. The HVFD's activity has been incorporated into the District's general fund.
- El Paso County Emergency Service District #1 adopted GASB 68 and 71, of which the primary objective is to improve accounting and financial reporting by state and local governments for employee benefit pensions.

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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 15-17.
- Fund financial statements on Pages 18-25.
- Notes to the financial statements on Pages 26-46.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the financial position of the District, and are similar to private sector financial statements. The government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements appear on Pages 15 - 17 of this report. One of the most important questions asked about the District is whether its finances as a whole are 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 assets and liabilities. The District's net position can be interpreted as 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 indicators of whether its *financial health* is improving or deteriorating. Net position is shown in two categories: 1) invested in capital assets, net of related debt, and 2) unrestricted. To assess the *overall health* of the District other non-financial factors need to be considered. These include but are not limited to changes in the District's jurisdiction, the availability of funds to pursue capital projects, changes in local and regional demographics, macroeconomic factors, and continuing local government support.

The Statement of Activities presents information showing how the District's net position changed during the fiscal year ended September 30, 2015. 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 function of the District includes public safety (fire protection). The District does not engage in any business-type activities. The District's government-wide statements also intend to present information about the District's long-term liabilities resulting from employee benefit plans. The District only offers one defined-benefit pension to its employees and qualifying volunteers, which is the pension offered through the Texas Emergency Services Retirement System ("TESRS"). The County of El Paso makes the required payments on the plan therefore the County carries the net pension liability of the plan.

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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 18 through 25.

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.

The District has no proprietary funds or fiduciary funds.

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 26 through 46 of this report.

OTHER INFORMATION

In addition to the basic financial statements and the accompanying notes, this reporting package also presents certain required supplementary information concerning the District's budgetary comparison schedules for its General Fund, the schedule showing the District's proportionate share of net pension liability in the most recent ten years, and the schedule showing the District's contributions to pension plans in the last ten years. The required supplementary information can be found on Pages 47 through 50.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1
Net Position (In Thousands)
September 30,

	<u>2015</u>	<u>2014</u>		<u>2015</u>	<u>2014</u>
Current and other assets	\$ 2,159.9	\$ 2,332.8	Net position:		
Capital assets	<u>7,013.7</u>	<u>7,384.2</u>			
			Net investment in		
Total assets	<u>9,173.6</u>	<u>9,717.0</u>	capital assets	\$1,875.1	\$1,912.4
			Unrestricted	<u>1,761.3</u>	<u>1,871.9</u>
Long-term obligations	(5,138.6)	(5,471.8)	Total net position	<u>\$3,636.4</u>	<u>\$3,784.3</u>
Other liabilities	<u>(398.7)</u>	<u>(460.9)</u>			
Total liabilities	<u>(5,537.3)</u>	<u>(5,932.7)</u>			

Net position of the District's activities decreased 4% or \$147,960. Unrestricted net assets, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased from \$1,871,910 to \$1,761,252, at the end of fiscal year 2015. The decrease can be attributed to deficit spending. The District's principal expenses were salaries, stipends, interest, insurance and administration.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Table 2 compares the fiscal year ended 2015 change in net position to the 2014 change in net position.

Table 2
Changes in Net Position for 2015
Compared with 2014 Activity
(In Thousands)

	<u>Year Ended September 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>Change</u>
Program revenues:			
Operating grants	\$ 29.9	\$ 14.9	\$ 15.0
Capital grants		132.4	(132.4)
Charges for services	61.4	68.8	(7.4)
General revenues:			
Property taxes	1,681.9	1,556.6	125.3
Other	<u>8.3</u>	<u>9.0</u>	<u>(0.7)</u>
Total revenues	1,781.5	1,781.7	(0.2)
Special items:			
Total special items	<u> </u>	<u>(250.3)</u>	<u>250.3</u>
Total revenues and special items	<u>1,781.5</u>	<u>1,531.4</u>	<u>250.1</u>
Program expenses:			
Public safety	1,760.1	1,555.3	204.8
Interest on long-term debt	<u>169.3</u>	<u>173.7</u>	<u>(4.4)</u>
Total expenses	<u>1,929.4</u>	<u>1,729.0</u>	<u>200.4</u>
Change in net position	\$ <u>(147.9)</u>	\$ <u>(197.6)</u>	\$ <u>49.7</u>

Property taxes increased due to an increase in assessed value of properties. Interest expense decreased due to a decrease in principal on long-term debt outstanding during the year. Capital grants were expected to decrease since the District received a one-time capital grant from the El Paso County 911 District in the amount of \$132,397 in 2014. The Special item in 2014 originated from the demolition of the District's old Fire Station. A net loss was recognized in 2014 for the disposal of the residual book value of the old fire station building, which amounted to \$250,279. The increase in public safety expenses is attributed to the increased number of members of the HVFD receiving stipend payments, cost-of-living adjustments for the salaries of District employees, increasing expenses for maintenance and repairs for the new fire station building and the rolling stock and increased in the number of emergency calls.

(Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (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)
Year Ended September 30,

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
General government	\$1,760.1	\$ 1,555.3	\$1,663.4	\$ 1,339.1
Interest on long-term debt	<u>169.3</u>	<u>173.7</u>	<u>169.3</u>	<u>173.8</u>
Total expenses	<u>\$1,929.4</u>	<u>\$1,729.0</u>	<u>\$1,832.7</u>	<u>\$1,512.9</u>

The increase in general government expenses resulted from the increased salaries to Emergency District #1 employees for cost of living adjustments, the increased stipend expense due to increased number of volunteer fire fighters serving on HVFD, increased repairs and maintenance costs for the District's rolling stock and fire station and increased number of emergency calls.

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 \$1,594,409, a decrease of 7% or \$127,899 in comparison with the prior year fund balance. Of this amount, \$1,573,891 constitutes unassigned, undesignated fund balance, which is available for spending by the District upon budget analysis and board approval.

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FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (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>2015</u>	<u>2014</u>	<u>Percent Change</u>
General Fund	\$ <u>1,594.4</u>	\$ <u>1,722.3</u>	<u>(7.4)%</u>

The 7.4% decrease in the general fund balance can be primarily attributed to increasing salary and stipend expenses, increases in repairs and maintenance cost, increasing debt principal payments and continued investment in capital outlay.

Revenue Source

Table 5 presents a detail of the governmental fund revenues for the fiscal year ended September 30, 2015 and a comparison with the governmental fund revenues for the prior fiscal year.

