

In the fall of 2014, the Public Service Board revamped its strategic plan to reflect changing conditions and identify and address new initiatives. The new strategic plan implemented the Balanced Scorecard method that includes a SWOT Analysis and integrated the mission, vision, core values, value propositions and tactical plans into one strategic plan for the Utility. The strategic plan was formalized with input from employees, management, board members and community stakeholders.

Budget process and controls - EPWU's fiscal year starts March 1 and runs to the last day of February. The combined operating and capital budget preparation process starts in August with sessions held by the PSB and management. In September, budget documents containing historical and current financial and statistical data are sent to all sections along with instructions on how to prepare the operating budget and identifying new initiatives. The capital budget is prepared in a similar fashion. Management reviews the operating and capital budgets and presents the recommended combined operating and capital budget to the Public Service Board over a series of public meetings. The PSB approves the combined annual operating and capital budget and updates to the Rules and Regulations in February, with an effective date of March 1.

The budget and the annual financial report are prepared using the accrual basis of accounting. Revenue is recognized as it is earned and expenses are recognized as goods or services are delivered. The operating budget is prepared at the object level. The object is the good or service for which the expenditure was made. Operating or capital budget line item transfers are done on a memorandum basis, submitted by the requesting manager to Finance. The transfer is subject to approval by management but does not need approval by the PSB. Only the PSB can approve emergency funding authorizations and amendments to the approved operating and capital budgets.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment with which the El Paso Water Utilities operates.

Local Economy - El Paso is currently the sixth largest city in Texas and the 19th largest city in the United States. El Paso County has an estimated population of over 850,000 people with another 1.4 million in El Paso's sister city of Juarez, Mexico. With a population of over 220,000 in Southern New Mexico, the Borderplex region constitutes the largest international border community in the world. With the expansion of Fort Bliss, an additional 200,000 new residents will live in the El Paso region by the year 2025.

The El Paso economy is slowly transitioning into new industries with less dependence on the traditional manufacturing and industrial sectors. According to Forbes Magazine, El Paso ranked among one of the best cities for income growth in the past five years and in that time, incomes for college graduates have steadily grown more than any other major metropolitan area. Pay has increased for educated El Pasoans who are taking advantage of increased job opportunities in the higher income earning areas in the public sector. Altogether, the El Paso economy gained 1,355 jobs during the year, representing an annual growth rate of 0.42% as the local economy continues to grow. As of the end of February 2015, El Paso's unemployment rate was at 5.4%.

The El Paso Tri-State region is the fifth largest manufacturing center in North America. Ciudad Juarez *maquilas* employ about a quarter of a million workers, representing 20 percent of the total *maquila* jobs in Mexico. Roughly 25 percent of Mexico's total production sharing output is manufactured in Cd. Juarez. The success of the *maquila* program has allowed the El Paso region to gain a globally competitive advantage in the manufacturing industry. Recent forecasts by the Federal Reserve Bank of Dallas showed a modest increase in *maquila* job growth throughout 2014 and well into 2015.

In addition to a strong, diverse economic base, in 2014 El Paso was ranked as the safest large city in the United States with a population of over 500,000, according to CQ Press. El Paso has been ranked in the 2nd or 3rd spot of Safest Cities since 1997 and in 2011 was ranked as the safest city. The overall crime rate has continued to decrease in recent years, despite the city's consistent population growth. El Paso is also one of the most affordable major cities in the U.S. According to the American Chamber of Commerce Research Association (ACCRA), the cost of living in El Paso is approximately 90.4% of the national average in 2014, a favorable ranking compared to most cities in the Southwest region and most cities of similar size and demographics nationally.

Located in the northeastern region of El Paso, Fort Bliss currently stretches over 1.1 million acres of land, an area of land larger than the State of Rhode Island. In 2014, Fort Bliss realized a net increase of over 37,000 active duty personnel – the largest net gain from any military installation in America. The Army also projects that approximately 16,000 spouses and 21,000 children will accompany these personnel as they transition to El Paso. An investment of over \$5 billion for construction projects will support the 300% base population increase by 2015. The El Paso Regional Economic Development Corporation estimated that Fort Bliss' long term economic impact is estimated at \$7.4 billion annually. Fort Bliss is the first military post in the nation to be designated a Center for Renewable Energy. This designation could mean more federal funding and private sector investment that could total to more than \$400 million for the local economy. By 2017, Fort Bliss will utilize solar and geothermal energy and a waste-to-energy facility. These renewable sources of energy could provide enough power for the base to operate completely independent of the local power grid.

El Paso is home to the University of Texas at El Paso (UTEP), which is the second oldest member of the University of Texas System. It was founded in 1913 and became part of the U.T. system in 1919. UTEP has been an important part of the El Paso community since it was founded as the Texas School of Mines and Metallurgy 100 years ago. In 1914, the school opened with 27 students and a handful of faculty and staff. UTEP has grown into a dynamic urban university that today serves the needs of more than 23,000 students, offering 70 bachelors, 76 master and 20 doctoral programs.

As the nation's only major research university serving a student population that is predominantly Mexican-American, UTEP has also been named one of the top five Hispanic serving institutions to receive federal research money, according to the National Science Foundation (NSF). The NSF designated UTEP as a Model Institution for Excellence, one of only six in the country. This has resulted in a multimillion dollar NSF grant to support UTEP's science, computer science, engineering, and mathematics programs. In April of 2013 the Senate Finance Committee in Austin, Texas voted to award UTEP \$40 million in tuition revenue bonds for capital improvements to help the university reach its goal of becoming a national research Tier 1 university.

Growth is evident in all parts of El Paso. The city has experienced growth in the challenging economic environment and this will remain the case during the next year. Continued highway constructions, along with the continued Fort Bliss base expansion that includes the construction of the 1.13 million square foot William Beaumont Army Medical Center are examples of multi-million dollar projects that have already started and will carry on through 2015 and beyond.

Long-term financial planning - Region E was one of sixteen regions in Texas created in 1997 as part of Senate Bill 1 which required long term water planning by region. EPWU updated its 50-year plan as part of the update in 2011 of the Region E's 50-year water plan. This plan identifies projected water demand over the next 50 years and provides water supply alternatives to meet demand. In 2014, EPWU along with other stakeholders in the Far West Texas Regional Plan attended meetings to begin work on the 2016 State Water Plan. The Region E State Water Plan is included as part of the State Water Plan that will be submitted to the Texas Legislature.

The Utility is currently focused on a 10-year planning horizon and has identified specific projects costing over \$1 billion that will need to be constructed to meet the water, wastewater and reclaimed water needs of the El Paso region, with an additional \$240 million in drainage projects to address deficiencies in the drainage system. It is projected that water and wastewater rates will increase an estimated 40% over the next five years to fund operations, the capital improvements program and maintain adequate cash reserves. An eight percent rate increase was implemented for FY 2015-16. In May 2009, City Council adopted water and wastewater impact fees to help pay for growth infrastructure. In fiscal year 2014-15 the Utility collected \$1 million and estimates that in future years between \$1 - \$2 million will be collected from impact fees annually. EPWU projects that drainage fees will have to be increased by 62% over the next five years to continue with the drainage projects and maintenance of the system.

EPWU has budgeted over \$171 million in fiscal year 2015-16 for water, wastewater and reclaimed water facilities to meet the growth demands of the city and keep up with the rehabilitation of the system and \$46 million for drainage facilities to improve the drainage infrastructure throughout the city. EPWU continues to address the increased reliance of well water and other sources of water as a result of the prolonged drought conditions and its associated capital costs within the next ten years. During fiscal year 2015-16 the Utility budgeted \$50 million for the acquisition of water rights and \$2 million for an advance purified water plant pilot plant to produce drinking water. The pilot plant operation and testing program coupled with negotiations with the Texas Commission on Environmental Quality (TCEQ) will set the operating conditions and processes for the full scale facility. Wastewater plants are targeted for major rehabilitation over the next ten years, including the planned expansion of the Roberto Bustamante Wastewater Treatment Plant to start in fiscal year 2018-19. This plant was once scheduled for expansion in 2000, but because of successful indoor conservation, the expansion has been delayed substantially.

Awards and Acknowledgements

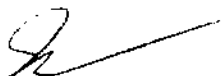
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the El Paso Water Utilities for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended February 28, 2014. This was the nineteenth consecutive year that EPWU has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must have published an easily readable and efficiently

organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, EPWU received the GFOA's Distinguished Budget Presentation Award for its annual budget document for fiscal year beginning March 1, 2014, which was the sixteenth consecutive year EPWU has received this award. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document must be judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and accounting departments. We would like to express our appreciation to Jeff Tepsick, Fiscal Operations Manager, and all members of the department who contributed to the preparation of this report. Credit also must be given to the Mayor and Public Service Board for their support for maintaining the highest standards of professionalism in the management of the EPWU finances.



