



**COMMISSIONERS COURT
COMMUNICATION**

AGENDA DATE : JUNE 17, 2013

CONSENT OR REGULAR: CONSENT

CONTRACT REFERENCE NO
(IF APPLICABLE): N/A

SUBJECT:

Approve and authorize to accept audit from Emergency Services District #2.

BACKGROUND/DISCUSSION OF TOPIC: To include statutory requirement, operational impact, or performance goal.

Pursuant to the Health & Safety Code: Sec 775.082 (b), A district shall prepare and file with the commissioners court of each county that contains any part of the district on or before June 1 of each year an audit report of the district's fiscal accounts and records.

FISCAL IMPACT: N/A

PRIOR COMMISSIONERS COURT ACTION (IF ANY):

ESD #2's audit was accepted by the court on September 24, 2012, and that the County Judge send a letter to the ESD #2 Board regarding the audit deficiencies (Motion #29; Addendum#3).

RECOMMENDATION:

Accept the ESD #2 audit.

COUNTY ATTORNEY APPROVAL

The attached document has been given legal review by the El Paso County Attorney's Office on behalf of the County of El Paso, its officers, and employees. Said legal review should not be relied upon by any person or entity other than the County of El Paso, its officers, and employees.

COUNTY ATTORNEY:

LEGAL REVIEW:

LEGAL REVIEW NOTES (If Applicable):

DATE:

SUBMITTED BY:

Veronica Escobar, El Paso County Judge, (915) 546-2098

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2012

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

SEPTEMBER 30, 2012

Sammy C. Johnson
Certified Public Accountant

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

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EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
P.O. BOX 683
CLINT, TEXAS 79836

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2012

Our discussion and analysis of El Paso County Emergency Services District #2's (the District) financial performance provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2012. We encourage readers to consider this information in conjunction with the basic financial statements, which begins on Page 12.

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

FINANCIAL HIGHLIGHTS

- Total assets increased by approximately 2.76% due to an increase in purchases of assets using capital lease financing for the current year.
- Total liabilities increased by 7.07% due to payments of capital leases and an increase in purchases of assets using capital lease financing for the current year.
- Total net assets decreased by approximately \$457,100, which represents a 7.45% decrease from fiscal year ended 2011.
- Amounts invested in capital assets, net of related debt amounted to \$3,175,184.
- Unrestricted net assets, available to meet the District's on-going obligations, totaled \$2,504,068.
- At September 30, 2012, the District's governmental fund statements shows a combined ending fund balance of \$2,259,947, an increase of \$3,000 in comparison with the prior year fund balance.
- General revenues amounted to \$5,059,378 or 100.00% of all revenues.
- Program revenues decreased from the previous year from \$36,665 to \$-0-.
- The District expended no monies on infrastructure during the current year.

- The District had \$5,516,505 in net program expenses related to governmental activities.
- The District uses the general fund to maintain its financial records.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- Government-wide financial statements on pages 12-13.
- Fund financial statements on pages 14-17.
- Notes to the financial statements on pages 18-37.

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

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

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

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

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District only has governmental funds. The governmental funds financial statements are on pages 14 and 16.

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 helps you determine 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. Page 15 provides a reconciliation of the balance sheet of governmental funds to the statement of net assets and Page 17 provides a reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.

The District maintains its activities in the general fund.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in both the government-wide and governmental fund financial statements. The notes to the financial statements can be found on pages 18 through 37 of this report.

OTHER INFORMATION

In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information concerning the District's budgetary comparison schedules for its General Fund. The required supplementary information can be found on pages 38 through 40.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's total net assets decreased during the current year by \$457,126 from \$6,136,378 in 2011 to \$5,679,252 in 2012.

Table 1
Net Assets (In Thousands)
September 30,

	<u>2011</u>	<u>2012</u>		<u>2011</u>	<u>2012</u>
Current and other assets	\$2,888.1	\$2,928.9	Net assets:		
Capital assets	<u>17,762.4</u>	<u>18,291.1</u>	Invested in capital assets, net of related debt	\$3,682.4	\$3,175.2
Total assets	<u>20,650.5</u>	<u>21,220.0</u>	Unrestricted	<u>2,454.0</u>	<u>2,504.1</u>
Long-term obligations	(14,080.0)	(15,115.9)	Total net assets	<u>\$6,136.4</u>	<u>\$5,679.3</u>
Other liabilities	<u>(434.1)</u>	<u>(424.8)</u>			
Total liabilities	<u>(14,514.1)</u>	<u>(15,540.7)</u>			

Net assets of the District's activities decreased 7.449% or \$457,126. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased from \$2,453,975 to \$2,504,068 at the end of fiscal year 2012. The increase can be attributed to maintaining controls over outflows to assure they do not exceed inflows.

