

EL PASO COUNTY WATER IMPROVEMENT DISTRICT NO. 1

FINANCIAL STATEMENTS

AUGUST 31, 2014

El Paso County Water Improvement District No. 1  
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August 31, 2014

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
El Paso County Water Improvement District No. 1  
Clint, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the El Paso County Water Improvement District No. 1 (the District), a political subdivision of the State of Texas, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of August 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The management's discussion and analysis information is presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of

America. In our opinion, the financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing 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* in considering the District's internal control over financial reporting and compliance.

*Biplex + Co., L.L.P.*

El Paso, Texas  
October 24, 2014

El Paso County Water Improvement District No. 1  
Management's Discussion and Analysis (Unaudited)  
August 31, 2014

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The management of the El Paso County Water Improvement District No. 1 (the District), provides this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2014.

### **District Overview**

The District is a political subdivision of the State of Texas which was established under Article XVI, Section 59 of the Texas State Constitution. The District delivers surface water from the Rio Grande in El Paso County, Texas to water right lands in El Paso County and also assesses and collects taxes for the water right lands within its boundaries.

### **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 comprise two components: (1) the basic financial statements and (2) notes to the financial statements.

The basic financial statements – The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position shows the revenue sources, expense classifications, and reflect the change in net position for the fiscal year.

The Statement of Cash Flows reconciles the beginning and ending cash and cash equivalents, as well as demonstrates the sources and uses of funds received and expended.

Notes to the financial statements – The notes provide additional information that is essential for a full understanding of the data provided in the basic financial statements.

### **Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the fiscal year by \$22,022,111. Of this amount, \$6,952,720 may be used to meet the District's ongoing obligations.
- The District's total net position decreased by \$2,735,655 at the close of the fiscal year. This decrease is mainly due to the drought conditions which caused revenues to decrease, resulting in cash and investment funds being depleted to pay current year expenses.
- The District's ending total assets equaled \$22,730,589, which represents a decrease from the prior year of \$2,907,251.
- In 2014, the operating revenues decreased by \$869,510 due to the decrease in water use assessments, contract revenue, and administrative revenue.

El Paso County Water Improvement District No. 1  
Management's Discussion and Analysis (Unaudited)  
August 31, 2014

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**Financial Analysis**

The majority of the District's net position is invested in capital assets, including land, building, equipment, improvements, water delivery system, and other infrastructure. These assets are used to provide services to District users.

**Net Position**

|                            | <u>2014</u>          | <u>2013</u>          |
|----------------------------|----------------------|----------------------|
| Current and other assets   | \$ 7,661,198         | \$ 9,913,614         |
| Capital assets             | <u>15,069,391</u>    | <u>15,724,226</u>    |
| Total assets               | <u>22,730,589</u>    | <u>25,637,840</u>    |
| Current payables           | 73,001               | 52,889               |
| Current liabilities        | <u>635,477</u>       | <u>827,185</u>       |
| Total liabilities          | <u>708,478</u>       | <u>880,074</u>       |
| Net position:              |                      |                      |
| Invested in capital assets | 15,069,391           | 15,724,226           |
| Unrestricted               | <u>6,952,720</u>     | <u>9,033,540</u>     |
| Total net position         | \$ <u>22,022,111</u> | \$ <u>24,757,766</u> |

El Paso County Water Improvement District No. 1  
Management's Discussion and Analysis (Unaudited)  
August 31, 2014

**Changes in Net Position**

The following table provides a summary of the District's operations for the years ended August 31, 2014 and 2013.