John E. Balliew, P.E.
President and Chief Executive Officer



Marcela Navarrete, C.P.A.
Vice President Strategic, Financial & Management Services



Arturo Duran
Chief Financial Officer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**El Paso Water Utilities
Public Service Board
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

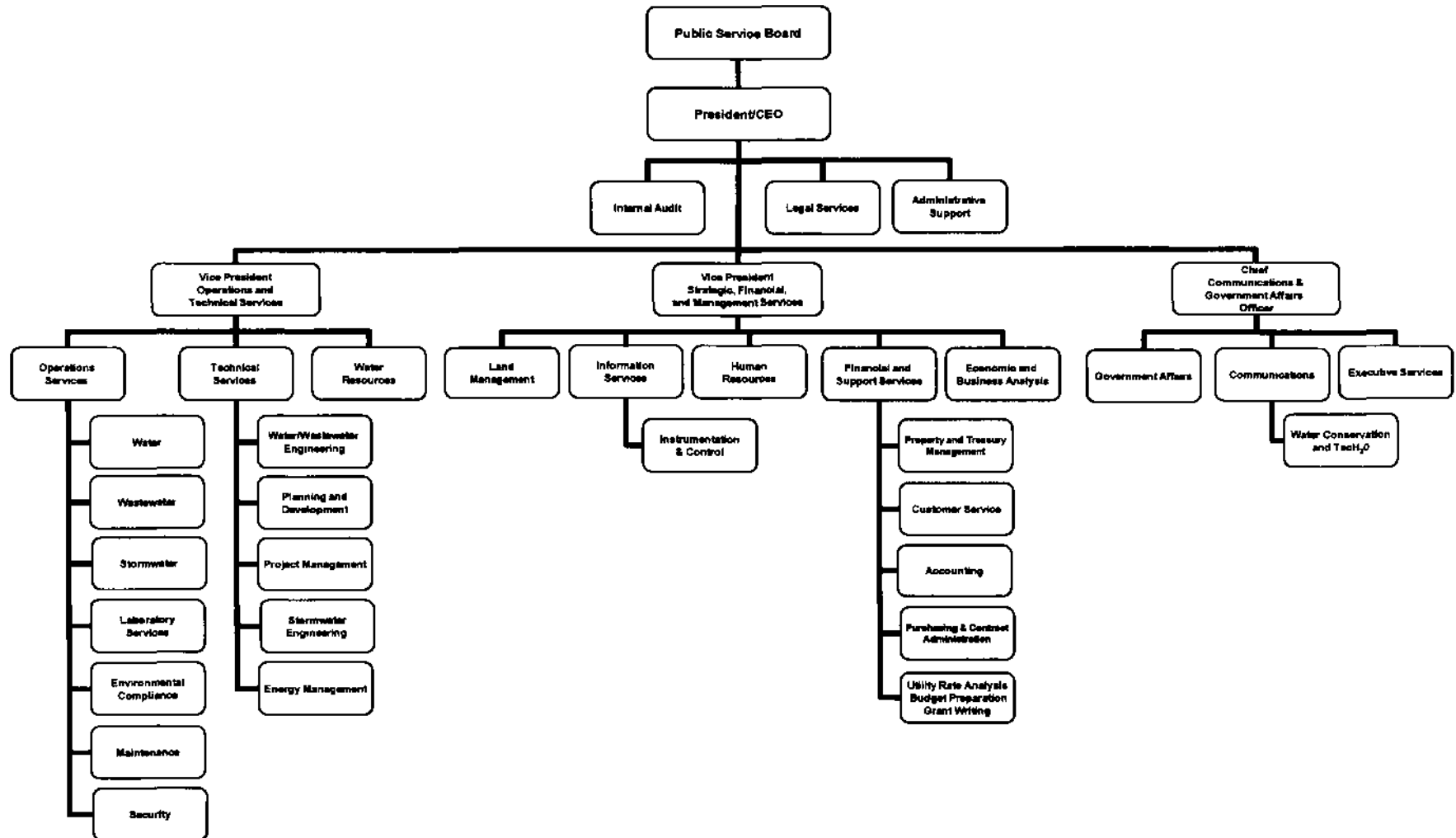
February 28, 2014

Executive Director/CEO

El Paso Water Utilities

Organizational Structure

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COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED FEBRUARY 28, 2015

PUBLIC SERVICE BOARD



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Ruth Katherine Brennand
Vice Chair



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Christopher A. Antcliff
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Oscar Leeser
Mayor, City of El Paso

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John Balliew, P.E., President and CEO

Marcela Navarrete, C.P.A., Vice President Strategic, Financial and Management Services

R. Alan Shubert, P.E., Vice President Operations and Technical Services

Fernie Rico, P.E., Chief Operations Officer

Gilbert Trejo, P.E., Chief Technical Officer

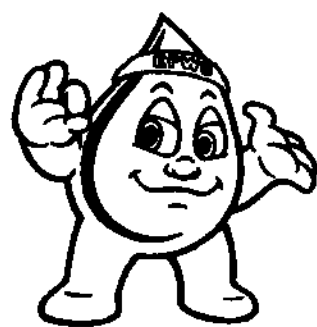
Arturo Duran, Chief Financial Officer

ACCOUNTING/ASSET MANAGEMENT

Jeff Tepsick, Fiscal Operations Manager
Lidia Carranco, Utility Treasury & Property
Control Manager

GENERAL COUNSEL

Lupe Cuellar, General Counsel
Lowell Stokes, Assistant General Counsel



INDEPENDENT AUDITOR'S REPORT

Public Service Board - El Paso Water Utilities,
a component unit of the City of El Paso

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Public Service Board - El Paso Water Utilities, a component unit of the City of El Paso, as of and for the years ended February 28, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Public Service Board - El Paso Water Utilities' 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 audits. We conducted our audits 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 audits 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 business-type activities, and each major fund of the Public Service Board - El Paso Water Utilities, a component unit of the City of El Paso, as of February 28, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other Post Employment Benefits Plan schedules on pages 14 through 29 and 100 to 101 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 audits 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public Service Board - El Paso Water Utilities', a component unit of the City of El Paso, basic financial statements. The introductory section, supplementary schedules, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules listed in the table of contents 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 supplementary schedules listed in the table of contents are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have 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 separate report dated June 29, 2015, on our consideration of the Public Service Board - El Paso Water Utilities', a component unit of the City of El Paso, 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 Public Service Board - El Paso Water Utilities' internal control over financial reporting and compliance.

Gibson, Ruddock, Patterson LLC

El Paso, Texas
June 29, 2015



Management's Discussion and Analysis

As management of the Public Service Board - El Paso Water Utilities (EPWU), we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended February 28, 2015. EPWU consists of two funds, the Water and Wastewater Utility fund and the Municipal Drainage Utility fund. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

Financial Highlights

The assets and deferred outflows of resources of EPWU exceeded its liabilities and deferred inflows or resources at the close of the most recent fiscal year by \$879.26 million (*net position*).

EPWU's total assets and deferred outflows of resources of \$1.56 billion increased by \$44.27 million from 2014 to 2015 mainly due to an increase of \$51.69 million in water and sewer infrastructure put in service during fiscal year 2015 and an increase in construction work in progress of \$60.52 million offset by a decrease in restricted assets for construction of \$46.79 million.

EPWU's total liabilities and deferred inflows of resources increased by \$13.21 million during the fiscal year mainly due to an increase in customer advances for construction of \$6.56 million from restricted assets and an increase of \$5 million in commercial paper notes.

The debt service coverage for the Water and Wastewater Utility of 2.07 times is well above the required 1.5 times debt service coverage as per its bond ordinance. The Municipal Drainage Utility's debt service coverage of 1.94 times is above the required 1.25 times as per its bond ordinance.

Overview of Financial Statements

- Statements of Net Position – present information as of the end of each fiscal year on all of EPWU's assets, liabilities, deferred outflows and inflows of resources and total net position. This statement is useful in evaluating the financial health of EPWU.
- Statements of Revenues, Expenses and Changes in Net Position – present information of changes in net position during the fiscal years presented. This statement is useful in evaluating if EPWU recovered all its costs through its rates and other charges.
- Statements of Cash Flows – provides information for the fiscal years presented of cash flows from operating, capital and related financing and from investing activities.
- Enterprise Funds – EPWU consists of two funds, the Water and Wastewater Utility fund and the Municipal Drainage Utility fund. Enterprise Funds Statements eliminate all transactions between the two funds.
- Notes to financial statements – present detail information that is essential to the complete understanding of EPWU's financial statements.
- Required Supplemental Information – present information concerning EPWU's progress in funding its other postemployment benefit plan obligations.

Other supplemental information is provided for additional analysis and is not a required part of the basic financial statements.

- Supplementary Schedules – Includes separate financial statements by fund and other schedules that provide detail information for each fund.
- Statistical Section – Present summary information as a context for understanding what the information in the financial statements, notes disclosures, and required supplementary information say about EPWU financial health.

El Paso Service Area and Customer Growth

Over the last ten years, the average annual retail customer growth has been a manageable 1.76%. The following table shows water, wastewater and drainage customer growth for the past three years:

Water Customers	FY 2015	FY2014	FY2013
Metered water customers, beginning of year	196,589	194,347	192,063
Additions, net	2,534	2,242	2,284
Metered water customers, end of year	199,123	196,589	194,347
Wastewater Customers	FY 2015	FY 2014	FY 2013
Wastewater customers, beginning of year	187,003	184,868	182,595
Additions, net	2,223	2,135	2,273
Wastewater customers, end of year	189,226	187,003	184,868
Drainage Customers	FY 2015	FY 2014	FY 2013
Drainage customers, beginning of year	186,050	183,680	181,268
Additions, net	1,783	2,370	2,412
Drainage customers, end of year	187,833	186,050	183,680

Outside the city limits, EPWU provides wholesale water service and wastewater service to the Lower Valley Water District, Gaslight Square MHE, Paseo Del Este, and Fort Bliss; wholesale water service to the County of El Paso – East Montana, Haciendas del Norte, Ponderosa/Western Village Water Supply Corporation, and Mayfair/Nuway and Schuman; retail water and wastewater service to Westway, Canutillo and retail water service to Homestead, unincorporated areas and areas of Village of Vinton, an incorporated area. In October 2014, the Utility started providing wholesale water services to customers in the area of Colonia Revolucion. Drainage service is only provided for customers within the city limits of El Paso.