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

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

	<u>2011</u>	<u>2012</u>	<u>Change</u>
Program revenues:			
Capital grants	\$ 36.7	\$ -0-	\$ (36.7)
General revenues:			
Property taxes	2,658.3	2,792.9	134.6
Sales taxes	2,139.9	2,205.4	65.5
Other	<u>56.4</u>	<u>61.1</u>	<u>4.7</u>
Total revenues	<u>\$4,891.3</u>	<u>\$5,059.4</u>	<u>\$ 168.1</u>

Table 3
Changes in Net Assets for 2012
Compared with 2011 Activity
(In Thousands)
(Continued)

	<u>2011</u>	<u>2012</u>	<u>Change</u>
Program expenses:			
Public safety	\$2,047.2	\$2,512.6	\$ 465.4
Depreciation	2,035.1	2,232.8	197.7
Interest on long-term debt	<u>812.2</u>	<u>771.1</u>	<u>(41.1)</u>
Total expenses	<u>4,894.5</u>	<u>5,516.5</u>	<u>622.0</u>
Changes in net assets	\$ <u>(3.2)</u>	\$ <u>(457.1)</u>	\$ <u>(453.9)</u>

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

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

Overall, the change in net assets decreased approximately 142% from the previous year.

Table 4 presents the 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 4
Governmental Activities
(In Thousands)
September 30,

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
General government	\$2,047.2	\$2,512.6	\$2,010.6	\$2,512.6
Depreciation	2,035.1	2,232.8	2,035.1	2,232.8
Interest on long-term debt	<u>812.2</u>	<u>771.1</u>	<u>812.2</u>	<u>771.1</u>
Total expenses	<u>\$4,894.5</u>	<u>\$5,516.5</u>	<u>\$4,857.9</u>	<u>\$5,516.5</u>

The District did not receive any capital grants to help defray the total expenses incurred. Therefore, net cost of services remained the same as the total cost of services in 2012.

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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As mentioned earlier, the General Fund is the chief operating fund of the District. The District's governmental fund statements show an ending fund balance of \$2,259,947, an increase of \$3,000 in comparison with the prior year fund balance. This entire amount constitutes unreserved, undesignated fund balance, which is available for spending at the District's discretion.

Table 5 presents the fund balance of the general fund and an analysis of significant changes in the fund balance.

Table 5
Changes in Year-End Fund Balance
(In Thousands)
September 30,

	<u>2011</u>	<u>2012</u>	Percent Change
General	<u>\$2,256.9</u>	<u>\$2,259.9</u>	<u>0.001%</u>

The 0.001% increase in the general fund can be primarily attributed to total revenues and expenses being the same for the year.

Table 6 presents a detail of the governmental fund revenues for the fiscal year ended September 30, 2012 and a comparison with the governmental fund revenues for the prior fiscal year.

Table 6
Total Governmental Fund Revenues
(In Thousands)
September 30,

Revenue Source	<u>2012</u> <u>Amount</u>	<u>Percent</u> <u>of Total</u>	<u>Increase</u> <u>(Decrease)</u> <u>Over 2011</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u>
Property taxes	\$ 2,760,235	38.4%	\$101,959	3.8%
Sales taxes	2,205,404	30.6	65,553	3.1
Grant income	0	0.0	(36,665)	(100.0)
Proceeds from new capital leases	2,170,368	30.2	1,870,368	623.5
Inspection revenue	55,179	.8	25,095	83.4
Sale of assets	3,500	.0	(11,500)	(76.7)
Miscellaneous	0	.0	(6,047)	(100.0)
Interest earnings	<u>2,407</u>	<u>.0%</u>	<u>(2,856)</u>	<u>(54.3)%</u>
Total	<u>\$7,197,093</u>	<u>100.0%</u>	<u>\$2,005,907</u>	<u>38.6%</u>

The 3.1% increase in sales taxes is due to an increase in retail sales subject to sales taxes within the District.

GENERAL FUND BUDGETARY HIGHLIGHTS

Table 7 presents the general fund budget. There are no differences between the original budget and final budget for fiscal year 2012. Table 7 discusses the variance between the final budget and the actual results for the fiscal year.

Table 7
Original and Final Budget – General Fund
(In Thousands)

	<u>Budgeted Amounts</u> <u>Original and Final</u>
Revenues:	
Property taxes	\$ 2,691.6
Sales taxes	2,500.0
Interest earnings	5.5
Inspection revenues	<u>40.0</u>
	5,237.1
Expenditures:	
Total general government	<u>5,012.1</u>
Excess of revenues over expenditures	<u>\$ 225.0</u>

Table 8
Final Budget Versus Actual Results
(In Thousands)
General Fund

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Property taxes	\$2,691.6	\$2,760.2	\$68.6
Sales taxes	2,500.0	2,205.4	(294.6)
Sale of assets		3.5	3.5
Inspection revenues	40.0	55.2	15.2
Interest earnings	<u>5.5</u>	<u>2.4</u>	<u>(3.1)</u>
	5,237.1	5,026.7	(210.4)
 Expenditures:			
Total general government	<u>5,012.1</u>	<u>7,194.1</u>	<u>(2,182.0)</u>
 Excess (deficiency) of revenues over (under) expenditures before other financing sources	 225.0	 (2,167.4)	 (2,392.4)
 Other financing sources:			
Proceeds from new capital leases	<u>0.0</u>	<u>2,170.4</u>	<u>2,170.4</u>
 Excess of revenues and other financing sources over expenditures	 <u>\$ 225.0</u>	 <u>\$ 3.0</u>	 <u>\$ (222.0)</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year-end, the District had \$18,291,130 invested in capital assets, net of depreciation. This amount represents a net increase (including additions and deletions) of \$528,746, or 2.98% compared to last year. The net increase is primarily due to additions of capital assets during 2012 totaling \$2,761,601 less depreciation of total assets totaling \$2,232,855.

