

EL PASO COUNTY WATER IMPROVEMENT DISTRICT NO. 1

FINANCIAL STATEMENTS

OCTOBER 31, 2020

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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 October 31, 2020, 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 District'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 District'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 October 31, 2020, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2021, 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.

Bixler + Co., L.L.P.

El Paso, Texas
August 25, 2021

El Paso County Water Improvement District No. 1
Management's Discussion and Analysis (Unaudited)
October 31, 2020

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 October 31, 2020.

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 Change 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 \$28,838,849. Of this amount, \$20,183,290 may be used to meet the District's ongoing obligations.
- The District's total net position decreased by \$1,481,100 at the close of the fiscal year.
- In fiscal year 2019-2020, the operating revenues decreased by \$1,843,357 due to the decrease in water use assessments, contract revenue, and licensing revenue.

El Paso County Water Improvement District No. 1
Management's Discussion and Analysis (Unaudited)
October 31, 2020

Financial Analysis

The majority of the District's net position is invested in capital assets (excluding irrigation infrastructure), including land, building, equipment, improvements and wells. These assets are used to provide services to District users.

	Net Position	
	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 20,991,804	\$ 22,688,066
Capital assets	<u>8,655,559</u>	<u>8,598,963</u>
Total assets	<u>29,647,363</u>	<u>31,287,029</u>
Deferred outflows of resources, net	<u>261,169</u>	
Current payables	108,035	205,506
Current liabilities	<u>936,077</u>	<u>940,115</u>
Total liabilities	<u>1,044,112</u>	<u>1,145,621</u>
Deferred inflows of resources, net	<u>25,571</u>	
Net position:		
Invested in capital assets	8,655,559	8,598,963
Unrestricted	<u>20,183,290</u>	<u>21,542,445</u>
Total net position	<u>\$ 28,838,849</u>	<u>\$ 30,141,408</u>

El Paso County Water Improvement District No. 1
Management's Discussion and Analysis (Unaudited)
October 31, 2020

Changes in Net Position

The following table provides a summary of the District's operations for the years ended October 31, 2020 and 2019.

	2020	2019
Operating revenues:		
Land assessments	\$ 1,589,809	\$ 1,589,483
Water use assessments	1,903,773	3,781,680
Other assessments	860,123	784,489
Contract revenue	5,898,229	5,024,619
Licensing fees	1,278,820	3,067,978
Special projects	366,799	48,287
Administrative revenue	240,126	84,659
Reimbursement revenue	132,115	105,775
Other revenue	13	1,866
Total operating revenues	12,269,807	14,488,836
Operating expenses:		
Administrative	409,140	406,850
Contract, consultant and legal services	1,003,933	655,428
Employee allowances	961,842	1,150,982
Governmental fees	222,729	234,449
Insurance fees	274,955	268,887
Licensing/special projects	1,463,160	72,210
Payroll expenses	5,160,575	4,962,593
Repair/ maintenance and capital projects	2,913,718	2,231,702
Reimbursable expenses	294,479	148,531
Depreciation	1,505,468	1,377,506
Total operating expenses	14,209,999	11,509,138
Operating income (loss)	(1,940,192)	2,979,698
Non-operating revenues:		
Investment interest	467,205	93,388
Gain (loss) on sale of assets	(8,113)	18,510
Total non operating revenue	459,092	111,898
Change in net position	(1,481,100)	3,091,596
Net position, beginning of year	30,141,408	27,049,812
Prior period adjustment- pension plan	178,541	
Net position, end of year	\$ 28,838,849	\$ 30,141,408

El Paso County Water Improvement District No. 1
Management's Discussion and Analysis (Unaudited)
October 31, 2020

Capital Assets

The District's capital assets as of October 31, 2020, amount to \$8,655,559 (net of accumulated depreciation). This amount includes land, building, vehicles and machinery and equipment.

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

- Purchases of vehicles and equipment for operations.
- Improvements to infrastructure-water system assets.