Table 5
Total Governmental Fund Revenues
Year Ended September 30,

	<u>2015 Amount</u>	<u>Percent of Total</u>	<u>Increase (Decrease) Over 2014</u>	<u>Percent Increase (Decrease)</u>
Property taxes	\$1,671,964	94.38%	\$ 116,560	7.5%
Charges for services	61,390	3.47%	(7,389)	(10.7)%
Contributions	23,383	0.37%	23,383	100.0%
Investment income	8,348	1.32%	1,007	13.7%
Grant income	6,471	0.46%	(140,907)	(95.6)%
Miscellaneous			<u>(1,644)</u>	
Total	\$ <u>1,771,556</u>	<u>100.0 %</u>	\$ <u>(8,990)</u>	<u>(0.5)%</u>

The increase in property taxes is due to increased value of property while the tax rate is the same as previous year. The decrease in grant income results from the significant grant for radio and dispatching equipment in the previous year. The \$23,383 in contributions relate to pension contributions to the TESRS plan made by The County of El Paso, Texas on behalf of the District. The District has recorded this transaction as a contribution in 2015 as a result of the adoption of new accounting principles, as described in the notes to the financial statements.

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GENERAL FUND BUDGETARY HIGHLIGHTS

Table 6 discusses the variance between the final budget and the actual results for the fiscal year ended September 30, 2015:

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
Property taxes	\$1,771.2	\$1,771.2	\$1,672.0	\$ (99.2)
Revenue recovery	58.4	58.4	61.4	3.0
Contribution			23.4	23.4
Investment earnings			8.3	8.3
Grant income			6.5	6.5
	<u>\$1,829.6</u>	<u>\$1,829.6</u>	<u>\$1,771.6</u>	<u>\$ (58.0)</u>
Expenditures:				
Total general government	<u>\$2,041.4</u>	<u>\$2,053.2</u>	<u>\$1,899.5</u>	<u>\$ 153.7</u>

The number of calls for the year ended September 30, 2015 amounted to 2,615 and were comprised of the following:

<u>Type of Calls</u>	<u>Number of Calls</u>
Fire	787
Rescue and Medical Emergency	<u>2,059</u>
	<u>2,846</u>

Total calls increased by 13% in relation to the previous fiscal year.

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 \$7,013,717 invested in capital assets, net of depreciation. This amount represents a net decrease (including additions and deletions) of \$370,476, or 5% compared to last year. The net decrease is primarily due to depreciation expense incurred in the current fiscal year.

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CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

The fire station, located at 14151 Nunda, is one building with eleven apparatus bays. The building is used to house the Horizon Volunteer Fire Department, Inc. and District staff. The building contains a large conference room that is used for Fire Department trainings, Board of Commissioners meetings and can also be utilized for an Emergency Management Center and a disaster relief center. In preparation for unseen disasters, the building has been supplied with a back-up generator to power vital portions of the building. It also contains a day room, large kitchen/dining room, a covered private patio, a large exercise room, and sleeping quarters for the firefighters. Office space is dedicated to the dispatch office, Fire Chief's office, Assistant Chief's office, Line Officers' office, Fire Marshal's office, Administrator's office, Administrative Assistant's office and a shared office for Commissioners and the Administrative Accountant.

Rolling stock is comprised of the following:

- (1) 1997 Freightliner Class A Pumper
- (2) 2002 Freightliner Class A Pumper
- (3) 2002 Ford F-350 Quick Response Vehicle
- (4) 2003 Ford F-250 Quick Response Vehicle
- (5) 2004 Ford Expedition Fire Marshal/Staff Vehicle
- (6) 2005 Pierce Tanker
- (7) 2005 Polaris Ranger
- (8) 2005 Logistics Cargo Trailer
- (9) 2007 Pierce Quint Truck
- (10) 2008 Chevrolet Tahoe Quick Response Vehicle
- (11) 2008 Ford F150 Staff Vehicle
- (12) 2008 Light Tower
- (13) 2009 Pierce Brush Truck
- (14) 2009 Chevrolet Tahoe – Command/Staff Vehicle
- (15) 2011 Chevrolet Suburban - Command/Staff Vehicle
- (16) 2013 Ford F350 – Quick Response Vehicle
- (17) 2014 Chevrolet Tahoe – Fire Marshal/Staff Vehicle
- (18) 2014 Pierce Class A Pumper

(Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Capital Assets (Continued)

Equipment that is readily available to fire personnel:

- (1) 800 Trunking radio system that allows for interoperability with other Departments
- (2) Lifepack 15 Cardiac Monitors
- (3) 15 - AED's
- (4) SCBA Fill station
- (5) 40 – SCBA's
- (6) Ampkus Extrication Tools
- (7) Thermal Imaging Cameras
- (8) High Angle Rescue Equipment
- (9) Dispatch Digital Conversion Equipment that allows for interoperability with other Departments
- (10) PortaCount Pro Respirator Fit Tester
- (11) AMK-30CRT Spreaders
- (12) AMK-22 Cutter
- (13) 26 Ton Lift Kit With Air Cushion
- (14) 11 Lift Bag
- (15) SPX-4PTX, Super X Delux 4 Point Kit (vehicle stabilization)
- (16) Portable Rope Rescue Equipment
- (17) ARRS Rope Rescue System
- (18) Water Rescue Equipment
- (19) MCT for call information, hydrant mapping, GPS
- (20) Eagle Attack Thermal Imager

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

Table 7
Capital Assets, Net of Accumulated Depreciation

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Land	\$ 179,764	\$ 179,764
Buildings and improvements	4,901,840	5,024,640
Heavy trucks	1,570,609	1,843,789
Equipment	<u>361,504</u>	<u>336,000</u>
Total capital assets, net	<u>\$7,013,717</u>	<u>\$7,384,193</u>

Additional information on the District's capital assets can be found on Page 37 and 38 of this report.

(Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Debt Administration

At year-end, the District had \$5,138,590 in outstanding long-term debt. Long-term debt amounted to \$5,471,764 last year, a decrease of 6%. The decrease in long term debt is attributed to principal payments of long-term debt in current year. Long-term debt held by the District at the end of the current year and prior year is summarized in Table 8 as follows:

Table 8
Long-term Debt Outstanding at Year End
Year Ended September 30,

	<u>Governmental Activities</u>		
	<u>2015</u>	<u>2014</u>	<u>Change</u>
Notes payable	\$4,771,013	\$5,067,000	\$(295,987)
Capital leases	<u>367,577</u>	<u>404,764</u>	<u>(37,187)</u>
Total long-term debt	<u>\$5,138,590</u>	<u>\$5,471,764</u>	<u>\$(333,174)</u>

The District's policy is to recognize deferred compensation expense for its employees when paid. The other long-term liabilities held by the District relate to its employee benefit plans. More detailed information about the District's long-term liabilities is presented on Pages 39 through 41 of this report.