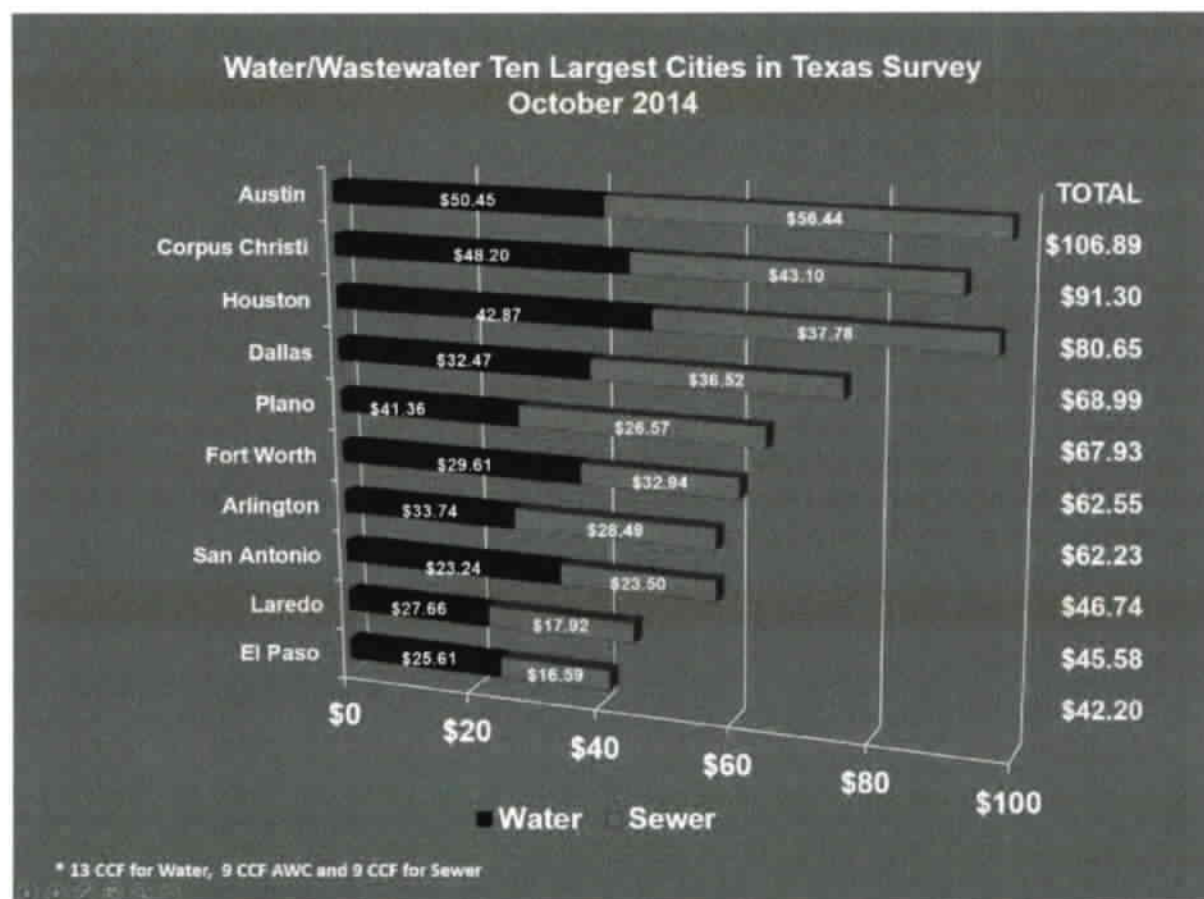
Wholesale Customers	FY 2015	FY 2014	FY 2013
Lower Valley Water District			
<i>Water Customers</i>	16,472	15,901	15,492
<i>Wastewater Customers</i>	13,553	12,949	12,675
County of El Paso - East Montana - <i>Water Customers</i>	1,754	1,736	1,719
Haciendas del Norte WID- <i>Water Customers</i>	345	345	345
Ponderosa/Western Village - <i>Water Customers</i>	290	289	291
Colonia Revolucion - <i>Water Customers</i>	70	-	-
Gaslight Square Mobile Home/RV Park - <i>Water and Wastewater Customers</i>	<i>Varies</i>	<i>Varies</i>	<i>Varies</i>

Wholesale Customers	FY 2015	FY 2014	FY 2013
Mayfair/Nuway and Schuman - <i>Water Customers</i>	301	296	288
Paseo Del Este MUD - <i>Water and Wastewater Customers</i>	2,732	2,279	1,950

The table below shows the average monthly water, wastewater and drainage bill for a residential customer for fiscal years 2015, 2014 and 2013:

Average Residential Bill			
	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u>
Water (includes water supply replacement charge)	\$27.57	\$28.09	\$28.36
Wastewater	\$16.29	\$16.64	\$15.61
Drainage	\$3.03	\$3.03	\$3.03
Total Bill	\$46.89	\$47.76	\$47.00

The following graph shows a comparison of water and wastewater rates for the ten largest cities in Texas based on specific water and sewer consumption and effective rates as of October 2014.



In addition, the Public Service Board (PSB) has established outside city retail water and wastewater rates at 115% of inside city rates. El Paso's water and wastewater rates remain among the lowest in the Southwest and are extremely competitive with neighboring utilities.

With the creation of the Municipal Drainage Utility, a dedicated funding source is available to meet the drainage system needs of the city. Drainage functions are funded by a fee that appears on the monthly water and wastewater bill. This user fee is calculated for every parcel with an active water meter within the city, except those exempted by state law, based on the impervious area of the property. The Board has a working five-year financial plan for all utilities that allows the Board to proactively manage its financial resources and plan for potential rate adjustments as required.

Water consumption decreased as compared to the previous year mainly due to a milder spring this year and above average precipitation in the month of September.

	FY 2015	FY 2014	FY 2013
Water Pumped (billion gallons)	37.26	37.56	38.67
Water Billed (billion gallons)	34.16	34.99	36.47

El Paso's Water, Wastewater and Drainage System

Water System – In 1991, EPWU adopted its first comprehensive Water Resource Management Plan, which was then used as a basis for the Region E plan and is subsequently updated when the Region E plan is updated. In 2014, EPWU along with other stakeholders in the Far West Texas Regional Plan began working on the 2016 State Water Plan. The 2016 Plan will include new water management strategies for EPWU including the Advance Purified Water Project, the expansion of the Jonathan Rogers Water Treatment Plant, and the diversification of its water supply portfolio. EPWU recognizes it exists to serve a large population situated in an arid climate and has been aggressively planning for the future to ensure an adequate long-term water supply. Major steps taken include passing a stringent water conservation ordinance, new and innovative water conservation programs, establishing a rate structure designed to encourage conservation, and the adoption of a Drought and Water Emergency Management Plan while continuing to increase utilization of reclaimed water. EPWU operates wellhead desalination units and a large scale desalination plant, and continues to evaluate additional long-term water supply projects. Currently EPWU is working with the Texas Commission on Environmental Quality (TCEQ) to approve a permit for the future construction of a 10 MGD advance purified water plant and is currently running a pilot plant to test advance purified at the Bustamante Wastewater Treatment Plant. In addition, the Utility continues to identify possible water right acquisitions for the future importation of water and development of additional surface water supplies to decrease demand on existing ground water aquifers.

EPWU operates 164 wells, 74 reservoirs, 53 booster pump stations, two surface water treatment plants, one groundwater treatment plant, one desalination plant, four arsenic removal plants and over 2,600 miles of pipelines. EPWU also operates a reclaimed water system that includes: 10 reservoirs, nine pump stations and 52 miles of pipelines.

The Franklin Mountains divide the City, but fortunately, water supplies are geographically spread throughout. Depending on the river supply, historically, 25 to 50 percent of the annual usage has been from the Hueco Bolson aquifer, which extends from Southern New Mexico, through east El

Paso and into Mexico. About 20 percent of the historical annual usage has been from the renewable Mesilla Bolson aquifer west of the mountains.

EPWU's 40 million gallons per day (MGD) **Robertson/Umbenhauer Water Treatment Plant**, a surface water treatment plant originally built in 1943, is centrally located in the city. A major infrastructure renovation was completed in 2004 on these plants that will extend the life of these facilities well into the future. This included the installation of an Ultraviolet Light disinfection system for a portion of the water leaving the plant. Major electrical upgrades were also completed in 2006. This plant provides water to central and west El Paso.

The second surface water plant, the **Jonathan W. Rogers Water Treatment Plant (JRWTP)**, with an initial capacity of 40 MGD, started production in early 1993. It is located further downstream to serve the City's eastside and expanding lower valley area. The JRWTP was expanded in May 2002 to increase capacity to 60 MGD. This expansion increased total surface water supply capability to 100 MGD, which represents more than 50 percent of the total annual demand. The Utility is planning a future expansion of this plant to increase treatment capacity by 20 MGD.

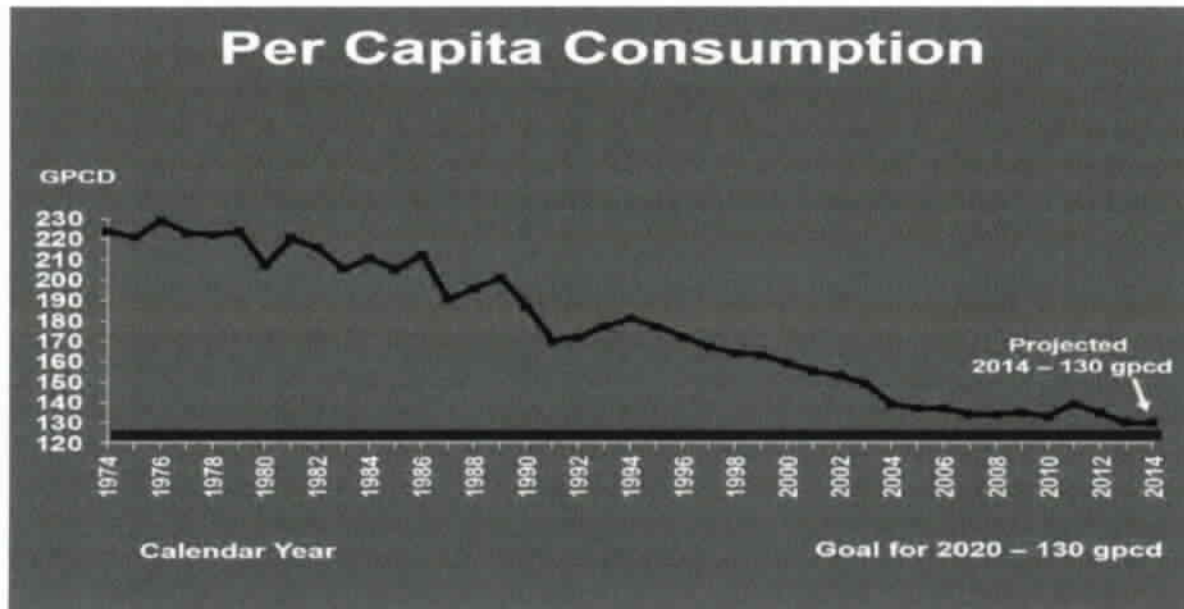
In 2005, EPWU began operating four treatment plants specifically designed to achieve compliance with EPA's new maximum contaminant level (MCL) for arsenic, which became effective January 23, 2006. These plants have a combined treatment capacity of 41 MGD. The largest of the four plants is the 30 MGD **Upper Valley Water Treatment Plant**, which uses conventional flocculation/sedimentation/filtration to remove arsenic. The other three plants have a combined capacity of 11 MGD and use a granular iron media to absorb arsenic.