|   | 2014                 | 2013                 |
|---|----------------------|----------------------|
| Operating revenues:                     |                      |                      |
| Land assessments                        | \$ 1,601,598         | \$ 1,344,658         |
| Water use assessments                   | 1,379,208            | 1,735,772            |
| Other assessments                       | 740,584              | 712,316              |
| Contract revenue                        | 397,705              | 1,570,391            |
| Licensing fees                          | 876,933              | 741,969              |
| Special projects                        | 85,000               | 9,307                |
| Administrative revenue                  | 69,314               | 53,840               |
| Reimbursement revenue                   | 220,215              | 71,814               |
| Total operating revenues                | <u>5,370,557</u>     | <u>6,240,067</u>     |
| Operating expenses:                     |                      |                      |
| Administrative                          | 270,483              | 263,206              |
| Contract, consultant and legal services | 628,750              | 643,459              |
| Employee allowances                     | 565,811              | 557,606              |
| Governmental fees                       | 208,851              | 272,387              |
| Insurance fees                          | 291,941              | 265,280              |
| Licensing/special projects              | 9,162                | 56,257               |
| Payroll expenses                        | 3,814,978            | 3,952,066            |
| Repair and maintenance                  | 1,186,216            | 1,458,776            |
| Reimbursable expenses                   | 165,287              | 48,567               |
| Depreciation                            | 1,002,519            | 1,144,883            |
| Total operating expenses                | <u>8,143,998</u>     | <u>8,662,487</u>     |
| Operating income (loss)                 | <u>(2,773,441)</u>   | <u>(2,422,420)</u>   |
| Non-operating revenues:                 |                      |                      |
| Investment interest                     | 33,998               | 47,621               |
| Gain on sale of assets                  | 3,788                | 37,080               |
| Total non operating revenues            | <u>37,786</u>        | <u>84,701</u>        |
| Change in net position                  | (2,735,655)          | (2,337,719)          |
| Net position, beginning of year         | <u>24,757,766</u>    | <u>27,095,485</u>    |
| Net position, end of year               | \$ <u>22,022,111</u> | \$ <u>24,757,766</u> |



El Paso County Water Improvement District No. 1  
Management's Discussion and Analysis (Unaudited)  
August 31, 2014

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**Capital Assets**

The District's capital assets as of August 31, 2014, amount to \$15,069,391 (net of accumulated depreciation). This amount includes land, building, infrastructure water system, vehicles and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

- Improvements to the Franklin feeder.
- Construction of a shed at the Alameda building.
- Purchases of vehicles and equipment for operations.

**Capital Assets at Year-end Net of Accumulated Depreciation**

|                                   | <u>2014</u>          | <u>2013</u>          |
|-----------------------------------|----------------------|----------------------|
| Capital assets at historical cost | \$ 32,437,192        | \$ 32,098,640        |
| Less: accumulated depreciation    | <u>(17,367,801)</u>  | <u>(16,374,414)</u>  |
| Total capital assets, net         | <u>\$ 15,069,391</u> | <u>\$ 15,724,226</u> |

**Economic Factors and Next Year's Budgets and Rates**

In the 2014-2015 budgets, revenues are expected to remain the same as this year. The District has been approved for grant revenue to be utilized within the next two years. In addition, the District has been approved to purchase additional vehicles and equipment. The District intends to continue certain projects in which supplies were previously purchased during the winter months to reduce water loss.

**Request for Information**

This financial report is designed to provide users and creditors with a general overview of the District's finances. If you have questions about this report or need additional information, contact El Paso County Water Improvement District No. 1, 13247 Alameda Ave., Clint, Texas 79836-0749.

El Paso County Water Improvement District No. 1  
Statement of Net Position  
August 31, 2014

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Assets

Current assets:

|  |                  |
|--|------------------|
| Cash   | \$ 2,299,371     |
| Certificates of deposit                                | 4,093,563        |
| Land assessments and water use assessments receivables | 58,714           |
| Other receivables                                      | 217,749          |
| Inventory  | 714,293          |
| Total current assets                                   | <u>7,383,690</u> |

Non-current assets:

|  |                |
|--|----------------|
| Land assessments and water use assessments receivables | <u>277,508</u> |
| Total non-current assets                               | <u>277,508</u> |

Capital Assets:

|   |                   |
|---|-------------------|
| Non-depreciable assets                              | 163,454           |
| Depreciable assets, net of accumulated depreciation | <u>14,905,937</u> |
| Total capital assets                                | <u>15,069,391</u> |

|              |                   |
|--------------|-------------------|
| Total assets | <u>22,730,589</u> |
|--------------|-------------------|

Liabilities

Current liabilities:

|                           |                |
|---------------------------|----------------|
| Accounts payable          | 73,001         |
| Accrued liabilities       | <u>635,477</u> |
| Total current liabilities | <u>708,478</u> |

Net position

|   |                      |
|---|----------------------|
| Invested in capital assets, net of related debt | 15,069,391           |
| Unrestricted                                    | <u>6,952,720</u>     |
| Total net position                              | <u>\$ 22,022,111</u> |

The accompanying notes are an integral part of this report.