ECONOMIC FACTORS

The largest populated area within the District's boundaries is the Town of Horizon City, with multiple outlying communities within a 10 mile radius around the city. The remainder of the District is mainly unpopulated desert area. The District has seen a 25% growth in population each year, hence doubling every four years.

The District consists of 5 members serving as the Board of Commissioners and 5 paid employees. The Horizon Fire Department has 47 active members, of which 17 are Emergency Medical Technicians (EMT's) certified at the basic level and 6 are certified at the Paramedic level. In addition, the department has 12 certified firefighters. Training is conducted every Wednesday by Certified Training Specialists in areas related to Fire Technology and Emergency Medical Services.

The District utilizes 24/7 dispatching services in conjunction with Horizon City Police Department. This Dispatching system is capable of CAD access. The Dispatching Center is staffed with 9 paid Dispatchers through the Horizon Police Department.

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 designated number of trainings in order to remain in good standing with the department, Pension and for the State Fireman's and Fire Marshal's Association.

(Continued)

ECONOMIC FACTORS

The citizens of the community are fortunate to have the District rated by the Insurance Standards Organization (ISO) at 5/9. We are currently being evaluated by ISO and hope to have a rating by April of 2016. The fire department has at least 3 volunteer firefighters available at the station at all times providing quick response times. With this new program being implemented, all calls are being answered. The average response time for a call in the District is 6.43 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.

Board of Commissioners

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of El Paso County Emergency Services District #1 ("the District"), a component unit of the County of El Paso, Texas, as of and for the years ended September 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District'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 of America; 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 misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of El Paso County Emergency Services District #1 as of September 30, 2015 and 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

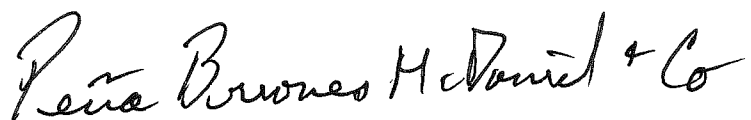
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 12, pages 47 and 48, 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. 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 25, 2016, on our consideration of the District's internal control over financial reporting and our 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 our testing on internal control over financial reporting and compliance and the results of testing, and not to provide an opinion on internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.



El Paso, Texas
February 25, 2016

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

STATEMENT OF NET POSITION

September 30, 2015 and 2014

<u>ASSETS</u>	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 693,254	\$ 1,248,696
Investments	1,211,133	814,290
Taxes receivable, net	219,495	243,288
Other receivables, net	15,493	21,176
Prepaid expenses	20,518	5,393
Non-depreciable capital assets	179,764	179,764
Depreciable capital assets, net of accumulated depreciation	<u>6,833,953</u>	<u>7,204,429</u>
Total assets	<u>9,173,610</u>	<u>9,717,036</u>
 <u>LIABILITIES</u>		
Accounts payable	\$ 363,103	\$ 417,685
Accrued liabilities	7,506	7,874
Accrued interest	28,032	35,374
Due within one year:		
Notes payable	310,277	295,987
Capital lease	38,930	37,188
Due after one year:		
Notes payable	4,460,736	4,771,013
Capital lease	<u>328,647</u>	<u>367,576</u>
Total liabilities	<u>5,537,231</u>	<u>5,932,697</u>
 <u>NET POSITION</u>		
Net investment in capital assets	1,875,127	1,912,429
Unrestricted	<u>1,761,252</u>	<u>1,871,910</u>
Total net position	<u>\$ 3,636,379</u>	<u>\$ 3,784,339</u>

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

STATEMENT OF ACTIVITIES

Year Ended September 30, 2015

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, 2014

		<u>Program Revenues</u>			<u>Net Revenue (Expense) and Change in Net Position</u>
		<u>Charges for Services and Fees</u>	<u>Capital Grants and Contributions</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
FUNCTIONS/PROGRAMS	Expenses				
Primary government:					
Governmental activities:					
Public safety	\$ 1,555,289	\$ 68,779	\$ 132,397	\$ 14,981	\$ (1,339,132)
Interest on long-term debt	<u>173,771</u>				<u>(173,771)</u>
Total primary government	\$ <u>1,729,060</u>	\$ <u>68,779</u>	\$ <u>132,397</u>	\$ <u>14,981</u>	<u>(1,512,903)</u>
		General revenues:			
		Taxes:			
		Property taxes			1,556,581
		Investment earnings			7,341
		Miscellaneous			<u>1,644</u>
		Total general revenues			1,565,566
		Special items:			
		Loss on disposal of assets			<u>(250,279)</u>
		Total general revenues and special items			<u>1,315,287</u>
		Change in net position			<u>(197,616)</u>
		Net position at beginning of year, as previously reported			4,053,088
		Change in accounting principle			<u>(71,133)</u>
		Net position at beginning of year, as restated			<u>3,981,955</u>
		Net position at end of year			<u>\$ 3,784,339</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, 2015

<u>ASSETS</u>	<u>General Fund</u>
Cash and cash equivalents	\$ 693,254
Investments	1,211,133
Taxes receivable, net	219,495
Other receivables, net	15,493
Prepaid insurance	<u>20,518</u>
Total assets	<u>\$2,159,893</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>	
Liabilities:	
Accounts payable	\$ 363,103
Accrued liabilities	<u>7,506</u>
Total liabilities	<u>370,609</u>
Deferred inflows of resources:	
Deferred revenue	<u>194,875</u>
Total deferred inflows of resources	<u>194,875</u>
Fund balances:	
Non-spendable	20,518
Unassigned	<u>1,573,891</u>
Total fund balances	<u>1,594,409</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$2,159,893</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 POSITION**

September 30, 2015

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

Total fund balances of governmental funds in the balance sheet		\$1,594,409
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Governmental capital assets	9,949,176	
Less accumulated depreciation	<u>(2,935,459)</u>	7,013,717
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Notes payable	(4,771,013)	
Capital leases	(367,577)	
Accrued interest	<u>(28,032)</u>	(5,166,622)
Tax receivables not collected within 60 days of the end of the fiscal year are not considered available resources under the modified accrual basis and reported as deferred inflows of resources in the government funds. Unavailable tax receivables are reported in the statement of net position on the full accrual basis		<u>194,875</u>
NET POSITION, GOVERNMENTAL ACTIVITIES		<u>\$3,636,379</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, 2014