EPWU, in partnership with Fort Bliss, constructed a 27.5 MGD desalination plant which it owns and operates on Fort Bliss property in east El Paso. The **Kay Bailey Hutchison (KBH) Desalination Plant** started production in July 2007. This plant is the largest inland desalination plant in the world and the largest desalination plant of any type in the United States. The plant has won numerous awards, including the 2008 Membrane Facility Award from the American Membrane Technology Association, the American Academy of Environmental Engineers 2008 Superior Achievement Award and the Texas Council of Engineering Companies 2008 Eminent Conceptor Award.

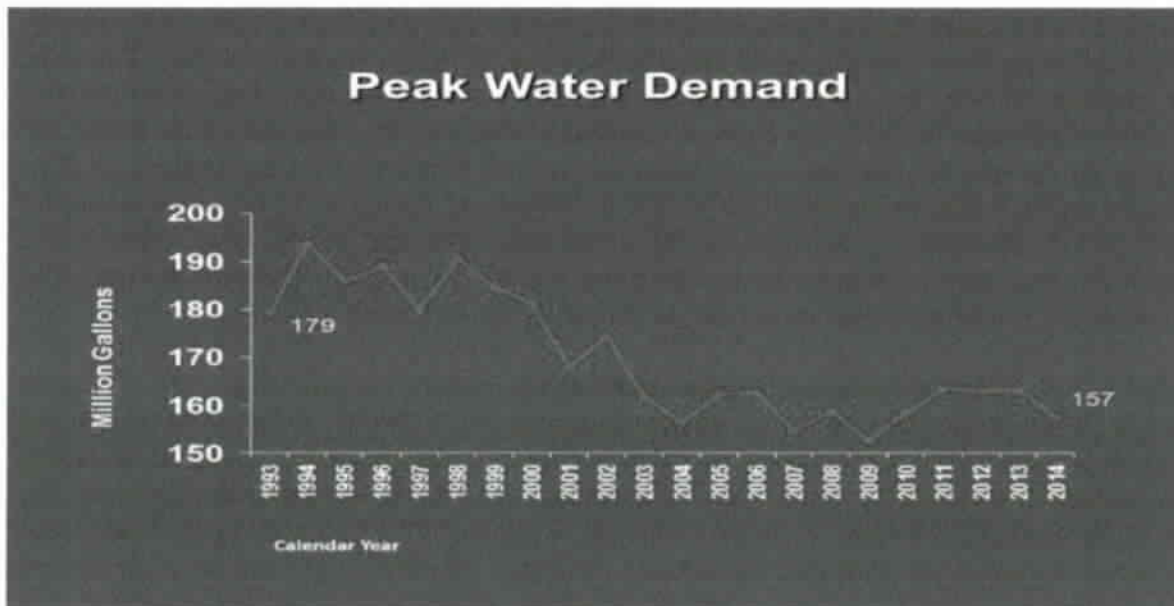
The Utility was one of only seven public drinking water systems that received the Platinum Award for Utility Excellence from the Association of Metropolitan Water Agencies (AMWA) in 2010. This award recognizes the outstanding achievements in implementing the nationally recognized Attributes of Effectively Managed Water Sector Utilities. The Utility was recognized for performance in areas of product quality, employee and leadership development, customer satisfaction, and community sustainability. On October 20, 2014, the AMWA awarded El Paso Water Utilities the "Sustainable Water Utility Management Award." This was the first presentation of this award and was awarded in recognition of water utilities that have made a commitment to management that achieves a balance of innovative and successful efforts in areas of economic, social and environmental endeavors.

In 2014, as a result of the continuing drought the Utility received only 40 percent of a normal full year allotment. A normal full allotment of river water produces about 50 percent of the total annual water supply. The Utility was allotted only 24,000 acre feet (AF) of river water compared to an average year when over 60,000 AF is treated. Withdrawals from the Hueco Bolson were approximately 58 percent and 22 percent from the Mesilla Bolson. Both surface water treatment

plants operated during the 2014 reduced three-month irrigation season when Rio Grande Project water was available. The water system each year consistently receives a Superior Water System ranking by TCEQ. Water demand was at 201 gallons per capita per day (gpcd) in 1989 prior to the institution of an aggressive water conservation program, but has been declining rapidly since. In 2013, EPWU achieved the overall per capita water consumption of 130 gpcd that was set as a goal for year 2020. The demand in 2014 was 130 gpcd.



Peak day demand has also declined significantly from 195.0 MGD in 1990 to 157.4 MGD in 2014. This highlights not only the significant changes in water use by El Pasoans, but also has allowed for the deferral of spending significant dollars on capital projects to meet peak water demands.



The State Legislature designated EPWU as the Regional Planner for El Paso County in 1995, which has resulted in a coordinated approach in developing water resources for this region. EPWU also has conducted joint water resources planning with New Mexico and Mexico. This unique regional cooperative effort will help to ensure that there is a reliable water supply to protect the economy, environment and quality of life for the residents in the region bordering the Rio Grande River.

Wastewater System – The United States Environmental Protection Agency (EPA) and the TCEQ issue permits that require discharges of treated wastewater to meet certain standards in accordance with the Clean Water Act. To meet these high standards, EPWU is committed to providing the best available technology and most cost effective treatment processes to ensure proper and sufficient treatment of wastewater collected from the city. The Wastewater Division has been a member of the TCEQ Clean Texas Program since 2003, and has been awarded the National Association of Clean Water Agencies (NACWA) Excellence in Management Recognition in 2003, 2006, and 2009.

The Roberto R. Bustamante Wastewater Treatment Plant began serving the east, southeast and lower valley parts of the city in 1991 and has a treatment capacity of 39 MGD. The plant also has the capability to provide reclaimed water. Since 1997, it has received 12 NACWA Peak Performance Gold Awards and four NACWA Silver Awards. In 1994, the plant placed second in the nation in the EPA Operations and Maintenance Excellence Awards, Large-Secondary Treatment category, representing the State of Texas and EPA Region VI. The plant also received NACWA's Platinum Peak Performance Award for five consecutive years of compliance in 2002. The Water Environment Association of Texas also judged this plant the Municipal Wastewater Treatment Plant of the Year for 2005.

The John T. Hickerson Water Reclamation Facility can treat 17.5 MGD of wastewater from the west and northwest part of the city. Since the initial start-up of the plant in 1987 and expansion to its present capacity in 1994, the plant has been nominated for six EPA Operations and Maintenance Excellence Awards and since 1997 has received six NACWA Gold Awards and two NACWA Silver Awards. In 1992, the plant and its personnel were also recognized for their commitment to safety by being awarded the Water Environment Federation's George W. Burke Award for Safety. This plant first received the NACWA's Platinum Peak Performance Award for five consecutive years of complete compliance in 2003. In 2008, it received 1st Place in the National Clean Water Act Recognition Awards for Operations and Maintenance Excellence in the Large Advanced Plant Category. In 2014, the plant received the NACWA Platinum 15 Award for 15 consecutive years of perfect permit compliance. The plant was the Texas State, Regional and National winner of the Clean Water Act O&M Awards Program in the Large Advanced Category. This plant also provides reclaimed water to several residential, commercial, and large irrigation customers.

The Haskell R. Street Wastewater Treatment Plant was initially constructed in 1923. The plant serves the central part of the city and has treatment capacity of 27.7 MGD. The plant has undergone several expansions and modifications in an effort to meet ever-changing environmental regulations and to enhance the reliability of the treatment processes. In 1994 it was selected to represent the State of Texas and EPA Region VI for the nationally recognized EPA Operations and Maintenance Excellence Award, Large-Advanced Treatment category. In 1999 a \$25 million upgrade and renovation was completed. The plant was also upgraded in 2003 to provide reclaimed water to local parks, schools, industries and golf courses. Since 1997, the plant has received 11 NACWA Gold

Awards and four NACWA Silver Awards. It also received the NACWA Platinum Award in 2004 for being the recipient of the Gold Award for five consecutive years. It also received the NACWA Platinum Award in 2007 for being the recipient of the Gold Award for eight consecutive years.

The **Fred Hervey Water Reclamation Plant** constructed in 1984, can treat 12 MGD of wastewater from the northeast part of the city. This unique plant was one of the first in the nation to take raw sewage and treat it to drinking water standards. This reclaimed water is then used to recharge the Hueco Bolson, to irrigate a local golf course and to provide the El Paso Electric Company with cooling tower water for electric power generation. In 2011, the plant completed the last phase of a multi-year multi-phased program to renovate and upgrade the plant for new permit requirements and expanded the plant capacity from 10 MGD to 12 MGD. This plant has also received numerous awards, including: the 1994 AMSA Public Information and Education Award; second place in the national 1994 EPA Operations and Maintenance Excellence Award, No Discharge category; and the 1998 American Water Works Association's Conservation and Reuse Award. In 1999 the plant received special recognition by the El Paso Del Norte Region Mission Possible-Survival Strategies in the category "Protection and Preservation of the Environment". Beginning in 2006, the Fred Hervey Plant became eligible for the NACWA awards and received the Platinum Six Award in 2012 for six consecutive years of perfect permit compliance.

The Wastewater Collection System Maintenance Section of EPWU received the 2007 Medal for Heroism from the Water Environment Association of Texas for their great efforts in helping the City during the Storm 2006. EPWU also received the 2007 George Burke Award from the Water Environment Association of Texas for a perfect safety record in the area of lift station operations. EPWU is committed to addressing the infrastructure needs and acquiring future water resources for its customers. Short and long-term planning is a vital part of meeting the current and future needs of this community. For these efforts, EPWU was recognized by NACWA with its third Excellence in Management Award in 2010. This award, which is only given every three years, recognizes agencies that have used competitive business strategies to meet the expectations of drinking water consumers and municipal government leaders over a sustained period of time.