El Paso County Water Improvement District No. 1  
Statement of Revenues, Expenses and Changes in Net Position  
Year Ended August 31, 2014

|   |                      |
|---|----------------------|
| Operating revenues:                     |                      |
| Land assessments                        | \$ 1,601,598         |
| Water use assessments                   | 1,379,208            |
| Other assessment fees                   | 740,584              |
| Licensing fees                          | 876,933              |
| Contract revenue                        | 397,705              |
| Administrative revenues                 | 69,314               |
| Special/capital projects                | 85,000               |
| Reimbursement revenues                  | 220,215              |
| Total operating revenues                | <u>5,370,557</u>     |
| Operating expenses:                     |                      |
| Administrative                          | 270,483              |
| Contract services                       | 21,023               |
| Consulting fees                         | 150,517              |
| Governmental fees                       | 208,851              |
| Insurance                               | 291,941              |
| Legal fees                              | 457,210              |
| Payroll expenses                        | 3,814,978            |
| Repairs, maintenance and fuel           | 402,902              |
| Equipment/vehicle maintenance           | 515,834              |
| Reimbursable expenses                   | 165,287              |
| Licensing                               | 9,162                |
| Employee allowances                     | 565,811              |
| Well maintenance                        | 267,480              |
| Depreciation                            | 1,002,519            |
| Total operating expenses                | <u>8,143,998</u>     |
| Operating income (loss)                 | <u>(2,773,441)</u>   |
| Non-operating revenues (expenses):      |                      |
| Investment interest                     | 33,998               |
| Gain/loss on sale of assets             | 3,788                |
| Total non-operating revenues (expenses) | <u>37,786</u>        |
| Change in net position                  | (2,735,655)          |
| Net position, beginning of year         | <u>24,757,766</u>    |
| Net position, end of year               | \$ <u>22,022,111</u> |

The accompanying notes are an integral part of this report.

El Paso County Water Improvement District No. 1  
Statement of Cash Flows  
Year Ended August 31, 2014

|  |                       |
|--|-----------------------|
| Cash flows from operating activities:  |                       |
| Receipts from water use and other fees   | \$ 6,013,189          |
| Payments to suppliers  | (3,366,274)           |
| Payments to employees  | (3,814,978)           |
| Net cash (used) by operating activities  | <u>(1,168,063)</u>    |
| Cash flows from capital and related financing activities:                                      |                       |
| Purchases of capital assets  | (347,684)             |
| Gain on sale of assets   | 3,788                 |
| Net cash used by capital and related financing activities                                      | <u>(343,896)</u>      |
| Cash flows from investing activities:  |                       |
| Investment in certificates of deposit  | 2,550,214             |
| Interest   | 33,998                |
| Net cash provided by investing activities  | <u>2,584,212</u>      |
| Net increase in cash and cash equivalents  | 1,072,253             |
| Balances - beginning of the year   | <u>1,227,118</u>      |
| Balances - end of the year   | \$ <u>2,299,371</u>   |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: |                       |
| Operating income (loss)  | \$ (2,773,440)        |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: |                       |
| Depreciation expense   | 1,002,519             |
| Change in assets and liabilities:  |                       |
| Receivables, delinquent water and service charges  | 642,632               |
| Inventories  | 131,822               |
| Accounts and other payables  | 19,529                |
| Accrued expenses   | 39,699                |
| Deferred revenues  | <u>(230,824)</u>      |
| Net cash provided (used) by operating activities   | \$ <u>(1,168,063)</u> |

The accompanying notes are an integral part of this report.

El Paso County Water Improvement District No. 1  
Notes to Financial Statements  
August 31, 2014

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Note 1: Summary of Significant Accounting Policies

Reporting entity

The El Paso County Water Improvement District No. 1 was established under Article XVI, Section 59 of the Texas State Constitution. The District administers delivery of irrigation waters to designated water right acres in El Paso County.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Measurement focus, basis of accounting and financial statement presentation

Principles of presentation: The District operates as a utility enterprise and the accompanying basic financial statements reflect the flow of economic resources measurement focus and the full accrual basis of accounting. Under full accrual accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of the timing of related cash flows.

The District is accounted for as an enterprise fund and applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in its accounting and reporting. In addition, the District follows Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

For purposes of the statements of cash flows, the District defines cash and cash equivalents as demand account balances, cash on hand, and non-negotiable time deposits. The District utilizes the direct method to present cash flows from operating activities.

