

EL PASO COUNTY WATER IMPROVEMENT DISTRICT NO. 1

FINANCIAL STATEMENTS

OCTOBER 31, 2017

El Paso County Water Improvement District No. 1
Table of Contents
October 31, 2017

	Page
Independent Auditor's Report	1 - 3
Required Supplementary Information:	
Management's Discussion and Analysis (Unaudited)	4 - 7
Basic Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses, and Change in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11 - 18
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 <i>Government Auditing Standards</i>	19 - 20

1280 HAWKINS
SUITE 200
EL PASO, TEXAS 79925
(915) 593-1280
FAX (915) 594-8364



INDEPENDENT AUDITORS' 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, 2017, 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, 2017, and the respective changes in financial position for the fiscal 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 September 18, 2018, 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
September 18, 2018

El Paso County Water Improvement District No. 1
Management's Discussion and Analysis (Unaudited)
October 31, 2017

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, 2017.

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 at least \$24,624,489. Of this amount, \$15,529,768 may be used to meet the District's ongoing obligations.
- The District's total net position increased by \$6,299,654 at the close of the fiscal year.
- In fiscal year 2016-2017, the operating revenues increased by \$5,504,412 due to the increase in water use assessments, contract revenue, licensing revenue, and drain maintenance.

El Paso County Water Improvement District No. 1
Management's Discussion and Analysis (Unaudited)
October 31, 2017

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>2017</u>	<u>2016</u>
Current and other assets	\$ 16,465,973	\$ 10,833,020
Capital assets	<u>9,094,721</u>	<u>9,106,628</u>
Total assets	<u>25,560,694</u>	<u>19,939,648</u>
Current payables	66,697	89,439
Current liabilities	<u>869,508</u>	<u>1,525,374</u>
Total liabilities	<u>936,205</u>	<u>1,614,813</u>
Net position:		
Invested in capital assets	9,094,721	9,106,628
Unrestricted	<u>15,529,768</u>	<u>9,218,207</u>
Total net position	\$ <u>24,624,489</u>	\$ <u>18,324,835</u>

El Paso County Water Improvement District No. 1
Management's Discussion and Analysis (Unaudited)
October 31, 2017

Changes in Net Position

The following table provides a summary of the District's operations for the years ended October 31, 2017 and 2016.

	2017	2016
Operating revenues:		
Land assessments	\$ 2,376,464	\$ 1,599,639
Water use assessments	2,991,219	2,216,182
Other assessments	747,485	765,979
Contract revenue	2,748,168	4,192,834
Licensing fees	7,031,469	1,328,386
Special projects	27,513	172,487
Administrative revenue	77,821	86,092
Reimbursement revenue	71,742	205,870
Total operating revenues	<u>16,071,881</u>	<u>10,567,469</u>
Operating expenses:		
Administrative	391,446	381,613
Contract, consultant and legal services	730,133	713,653
Employee allowances	868,476	785,361
Governmental fees	245,180	201,756
Insurance fees	319,005	236,179
Licensing/special projects	164,813	26,190
Payroll expenses	4,977,254	4,568,451
Repair and maintenance	1,026,608	960,875
Reimbursable expenses	58,090	42,575
Depreciation	1,074,394	731,698
Total operating expenses	<u>9,855,399</u>	<u>8,648,351</u>
Operating income (loss)	<u>6,216,482</u>	<u>1,919,118</u>
Non-operating revenues:		
Investment interest	29,500	20,930
Gain on sale of assets	53,672	52,191
Total non operating revenue	<u>83,172</u>	<u>73,121</u>
Change in net position	6,299,654	1,992,239
Net position, beginning of year	<u>18,324,835</u>	<u>16,332,596</u>
Net position, end of year	\$ <u>24,624,489</u>	\$ <u>18,324,835</u>

El Paso County Water Improvement District No. 1
Management's Discussion and Analysis (Unaudited)
October 31, 2017