<u>ASSETS</u>	<u>General Fund</u>
Cash and cash equivalents	\$1,248,696
Investments	814,290
Taxes receivable, net	243,288
Other receivables, net	21,176
Prepaid insurance	<u>5,393</u>
Total assets	<u>\$2,332,843</u>
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>	
Liabilities:	
Accounts payable	\$ 417,685
Accrued liabilities	<u>7,874</u>
Total liabilities	<u>425,559</u>
Deferred inflows of resources:	
Deferred revenue	<u>184,976</u>
Total deferred inflows of resources	<u>184,976</u>
Fund balances:	
Non-spendable	5,393
Assigned for capital outlays	50,000
Unassigned	<u>1,666,915</u>
Total fund balances	<u>1,722,308</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$2,332,843</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 POSITION**

September 30, 2014

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

Total fund balances of governmental funds in the balance sheet	\$1,722,308
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Capital assets used in governmental activities are not financial resources
and, therefore, are not reported in the governmental funds:

Governmental capital assets	9,829,866	
Less accumulated depreciation	<u>(2,445,673)</u>	7,384,193

Certain liabilities are not due and payable in the current period and,
therefore, are not reported in the governmental funds:

Notes payable	(5,067,000)	
Capital leases	(404,764)	
Accrued interest	<u>(35,374)</u>	(5,507,138)

Tax receivables not collected within 60 days of the end of the fiscal
year are not considered available resources under the modified
accrual basis and reported as deferred inflows of resources in
the government funds. Unavailable tax receivables are reported in
the statement of net position on the full accrual basis

<u>184,976</u>

NET POSITION, GOVERNMENTAL ACTIVITIES	<u>\$3,784,339</u>
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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, 2015

	<u>General Fund</u>
Revenues:	
Property taxes	\$1,671,964
Charges for services	61,390
Contributions	23,383
Investment earnings	8,348
Grant income	<u>6,471</u>
Total revenues	<u>1,771,556</u>
Expenditures:	
Current:	
Public safety	1,260,838
Capital outlay	128,756
Debt service:	
Principal	333,174
Interest	<u>176,687</u>
Total expenditures	<u>1,899,455</u>
Excess of expenditures over revenue	<u>(127,899)</u>
Net change in fund balance	(127,899)
Fund balance at beginning of year	<u>1,722,308</u>
Fund balance at end of year	<u>\$1,594,409</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, 2015

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

Net change in fund balance - total governmental funds	\$ (127,899)
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Governmental funds report capital outlays as expenditures.

However, in the government-wide statements, the cost of those
assets are depreciated over their estimated useful lives:

Expenditure for capital assets	128,756	
Less current year provision for depreciation	<u>(499,232)</u>	(370,476)

Repayment of debt principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the statement of net
position:

333,174

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 position on the full accrual basis:

Change in accrued interest expense	7,342
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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 inflows of resources	<u>9,899</u>
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (147,960)</u>
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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, 2014

	<u>General Fund</u>
Revenues:	
Property taxes	\$1,555,404
Charges for services	147,378
Contributions	68,779
Investment earnings	7,341
Grant income	<u>1,644</u>
Total revenues	<u>1,780,546</u>
Expenditures:	
Current:	
Public safety	1,183,401
Capital outlay	2,264,663
Debt service:	
Principal	282,524
Interest	<u>170,002</u>
Total expenditures	<u>3,900,590</u>
Excess of expenditures over revenue	(2,120,044)
Other financing sources:	
Proceeds from long-term debt	<u>500,000</u>
Net change in fund balance	(1,620,044)
Fund balance at beginning of year	<u>3,342,352</u>
Fund balance at end of year	<u><u>\$1,722,308</u></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, 2014

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

Net change in fund balance - total governmental funds \$(1,620,044)

Governmental funds report capital outlays as expenditures.

However, in the government-wide statements, the cost of those
assets are depreciated over their estimated useful lives:

Expenditure for capital assets	2,264,662	
Less loss on disposal of capital assets	(250,279)	
Less current year provision for depreciation	<u>(371,887)</u>	1,642,496

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 (500,000)

Repayment of debt principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the statement of net
position: 282,524

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 position on the full accrual basis:
Change in accrued interest expense (3,769)

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 inflows of resources 1,177

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (197,616)

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, these financial statements present the activities of the District and its component units. All activities of the District are governmental in nature and are financed through taxes and other non-exchange transactions. Component units are legally separate organizations for which the District is financially accountable or other organizations whose nature and significant relationship with the District are such that exclusion would cause the District’s financial statements to be misleading. Financial accountability is defined as the appointment of a voting majority of the component unit’s board, and (i) either the District’s ability to direct the organization or (ii) the potential for the organization to provide a financial benefit to or impose a financial burden on the District.

Blended component units, although legally separate entities are, in substance, part of the District’s operations. Accordingly, data from these units are combined with data of the primary government. The discretely presented component unit, on the other hand, is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government. Further, the District is not aware of any entity which would consider itself to be a discrete component unit of the District.

Blended Component Units –

Horizon Volunteer Fire Department, Inc. – The Horizon Volunteer Fire Department (“HVFD”) was established to provide first responders to fires, medical emergencies, disasters and terrorist acts, and to protect the lives and property of the residents of the District’s response area. The HVFD was incorporated in the State of Texas in January 2015 and applied for tax exempt status as a non-profit organization under Section 501(c) (3) of the Internal Revenue Code. The HVFD advances public safety through its fire prevention programs by enrolling volunteers. The HVFD administers a modified stipend program to provide incentive compensation to all enrolled volunteers in the form of hourly wages upon completion of a training program. The modified stipend program was originally implemented by the District and was transferred entirely to the HVFD effective June 2015. All stipend pay earned by volunteers is fully reimbursed by the District. All intercompany transactions have been eliminated in the accompanying financial statements.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued) –

Horizon Volunteer Fire Department, Inc. (Continued) – The HVFD meets the requirements for blending because it is managed as a department of the District and because it does not have additional sources of income other than stipend reimbursements provided by the District. The HVFD's activities are reported in the District's General Fund. Separate financial statements are not prepared for the HVFD. The HVFD's fiscal year ends on September 30.