Equity classifications: Net position is reported as (1) invested in capital assets net of related debt, and; (2) unrestricted.

Operating and non-operating revenues and expenses: Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to users for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Tax assessments and water use revenues are recognized in the year they are levied.

El Paso County Water Improvement District No. 1  
Notes to Financial Statements  
August 31, 2014

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Note 1: Summary of Significant Accounting Policies (continued)

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inventories

Inventory consists of pipes, supplies, and other items used in the District's construction projects and system maintenance. These inventories are valued at cost and are reported under the consumption method whereby inventory is expensed or capitalized (as a construction cost) when utilized.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the Statement of Net Position. The District capitalizes all expenditures for capital assets in excess of \$5,000 with a useful life of 3 years or more. Purchased capital assets are carried at historical cost or estimated historical cost. Donated assets are carried at the approximate fair value at the date of donation. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

|                                |                |
|--------------------------------|----------------|
| Buildings and improvements     | 15 to 30 years |
| Infrastructure water system    | 5 to 75 years  |
| Vehicles and heavy equipment   | 5 to 10 years  |
| Furniture and office equipment | 5 to 7 years   |
| Wells                          | 3 to 6 years   |

Compensated absences

Employees are allowed ten sick days per year. The District allows employees to relinquish and be paid for unused sick leave accumulated prior to September 1, 2003. Payments for accrued sick leave are made upon request of the employees; therefore, the amount to be paid over the next fiscal year cannot be determined.

Eligible full-time employees will be given vacation on the first of January prorated for length of continuous service with the District. After one year of service, employees will receive ten days of vacation. They will receive an additional day per year to a maximum of twenty days vacation.

El Paso County Water Improvement District No. 1  
Notes to Financial Statements  
August 31, 2014

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Note 1: Summary of Significant Accounting Policies (continued)

Activity related to accrued compensated absences is as follows:

|                            |                   |
|----------------------------|-------------------|
| Balance, September 1, 2013 | \$ 302,616        |
| Increase for current year  | 42,052            |
| Balance, August 31, 2014   | <u>\$ 344,668</u> |

Water rights taxes

Taxes are levied on November 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year and attach as an enforceable lien on property annually as of February 1. The District bills and collects water rights taxes. District water rights tax revenues and water delivery charges are recognized when levied.

Note 2: Cash and Investments

At August 31, 2014, the District's cash and certificates of deposit balances were as follows:

|                           |                     |
|---------------------------|---------------------|
| Checking account          | \$ 1,661,584        |
| Money Market              | 266,361             |
| Flexible Spending Account | 1,140               |
| Dewatering                | 368,586             |
| Petty cash                | <u>1,700</u>        |
| Total cash                | <u>\$ 2,299,371</u> |
| Certificates of deposit   | <u>\$ 4,093,563</u> |

According to the District's investment of public funds policy, the investment officer shall only invest in certificates of deposit. Any certificate of deposit acquired by the District shall be secured by (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies and instrumentalities; (c) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (d) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (e) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent.

El Paso County Water Improvement District No. 1  
Notes to Financial Statements  
August 31, 2014

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Note 3: Delinquent Land and Water Usage Assessments

Delinquent assessments are determined to be current based on the assessment being a year old or less. The balance of delinquent assessments is shown as noncurrent. An allowance for uncollectible delinquent assessments has not been established. The law states delinquent taxes are uncollectible after 20 years. This does not apply to the District because the District does not charge ad valorem taxes.

Note 4: Land, Water Usage, and Administrative Fees Assessment Rates

The land assessment rate assessed for the years 2013 and 2014 was \$25 per acre. The water usage rate assessed for the years 2013 and 2014 was \$20 per acre foot. The administrative fees (accounting service charge) assessed for the years 2013 and 2014 was \$12 per owner. The District consists of 69,010 irrigable acres of land.

Note 5: Other Receivables

|                                     |                   |
|-------------------------------------|-------------------|
| License fees                        | \$ 159,509        |
| Miscellaneous fees, service charges | <u>58,240</u>     |
|                                     | <u>\$ 217,749</u> |

Note 6: Pension Benefits

The District adopted an Internal Revenue Code Section 457 plan August 1, 2006. The District matches a discretionary percentage of employee compensation to a custodial account for each participating employee with at least 1 year of service. The discretionary percentage is determined annually by the Board of Directors. The accounts are self-directed by employees. Employees may contribute salary deferrals to the plan which do not exceed Internal Revenue Code guidelines. Employees are also covered by social security.