Drainage System – Following the storms in 2006, an evaluation identified extensive damage to the drainage system. The City of El Paso repaired the most severely damaged items. The Municipal Drainage Utility continues to work on the remaining projects, as well as the operation and maintenance of the system and the construction projects needed to reach an adequate level of service. EPWU developed the first ever stormwater master plan for the city and subsequently developed a ten year capital improvement plan to address the drainage system's deficiencies.

The drainage system currently consists of 21 storm water pump stations, 904 acres of ponds, 2,418 acres of dams, 71 miles of channels, 39 miles of agricultural drains, 260 miles of storm drains and thousands of storm water drop inlets.

Fiscal Year 2015 Financial Information

The following are the Enterprise Funds Statements of Net Position for the activities for the Water & Wastewater Utility and the Municipal Drainage Utility after elimination of interfund payables and receivables.

Enterprise Funds Statements of Net Position			
	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u> <u>(Restated)</u>
Current Assets	\$200,368,047	\$228,703,815	\$ 245,790,546
Noncurrent Assets	32,686,989	39,186,166	18,375,753
Capital Assets (Net)	1,325,187,894	1,249,371,554	1,204,214,120
Deferred Outflows of Resources	5,232,151	1,943,345	1,588,989
Total Assets and Deferred Outflows of Resources	<u>\$ 1,563,475,081</u>	<u>\$ 1,519,204,880</u>	<u>\$ 1,469,969,408</u>
Current Liabilities	100,497,462	89,697,090	78,046,293
Noncurrent Liabilities	583,585,333	581,161,267	583,405,013
Total Liabilities	<u>684,082,795</u>	<u>670,858,357</u>	<u>661,451,306</u>
Deferred Inflows of Resources	131,896	143,045	154,195
Net Position:			
Restricted	83,489,307	93,964,776	81,583,229
Net Investment in Capital Assets	776,031,841	727,501,647	698,873,162
Unrestricted	19,739,242	26,737,055	27,907,516
Total Net Position	<u>879,260,390</u>	<u>848,203,478</u>	<u>808,363,907</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 1,563,475,081</u>	<u>\$ 1,519,204,880</u>	<u>\$ 1,469,969,408</u>

Enterprise Funds Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position

From fiscal year 2014 to 2015 total assets and deferred outflows of resources increased by \$44.27 million mainly due to an increase in construction work in progress of \$60.52 million and an increase of \$51.69 million in capital assets from the Water and Wastewater Utility offset by a decrease in restricted assets for construction of \$46.79 million. Total assets and deferred outflows of resources increased by \$49.24 million from fiscal year 2013 to 2014 mainly due to an increase in construction work in progress of \$52.62 million and an increase of \$28.27 million in capital assets from the Water and Wastewater Utility. Current assets decreased by \$28.34 million from fiscal year 2014 to 2015 mainly due to \$37.15 million of drawdown of funds restricted for construction. From 2013 to 2014 current assets decreased by \$17.09 million mainly due to \$14.87 million drawdown of funds restricted for construction. Total capital assets, net of accumulated depreciation, increased by \$75.82 million from 2014 to 2015 and \$45.16 million from 2013 to 2014, which consists of an increase in water, wastewater and drainage infrastructure placed into service and an increase in construction work in progress. Total liabilities increased from 2014 to 2015 by \$13.22 million mainly due to an increase in commercial paper notes of \$5 million and an increase in customer advances for construction of \$6.56 million and increased by \$9.41 million from 2013 to 2014 mainly

due to an increase in accounts payable from restricted assets of \$4.16 million and an increase in customer advances for construction of \$5.16 million. The net position of \$879.26 million for fiscal year 2015 increased by \$31.06 million from 2014 due to an increase in net position, before capital contributions of \$22.48 million and capital contributions of \$8.58 million. Total net position of \$848.20 million for fiscal year 2014 increased by \$39.84 million from 2013 due to an increase in net position, before capital contributions of \$26.01 million and capital contributions of \$13.82 million. For fiscal year 2015 net position, before capital contributions consists of operating income of \$41.70 million, interest earnings of \$502,000, a \$734,000 gain from the sale of miscellaneous assets, the \$1.01 million tax credit from the IRS for the Build America Bonds issued, offset by interest expense of \$21.62 million. For fiscal year 2014 net position, before capital contributions consists of operating income of \$43.34 million, interest earnings of \$355,000, a \$2.27 million gain from the sale of land, the \$1.05 million tax credit from the IRS for the Build America Bonds issued, offset by interest expense of \$21.31 million. Net position for the Water and Wastewater Utility increased \$24.44 million from 2014 to 2015, along with the Municipal Drainage Utility net position increase of \$6.61 million. Net position for the Water and Wastewater Utility increased \$34.09 million from 2013 to 2014, along with the Municipal Drainage Utility net position increase of \$5.75 million.

The following are the Enterprise Funds Statements of Revenues, Expenses and Changes in Net Position for EPWU, which include the Water and Wastewater Utility and the Municipal Drainage Utility after elimination of interfund activities.

Enterprise Funds Statements of Revenues, Expenses, and Changes in Net Position			
	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u> <u>(Restated)</u>
Operating Revenues:			
Water	\$ 92,756,225	\$ 91,837,712	\$ 91,787,975
Water supply replacement charge	19,932,864	19,594,187	18,410,830
Reclaimed Water	2,863,690	2,651,400	2,802,403
Wastewater	57,064,138	58,032,496	54,468,286
Drainage fees	15,194,156	15,057,603	14,961,652
City of El Paso Franchise fee	1,937,221	-	-
Other operating revenue	10,158,103	9,517,425	9,890,164
Total Operating Revenues	199,906,397	196,690,823	192,321,310
Operating Expenses:			
O&M – Water and Reclaimed Water	40,010,230	38,691,615	40,365,490
O&M – Wastewater	21,572,362	22,444,348	22,164,641
General, Administrative and Engineering	21,706,437	20,472,534	22,323,067
O&M – Drainage	4,978,923	5,620,417	4,536,139
Other Operating Expenses	2,962,829	2,602,114	2,845,314
Other Post-Employment Benefits	1,040,962	884,968	889,367
Depreciation	53,406,341	52,077,279	51,281,624
Payment to City of El Paso Franchise fee	1,937,221	-	-
Payment to City of El Paso per Bond Covenants	10,593,266	10,553,216	10,382,694
Total Operating Expenses	158,208,571	153,346,491	154,788,336

Enterprise Funds Statements of Revenues, Expenses, and Changes in Net Position

	FY 2015	FY 2014	FY 2013 (Restated)
Operating Income	41,697,826	43,344,332	37,532,974
Nonoperating Revenues (Expenses):			
Interest Earnings	501,548	355,574	362,528
Gain on Land Assets Converted by Sale	148,384	2,270,541	2,584,304
Gain on Sale of Miscellaneous Assets	734,234	314,473	149,978
IRS tax credit for Build America Bonds	1,014,977	1,049,503	1,183,678
Other Nonoperating Expense	-	(13,712)	-
Interest on Long-Term Debt	(21,618,853)	(21,309,998)	(22,052,401)
Total Nonoperating Expenses	(19,219,710)	(17,333,619)	(17,771,913)
Increase in Net Position, Before Contributions	22,478,116	26,010,713	19,761,061
Federal Grant Contributions	371,364	830,034	694,852
Capital and Non-Federal Grant Contributions	8,207,432	12,998,824	11,663,713
Change in Net Position	31,056,912	39,839,571	32,119,626
Total Net Position – Beginning	848,203,478	808,363,907	776,244,281
Total Net Position – Ending	<u>\$879,260,390</u>	<u>\$848,203,478</u>	<u>\$808,363,907</u>

Water and Wastewater Utility Fund

Total operating revenues increased by \$3.06 million from 2014 to 2015 mainly due to an increase of \$1.47 million in water, water supply replacement charge and reclaimed water revenue, and an increase of \$804,000 in customer connection fees, offset by a reduction in wastewater revenue of \$968,000. Water consumption decreased by 582 million gallons as a result of milder spring temperatures and above average precipitation in September 2014. Total operating revenue increased by \$4.23 million from 2013 to 2014 mainly due to an increase of \$3.56 million in wastewater revenue and an increase of \$1.18 million in fees collected for water supply replacement charge due to a five percent rate increase in 2014, offset by a reduction of customer connection fees of \$468,000. Despite a five percent rate increase water sales were flat due to decreased water consumption of 1.48 billion gallons as a result of milder summer temperatures, an increase in precipitation of 3.21 inches in 2014 compared to 2013 and continued water conservation campaign that helped alleviate the effects of the continued river drought.

Total operating expenses of the Water and Wastewater Utility of \$150.73 million for fiscal year 2015 increased by \$5.71 million from 2014. The Water and Wastewater Utility purchases river water through several contracts with the El Paso County Water Improvement District #1 and for calendar year 2014 water purchases increased by \$919,000 due to an increase in allotment of river water. The river water delivered in calendar year 2014 by the El Paso County Water Improvement District #1 was 24,093 acre feet an increase of 13,543 acre feet from calendar year 2013. The Utility's normal river water allotment is over 60,000 acre feet a year. Depreciation expense of \$52.04 million increased by \$1.45 million from the previous year and continues to increase as water

and wastewater infrastructure is placed into service to serve our customers. Finally, effective September 1, 2014 the City of El Paso established and implemented a Franchise fee of \$3.55 million to be paid by the Water and Sewer Utility over a one year period. City Council recommended for the fee to be paid by non-residential customers as a flat monthly fee of \$15.82. City of El Paso Franchise fee is detailed in Note 26 and Note 27. Total operating expenses of the Water and Wastewater Utility of \$145.02 million for fiscal year 2014 decreased by \$1.96 million from 2013. The Water and Wastewater Utility purchases river water through several contracts with the El Paso County Water Improvement District #1 and for calendar year 2013 water purchases decreased by \$1.99 million due to a reduction of river water as a result of the continued regional drought. The river water delivered in calendar year 2013 by the El Paso County Water Improvement District #1 was 10,550 acre feet a decrease of 22,362 acre feet from calendar year 2012. The Utility's normal river water allotment is over 60,000 acre feet a year. Depreciation expense of \$50.59 million increased by \$946,000 from the previous year and continues to increase as water and wastewater infrastructure is placed into service to serve our customers.