Capital Assets at Year-end Net of Accumulated Depreciation

	<u>2020</u>	<u>2019</u>
Capital assets at historical cost	\$ 26,314,074	\$ 24,935,557
Less: accumulated depreciation	<u>(17,658,515)</u>	<u>(16,336,594)</u>
Total capital assets, net	<u>\$ 8,655,559</u>	<u>\$ 8,598,963</u>

The District has elected to report the water system infrastructure assets acquired after August 31, 2003. All water system infrastructure assets acquired before September 1, 2003, including canals and drains, are not included in the capital assets amounts. The District did not purchase or build such infrastructure thus has no cost information or appraisal. The board of directors estimates that the cost of rebuilding such infrastructure would be hundreds of millions of dollars.

Economic Factors and Next Year's Budgets and Rates

In the 2020-2021 budget, revenue is expected to be similar 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 approved by the board 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
October 31, 2020

Assets	
Current assets:	
Cash	\$ 1,225,885
Certificates of deposit	17,776,611
Land assessments and water use assessments receivables	79,861
Other receivables	313,008
Inventory	1,258,857
Total current assets	<u>20,654,222</u>
Non-current assets:	
Land assessments and water use assessments receivables	<u>337,582</u>
Total non-current assets	<u>337,582</u>
Capital Assets:	
Non-depreciable assets	163,454
Depreciable assets, net of accumulated depreciation	<u>8,492,105</u>
Total capital assets	<u>8,655,559</u>
Total assets	<u>29,647,363</u>
Deferred outflows of resources	
Pension plan	<u>261,169</u>
Total deferred outflows of resources	<u>261,169</u>
Total assets and deferred outflows of resources	<u>\$ 29,908,532</u>

The accompanying notes are an integral part of this report.

El Paso County Water Improvement District No. 1
Statement of Net Position (Continued)
October 31, 2020

Liabilities	
Current liabilities:	
Accounts payable	\$ 108,035
Accrued liabilities	936,077
Total current liabilities	<u>1,044,112</u>
Deferred inflows of resources	
Pension plan	<u>25,571</u>
Total deferred inflows of resources	<u>25,571</u>
Total liabilities and deferred inflows of resources	<u>1,069,683</u>
Net position	
Invested in capital assets, net of related debt	8,655,559
Unrestricted	<u>20,183,290</u>
Total net position	<u>\$ 28,838,849</u>

The accompanying notes are an integral part of this report.

El Paso County Water Improvement District No. 1
Statement of Revenues, Expenses and Change in Net Position
Year Ended October 31, 2020

Operating revenues:	
Land assessments	\$ 1,589,809
Water use assessments	1,903,773
Other assessment fees	860,123
Contract revenue	5,898,229
Licensing fees	1,278,820
Special projects	366,799
Administrative revenues	240,126
Reimbursement revenues	132,115
Other revenue	13
Total operating revenues	<u>12,269,807</u>
Operating expenses:	
Administrative	397,531
Contract services	11,609
Consulting fees	176,387
Governmental fees	222,729
Insurance	274,955
Legal fees	827,546
Payroll expenses	5,160,575
Repairs & maintenance	307,414
Equipment/vehicle maintenance	33,642
Reimbursable expenses	294,479
Licensing	1,463,160
Employee allowances	961,842
Capital Projects	2,572,046
Well maintenance & fuel	616
Depreciation	1,505,468
Total operating expenses	<u>14,209,999</u>
Operating income (loss)	<u>(1,940,192)</u>
Non-operating revenues (expenses):	
Investment interest	467,205
Gain/loss on sale of assets	(8,113)
Total non-operating revenues (expenses)	<u>459,092</u>
Change in net position	(1,481,100)
Net position, beginning of year	30,141,408
Prior period adjustment- pension plan	178,541
Net position, end of year	<u>\$ 28,838,849</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 October 31, 2020