The District contributed \$110,753 to the plan for the 2013 calendar year.



El Paso County Water Improvement District No. 1  
Notes to Financial Statements  
August 31, 2014

Note 7: Summary of Changes in Capital Assets

|                                       | Balance<br>September 1,<br>2013 | Increases | Decreases | Balance<br>August 31,<br>2014 |
|---------------------------------------|---------------------------------|-----------|-----------|-------------------------------|
| Capital assets not being depreciated: |                                 |           |           |                               |
| Land                                  | \$ 163,454                      | -         | -         | 163,454                       |
| Total cost - non-depreciable          | \$ 163,454                      | -         | -         | 163,454                       |
| Depreciable assets:                   |                                 |           |           |                               |
| Buildings and improvements            | \$ 3,882,934                    | 11,824    | -         | 3,894,758                     |
| Furniture and office equipment        | 416,440                         | 5,407     | (2,332)   | 419,515                       |
| Vehicles and heavy equipment          | 6,542,413                       | 40,716    | (2,405)   | 6,580,724                     |
| Wells                                 | 2,245,421                       | -         | -         | 2,245,421                     |
| Machinery and equipment               | 1,054,435                       | 22,717    | (4,395)   | 1,072,757                     |
| Infrastructure - water system         | 17,793,543                      | 267,020   | -         | 18,060,563                    |
| Total cost - depreciable              | 31,935,186                      | 347,684   | (9,132)   | 32,273,738                    |
| Less: Accumulated depreciation for:   |                                 |           |           |                               |
| Building and improvements             | (752,750)                       | (171,882) | -         | (924,632)                     |
| Furniture and office equipment        | (381,546)                       | (21,339)  | -         | (402,885)                     |
| Vehicles and heavy equipment          | (6,082,741)                     | (252,944) | -         | (6,335,685)                   |
| Wells                                 | (2,217,231)                     | (7,619)   | -         | (2,224,850)                   |
| Machinery and equipment               | (943,314)                       | (59,315)  | -         | (1,002,629)                   |
| Infrastructure - water system         | (5,996,832)                     | (480,288) | -         | (6,477,120)                   |
| Total accumulated depreciation        | (16,374,414)                    | (993,387) | -         | (17,367,801)                  |
| Depreciable capital assets, net       | \$ 15,560,772                   | (645,703) | (9,132)   | 14,905,937                    |

El Paso County Water Improvement District No. 1  
Notes to Financial Statements  
August 31, 2014

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Note 8: Concentration of Credit Risk

District operations are conducted in El Paso County of Texas. Surface water for irrigation is gathered in lakes and reservoirs along the Rio Grande River in New Mexico. In the event of a drought in the area, water supplies would be below normal, which could materially affect the revenues of the District.

Financial instruments that potentially subject the District to concentrations of credit risk consist principally of temporary cash investments and accounts receivables. The District places its temporary cash investments with financial institutions and limits the amount of credit exposure to any one financial institution. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 and collateralized for amounts in excess of \$250,000. The remaining deposits of \$1,953,009 are collateralized with \$11,232,181 of securities held by the pledging financial institutions.

Concentrations of credit risk with respect to trade receivables are limited due to the large number of users comprising the District's user base and the District's ability to place a lien on the user's property. As of August 31, 2014, the District had no significant concentrations of credit risk.

Note 9: Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; business interruptions; errors and omissions, injuries to employees; and natural disasters for which the District carries commercial insurance for these risks of loss. Settled claims resulting from other risks of loss have not exceeded commercial insurance coverage in any of the past three fiscal years.

The District contracts with the Hartford Life Insurance to provide workers' compensation insurance.

Note 10: Contingencies

From time to time the District is subjected to various threatened or pending lawsuits, some of which relate to water right claims or to alleged contracts. Since the District is a political subdivision of the State of Texas, it is subject to the Texas Tort Claims Act. To the extent that claims are asserted against the District pursuant to the Texas Tort Claims Act, the District carries liability insurance. There are no material lawsuits in litigation at year end, in that any judgment for damages entered against the District in any such lawsuit would not impair the net position of the district.