Total nonoperating expenses of \$17.46 million for 2015 increased by \$1.74 million from 2014 due to an increase in interest expense of \$328,000 and a \$1.87 million decrease in revenues generated from land sales. Total nonoperating expenses of \$15.72 million for 2014 decreased \$1.40 million from 2013 due to an increase in sale of miscellaneous assets of \$192,000 and an increase in revenues generated from land sales of \$223,000 and a decrease in interest expense of \$1 million due to bond refundings and capitalized interest.

Change in net position before capital contributions had a decrease of \$4.39 million from 2014 to 2015 for the following reasons: an increase in operating expenses of \$5.71 million due to an increase of 13,543 acre feet of surface water treated. In addition, nonoperating expenses increased by \$1.74 million mainly due to a decrease in revenues from the sale of land of \$1.87 million. Net position before contributions had an increase of \$7.59 million from 2013 to 2014 for the following reasons: an increase in operating income of \$6.19 million due to an increase in operating revenues of \$4.23 million, a decrease in operating expenses of \$1.96 million, a decrease in bond interest expense of \$1 million and an increase in revenues from the sale of land of \$223,000.

Total contributions of \$8.58 million for 2015 were \$5.25 million less than 2014 and consisted of \$8.21 million of capital contributions by developers and non-federal grant contributions, and \$371,000 in federal grant contributions. Total contributions of \$13.83 million for 2014 were \$1.47 million more than 2013 and consisted of \$13.00 million of capital contributions by developers and non-federal grant contributions, and \$830,000 in federal grant contributions.

EPWU spent \$97.25 million for water, wastewater and reclaimed water system capital improvements in fiscal year 2015. Major expenditures included \$13.28 million for drilling and equipping water wells, \$10.25 million in new water distribution lines and pumping equipment, \$18.42 million for water system rehabilitation, \$5.99 million for emergency backup power generators, \$11.35 million for additions to the wastewater collection system, \$9.33 million for rehabilitation of the wastewater system, and \$4.48 million for improvements to the reclaimed water system. EPWU spent \$75.08 million for water, wastewater and reclaimed water system capital improvements in fiscal year 2014. Major expenditures included \$7.02 million for drilling and equipping water wells, \$3.50 million in new water distribution lines and pumping equipment, \$26.67 million for water system rehabilitation, \$8.45 million for additions to the wastewater collection system, \$11.89 million for rehabilitation of

the wastewater system, and \$2.90 million for improvements to the reclaimed water system.

Financial Indicators for the Water & Wastewater Utility			
	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u> <u>(Restated)</u>
Current Assets/Current Liabilities	1.66	2.02	2.51
Current Restricted Assets/Current Restricted Liabilities	1.39	1.92	2.55
Debt Service Coverage	2.07 times	2.09 times	2.01 times
Debt Ratio	0.35	0.36	0.37

Municipal Drainage Utility Fund

Total operating revenues increased \$158,000 from 2014 to 2015 and increased \$136,000 from 2013 to 2014 due to normal growth in customers. The Utility added 1,783 new drainage accounts from 2014 to 2015.

Operating expenses for fiscal year 2015 were \$7.60 million, a decrease of \$851,000 from 2014 mainly due to a decrease of \$640,000 in maintenance costs of basins, ponds, dams, channels and conduits. Depreciation expense for the drainage assets was \$1.36 million, a decrease of \$120,000. Operating expenses for fiscal year 2014 were \$8.45 million, an increase of \$516,000 from 2013 mainly due to an increase of \$727,000 in maintenance costs of basins, ponds, dams, channels and conduits. Depreciation expense for the drainage assets was \$1.48 million, a decrease of \$150,000.

EPWU spent \$20.66 million in fiscal year 2015 in capital improvements for the Municipal Drainage Utility system. Major capital expenditures include \$11.17 million for conveyance and pumping drainage projects, and \$6.12 million was spent on storage infrastructure. Total assets are summarized in Note 8 of the financial statements.

Financial Indicators for the Municipal Drainage Utility			
	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u> <u>(Restated)</u>
Current Assets/Current Liabilities	5.46	9.96	11.64
Operating Ratio	0.39	0.44	0.40
Total Liabilities to Total Assets	0.49	0.52	0.53
Debt Service Coverage	1.94	1.76	2.30

Overall, EPWU met all its financial obligations including operating expenses, debt service and the rehabilitation and addition of new water, wastewater and drainage infrastructure to meet the needs of a growing community.

Capital Assets

EPWU's investment in water, wastewater and drainage capital assets as of February 28, 2015 is \$1.33 billion (net of accumulated depreciation). This is a net increase of 6.1% from 2014. The following table reflects the changes within each classification of capital assets net of depreciation. The increase in capital assets was primarily due to the addition of \$60.52 million in construction

work in progress for water, sewer, reclaimed water and drainage projects and \$51.69 million of new water system assets placed in service during the year. The capital asset information is detailed in Note 8. The commitments related to construction work in progress are discussed in Note 23.

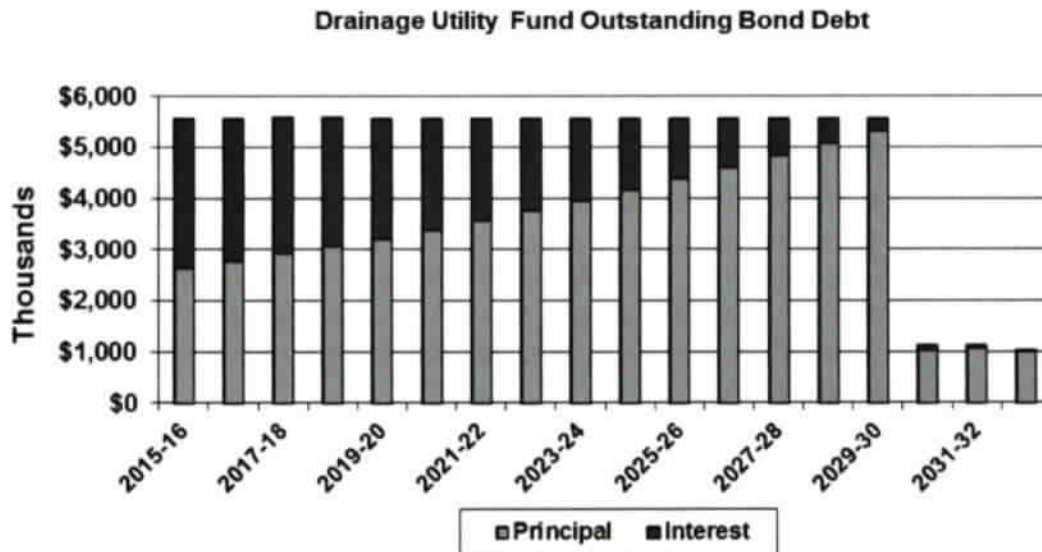
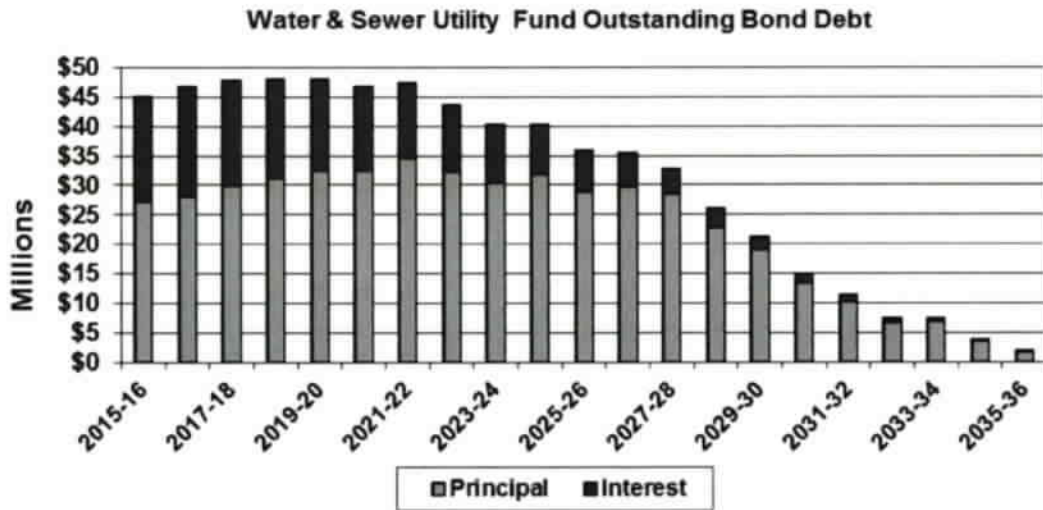
Capital Assets (Net of Accumulated Depreciation)			
	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u>
Land and Right-of-Way	\$17,008,506	\$13,563,306	\$11,769,338
Land Not in Service	65,359,562	64,067,002	64,086,779
Irrigation Water Rights Contracts	8,710,270	8,381,690	8,250,517
Buildings and Shops	6,332,739	6,026,344	6,640,131
Vehicles	4,139,908	2,728,798	3,567,185
Equipment and Tools	7,830,610	5,637,474	6,382,123
Water System	600,831,767	589,342,366	598,202,545
Wastewater System	372,270,331	381,179,525	391,015,837
Drainage Implementation Costs	-	-	69,497
Drainage System	52,855,063	49,113,913	37,519,796
Construction Work In Progress	189,849,138	129,331,134	76,710,372
Total	\$1,325,187,894	\$1,249,371,554	\$1,204,214,120

Debt Administration

EPWU had one bond issue this fiscal year. EPWU issued \$131.65 million in Water and Wastewater Revenue Refunding Bonds Series 2015 with a bond premium of \$17.56 million to retire \$25 million of commercial paper and advance refund \$116.45 million of Water and Sewer Revenue Bonds Series 2005B, 2005C, 2006, 2006A, 2007, and 2008C. This bond advance refunding resulted in a Net Present Value Benefit of \$10.28 million. Total long-term liabilities are summarized in Note 9 of the financial statements and the bonds in Note 10.