Capital assets held by the District at the end of the current year and prior years are summarized in Table 9 as follows:

Table 9
Capital Assets, Net of Accumulated Depreciation

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2012</u>
Land	\$786,051	\$786,051
Buildings and improvements	8,912,485	8,929,097
Transportation equipment	6,732,283	7,317,971
Other equipment	<u>1,331,565</u>	<u>1,258,012</u>
 Total capital assets, net	 <u>\$17,762,384</u>	 <u>\$18,291,131</u>

Additional information on the District's capital assets can be found on page 24 of this report.

Debt Administration

At year-end, the District had \$15,115,946 in outstanding capital leases payable versus \$14,079,982 last year, an increase of 7.4%. The increase was due to an increase in purchases of assets using capital lease financing during the year of \$2,170,368 and payments of capital leases during the year of \$1,134,405.

More detailed information about the District's long-term liabilities is presented on pages 25-35 of this report.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Board of Commissioners, President, P.O. Box 683, Clint, Texas 79836.

Bill Adler
Board of Commissioners, President

Sammy C. Johnson
Certified Public Accountant

MEMBER
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants
New Mexico Society of Certified Public Accountants
Private Companies Practice Section

INDEPENDENT AUDITORS' REPORT

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

I have audited the accompanying financial statements of the governmental activities of El Paso County Emergency Services District #2 (the District), as of and for the year ended September 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of El Paso County Emergency Services District #2's management. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the El Paso County Emergency Services District #2, as of September 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 28, 2013, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

(Continued)

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 1 through 9 and 38 through 40, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

El Paso, Texas
May 28, 2013

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

STATEMENT OF NET ASSETS

September 30, 2012

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 2,076,065
Taxes receivable	851,593
Capital assets, net of accumulated depreciation	18,291,130
Other assets	<u>1,250</u>
Total assets	<u>21,220,038</u>
<u>LIABILITIES</u>	
Payroll taxes payable	6,353
Accrued interest	418,487
Long-term liabilities:	
Due within one year	1,303,730
Due after one year	<u>13,812,216</u>
Total liabilities	<u>15,540,786</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	3,175,184
Unrestricted	<u>2,504,068</u>
Total net assets	<u>\$ 5,679,252</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

BALANCE SHEET - GOVERNMENTAL FUNDS

September 30, 2012

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$2,076,065
Taxes receivable	851,593
Other assets	<u>1,250</u>
Total assets	<u>2,928,908</u>
<u>LIABILITIES AND FUND BALANCE</u>	
Liabilities:	
Payroll taxes payable	6,353
Deferred revenue	<u>662,608</u>
Total liabilities	<u>668,961</u>
Fund balances:	
Unreserved	<u>2,259,947</u>
Total liabilities and fund balances	<u>\$2,928,908</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

September 30, 2012

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

Total fund balances of governmental funds in the balance sheet	\$ 2,259,947
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:	
Governmental capital assets	31,291,458
Less accumulated depreciation	<u>(13,000,328)</u>
	<u>18,291,130</u>
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Accrued interest	(418,487)
Capital leases	(15,115,946)
Deferred revenue	<u>662,608</u>
	<u>(14,871,825)</u>
NET ASSETS, GOVERNMENTAL ACTIVITIES	<u>\$ 5,679,252</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended September 30, 2012

	<u>General Fund</u>
REVENUES:	
Taxes	\$ 4,965,639
Interest earnings	2,407
Inspection revenue	55,179
Sale of assets	<u>3,500</u>
Total revenues	<u>5,026,725</u>
EXPENDITURES:	
Current:	
Public safety	2,512,558
Capital outlay	2,761,601
Debt service:	
Principal	1,134,404
Interest	<u>785,530</u>
Total expenditures	<u>7,194,093</u>
Net expenditures over revenues before other financing sources	<u>(2,167,368)</u>
OTHER FINANCING SOURCES:	
Proceeds from new capital leases	<u>2,170,368</u>
Total other financing sources	<u>2,170,368</u>
Net change in fund balance	3,000
FUND BALANCE AT BEGINNING OF YEAR	<u>2,256,946</u>
FUND BALANCE AT END OF YEAR	<u>\$ 2,259,946</u>

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

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

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

For the Year Ended September 30, 2012

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

Net change in fund balance - total governmental funds	\$ 3,000
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives:	
Expenditure for capital assets	2,761,601
Less current year provision for depreciation	(2,232,855)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,134,404
Proceeds from new capital leases are reported as other financial sources in the governmental funds, but the proceeds are reported as liabilities in the statement of net assets.	(2,170,368)
Property taxes are reported as income in the governmental funds on the modified accrual basis, but are reported as income in the statement of net assets on the full accrual basis.	32,653
Interest expense is reported as an expense in the governmental funds on the modified accrual basis, but is reported as an expense in the statement of net assets on the full accrual basis.	<u>14,438</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (457,127)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO THE FINANCIAL STATEMENTS

ORGANIZATION AND OPERATIONS

El Paso County Emergency Services District #2 (the District) was created for the purpose of saving lives, the protection of property endangered by fires and other emergencies, and to promote the teaching and practices of fire and accident prevention. The District is a taxing entity and is a political subdivision of the State of Texas. The District was formed as provided by Article III, Section 48-e of the Texas Constitution. The District is administered by a Board of Commissioners (Commissioners), appointed by the Commissioners of the County of El Paso, Texas, that acts as the authoritative and legislative body of the entity.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 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. Major individual governmental funds are reported as separate columns in the fund financial statements. 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 #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The District reports the following major governmental fund:

General Fund – 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 #2

**NOTES TO THE 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.

Property Tax Calendar – The District is responsible for the assessment, collection, and apportionment of property taxes. The Board of Commissioners levies property taxes on September 1. The certified tax roll from the El Paso Central Appraisal District reflected a taxable value of \$2,707,829,870 for the year ended September 30, 2012. Taxes are due upon receipt of the tax bill and are delinquent if not paid by January 31, of the year following in which levied. On January 1, of each year, a tax lien attaches to property to secure the payment of tax revenues, penalties and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable in the current period. The District's 2011-2012 tax rate was \$.100, per \$100 of assessed valuation. The District incurred expenditures of \$55,180 for the services provided by El Paso Central Appraisal District for the year ended September 30, 2012.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets – Capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

All capital assets are recorded at cost (or estimated historical cost) if purchased or constructed and updated for additions and retirements during the year. Donated capital assets are recorded at estimated fair market value at the date of the donation. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

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

Buildings and improvements	40 years
Transportation equipment	5-10 years
Equipment	5-10 years

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

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

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

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE 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.

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

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.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE 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.

At year-end, the carrying amount of the District's deposit was \$2,076,065.

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.

Cash consists of the following at September 30, 2012:

	<u>Investment Category</u>	
Cash in bank	1	<u>\$2,076,065</u>

Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of September 30, 2012, none of the District's bank balance of \$2, 076,065 was exposed to custodial credit risk.

CAPITAL ASSETS

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

	<u>Balance September 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2012</u>
Land and buildings	\$786,051	\$	\$	\$786,051
Construction in progress		250,000		250,000
Buildings and improvements	11,159,305	46,764		11,206,069
Transportation equipment	14,004,437	2,200,921		16,205,358
Other equipment	<u>2,580,065</u>	<u>263,916</u>	<u> </u>	<u>2,843,981</u>
Total at historic cost	<u>28,529,858</u>	<u>2,761,601</u>	<u> </u>	<u>31,291,459</u>
Less accumulated depreciation for:				
Buildings and improvements	2,246,820	280,152		2,526,972
Transportation equipment	7,272,154	1,615,233		8,887,387
Other equipment	<u>1,248,499</u>	<u>337,470</u>	<u> </u>	<u>1,585,969</u>
Total accumulated depreciation	<u>10,767,473</u>	<u>2,232,855</u>	<u> </u>	<u>13,000,328</u>
Governmental activities capital assets, net	<u>\$17,762,385</u>	<u>\$ 528,746</u>	<u>\$ </u>	<u>\$18,291,131</u>

Total provision for depreciation of \$2,232,855 was charged to public safety of the primary government.

DEFERRED REVENUE

Deferred revenue in the amount of \$662,608 at September 30, 2012, consisted of property tax revenue. Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Unearned revenues at the government-wide level arise only when the District receives resources before it has a legal claim to them.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT

Long-term debt of the governmental activities at September 30, 2012 consists of the following obligations under capital leases entered into for the acquisition of land and buildings, transportation equipment, and other equipment.

	Balance September 30, 2011	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2012
	_____	_____	_____	_____
Clint:				
Capital lease, Agreement No. 5019, dated October 14, 2008, payable to Southside Bank as agent for the lender, Government Capital Corp., \$350,000 original lease with interest at 5.597%, payable annually with twenty payments of \$28,619 including interest, secured by equipment.	\$ 308,743		\$ 11,340	\$ 297,403
Capital lease, Agreement No. 5177, dated February 17, 2009, payable to Southside Bank as agent for the lender, Government Capital Corp., \$206,406 original lease with interest at 5.797%, payable annually with fifteen payments of \$19,905 including interest, secured by equipment.	168,754		10,122	158,632
Capital lease, Agreement No. 5047, dated October 14, 2008, payable to Southside Bank as agent for the lender, Government Capital Corp., \$721,989 original lease with interest at 5.555%, payable annually with fifteen payments of \$69,997 including interest, secured by fire trucks.	601,427		36,587	564,840

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2011	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2012
	_____	_____	_____	_____
Clint (Continued):				
Capital lease, Agreement No. 5043, dated November 4, 2008, payable to Southside Bank as agent for the lender, Government Capital Corp., \$1,283,473 original lease with interest at 5.793%, payable annually with twenty payments of \$106,194 including interest, secured by land, a training facility tower, and a burn room annex.	1,129,372		40,769	1,088,603
Fabens:				
Capital lease, dated July 12, 2005, payable to Jefferson Bank as agent for the lender, CFR, Inc., \$618,577 original lease with interest at 5.890%, payable annually with ten payments of \$81,954 including interest, secured by vehicles.	284,696		65,185	219,511
Capital lease, dated June 12, 2007, payable to Ogletree Ltd. as agent for the lender, CFR, Inc., \$300,000 original lease with interest at 5.93%, payable annually with fifteen payments of \$30,349 including interest, secured by a vehicle.	240,230		16,106	224,124