Relationships with Other Governmental Entities -

The County of El Paso, Texas – As amended by the Texas 83rd Legislature, Section 775.301 of the Texas Health and Safety Code grants certain control provisions to the Commissioners Court of Counties that border the United Mexican States and have a population of more than 800,000. Under the statute, the County of El Paso has certain control provisions over the District, which include the responsibility of appointing a Board of Commissioners, establishing operating policies and procedures for the District, and approving the District's annual budget and tax rate. Based on the application of the criteria set forth by the Government Accounting Standards Board, management has determined the District to be a discrete component unit of the County of El Paso, Texas.

Government-Wide and Fund Financial Statements –The government-wide financial statements (the statement of net position 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.

In addition to assets and liabilities, the government-wide statement of net position and the government fund balance sheet may report separate sections of deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position (or fund balance) that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition of net position (or fund balance) that applies to a future period which will not be recognized as an inflow of resources until that time.

Fund Accounting – The District uses fund accounting 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.

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

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

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

Cash and Cash Equivalents and Investments – For presentation in the financial statements, investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. 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 October 1. The certified tax roll from the El Paso Central Appraisal District reflected a taxable value of \$1,694,048,170 for the year ended September 30, 2015. Taxes are due upon receipt of the tax bill and are delinquent if not paid by February 1, 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 2014-2015 effective tax rate was \$.100000, per \$100 of assessed valuation. The District incurred expenditures of \$67,893 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2015.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Tax Calendar (Continued) – The certified tax roll from the El Paso Central Appraisal District reflected a taxable value of \$1,600,629,041 for the year ended September 30, 2015. 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 2014-2015 effective tax rate was \$.093595 and the actual tax rate was \$.10, per \$100 of assessed valuation. The District incurred expenditures of \$68,632 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2015.

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 \$18,380 for the years ended September 30, 2015 and 2014.

Allowance for Doubtful Accounts – Other accounts receivable are stated net of an allowance for doubtful accounts. Management periodically evaluates the collectability of its accounts receivable. The allowance for doubtful accounts amounted to \$8,833 and \$0 at September 30, 2015 and 2014, respectively.

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 position, 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. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Depreciation is determined using the straight-line method over the following estimated useful lives of the capital assets:

Buildings and improvements	5-40 years
Heavy trucks	10 years
Equipment	3-10 years

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Debt - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Long-term issuance costs are recognized as a debt service expenditure in the current period in both the government-wide financial statements and the governmental financial statements.

Deferred Outflows of Resources and Deferred Inflows of Resources – In addition to assets and liabilities, the statement of financial position and the governmental fund balance sheet may report separate sections of deferred outflows of resources and deferred inflows of resources.

Deferred outflows of resources represent a consumption of net position (or fund balance) that applies to a future period which will not be recognized as an outflow of resources until that time. The District does not have any item in this category.

Deferred inflows of resources represent an acquisition of net position (or fund balance) that applies to a future period which will not be recognized as an inflow of resources until that time. The District has one type of item that qualify for reporting in this category. Unearned revenue - property taxes arises only under the modified accrual basis of accounting and is only reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Reservations of Fund Balance – Unassigned fund balances are available for any purpose; these amounts can be reported only in the District's general fund. Non-spendable fund balance includes amounts that cannot be spent because it is not in spendable form or is not expected to be converted into cash. Non-spendable fund balance at September 30, 2015 and 2014 includes \$20,518 and \$5,393, respectively, of prepaid expenses to be consumed in future periods.

Net Position – Equity is classified as net position 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 position - all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Budgets and Budgetary Accounting – The District is required by the Texas Constitution and the Texas Health and Safety Code to adopt an annual balanced budget. The District's Board of Commissioners officially adopts the annual budget and any amendments. As established by the Texas 83rd Legislature, the Texas Health and Safety Code grants authority and responsibility to the County of El Paso, Texas for reviewing and approving the District's annual budget and amendments before adoption by the Board of Commissioners. All budgets are prepared on the budgetary basis of accounting as required by Texas law.

New Accounting Pronouncements – GASBS 68, Accounting and Financial Reporting for Pensions - An amendment of GASB Statement No. 27, which is effective for fiscal years beginning after June 15, 2014, establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to pension plans. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

1. Single employers are those whose employees are provided with defined benefit pensions through single-employer pensions.
2. Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans – pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
3. Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple employer pension plans – pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued) – In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

GASBS 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - An amendment of GASB Statement No. 68, is required to be applied simultaneously with GASBS 68. This Statement requires the government to recognize a beginning deferred outflow of resources only for any pension contributions it made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. No beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions should be recognized.

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.
- 5) Obligation of, or Guaranteed by Governmental Agencies, such as letters of credit or direct obligations.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DEPOSITS AND INVESTMENTS (Continued)

Investments in collateral mortgage obligations are prohibited. The maximum allowable stated maturity of any authorized investment type cannot exceed two years to maturity, except for repurchase agreements, for which the maximum maturity shall be 120 days.

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 certificates of deposit and exchange-traded and closed-end funds are maintained with Morgan Stanley and First National Bank of El Paso in the name of El Paso County Emergency Services District #1. All certificates of deposit have a carrying amount of or less than, \$250,000, at each of the institutions and are fully insured by the FDIC. Cash, certificates of deposit, and exchange-traded and closed-end funds are classified as Investment Category 1.

Interest Rate Risk – The District's policy for mitigating interest rate risk is to limit the maximum weighted average maturity of investment portfolios to 365 days. In addition, the District's policy includes structuring the investment portfolio so that investments mature to meet cash requirements for ongoing operations and diversify maturities and staggering purchase dates to minimize the impact of market fluctuations over time.