Cash flows from operating activities:	
Receipts from water use and other fees	\$ 12,138,830
Payments to suppliers	(7,807,862)
Payments to employees	(5,160,575)
Net cash (used) by operating activities	<u>(829,607)</u>
Cash flows from capital and related financing activities:	
Reduction of Prior Year Pension Expense	(57,058)
Purchases of capital assets	(1,562,063)
Gain on sale of assets	(8,113)
Net cash used by capital and related financing activities	<u>(1,627,234)</u>
Cash flows from investing activities:	
Investment in certificates of deposit	407,075
Interest	467,205
Net cash provided by investing activities	<u>874,280</u>
Net increase in cash and cash equivalents	(1,582,561)
Balances - beginning of the year	<u>2,808,446</u>
Balances - end of the year	<u>\$ 1,225,885</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (1,940,192)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	1,505,468
Change in assets and liabilities:	
Receivables, delinquent water and service charges	(130,963)
Inventories	(162,410)
Accounts and other payables	(93,793)
Accrued expenses	60,149
Deferred revenues	<u>(67,866)</u>
Net cash provided (used) by operating activities	<u>\$ (829,607)</u>

The accompanying notes are an integral part of this report.

El Paso County Water Improvement District No. 1
Notes to Financial Statements
October 31, 2020

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 water improvement district 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 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. 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
October 31, 2020

Note 1: Summary of Significant Accounting Policies (continued)

Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (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
Vehicles and heavy equipment	5 to 10 years
Furniture and office equipment	5 to 7 years
Wells	3 to 6 years

Accounting principles generally accepted in the United States of America require that infrastructure assets be capitalized and depreciated, which would increase the net assets, net position, and expenses of the District. The Board has decided to remove the infrastructure - water system prior to 2003 from the financial statements, including depreciation expense on those assets.

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.

El Paso County Water Improvement District No. 1
Notes to Financial Statements
October 31, 2020

Note 1: Summary of Significant Accounting Policies (continued)

Compensated absences (continued)

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.

Activity related to accrued compensated absences is as follows:

Balance, November 1, 2019		\$	273,379
Increase (Decrease) for current year			23,360
Balance, October 31, 2020		\$	<u>296,739</u>

Taxes on irrigable land

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 October 31, 2020, the District's cash and certificates of deposit balances were as follows:

Checking account		\$	917,195
Money market			270,775
Flexible spending account			0
Dewatering			35,615
Petty cash			<u>2,300</u>
 Total cash		 \$	 <u>1,225,885</u>
 Certificates of deposit		 \$	 <u>17,776,611</u>

According to the District's investment of public funds policy, the investment officer shall invest in Broad approve investments. Any certificate of deposit acquired by the District shall be

El Paso County Water Improvement District No. 1
Notes to Financial Statements
October 31, 2020

Note 2: Cash and Investments (continued)

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.

Note 3: Land and Water Usage Assessments

Assessments that are a year or less old are included in current land assessments and water use assessments receivables. Assessments older than a year are included in noncurrent land assessments and water use assessments receivables. 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 2019-2020 and 2018-2019 was \$25 per acre. The water delivery rate assessed for the years 2019-2020 and 2018-2019 was \$20 per acre foot. The administrative fees (accounting service charge) assessed for the years 2019-2020 and 2018-2019 was \$12 per owner. The District consists of 69,010 irrigable acres of land.

Note 5: Pension Benefits

The District participates in the Texas County & District Retirement System (TCDRS) which covers substantially all full- and part-time non-temporary employees. TCDRS is a statewide, agent multiple-employer, public employee retirement system that provides retirement, disability and survivor benefits.

A. A brief description of the benefit terms:

1. All full- and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.
2. The plan provides retirement, disability and survivor benefits.

El Paso County Water Improvement District No. 1
Notes to Financial Statements
October 31, 2020

Note 5: Pension Benefits (continued)

3. TCDRS is a savings-based plan. For the district's plan, 4% of each employee's pay is deposited into his or her TCDRS account. By law, employee accounts earn 7% interest on beginning of year balances annually. At retirement, the account is matched at an employer set percentage (current match is 150%) and is then converted to an annuity.
4. There are no automatic COLAs. Each year, the district may elect an ad hoc COLA for its retirees (if any). There are two COLA types, each limited by actual inflation.
5. Benefit terms are established under the TCDRS Act. They may be amended as of January 1 each year, but must remain in conformity with the Act.