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2011	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2012
	_____	_____	_____	_____
Fabens (Continued):				
Capital lease, dated June 12, 2007, payable to Community Bank as agent for the lender, CFR, Inc., \$300,000 original lease with interest at 5.93%, payable annually with fifteen payments of \$30,349 including interest, secured by a vehicle.	240,230		16,106	224,124
Capital lease, dated June 12, 2007, payable to Community Bank as agent for the lender, CFR, Inc., \$253,181 original lease with interest at 5.93%, payable annually with fifteen payments of \$25,613 including interest, secured by vehicle and equipment.	202,740		13,593	189,147
Capital lease, Agreement No. 5410, dated January 12, 2010, payable to Southside Bank as agent for the lender, Government Capital Corp., \$1,257,481 original lease with interest at 5.593%, payable annually with fifteen payments of \$120,526 including interest, secured by Fabens main fire station.	1,092,809		59,405	1,033,404

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2011	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2012
	_____	_____	_____	_____
Montana Vista				
Capital lease, Agreement No. 5015, dated August 5, 2008, payable to Southside Bank as agent for the lender, Government Capital Corp., \$111,176 original lease with interest at 5.528%, payable annually with ten payments of \$14,472 including interest, secured by equipment.	82,165		9,931	72,234
Capital lease, Agreement No. 5044, dated January 13, 2009, payable to Southside Bank as agent for the lender, Government Capital Corp., \$940,201 original lease with interest at 4.75%, payable annually with twenty payments of \$71,072 including interest, secured by land.	816,441		32,291	784,150
Capital lease, Agreement No. 5045, dated January 13, 2009, payable to Southside Bank as agent for the lender, Government Capital Corp., \$1,507,216 original lease with interest at 5.555%, payable annually with fifteen payments of \$144,119 including interest, secured by pumpers, tankers, vehicles and equipment.	1,238,305		75,332	1,162,973

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2011	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2012
	_____	_____	_____	_____
Montana Vista (Continued):				
Capital lease, Agreement No. 5444, dated March 17, 2010, payable to 1 st Financial as agent for the lender, Government Capital Corp., \$200,000 original lease with interest at 5.525%, payable annually with five payments of \$46,887 including interest, secured by vehicles.	164,254		37,813	126,441
Capital lease dated July 27, 2012 payable to Branch Banking and Trust Company, \$1,360,000 original lease with interest at 2.33%. This lease was divided into three amounts with the total principal of this lease at \$302,453 payable annually in ten payments of \$34,008 including interest, secured by a Pierce Chassis.		302,453		302,453
San Elizario:				
Capital lease, dated September 10, 2002, payable to Marquette Bank as agent for CFR Inc., \$800,000 original lease with interest at 4.855%, payable annually with four payments of \$99,988 and one payment of \$84,558, and six payments of \$84,326 including interest, secured by land and fire station.	80,421		80,421	-

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2011	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2012
	_____	_____	_____	_____
San Elizario (Continued)				
Capital lease, dated April 12, 2005, payable to Jefferson Bank as agent for the lender, CFR Inc., \$698,398 original lease with interest at 5.96%, payable annually with ten payments of \$93,719 including interest, secured by two rescue pumpers.	325,043		74,346	250,697
Capital lease, Agreement No. 5438, dated June 8, 2010, payable to Southside Bank as agent for the lender, Government Capital Corp., \$1,585,600 original lease with interest at 5.731%, payable annually with fifteen payments of \$158,468 including interest, secured by fire station.	1,497,809		72,629	1,425,180
Capital lease, Agreement No. 5604, dated November 9, 2010, payable to Bank & Trust as agent for the lender, Government Capital Corp., \$ 300,000 original lease with interest at 4.402%, payable annually with five payments of \$66,284 including interest, secured by fire truck.	238,339		55,791	182,548

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2011	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2012
	_____	_____	_____	_____
San Elizario (Continued)				
Capital lease dated July 27, 2012 payable to Branch Banking and Trust Company, \$1,360,000 original lease with interest at 2.33%. This lease was divided into three amounts with the total principal of this lease at \$571,248 payable annually in ten payments of \$64,232 including interest, secured by a Pumper.		571,248		571,248
Socorro:				
Capital lease, Agreement No. 5020, dated October 14, 2008, payable to Southside Bank as agent for the lender, Government Capital Corporation, \$250,000 original lease with interest at 5.5890%, payable annually with fifteen payments of \$24,288 including interest, secured by equipment.	208,292		12,646	195,646
Capital lease, Agreement No. 5325, dated October 13, 2009, payable to Southside Bank as agent for the lender, Government Capital Corp., \$749,870 original lease with interest at 5.755%, payable annually with ten payments of \$97,553 including interest, secured by a fire truck and vehicle.	611,701		62,350	549,351

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2011	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2012
	_____	_____	_____	_____
Socorro (Continued)				
Capital lease, Agreement No. 5313, dated October 13, 2009, payable to Southside Bank as agent for the lender, Government Capital Corp., \$1,635,784 original lease with interest at 5.755%, payable annually with twenty payments of \$135,414 including interest, secured by fire station.	1,493,607		49,462	1,444,145
Capital lease, Agreement No. 5473, dated April 13, 2010, payable to 1 st Financial as agent for the lender, Government Capital Corp., \$433,835 original lease with interest at 5.226%, payable annually with ten payments of \$56,613 including interest, secured by a pumper, tanker, and misc. equipment.	398,382		35,795	362,587
Capital lease dated February 9, 2012 payable to Sun Trust Bank as agent for the lender, Leasing 2, Inc., \$810,368 original lease with interest at 2.78%, payable annually in ten payments of \$93,760 including interest, secured by a Rosenbauer Quint Platform.		810,368		810,368