Capital Assets

The District's capital assets as of October 31, 2017, amount to \$9,094,721 (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>2017</u>	<u>2016</u>
Capital assets at historical cost	\$ 23,068,248	\$ 22,320,409
Less: accumulated depreciation	<u>(13,973,527)</u>	<u>(13,213,781)</u>
Total capital assets, net	\$ <u>9,094,721</u>	\$ <u>9,106,628</u>

Economic Factors and Next Year's Budgets and Rates

In the 2017-2018 budget, 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 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, 2017

Assets

Current assets:

Cash	\$ 6,590,897
Certificates of deposit	8,124,789
Land assessments and water use assessments receivables	48,385
Other receivables	596,119
Inventory	790,546
Total current assets	<u>16,150,736</u>

Non-current assets:

Land assessments and water use assessments receivables	<u>315,237</u>
Total non-current assets	<u>315,237</u>

Capital Assets:

Non-depreciable assets	163,454
Depreciable assets, net of accumulated depreciation	<u>8,931,267</u>
Total capital assets	<u>9,094,721</u>

Total assets	<u>25,560,694</u>
--------------	-------------------

Liabilities

Current liabilities:

Accounts payable	66,697
Accrued liabilities	<u>869,508</u>
Total current liabilities	<u>936,205</u>

Net position

Invested in capital assets, net of related debt	9,094,721
Unrestricted	<u>15,529,768</u>

Total net position	<u>\$ 24,624,489</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, 2017

Operating revenues:	
Land assessments	\$ 2,376,464
Water use assessments	2,991,219
Other assessment fees	747,485
Contract revenue	2,748,168
Licensing fees	7,031,469
Special projects	27,513
Administrative revenues	77,821
Reimbursement revenues	71,742
Total operating revenues	<u>16,071,881</u>
Operating expenses:	
Administrative	391,446
Contract services	20,065
Consulting fees	250,891
Governmental fees	245,180
Insurance	319,005
Legal fees	459,177
Payroll expenses	4,977,254
Repairs, maintenance and fuel	385,933
Equipment/vehicle maintenance	596,451
Reimbursable expenses	58,090
Licensing	14,200
Employee allowances	868,476
Capital Projects	150,613
Well maintenance	44,224
Depreciation	1,074,394
Total operating expenses	<u>9,855,399</u>
Operating income (loss)	<u>6,216,482</u>
Non-operating revenues (expenses):	
Investment interest	29,500
Gain/loss on sale of assets	53,672
Total non-operating revenues (expenses)	<u>83,172</u>
Change in net position	6,299,654
Net position, beginning of year	<u>18,324,835</u>
Net position, end of year	\$ <u>24,624,489</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, 2017

Cash flows from operating activities:	
Receipts from water use and other fees	\$ 18,436,251
Payments to suppliers	(4,491,563)
Payments to employees	(4,977,254)
Net cash (used) by operating activities	<u>8,967,434</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(1,062,487)
Gain on sale of assets	53,672
Net cash used by capital and related financing activities	<u>(1,008,815)</u>
Cash flows from investing activities:	
Investment in certificates of deposit	(2,492,358)
Interest	29,500
Net cash provided by investing activities	<u>(2,462,858)</u>
Net increase in cash and cash equivalents	5,495,761
Balances - beginning of the year	<u>1,095,136</u>
Balances - end of the year	\$ <u>6,590,897</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 6,216,483
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	1,074,394
Change in assets and liabilities:	
Receivables, delinquent water and service charges	2,364,367
Inventories	(9,202)
Accounts and other payables	(855,468)
Accrued expenses	58,617
Deferred revenues	<u>118,243</u>
Net cash provided (used) by operating activities	\$ <u>8,967,434</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, 2017

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, 2017

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
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, 2017

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, 2016	\$ 419,495
Increase for current year	15,687
Balance, October 31, 2017	<u>\$ 435,182</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, 2017, the District's cash and certificates of deposit balances were as follows:

Checking account	\$ 6,195,134
Money market	267,376
Flexible spending account	1,141
Dewatering	124,946
Petty cash	<u>2,300</u>
Total cash	<u>\$ 6,590,897</u>
Certificates of deposit	<u>\$ 8,124,789</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

El Paso County Water Improvement District No. 1
Notes to Financial Statements
October 31, 2017

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: 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 2017 and 2016 was \$25 per acre. The water usage rate assessed for the years 2017 and 2016 was \$20 per acre foot. The administrative fees (accounting service charge) assessed for the years 2017 and 2016 was \$12 per owner. The District consists of 69,010 irrigable acres of land.