B. Membership information is shown in the chart below.

C. The District's contribution rate is calculated annually on an actuarial basis, although the employer may elect to contribute at a higher rate. The District's contribution rate is based on the TCDRS funding policy adopted by the TCDRS Board of Trustees and must conform with the TCDRS Act. The employee contribution rates are set by the district and are currently 4%. Contributions to the pension plan from the district for 2018 are shown in the Schedule of Employer Contributions.

D. The most recent comprehensive annual financial report for TCDRS can be found at the following link, www.tcdrs.org.

Membership Information

Member	Dec. 31, 2018	Dec. 31, 2019
Number of inactive employees entitled to but not yet receiving benefits:	0	3
Number of active employees:	103	116
Average monthly salary*:	\$4,473	\$3,773
Average age*:	45.13	44.46
Average length of service in years*:	0.55	12.60

Inactive Employees (or their Beneficiaries) Receiving Benefits

Number of benefit recipients:	0	0
Average monthly benefit:	\$0	\$0

**Averages reported for active employees.*

El Paso County Water Improvement District No. 1
Notes to Financial Statements
October 31, 2020

Note 5: Pension Benefits (continued)

The District's net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions – All actuarial assumptions that determined the total pension liability as of December 31, 2019 were based on the results of an actuarial experience study for the period January 1, 2013 - December 31, 2016, except where required to be different by GASB 68.

Economic Assumptions - TCDRS system-wide economic assumptions:

Real rate of return	5.25%
Inflation	2.75%
Long-term investment return	8.00%

The assumed long-term investment return of 8% is net after investment and administrative expenses. It is assumed returns will equal the nominal annual rate of 8% for calculating the actuarial accrued liability and the normal cost contribution rate for the retirement plan of each participating employer.

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.25% (made up of 2.75% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.6% per year for a career employee.

Employer-specific economic assumptions:

Growth in membership	0.00%
Payroll growth for funding calculations	2.00%

Discount Rate – The discount rate is the single rate of return that, when applied to all projected benefit payments results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term rate of return, calculated using the long-term expected rate of return on pension plan investments.

El Paso County Water Improvement District No. 1
Notes to Financial Statements
October 31, 2020

Note 5: Pension Benefits (continued)

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

Therefore, if plan investments in a given future year are greater than projected benefit payments in that year and are invested such that they are expected to earn the long-term rate of return, the discount rate applied to projected benefit payments in that year should be the long-term expected rate of return on plan investments. If future years exist where this is not the case, then an index rate reflecting the yield on a 20-year, tax-exempt municipal bond should be used to discount the projected benefit payments for those years. The discount rate used is 8.1%.

Changers in Net Pension Liability/(Asset)

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability (Asset)
Balances as of December 31, 2018	\$ 61,015	\$ 71,014	\$ 9,998
Service Cost	357,733	-	357,733
Interest on Total Pension Liability	33,919	-	33,919
Effect of Plan Changes	-	-	-
Effect of Economic/Demographic Gains or Losses	36,018	-	36,018
Effect of Assumptions Changes or Inputs	-	-	-
Refund of Contributions	-	-	-
Benefit Payments	-	-	-
Administrative Expenses	-	(356)	356
Member Contributions	-	200,901	(200,901)
Net Investment Income	-	11,284	(11,284)
Employer Contributions	-	171,268	(171,268)
Other	-	12,807	(12,807)
Balances as of December 31, 2019	<u>\$ 488,685</u>	<u>\$ 466,918</u>	<u>\$ 21,767</u>

Sensitivity Analysis – The following presents the net pension liability calculated using the discount rate of 8.10%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.10%) or 1 percentage point higher (9.10%) than the current rate.