Credit Risk – State law limits investments to the types described above. The District's policy for restricting investment instruments is consistent with the State law. In addition, the District's policy establishes the following maximum limits, by instrument, for its total investment portfolio:

1. U.S. Treasury securities	100%
2. Agencies and instrumentalities	85%
3. Certificates of deposit	100%
4. Repurchase agreements	20%
5. Money market mutual funds	50%
6. Authorized pools	50%

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

DEPOSITS AND INVESTMENTS (Continued)

Credit Risk (Continued) –

Investments are composed of the following at September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Certificates of deposit	\$1,211,133	\$807,312
Mutual funds	<u>-</u>	<u>6,978</u>
	<u>\$1,211,133</u>	<u>\$814,290</u>

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer. At September 30, 2015 and 2014 the District had the following investments in single issuers representing more than five percent of the total investments on hand:

	<u>2015</u>	<u>2014</u>
Issuer A	\$199,866	\$200,690
Issuer B	150,578	149,050
Issuer C	150,180	114,188
Issuer D	139,071	100,000
Issuer E	125,032	52,438
Issuer F	<u>100,031</u>	<u>42,281</u>
Total	<u>\$864,758</u>	<u>\$658,647</u>

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's policy is to require full collateralization of all funds on deposit with a depository bank. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be at least 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. At its discretion, the District may require a higher level of collateralization for certain investment securities. Securities pledged as collateral shall be held by an independent third party with whom the District has a current custodial agreement. Management evaluates the exposure to custodial credit risk for deposits exceeding the amount insured by the FDIC by comparing the amounts of cash on-hand to collateral funds. At September 30, 2015, pledged collateral funds securing the District's deposits had a fair market value of \$3,661,529, which exceeded the District's bank balances totaling \$754,147. Management does not believe the District is exposed to any significant credit risk.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

PROPERTY TAX AND OTHER RECEIVABLES

Property tax and other receivables consist of the following at September 30, 2015 and 2014:

	<u>2015</u>		
	<u>Gross</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net</u>
Governmental activities:			
Property taxes, current	\$ 78,025	\$	\$ 78,025
Property taxes, delinquent	<u>159,850</u>	<u>(18,380)</u>	<u>141,470</u>
Taxes receivable, net	<u>237,875</u>	<u>(18,380)</u>	<u>219,495</u>
Other receivables, net	<u>24,326</u>	<u>(8,833)</u>	<u>15,493</u>
Total governmental activities	<u>\$262,201</u>	<u>\$(27,213)</u>	<u>\$234,988</u>

	<u>2014</u>		
	<u>Gross</u>	<u>Allowance for Uncollectible Accounts</u>	<u>Net</u>
Governmental activities:			
Property taxes, current	\$ 76,692	\$	\$ 76,692
Property taxes, delinquent	<u>184,976</u>	<u>(18,380)</u>	<u>166,596</u>
Taxes receivable, net	261,668	<u>(18,380)</u>	243,288
Other receivables, net	<u>15,493</u>	<u> </u>	<u>15,493</u>
Total governmental activities	<u>\$234,988</u>	<u>\$(18,380)</u>	<u>\$234,988</u>

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

CAPITAL ASSETS

Capital asset activity for the District for the year ended September 30, 2015 and 2014, was as follows:

	<u>September 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>September 30, 2015</u>	
Non-depreciable capital assets:					
Land	\$ <u>179,764</u>	\$ _____	\$ _____	\$ <u>179,764</u>	
Total non-depreciable capital assets	\$ <u>179,764</u>	\$ _____	\$ _____	\$ <u>179,764</u>	
	<u>September 30,2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>September 30,2014</u>
Non-depreciable capital assets:					
Land	\$ 179,764	\$ _____	\$ _____	\$ _____	\$179,764
Construction in progress	<u>3,823,907</u>	<u>1,253,624</u>	_____	<u>(5,077,531)</u>	_____
Total non-depreciable capital assets	<u>\$4,033,671</u>	<u>\$1,253,624</u>	\$ _____	<u>\$(5,077,531)</u>	<u>\$179,764</u>
	<u>September 30, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>September 30, 2015</u>	
Depreciable capital assets:					
Building and improvements	\$5,077,531	\$ 4,434	\$ _____	\$5,081,965	
Heavy trucks	3,510,074			3,510,074	
Equipment	<u>1,062,498</u>	<u>124,322</u>	<u>(9,447)</u>	<u>1,177,373</u>	
	<u>9,650,103</u>	<u>128,756</u>	<u>(9,447)</u>	<u>9,769,412</u>	
Less accumulated depreciation for:					
Building and improvements	52,891	127,234		180,125	
Heavy trucks	1,666,285	273,180		1,939,465	
Equipment	<u>726,498</u>	<u>98,818</u>	<u>(9,447)</u>	<u>815,869</u>	
Total accumulated depreciation	<u>2,445,674</u>	<u>499,232</u>	<u>(9,447)</u>	<u>2,935,459</u>	
Depreciable capital assets, net	<u>\$7,204,429</u>	<u>\$(370,476)</u>	\$ _____	<u>\$6,833,953</u>	

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

CAPITAL ASSETS (Continued)

	<u>September 30,2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>September 30,2014</u>
Depreciable capital assets:					
Building and improvements	\$ 480,395	\$	\$(480,395)	\$5,077,531	\$5,077,531
Heavy trucks	2,745,287	764,786			3,510,073
Equipment	<u>816,246</u>	<u>246,252</u>	<u> </u>	<u> </u>	<u>1,062,498</u>
	<u>4,041,928</u>	<u>1,011,038</u>	<u>(480,395)</u>	<u>5,077,531</u>	<u>9,650,102</u>
Less accumulated depreciation for:					
Building and improvements	224,738	58,269	(230,116)		52,891
Heavy trucks	1,423,697	242,588			1,666,285
Equipment	<u>655,467</u>	<u>71,030</u>	<u> </u>	<u> </u>	<u>726,497</u>
Total accumulated depreciation	<u>2,303,902</u>	<u>371,887</u>	<u>(230,116)</u>	<u> </u>	<u>2,445,673</u>
Depreciable capital assets, net	<u>\$1,738,026</u>	<u>\$575,756</u>	<u>\$(250,279)</u>	<u>\$5,077,531</u>	<u>\$7,204,429</u>

Total provision for depreciation of \$499,232 and \$371,887 was charged to public safety of the primary government for the years ended September 30, 2015 and 2014. Capital assets pledged as security for long-term debt had a cost of \$6,664,793 and \$5,900,006 as of September 30, 2015 and 2014, respectively.

UNEARNED REVENUE

Unearned revenue in the amount of \$194,875 and \$184,976 at September 30, 2015 and 2014, respectively, 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 arises only when the District receives resources before it has a legal claim to them.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT

The following is a summary of changes in governmental activities long-term debt for the year ended September 30, 2015 and 2014:

	<u>Balance at September 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at September 30, 2015</u>	<u>Due Within One Year</u>
Notes payable	\$5,067,000	\$	\$(295,987)	\$4,771,013	\$310,277
Capital leases	<u>404,764</u>	<u> </u>	<u>(37,187)</u>	<u>367,577</u>	<u>38,930</u>
	<u>\$5,471,764</u>	<u>\$ </u>	<u>\$(333,174)</u>	<u>\$5,138,590</u>	<u>\$349,207</u>

	<u>Balance at September 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at September 30, 2015</u>	<u>Due Within One Year</u>
Notes payable	\$4,814,000	\$500,000	\$247,000	\$5,067,000	\$295,987
Capital leases	<u>440,288</u>	<u> </u>	<u>35,524</u>	<u>404,764</u>	<u>37,188</u>
	<u>\$5,254,288</u>	<u>\$500,000</u>	<u>\$282,524</u>	<u>\$5,471,764</u>	<u>\$333,175</u>

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

LONG-TERM DEBT (Continued)

Notes Payable

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 semi-annual installments which are specified in the contract. The note matures in February 2029 and is secured by ad valorem taxes levied and assessed on the proceeds of taxable property in the District.