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2011	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2012
	_____	_____	_____	_____
Socorro (Continued)				
Capital lease dated July 27, 2012 payable to Branch Banking and Trust Company, \$1,360,000 original lease with interest at 2.33%. This lease was divided into three amounts with the total principal of this lease at \$486,299 payable annually in ten payments of \$54,680 including interest, secured by a building.		486,299		486,299
West Valley:				
Capital lease, dated August 3, 2004, payable to Bank of the West as agent for the lender, CFR, Inc., \$1,235,000 original lease with interest at 5.413%, payable annually with ten payments of \$158,110 including interest, secured by trucks and vehicle.	427,264		134,983	292,281
Capital lease, Agreement No. 5018, dated September 23, 2008, payable to Southside Bank as agent for the lender, Government Capital Corporation, \$300,000 original lease with interest at 5.392%, payable annually with fifteen payments of \$29,016 including interest, secured by tanker.	251,581		15,450	236,131

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2011	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2012
	_____	_____	_____	_____
West Valley (Continued):				
Capital lease, Agreement No. 5016, dated September 23, 2008, payable to Southside Bank as agent for the lender, Government Capital Corporation, \$375,000 original lease with interest at 5.382% payable annually with twenty payments of \$30,385 including interest, secured by a Pumper truck and equipment.	333,001		12,464	320,537
Capital lease, Agreement No. 5408, dated January 12, 2010, payable to Southside Bank as agent for the lender, Government Capital Corp., \$1,318,751 original lease with interest at 5.593%, payable annually with fifteen payments of \$126,399 including interest, secured by fire station, training facility and substation.	1,146,055		62,300	1,083,755
Capital lease, Agreement No. 5514, dated July 13, 2010, payable to Happy Bank as agent for the lender, Government Capital Corp., \$100,000 original lease with interest at 5.895%, payable annually with five payments of \$23,251 including interest, secured by a vehicle.	80,760		18,490	62,270

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LONG-TERM DEBT (Continued)

	Balance September 30, 2011	Additions	Payments/ Retirements/ Refinanced	Balance September 30, 2012
	_____	_____	_____	_____
Tornillo:				
Capital lease, Agreement No. 5411, dated January 12, 2010, payable to Southside Bank as agent for the lender, Government Capital Corp., \$480,479 original lease with interest at 5.593%, payable annually with fifteen payments of \$46,053 including interest, secured by Tornillo fire station.	417,559	_____	22,698	394,861
	<u>\$14,079,980</u>	<u>\$2,170,368</u>	<u>\$1,134,405</u>	<u>\$15,115,943</u>

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

<u>Year Ending September 30:</u>	<u>Amount</u>
2013	\$ 1,303,730
2014	1,373,089
2015	1,285,258
2016	1,038,656
2017	1,090,371
Thereafter	<u>9,024,839</u>
	<u>\$15,115,943</u>

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

LEASES

Capital leases

The District has entered into certain capital lease agreements under which the related equipment will become the property of the District when all the terms of the lease agreements are met. Such agreements are included with capital lease obligations.

The following presents future minimum lease payments as of September 30, 2012:

<u>Year Ending September 30:</u>	<u>Amount</u>
2013	\$ 1,303,730
2014	1,373,089
2015	1,285,258
2016	1,038,656
2017	1,090,371
Thereafter	<u>9,024,839</u>
	<u>\$15,115,943</u>

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

Operating lease

The District has entered into an operating lease agreement with DASB Investments, Ltd. dated August 6, 2012 for the rental of office space in Clint, Texas. The initial lease term is for a one year period beginning on August 6, 2012 and ending on August 5, 2013.

The annual amount of the rent is \$15,000. The rent expense for the current year amounted to \$2,333.

RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; damage to, and theft or destruction of assets; errors and omissions; injuries to volunteer firefighters and natural disaster, for which commercial insurance is carried. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amounts of loss can be reasonably estimated. During fiscal year ended 2012, the District contracted with the VFIS of Texas, Inc. for liability, property, and crime damage. Coverage's provided by the Company are as follows:

Business Auto Coverage Liability Combined (Each Accident)	\$1,000,000
Commercial General Liability (Per Occurrence)	\$1,000,000
Commercial Property (Building and Contents)	\$13,236,005

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)**

RISK MANAGEMENT (Continued)

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

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

COMMITMENTS AND CONTINGENCIES

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

(Continued)