El Paso County Water Improvement District No. 1
Notes to Financial Statements
October 31, 2020

Note 5: Pension Benefits (continued)

Pension Expense / (Income)

		1/1/2019- 12/31/2019
Service Cost	\$	357,733
Interest on Total Pension Liability		33,919
Effect of Plan Changes		-
Administrative Expenses		356
Member Contributions		(200,901)
Expected Investment Return (Net)		(21,026)
Recognition of Deferrer Inflows/Outflows of Resources		-
Recognition of Economic/Demographic Gains or Losses		3,058
Recognition of Assumption changes or Inputs		-
Recognition of Investment Gains or Losses		2,353
Other		(12,807)
Pension expense / (income)	\$	<u>162,685</u>

As of December 31, 2019, the Deferred Inflows and Outflows of Resources are as follows:

		Deferred Inflows		Deferred Outflows
Differences between expected and actual experience	\$	3,804	\$	32,416
Changes of assumptions		-		-
Net difference between projected and actual earnings		-		9,011
Contributions made subsequent to measurement date		-		219,742

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

Year ended December 31:	
2020	\$ 5,411
2021	5,411
2022	5,413
2023	5,008
2024	3,058
Thereafter	13,322

El Paso County Water Improvement District No. 1
Notes to Financial Statements
October 31, 2020

Note 6: Summary of Changes in Capital Assets

	Balance November 1, 2019	Increases	Decreases	Balance October 31, 2020
Capital assets not being depreciated:				
Land	\$ 163,454			163,454
Total cost - non-depreciable	\$ 163,454			163,454
Depreciable assets:				
Buildings and improvements	\$ 3,967,855	20,393		3,988,248
Furniture and office equipment	464,823			464,823
Vehicles and heavy equipment	10,391,958	1,212,395	(198,638)	11,405,715
Wells	2,368,692			2,368,692
Machinery and equipment	1,292,203	10,178		1,302,381
Infrastructure - water system	6,286,572	334,189		6,620,761
Total cost - depreciable	24,772,103	1,577,155	(198,638)	26,150,620
Less: Accumulated depreciation for:				
Building and improvements	(1,711,727)	(162,466)		(1,874,193)
Furniture and office equipment	(434,696)	(9,519)		(444,215)
Vehicles and heavy equipment	(8,053,468)	(921,343)	183,547	(8,791,264)
Wells	(2,319,451)	(24,654)		(2,344,105)
Machinery and equipment	(1,148,504)	(45,039)		(1,193,543)
Infrastructure - water system	(2,668,748)	(342,447)		(3,011,195)
Total accumulated depreciation	(16,336,594)	(1,505,468)	183,547	(17,658,515)
Depreciable capital assets, net	\$ 8,598,963	71,687	(15,091)	8,655,559

The District has elected to report the water system infrastructure assets acquired after August 31, 2003. All water system infrastructure assets acquired before September 1, 2003, including canals and drains, are not included in the capital asset amounts.

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Note 7: 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 \$14,728,060 are collateralized with \$17,629,133 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 October 31, 2020, the District had no significant concentrations of credit risk.

Note 8: 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 Travelers to provide workers' compensation insurance.

Note 9: 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
October 31, 2020

Note 10: 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 \$61,885 for fiscal year 2020, and are expected to be \$88,230 for fiscal year 2021.

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 \$134,185 for fiscal year 2020, and are expected to be \$106,123 for fiscal year 2021.

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 August 25, 2021, which is the date the financial statements were available to be issued.

Note 11: 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 12: Economic Factors and Next Year's Budget and Rates

In the 2020-2021 budget, revenue is expected to reduce do to price decrease. 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 approved by the board during the winter months to reduce water loss.

El Paso County Water Improvement District No. 1
Notes to Financial Statements
October 31, 2020

Note 13: 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.

Note 14: Prior Period Adjustment

Due the District's adoption of a retirement plan with Texas County and District Retirement System in 2018-2019, the 2019-2020 beginning balance of Deferred Outflows of Resources had to be recorded as a prior period adjustment. This amounted to an increase in the beginning Net Position of the District's in the amount of \$178,541.

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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 October 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 25, 2021.

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.

Bittler + Co., L.L.P.

El Paso, Texas
August 25, 2021