2015 2014

\$4,019,000 \$4,242,000

The District entered into a \$500,000 note agreement with TIB - the Independent Bankers Bank to finance the acquisition of a heavy rescue truck. Interest is at 2.45% per annum, payable in semi-annual installments, which are specified in the contract. The note matures in August 2024 and is secured by ad valorem taxes levied and assessed on the proceeds of taxable property in the District.

460,013 500,000

The District entered into a \$356,000 note agreement with Branch Banking and Trust to finance the acquisition and construction of a pumper truck. Interest is at 2.07% per annum, payable in semi-annual installments, which are specified in the contract. The note matures in February 2023 and is secured by ad valorem taxes levied and assessed on the proceeds of taxable property in the District.

292,000 325,000

Total notes payable 4,771,013 5,067,000

Less amount due within one year 310,277 295,987

Amount due after one year \$4,460,736 \$4,771,013

Annual debt service for the outstanding notes is as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 310,277	\$ 143,562	\$ 453,839
2017	320,418	134,101	454,519
2018	329,587	124,343	453,930
2019	339,784	114,286	454,070
2020	350,012	103,917	453,929
2021-2025	1,779,935	354,372	2,134,307
2026-2029	<u>1,341,000</u>	<u>88,937</u>	<u>1,429,937</u>
Total	<u>\$4,771,013</u>	<u>\$1,063,518</u>	<u>\$5,834,531</u>

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

Capital Lease Obligation

Capital lease obligation of the governmental activities at September 30, 2015 and 2014 consists of the following obligation under capital lease entered into for the acquisition of rolling stock:

	<u>2015</u>	<u>2014</u>
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.	\$367,577	\$404,794
Less amount due within one year	<u>38,930</u>	<u>37,188</u>
Amount due after one year	<u>\$328,647</u>	<u>\$367,576</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>
2016	\$ 38,930	\$17,220	\$ 56,150
2017	40,753	15,397	56,150
2018	42,663	13,487	56,150
2019	44,661	11,489	56,150
2020	46,753	9,397	56,150
2021-2023	<u>153,817</u>	<u>14,634</u>	<u>168,451</u>
	<u>\$367,577</u>	<u>\$81,624</u>	<u>\$449,201</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>575,732</u>
Net value	<u>\$246,743</u>

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

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

EMPLOYEE PENSION PLAN

The District offers a retirement plan to eligible employees under the Texas Emergency Services Retirement System ("TESRS").

General information

Plan Description – TESRS administers a cost-sharing multiple employer pension system (the "System") established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. The System is governed by a Board of Trustees composed of nine members. Of the nine-member Board of Trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2014 ("the measurement date"), there were 198 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2014, the pension system membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,073
Terminated Members Entitled to Benefits but Not Yet Receiving Them	2,161
Active Participants (Vested and nonvested)	4,036

Benefits Provided – Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

EMPLOYEE PENSION PLAN (Continued)

Funding Policy – Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

The State is required to contribute an amount necessary to make the System “actuarially sound” each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the State are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2014, the Part Two contribution rate was 0%, since the first actuarial valuation report after adoption of the rules showed the System to have an adequate contribution arrangement without any Part Two contributions.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

Contributions Required and Contributions Made – The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2014, total contributions (dues, prior service, and interest on prior service financing) of \$4,176,659 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The State appropriated \$1,530,343 for the fiscal year ending August 31, 2014.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

EMPLOYEE PENSION PLAN (Continued)

Contributions Required and Contributions Made (Continued) – During the year ended August 31, 2014 (the measurement period), a total of \$46,693 in contributions were made to the System on behalf of ESD#1. Total contributions made to the System subsequent to the measurement period and prior to September 30, 2015 totaled \$33,383 and are presented as an expense in the accompanying statement of activities.

Payments by a Non-employer Third Party

The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). As established in Section 775.301 of the Texas Health and Safety Code, the Commissioners' Court of El Paso Texas County ("the County") approves the District's annual fiscal budget and may establish procedures regarding the District's procurements and activities. Accordingly, the County is considered the controlling governing body of the District for purposes of adopting TESRS's funding policy and thus, is required to make minimum contributions to TESRS. The payments provided to TESRS by the El Paso Texas County meets the criteria of a special funding situation as defined in GASB statement 68, and thus are recognized as revenue by the District when paid by the County to TESRS in accordance to GASB 68, paragraph 58.

During the fiscal year ended September 30, 2015, pension contributions from the County made to TESRS on behalf of the District totaled \$23,383. The District made a voluntary contribution to the plan of \$10,000 in the fiscal year ending September 30, 2015. Since the County pays 100% of the required contributions into the plan, the County carries 100% of the net pension liability related to the plan. Therefore, the GASB 68 requirements for the plan apply to the County not the District.

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.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

RISK MANAGEMENT (Continued)

During fiscal year ended 2015, 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	\$5,344,890
Fair Labor Standards Act Suit Defense Coverage (Per Occurrence)	\$100,000
Cyber Liability (Each Incident)	\$1,000,000
Blanket Portable Equipment	Guaranteed Replacement Cost Coverage
Crime Insurance:	
Employee Dishonesty (Per Occurrence)	\$100,000
Surety Bond	\$100,000
Forgery and alterations	\$50,000

The District's insurance coverage changed from the prior year to increase commercial property coverage for its new fire station building and to add additional coverage for Fair Labor Standards Act defense suits and Cyber Attacks liability. 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, 2015, the District was involved in a dispute with a construction contractor regarding warranty work, change orders and liquidating damages arising from the construction of the fire station building on 14151 Nunda, Horizon City, Texas 79928. Management expects to continue negotiations with the contractor and reach an agreement as to a final settlement amount. Management has estimated and accrued a contingent liability related to this outstanding claim, which is included in the balance of accounts payable in the accompanying statement of net position and balance sheet – governmental funds.