The following charts show, as of February 28, 2015, all outstanding principal and interest owed by EPWU. An adequate level of debt and strong financial positions reflects superior fiscal management that have allowed EPWU to continue to earn among the highest ratings that can be awarded by rating agencies like Standard & Poor's (AA+) and Fitch Ratings (AA+). In October 1997, the Public Service Board implemented a commercial paper program. The original authorization of \$50 million for the commercial paper program was reduced in February 2009 to \$40 million and is being used for interim financing of certain water and wastewater projects. This program allows for reduced interest costs and increased flexibility in funding capital projects. EPWU issued \$30 million in commercial paper during fiscal year 2015. The commercial paper program information is detailed in Note 12.

Bond and Commercial Paper Ratings			
	<u>Standard & Poor's</u>	<u>Fitch</u>	<u>Moody's</u>
Water & Wastewater Revenue Bonds	AA+	AA+	-
Municipal Drainage System Bonds	AA	AA+	-
Water & Wastewater Commercial Paper	A-1	-	P-1



Summary of Significant Outstanding Debt			
	FY 2015	FY 2014	FY 2013
Water & Wastewater Revenue Bonds	\$482,305,000	\$492,250,000	\$492,785,000
Municipal Drainage System Bonds	60,860,000	63,384,000	65,743,000
Water & Wastewater Commercial Paper	10,000,000	5,000,000	8,000,000
Unamortized Premiums Net of Discounts	48,307,413	35,833,829	31,374,957
Land Notes Payable	3,406,394	4,159,087	4,923,463
Total	\$604,878,807	\$600,133,357	\$602,826,420

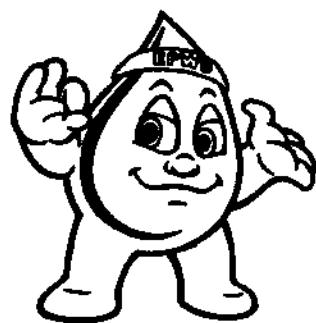
Economic Factors and Next Year's Budget and Rates

- Continued regional drought will have an effect on the estimated river water delivered for calendar year 2015. The estimated allocation for 2015 is 35,000 acre feet which is less than our normal allotment of approximately 60,000 acre feet.
- In 2014, the El Paso MSA home sales increased by 7% with median sales prices decreasing by 0.28% according to the Texas A&M Real Estate Center. The number of months Single-Family Housing remained in inventory increased from 7.6 months to 8.1 months during the same period.
- EPWU has included in the budget for fiscal year 2015-16 three new bond issues for the Water & Wastewater Utility including: \$20 million for four storage tanks, \$50 million for water rights land acquisition, and a bond issue to take long commercial paper notes and possible bond refundings. The Municipal Drainage Utility budgeted a \$25 million new bond issue for fiscal year 2015-16 to fund multiple projects and will continue to use prior bond issues to fund stormwater infrastructure improvements.
- Due to the 2005 BRAC realignment, Fort Bliss, Texas, continues to realize net increases of over 37,000 active duty personnel – the largest net gain from any military installation in America.
- EPWU has planned and prepared to meet growth and will partially finance growth projects with the water and wastewater impact fees that were adopted by City Council in May 2009. In April 2014 City Council approved impact fees with no fee increase and will reevaluate a possible fee increase next year.

All of these factors were taken into consideration in preparing EPWU's budget for fiscal year 2015-16. The Water and Wastewater Utility and the Drainage Utility adopted a budget with an 8% rate increase to meet operating and capital infrastructure needs. EPWU will continue to look for efficiencies, refinancing debt and cutting costs whenever possible.

Request for Information

The financial report is designed to provide a general overview of the El Paso Water Utilities' finances and for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Chief Financial Officer, 1154 Hawkins, 79925 or email aduran@epwu.org.



PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF NET POSITION

February 28, 2015

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 16,893,387	\$ 2,104,423	\$ -	\$ 18,997,810
Investments	10,535,441	-	-	10,535,441
Accounts receivable - customers	17,652,736	845,342	-	18,498,078
Accounts receivable - other	5,371,500	6,650	-	5,378,150
Accrued interest receivable	423,364	105,492	-	528,856
Due from Water and Wastewater Utility	-	270,840	(270,840)	-
Inventory - materials and supplies	1,870,845	-	-	1,870,845
Other current assets	514,032	-	-	514,032
Prepaid expenses	1,996,006	-	-	1,996,006
Restricted current assets				
Restricted for bond requirements				
Cash and cash equivalents	36,146,346	4,946,317	-	41,092,663
Investments	15,402,186	1,348,332	-	16,750,518
Restricted for construction and improvements				
Cash and cash equivalents	19,837,542	24,154,689	-	43,992,231
Investments	24,957,009	14,706,048	-	39,663,057
Accounts receivable government grants	500,136	-	-	500,136
Notes receivable	50,224	-	-	50,224
Total current assets	152,150,754	48,488,133	(270,840)	200,368,047
Noncurrent assets				
Investments	7,089,072	-	-	7,089,072
Restricted noncurrent assets				
Restricted for bond requirements				
Investments	12,271,338	1,612,190	-	13,883,528
Restricted for construction and improvements				
Investments	10,464,236	1,250,153	-	11,714,389
Capital assets				
Water and Wastewater Utility capital assets	1,853,617,700	-	-	1,853,617,700
Municipal Drainage Utility capital assets	-	64,537,935	-	64,537,935
Land and right of way	72,550,913	9,817,155	-	82,368,068
Construction work in progress	167,299,726	22,549,412	-	189,849,138
Less accumulated depreciation	(854,706,486)	(10,478,461)	-	(865,184,947)
Total capital assets (net of accumulated depreciation)	1,238,761,853	86,426,041	-	1,325,187,894
Total noncurrent assets	1,268,586,499	89,288,384	-	1,357,874,883
Total assets	1,420,737,253	137,776,517	(270,840)	1,558,242,930
Deferred outflows of resources				
Losses on bond refunding	5,232,151	-	-	5,232,151
Total assets and deferred outflows of resources	\$ 1,425,969,404	\$ 137,776,517	\$ (270,840)	\$ 1,563,475,081

	Water & Wastewater Utility	Municipal Drainage Utility	Eliminations	Total
LIABILITIES				
Current liabilities				
Accounts payable	\$ 2,160,039	\$ 122,925	\$ -	\$ 2,282,964
Environmental Services collections and other payments due to City of El Paso	6,990,624	-	-	6,990,624
Customer deposits	8,373,573	-	-	8,373,573
Accrued vacation payable	1,794,440	70,324	-	1,864,764
Accrued payroll and benefits	1,575,921	116,174	-	1,692,095
Due to Municipal Drainage Utility	270,840	-	(270,840)	-
Unearned revenue on land leases	338,682	8,975	-	347,657
Other current liabilities	383,847	-	-	383,847
Self insurance workers' compensation and health claims	299,060	-	-	299,060
Other governments payable - current	134,854	-	-	134,854
Current liabilities payable from restricted assets				
Revenue bonds payables and unamortized premiums net of discounts	30,166,377	2,690,259	-	32,856,636
Accrued interest on revenue bonds and commercial paper	8,276,706	1,496,862	-	9,773,568
Accounts payable	14,911,689	3,916,115	-	18,827,804
Land notes payable	790,328	-	-	790,328
Land notes interest payable	50,585	-	-	50,585
Customer advances for construction	13,577,981	-	-	13,577,981
Retainage payable on construction contracts	1,789,319	461,803	-	2,251,122
Total current liabilities	91,884,865	8,883,437	(270,840)	100,497,462
Noncurrent liabilities				
Revenue bonds payables and unamortized premiums net of discounts	499,659,628	58,956,149	-	558,615,777
Land notes payable	2,616,066	-	-	2,616,066
Other governments payable	2,497,006	-	-	2,497,006
Commercial paper notes	10,000,000	-	-	10,000,000
Other Post-Employment Benefits	7,689,928	268,613	-	7,958,541
Accrued vacation payable	1,089,319	64,417	-	1,153,736
Self insurance workers' compensation claims	744,207	-	-	744,207
Total noncurrent liabilities	524,296,154	59,289,179	-	583,585,333
Total liabilities	616,181,019	68,172,616	(270,840)	684,082,795
Deferred inflows of resources				
Gains on bond refunding	131,896	-	-	131,896
NET POSITION				
Restricted				
Restricted for debt service	55,543,164	6,409,977	-	61,953,141
Restricted for construction and improvements	15,539,058	5,997,108	-	21,536,166
Total restricted	71,082,222	12,407,085	-	83,489,307
Net investment in capital assets	721,516,344	54,515,497	-	776,031,841
Unrestricted	17,057,923	2,681,319	-	19,739,242
Total net position	809,656,489	69,603,901	-	879,260,390
Total liabilities, deferred inflows of resources, and net position	\$ 1,425,969,404	\$ 137,776,517	\$ (270,840)	\$ 1,563,475,081