REQUIRED SUPPLEMENTARY INFORMATION

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
For the Year Ended September 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary</u> <u>Basis</u>	
REVENUES:				
Taxes:				
Property taxes	\$2,691,628	\$2,691,628	\$ 2,760,235	\$ 68,607
Sales tax	2,500,000	2,500,000	2,205,404	(294,596)
Sale of assets			3,500	3,500
Inspection revenues	40,000	40,000	55,179	15,179
Interest earnings	<u>5,500</u>	<u>5,500</u>	<u>2,407</u>	<u>(3,093)</u>
Total revenues	<u>5,237,128</u>	<u>5,237,128</u>	<u>5,026,725</u>	<u>(210,403)</u>
EXPENDITURES:				
Public safety:				
Fire control and EMS:				
Administration and insurance	283,160	283,160	312,139	(28,979)
Building and grounds	130,000	130,000	191,243	(61,243)
Communication	190,000	190,000	173,411	16,589
Electric	85,000	85,000	87,109	(2,109)
Heat	35,000	35,000	30,605	4,395
Water	15,000	15,000	12,136	2,864
Equipment maintenance and repair	175,000	175,000	59,740	115,260
Equipment purchases	600,000	600,000	149,875	450,125
Vehicle maintenance	225,000	225,000	269,266	(44,266)
Fire-fighting supplies	15,000	15,000	23,753	(8,753)
Medical supplies	45,000	45,000	28,801	16,199
Fuel (Gasoline/Diesel)	225,000	225,000	187,331	37,669
Miscellaneous	10,000	10,000	23,818	(13,818)
Professional services	248,986	248,986	292,162	(43,176)
Salaries and benefits	135,000	135,000	239,494	(104,494)
Service contracts	150,000	150,000	150,000	-
Supplies	70,000	70,000	77,316	(7,316)
Training and travel	75,000	75,000	131,356	(56,356)
Uniforms and bunker gear	80,000	80,000	73,003	6,997
Capital outlay	300,000	300,000	2,761,601	(2,461,601)
Capital lease payments	1,919,934	1,919,934	1,134,404	785,530
Interest payments			<u>785,530</u>	<u>(785,530)</u>
Total expenditures	<u>5,012,080</u>	<u>5,012,080</u>	<u>7,194,093</u>	<u>(2,182,013)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>225,048</u>	<u>225,048</u>	<u>(2,167,368)</u>	<u>(2,392,416)</u>
OTHER FINANCING SOURCES:				
Proceeds from new capital leases			<u>2,170,368</u>	<u>2,170,368</u>
Total other financing sources			<u>2,170,368</u>	<u>2,170,368</u>
Excess (deficiency) of revenues and other financing sources over expenditures	<u>\$ 225,048</u>	<u>\$ 225,048</u>	<u>\$ 3,000</u>	<u>\$ (222,048)</u>

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

NOTES TO BUDGETARY COMPARISON SCHEDULE

BUDGET PROCESS AND CALENDAR

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

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

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

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

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

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

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

BUDGET PROCESS AND CALENDAR (Continued)

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

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

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

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

I have audited the financial statements of the governmental activities of El Paso County Emergency Services District #2 (the District), as of and for the year ended September 30, 2012, which collectively comprise the District's basic financial statements and have issued my report thereon dated May 28, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

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. I consider the deficiencies described in the accompanying schedule of findings to be material weaknesses.

The reference numbers referred to in the previous sentence are findings # 2012-1 through 2012-4, 2012-7 through 2012-10, and 2012-14.

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. I consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies. The reference numbers referred to in the previous sentence are findings # 2012-5 through 2012-6, and 2012-11 through 2012-13.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item #2012-10 and 2012-14.

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

El Paso, Texas
May 28, 2013

SCHEDULE OF FINDINGS

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS

Finding #2012-1 (Repeat finding from 2011)

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

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

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

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

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

Management's Response:

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS (CONTINUED)

Finding #2012-2 (Repeat finding from 2011)

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

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

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

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

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

Management's Response:

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**FINDINGS
(CONTINUED)**

Finding #2012-3 (Repeat finding from 2011)

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

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

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

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

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

Management's Response:

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**FINDINGS
(CONTINUED)**

Finding #2012-4 (Repeat finding from 2011)

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

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

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

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

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

Management's Response:

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**FINDINGS
(CONTINUED)**

Finding #2012-5

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

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

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

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

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

Management's Response:

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**FINDINGS
(CONTINUED)**

Finding #2012-6

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

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

Cause: Management and District personnel are paying individual's based on timesheets that are not complete.

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

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

Management's Response:

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**FINDINGS
(CONTINUED)**

Finding #2012-7 (Repeat finding from 2011)

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

Effect: The District reimbursed fuel purchases without proper documentation.

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

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

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

Management's Response:

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**FINDINGS
(CONTINUED)**

Finding #2012-8 (Repeat finding from 2011)

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

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

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

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

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

Management's Response:

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS (CONTINUED)

Finding #2012-9 (Repeat finding from 2011)

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

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

Criteria: The following contractual provisions were not complied with:

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

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

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

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

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

Management's Response:

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS (CONTINUED)

Finding #2012-10 (Repeat finding from 2011)

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

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

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

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

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**FINDINGS
(CONTINUED)**

Finding #2012-10 (Continued)

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

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

Management's Response:

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**FINDINGS
(CONTINUED)**

Finding #2012-11

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

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

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

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

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

Management's response:

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**FINDINGS
(CONTINUED)**

Finding #2012-12

Condition: Several invoices were not located for review.

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

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

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

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

Management's Response:

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**FINDINGS
(CONTINUED)**

Finding #2012-13

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

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

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

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

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

Management's Response:

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS (CONTINUED)

Finding #2012-14

Condition: Management of the District, after reviewing a special purpose engagement completed by the accounting firm of Schmid, Broaddus, Nugent, and Gano, P.C. , requested special purpose engagements of three of the individual Volunteer Fire Departments, the Montana Vista Volunteer Fire Department, the Fabens Volunteer Fire Department, and the West Valley Volunteer Fire Department. Their reports are summarized as follows:

Montana Vista Volunteer Fire Department

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

West Valley Volunteer Fire Department

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

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

FINDINGS (CONTINUED)

Finding #2012-14 (Continued)

Fabens Volunteer Fire Department

All initial findings were cleared by the accounting firm.