El Paso County Water Improvement District No. 1  
Notes to Financial Statements  
August 31, 2014

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Note 11: Commitments and Subsequent Events

The District has entered into Contract #0-07-54-X0904 with the U. S. Department of the Interior Bureau of Reclamation under which the District pays the portion of the costs of operation and maintenance of the Rio Grande Project which is utilized for the benefit of the lands within the District. Expenses paid under this contract were \$76,665 for fiscal year 2014, and are expected to be \$98,269 for fiscal year 2015.

The District also pays a share of the cost for operating and maintaining Elephant Butte Dam and Reservoir for irrigation purposes. Expenses paid under this Contract #ILR-981 were \$99,324 for fiscal year 2014, and are expected to be \$124,523 for fiscal year 2015.

In April, 2001, the District signed an agreement with the City of El Paso (the City) and the El Paso Public Service Board (PSB) agreeing to sell up to 28,116 acre feet of water to the PSB for municipal and industrial use. The City and the PSB provide no less than 12,000 acre feet of usable sewage effluent in return. The City receives credit for the effluent at a rate of one-half of the price per acre-foot of District Water provided to the City. The price per acre-foot of water provided by the District was \$260 for the calendar year commencing January 1, 2013, and increases in the same proportions as any increases after January 1, 2014 in the Consumers Price Index-All Urban Consumers. The amount of water to be provided to the PSB will be reduced in any year in which the annual irrigation delivery allocation is less than 4.00 acre-feet per acre.

Subsequent events have been evaluated through October 24, 2014, which is the date the financial statements were available to be issued.

Note 12: Related Party Transactions

During the current fiscal year, the District had related party transactions with the Board of Directors. The Board members paid land and water usage assessments to the District for property they own in the District for irrigation water.

The Board members are charged the same rates for land and water usage as all other water users of the District.

Note 13: Economic Factors and Next Year's Budgets and Rates

In the 2014-2015 budgets, revenues are expected to remain the same as this year. The District has been approved for grant revenue to be utilized within the next two years. In addition, the District has been approved to purchase additional vehicles and equipment. The District intends to continue certain projects in which supplies were previously purchased during the winter months to reduce water loss.

El Paso County Water Improvement District No. 1  
Notes to Financial Statements  
August 31, 2014

Note 14: Allocation of Departmental Expenses

|                          | Administrative | Licensing/<br>Special<br>Projects | Maintenance | Operations | Totals    |
|--------------------------|----------------|-----------------------------------|-------------|------------|-----------|
| Administrative           | \$ 270,154     | -                                 | 329         | -          | 270,483   |
| Contract services        | 16,203         | -                                 | 4,820       | -          | 21,023    |
| Consultant fees          | 150,517        | -                                 | -           | -          | 150,517   |
| Governmental fees        | 208,851        | -                                 | -           | -          | 208,851   |
| Insurance fees           | 288,820        | -                                 | 825         | 2,296      | 291,941   |
| Legal fees               | 457,210        | -                                 | -           | -          | 457,210   |
| Payroll expenses         | 3,715,709      | -                                 | 35,786      | 63,483     | 3,814,978 |
| Repair and maintenance   | 1,662          | -                                 | 401,240     | -          | 402,902   |
| Equipment/vehicle maint. | 31,439         | -                                 | 484,395     | -          | 515,834   |
| Reimbursable expenses    | 165,287        | -                                 | -           | -          | 165,287   |
| Licensing                | 6,943          | 2,219                             | -           | -          | 9,162     |
| Employee allowances      | 564,832        | -                                 | 979         | -          | 565,811   |
| Well maintenance         | -              | -                                 | 267,480     | -          | 267,480   |
| Depreciation expense     | 1,002,519      | -                                 | -           | -          | 1,002,519 |
| Total expenses           | \$ 6,880,146   | 2,219                             | 1,195,854   | 65,779     | 8,143,998 |

Note 15: Financial Statement Presentation

Certain reclassifications have been made to the financial statement presentation to correspond to the current year's format. Total net position and net income are unchanged due to these reclassifications.

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

Board of Directors  
El Paso County Water Improvement District No. 1  
Clint, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of El Paso County Water Improvement District No. 1 (the District), as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 24, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Biplex + Co., L.L.P.*

El Paso, Texas  
October 24, 2014