Note 5: 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 \$149,248 to the plan for the 2016 calendar year.

El Paso County Water Improvement District No. 1
Notes to Financial Statements
October 31, 2017

Note 6: Summary of Changes in Capital Assets

	Balance November 1, 2016	Increases	Decreases	Balance October 31, 2017
Capital assets - non-depreciable:				
Land	\$ 163,454			163,454
Total cost - non-depreciable	\$ 163,454			163,454
Depreciable assets:				
Buildings and improvements	\$ 3,906,718	59,197		3,965,915
Furniture and office equipment	417,227	8,231		425,458
Vehicles and heavy equipment	8,465,878	655,314	(324,017)	8,797,175
Wells	2,368,692			2,368,692
Machinery and equipment	1,081,930	113,269		1,195,199
Infrastructure - water system	5,916,510	235,845		6,152,355
Total cost - depreciable	22,156,955	1,071,856	(324,017)	22,904,794
Less: Accumulated depreciation for:				
Building and improvements	(1,247,747)	(157,123)		(1,404,870)
Furniture and office equipment	(411,884)	(3,846)		(415,730)
Vehicles and heavy equipment	(6,615,080)	(517,429)	314,648	(6,817,861)
Wells	(2,241,425)	(28,717)		(2,270,142)
Machinery and equipment	(1,047,209)	(29,794)		(1,077,003)
Infrastructure - water system	(1,650,436)	(337,485)		(1,987,921)
Total accumulated depreciation	(13,213,781)	(1,074,394)	314,648	(13,973,527)
Depreciable capital assets, net	\$ 9,106,628	(2,538)	(9,369)	9,094,721

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. 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.

El Paso County Water Improvement District No. 1
Notes to Financial Statements
October 31, 2017

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 \$14,616,590 are collateralized with \$15,759,486 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, 2017, 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, 2017

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 \$131,732 for fiscal year 2017, and are expected to be \$102,000 for fiscal year 2018.

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 \$82,614 for fiscal year 2017, and are expected to be \$120,000 for fiscal year 2018.

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 September 18, 2018, 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 2017-2018 budget, 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 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, 2017

Note 13: Allocation of Departmental Expenses

		Licensing/ Special			
	Administrative	Projects	Maintenance	Operations	Totals
Administrative	\$ 386,990		3,211	1,245	391,446
Contract services	4,592		15,348	126	20,066
Consultant fees		250,891			250,891
Governmental fees	230,721	8,000	6,459		245,180
Insurance fees	285,869		13,589	19,546	319,004
Legal fees	459,177				459,177
Payroll expenses	4,054,067		375,786	547,401	4,977,254
Repair and maintenance	10,760	496	239,969	134,708	385,933
Equipment/vehicle maint.			561,911	34,540	596,451
Reimbursable expenses	250	57,840			58,090
Licensing		14,200			14,200
Employee allowances	868,476				868,476
Capital Projects	58,347	8,966	83,300		150,613
Well maintenance			44,224		44,224
Depreciation expense	1,074,394				1,074,394
Total expenses	\$ 7,433,643	340,393	1,343,797	737,566	9,855,399

Note 14: 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.

1280 HAWKINS
SUITE 200
EL PASO, TEXAS 79925
(915) 593-1280
FAX (915) 594-8364



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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 18, 2018.

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.

Bipfler + Co., L.L.P.

El Paso, Texas

September 18, 2018