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

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

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

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

Management's Response:

(Continued)

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EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

SCHEDULE OF STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS

<u>Reference Number</u>	<u>Prior Year Findings and Questioned Costs</u>	<u>Status of Prior Year's Findings and Questioned Costs</u>
2011—1	Lack of written policies regarding vehicle usage and fuel consumption.	Written policies were implemented effective August 8, 2012, however the policy was not in effect until that date and the finding continued into fiscal year 2012. See finding 2012—1.
2011—2	Expense reimbursements were paid without proper approvals, justifications or reasons for purchases. Expenses were paid by personal credit cards. Reimbursements were made from copies or statements without original invoices attached. Shipping addresses on invoices were not the address of the Volunteer Fire Department.	Written policies were implemented effective August 8, 2012, however the policy was not in effect until that date and the finding continued into fiscal year 2012. See finding 2012—2.
2011—3	Travel, training and meal reimbursement requests lacked sufficient documentation or proper justifications. There were no uniform procedures in place for travel and meals.	Written policies were implemented effective August 8, 2012, however the policy was not in effect until that date and the finding continued into fiscal year 2012. See finding 2012—3.
2011—4	Expense reimbursement requests indicated instances of improper classification of expenses. There is a lack of controls, checks and balances, uniformity when dealing with expenses, proper reimbursement, and usage of funds.	Written policies were implemented effective August 8, 2012, however the policy was not in effect at that date and the finding continued into fiscal year 2012. Training for Administrative Assistants at all Departments and at the District on an accounting system using "QuickBooks" began in January, 2013. The oversight and training for the District is ongoing. The training and oversight is being done by an accounting firm. See finding 2012—4.
2011—5	A questioned cost in the amount of \$1,213.80 for a trip to Las Vegas was reimbursed to the Clint Fire Department without proper support documentation.	This questioned cost has not been reimbursed by the Clint VFD to the District nor has any proper support documentation been provided to the District. The Chief of the Clint VFD claims that he provided documentation to the County Judge of El Paso County and to the auditor.

(Continued)

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EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**SCHEDULE OF STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

<u>Reference Number</u>	<u>Prior Year Findings and Questioned Costs</u>	<u>Status of Prior Year's Findings and Questioned Costs</u>
2011—6	A questioned cost in the amount of \$735.01 for a duplicate reimbursement of payroll taxes was made to the Clint Fire Department.	This questioned cost has not been reimbursed by the Clint VFD to the District.
2011—7	The San Elizario Volunteer Fire Department does not submit invoices for reimbursement on a timely basis and there is often no proof of payment or attached invoices. A reimbursement request for fuel for \$14,541.32 on August 23, 2011 had no detail attached and was paid from a statement balance.	Written policies were implemented effective August 8, 2012, however the policy was not in effect until that date and the finding continued into fiscal year 2012. See finding 2012—7.
2011—8	In reviewing the bank statements and financial records of the Volunteer Fire Departments, the Departments do not have journals, check registers, ledgers or reports necessary to determine financial position or results of operations. Budgets do not exist at the Department level. There is no proof of reconciled bank statements. We were unable to locate copies of nonprofit tax returns (Form 990).	Written policies were implemented effective August 8, 2012, however the policy was not in effect until that date and the finding continued into fiscal year 2012. Forms 990 have been completed and filed for Clint VFD, Montana Vista VFD, and West Valley VFD. Socorro and San Elizario VFD's will have to reapply for their non-profit status. Fabens VFD has been extended because of unrelated business income associated with the rental of building space to parties that are not associated with the mission of the Fabens VFD. Training for Administrative Assistants at all Departments on an accounting system using "QuickBooks" began in January, 2013. The training and oversight is being done by an accounting firm. See finding 2012—8.

(Continued)

EL PASO COUNTY EMERGENCY SERVICES DISTRICT #2

**SCHEDULE OF STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS
(CONTINUED)**

<u>Reference Number</u>	<u>Prior Year Finding and/or Questioned Costs</u>	<u>Status of Prior Year's Finding and/or Questioned Costs</u>
2011—9	The Volunteer Fire Departments did not comply with certain financial reporting obligations contained in the contract between the District and the Departments.	Written policies were implemented effective August 8, 2012, however the policy was not in effect until that date and the finding continued into fiscal year 2012. Training for Administrative Assistants at all Departments and at the District on an accounting system using "QuickBooks" began in January, 2013. The oversight and training for the District is ongoing. The training and oversight is being done by an accounting firm. See finding 2012—9.
2011—10	The District reimbursed the San Elizario Volunteer Fire Department without sufficient supporting documentation, paid for amounts submitted as statements, and paid for duplicate amounts.	Written policies were implemented effective August 8, 2012, however the policy was not in effect until that date and the finding continued into fiscal year 2012. See finding 2012—10.
2011—11	The sale of excess vehicles were not advertised to the taxpaying public and provided benefits to individuals other than to the taxpayers at large.	Written policies were implemented effective August 8, 2012, however the policy was not in effect until that date and the finding continued into fiscal year 2012. During fiscal year 2012, two vehicles were sold to individuals other than to the taxpaying public, but those individuals reimbursed the District for the original sales price and returned the vehicles to the District.