As of September 30, 2015, the District was involved in litigation with the City of El Paso for compensation owed of \$123,405 as a result of annexation of land within the jurisdiction of the District. The District was awarded \$25,675 in 2013, which was collected in 2014. The remaining amount of \$97,730 is still pending appeals. This amount has not been recorded as a receivable on the books of the District.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

RESTATEMENT

Correction of Error – As of September 30, 2014, the Balance Sheet- Governmental funds presented a balance of \$50,000 in fund balance assigned for capital outlays. The funds were used for its assigned purpose in the fiscal year ended September 30, 2008. However, the accounting records were not updated to reflect the release of these funds. Accordingly, beginning balances in assigned and unassigned fund balances for the general fund have been restated for the year ended September 30, 2015 to show the corrected amounts. The correction of this error did not result in a restatement of total fund balances as a whole for the year ended September 30, 2015. Individual account restatements were as follows:

General Fund:	2014		2014
	<u>Previously Presented</u>	<u>Restatement</u>	<u>Restated</u>
Non-spendable	\$ 5,393	\$	\$ 5,393
Assigned for capital outlays	50,000	(50,000)	
Unassigned	1,666,915	50,000	1,716,915
Total fund balances	1,722,308		1,722,308

SUBSEQUENT EVENTS

Subsequent events were evaluated through February 25, 2016, which is the date the financial statements were available to be issued.

Subsequent to year end, the District has financed the purchase of two quick response vehicles and a fire prevention vehicle with a single note payable of \$157,750 with an interest rate of 1.830%. The note requires semiannual payments of \$20,539, including interest, starting on February 15, 2017. The note matures August 15, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

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

Year Ended September 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Basis</u>	
Revenues:				
Taxes:				
Property taxes	\$1,771,245	\$1,771,245	\$ 1,671,964	\$ (99,281)
Charges for services	58,418	58,418	61,390	2,972
Contributions			23,383	23,383
Investment earnings			8,348	8,348
Grant income			6,471	6,471
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>1,829,663</u>	<u>1,829,663</u>	<u>1,771,556</u>	<u>(58,107)</u>
Expenditures:				
Public safety:				
Fire control and EMS:				
Salaries and benefits	344,000	407,026	399,587	7,439
Material and services	912,600	926,364	861,251	65,113
Capital outlay	274,800	209,742	128,756	80,986
Debt service:				
Principal payments	333,176	333,188	333,174	14
Interest payments	<u>176,869</u>	<u>176,869</u>	<u>176,687</u>	<u>182</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>2,041,445</u>	<u>2,053,189</u>	<u>1,899,455</u>	<u>153,734</u>
Excess of expenditures over revenue	<u>(211,782)</u>	<u>(223,526)</u>	<u>(127,899)</u>	<u>95,627</u>
Fund balance, beginning of year	<u>1,722,308</u>	<u>1,722,308</u>	<u>1,722,308</u>	
Fund balance, end of year	<u>\$1,510,526</u>	<u>\$1,498,782</u>	<u>\$ 1,594,409</u>	<u>\$ 95,627</u>
Budget basis deficit			<u>\$ (127,899)</u>	
GAAP basis excess			(127,899)	
Fund balance, beginning of year			<u>1,722,308</u>	
Fund balance, end of the year			<u>\$ 1,594,409</u>	

See notes to required supplementary information
and independent auditor's report.

The accompanying notes are an integral

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

Year Ended September 30, 2014

	Budgeted Amounts		Actual Amounts Budgetary	
	<u>Original</u>	<u>Final</u>	<u>Basis</u>	<u>Variance</u>
Revenues:				
Taxes:				
Property taxes	\$1,477,579	\$1,477,579	\$ 1,555,404	\$ 77,825
Intergovernmental:				
Grant income		25,675	147,378	121,703
Revenue recovery	40,000	54,512	68,779	14,267
Investment earnings			7,341	7,341
Total revenues	<u>1,517,579</u>	<u>1,557,766</u>	<u>1,778,902</u>	<u>221,136</u>
Expenditures:				
Public safety:				
Fire control and EMS:				
Salaries and benefits	160,800	155,812	158,212	(2,400)
Material and services	903,038	975,908	1,025,189	(49,281)
Capital outlay	361,000	348,129	2,264,663	(1,916,534)
Debt service:				
Principal payments	282,524	282,524	282,524	
Interest payments	<u>170,217</u>	<u>170,217</u>	<u>170,002</u>	<u>215</u>
Total expenditures	<u>1,877,579</u>	<u>1,932,590</u>	<u>3,900,590</u>	<u>(1,968,000)</u>
Excess of expenditures over revenue	<u>(360,000)</u>	<u>(374,824)</u>	<u>(2,121,688)</u>	<u>(1,746,864)</u>
Fund balance, beginning of year	<u>1,722,308</u>	<u>1,722,308</u>	<u>3,342,352</u>	<u>3,342,352</u>
Fund balance, end of year	<u>\$1,362,308</u>	<u>\$1,347,484</u>	<u>\$ 1,220,664</u>	<u>\$ 1,595,488</u>
Budget basis deficit			\$(2,121,688)	
Non-budgeted funds			<u>501,644</u>	
GAAP basis excess			(1,620,044)	
Fund balance, beginning of year			<u>3,342,352</u>	
Fund balance, end of the year			<u>\$ 1,722,308</u>	

See notes to required supplementary information
and independent auditor's report.

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SIGNIFICANT ACCOUNTING POLICIES

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.

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 2015.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #1

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)

BUDGET PROCESS AND CALENDAR (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.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2015, there were no expenditure categories that exceed its corresponding budgeted appropriation amount. However, total District expenditures exceed revenues by \$127,899. These excess expenditures were funded by available unassigned fund balances.

For the year ended September 30, 2014, expenditures exceeded appropriations for capital outlay and material and services by \$1,968,000 due to construction costs and the purchase of a new truck, as well as supply purchases to stock the new station facilities. These excess expenditures were funded by greater-than-anticipated revenues in those funds, proceeds from the issuance of long-term debt and available unassigned fund balances.

AUDITORS' SECTION

**INDEPENDENT AUDITORS' 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

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 of El Paso County Emergency Services District #1 ("the District"), a discrete component unit of The County of El Paso, Texas, as of and for the year ended September 30, 2015, 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 25, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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.

(Continued)

To the Board of Commissioners
El Paso County Emergency Services District #1

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.

A handwritten signature in cursive script that reads "Peña Briones McDaniel & Co".

El Paso, Texas
February 25, 2016