The notes to the financial statements are an integral part of this statement

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF NET POSITION

February 28, 2014

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 12,586,724	\$ 2,203,062	\$ -	\$ 14,789,786
Investments	13,455,855	-	-	13,455,855
Accounts receivable - customers	16,599,054	789,597	-	17,388,651
Accounts receivable - other	622,729	7,243	-	629,972
Accrued interest receivable	413,077	119,393	-	532,470
Due from Water and Wastewater Utility	-	36,135	(36,135)	-
Inventory - materials and supplies	1,979,925	-	-	1,979,925
Other current assets	386,259	-	-	386,259
Prepaid expenses	2,016,389	-	-	2,016,389
Restricted current assets				
Restricted for bond requirements				
Cash and cash equivalents	34,504,077	4,915,490	-	39,419,567
Investments	15,220,319	1,475,532	-	16,695,851
Restricted for construction and improvements				
Cash and cash equivalents	42,217,856	26,237,859	-	68,455,715
Investments	29,046,549	23,298,384	-	52,344,933
Accounts receivable government grants	509,463	-	-	509,463
Notes receivable	98,979	-	-	98,979
Total current assets	169,657,255	59,082,695	(36,135)	228,703,815
Noncurrent assets				
Investments	5,021,763	-	-	5,021,763
Restricted noncurrent assets				
Restricted for bond requirements				
Investments	11,887,753	977,238	-	12,864,991
Restricted for construction and improvements				
Investments	16,887,105	4,412,307	-	21,299,412
Capital assets				
Water and Wastewater Utility capital assets	1,801,924,213	-	-	1,801,924,213
Municipal Drainage Utility capital assets	-	58,998,666	-	58,998,666
Land and right of way	71,029,203	6,601,105	-	77,630,308
Construction work in progress	119,354,839	9,976,295	-	129,331,134
Less accumulated depreciation	(809,281,469)	(9,231,298)	-	(818,512,767)
Total capital assets (net of accumulated depreciation)	1,183,026,786	66,344,768	-	1,249,371,554
Total noncurrent assets	1,216,823,407	71,734,313	-	1,288,557,720
Total assets	1,386,480,662	130,817,008	(36,135)	1,519,261,535
Deferred outflows of resources				
Losses on bond refunding	1,943,345	-	-	1,943,345
Total assets and deferred outflows of resources	\$ 1,388,424,007	\$ 130,817,008	\$ (36,135)	\$ 1,519,204,880

	Water & Wastewater Utility	Municipal Drainage Utility	Eliminations	Total
LIABILITIES				
Current liabilities				
Accounts payable	\$ 2,423,416	\$ 483,937	\$ -	\$ 2,907,353
Environmental Services collections and other payments due to City of El Paso	5,272,154	-	-	5,272,154
Customer deposits	7,678,096	-	-	7,678,096
Accrued vacation payable	1,749,273	58,633	-	1,807,906
Accrued payroll and benefits	1,534,580	120,731	-	1,655,311
Due to Municipal Drainage Utility	36,135	-	(36,135)	-
Unearned revenue on land leases	276,483	8,765	-	285,248
Other current liabilities	373,223	-	-	373,223
Self insurance workers' compensation and health claims	836,027	-	-	836,027
Other governments payable - current	128,931	-	-	128,931
Current liabilities payable from restricted assets				
Revenue bonds payables and unamortized premiums net of discounts	27,423,256	2,570,259	-	29,993,515
Accrued interest on revenue bonds and commercial paper	9,213,487	1,553,713	-	10,767,200
Accounts payable	17,398,450	1,062,549	-	18,460,999
Land notes payable	752,693	-	-	752,693
Land notes interest payable	70,912	-	-	70,912
Customer advances for construction	7,019,249	-	-	7,019,249
Retainage payable on construction contracts	1,612,140	76,133	-	1,688,273
Total current liabilities	83,798,505	5,934,720	(36,135)	89,697,090
Noncurrent liabilities:				
Revenue bonds payables and unamortized premiums net of discounts	499,827,906	61,646,408	-	561,474,314
Land notes payable	3,406,394	-	-	3,406,394
Other governments payable	2,631,861	-	-	2,631,861
Commercial paper notes	5,000,000	-	-	5,000,000
Other Post-Employment Benefits	6,720,592	196,987	-	6,917,579
Accrued vacation payable	1,132,407	49,824	-	1,182,231
Self insurance workers' compensation claims	548,888	-	-	548,888
Total noncurrent liabilities	519,268,048	61,893,219	-	581,161,267
Total liabilities	603,066,553	67,827,939	(36,135)	670,858,357
Deferred inflows of resources				
Gains on bond refunding	143,045	-	-	143,045
NET POSITION				
Restricted				
Restricted for debt service	52,398,662	5,814,548	-	58,213,210
Restricted for construction and improvements	27,034,464	8,717,102	-	35,751,566
Total restricted	79,433,126	14,531,650	-	93,964,776
Net investment in capital assets	681,280,780	46,220,867	-	727,501,647
Unrestricted	24,500,503	2,236,552	-	26,737,055
Total net position	785,214,409	62,989,069	-	848,203,478
Total liabilities, deferred inflows of resources, and net position	\$ 1,388,424,007	\$ 130,817,008	\$ (36,135)	\$ 1,519,204,880

The notes to the financial statements are an integral part of this statement

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

For the Year Ended February 28, 2015

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
Operating revenues				
Water	\$ 92,756,225	\$ -	\$ -	\$ 92,756,225
Water supply replacement charge	19,932,864	-	-	19,932,864
Reclaimed water	2,863,690	-	-	2,863,690
Wastewater	57,064,138	-	-	57,064,138
Drainage fees	-	15,298,948	(104,792)	15,194,156
Customer connection fees	5,441,677	-	-	5,441,677
Billing fees - City Environmental Services	613,136	262,772	-	875,908
Rent revenue	1,958,038	-	(24,000)	1,934,038
City of El Paso Franchise fee	1,937,221	-	-	1,937,221
Other operating revenue	1,486,686	419,794	-	1,906,480
Total operating revenues	184,053,675	15,981,514	(128,792)	199,906,397
Operating expenses				
Operations and maintenance - water & reclaimed water	40,081,155	-	(70,925)	40,010,230
Operations and maintenance - wastewater	21,624,836	-	(52,474)	21,572,362
General, administrative and engineering expenses	20,524,197	-	1,182,240	21,706,437
Operations and maintenance - drainage	-	4,973,556	5,367	4,978,923
Indirect cost allocation	-	1,193,000	(1,193,000)	-
Other operating expenses	2,962,829	-	-	2,962,829
Other Post-Employment Benefits	969,336	71,626	-	1,040,962
Depreciation	52,041,478	1,364,863	-	53,406,341
Payment to City of El Paso Franchise fee	1,937,221	-	-	1,937,221
Payment to City of El Paso per bond covenants	10,593,266	-	-	10,593,266
Total operating expenses	150,734,318	7,603,045	(128,792)	158,208,571
Operating income	33,319,357	8,378,469	-	41,697,826
Nonoperating revenues (expenses)				
Interest earnings and net change in fair value of investments	401,998	99,550	-	501,548
IRS tax credit for Build America Bonds	214,302	800,675	-	1,014,977
Gain on land assets converted by sale	143,455	4,929	-	148,384
Gain on sale of miscellaneous assets	646,916	87,318	-	734,234
Interest on long term debt	(18,862,744)	(2,756,109)	-	(21,618,853)
Total nonoperating expenses	(17,456,073)	(1,763,637)	-	(19,219,710)
Increase in net position, before capital contributions	15,863,284	6,614,832	-	22,478,116
Federal grant contributions	371,364	-	-	371,364
Capital and non-federal grant contributions	8,207,432	-	-	8,207,432
Total contributions	8,578,796	-	-	8,578,796
Change in net position	24,442,080	6,614,832	-	31,056,912
Total net position - beginning	785,214,409	62,989,069	-	848,203,478
Total net position - ending	\$ 809,656,489	\$ 69,603,901	\$ -	\$ 879,260,390

The notes to the financial statements are an integral part of this statement

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**

For the Year Ended February 28, 2014

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
Operating revenues:				
Water	\$ 91,837,712	\$ -	\$ -	\$ 91,837,712
Water supply replacement charge	19,594,187	-	-	19,594,187
Reclaimed water	2,651,400	-	-	2,651,400
Wastewater	58,032,496	-	-	58,032,496
Drainage fees	-	15,162,459	(104,856)	15,057,603
Customer connection fees	4,637,221	-	-	4,637,221
Billing fees - City Environmental Services	608,171	260,645	-	868,816
Rent revenue	2,019,831	-	(24,000)	1,995,831
Other operating revenue	1,615,576	399,981	-	2,015,557
Total operating revenues	<u>180,996,594</u>	<u>15,823,085</u>	<u>(128,856)</u>	<u>196,690,823</u>
Operating expenses:				
Operations and maintenance - water & reclaimed water	38,764,590	-	(72,975)	38,691,615
Operations and maintenance - wastewater	22,496,822	-	(52,474)	22,444,348
General, administrative and engineering expenses	19,178,358	-	1,294,176	20,472,534
Operations and maintenance - drainage	-	5,613,000	7,417	5,620,417
Indirect cost allocation	-	1,305,000	(1,305,000)	-
Other operating expenses	2,602,114	-	-	2,602,114
Other Post-Employment Benefits	833,973	50,995	-	884,968
Depreciation	50,592,539	1,484,740	-	52,077,279
Payment to City of El Paso per bond covenants	10,553,216	-	-	10,553,216
Total operating expenses	<u>145,021,612</u>	<u>8,453,735</u>	<u>(128,856)</u>	<u>153,346,491</u>
Operating income	<u>35,974,982</u>	<u>7,369,350</u>	<u>-</u>	<u>43,344,332</u>
Nonoperating revenues (expenses):				
Interest earnings and net change in fair value of investments	265,915	89,659	-	355,574
IRS tax credit for Build America Bonds	221,332	828,171	-	1,049,503
Gain on land assets converted by sale	2,013,946	256,595	-	2,270,541
Gain on sale of miscellaneous assets	314,473	-	-	314,473
Other nonoperating expense	-	(13,712)	-	(13,712)
Interest on long term debt	(18,534,364)	(2,775,634)	-	(21,309,998)
Total nonoperating expenses	<u>(15,718,698)</u>	<u>(1,614,921)</u>	<u>-</u>	<u>(17,333,619)</u>
Increase in net position, before capital contributions	<u>20,256,284</u>	<u>5,754,429</u>	<u>-</u>	<u>26,010,713</u>
Federal grant contributions	830,034	-	-	830,034
Capital and non-federal grant contributions	12,998,824	-	-	12,998,824
Total contributions	<u>13,828,858</u>	<u>-</u>	<u>-</u>	<u>13,828,858</u>
Change in net position	<u>34,085,142</u>	<u>5,754,429</u>	<u>-</u>	<u>39,839,571</u>
Total net position - beginning	<u>751,129,267</u>	<u>57,234,640</u>	<u>-</u>	<u>808,363,907</u>
Total net position - ending	<u>\$ 785,214,409</u>	<u>\$ 62,989,069</u>	<u>\$ -</u>	<u>\$ 848,203,478</u>

The notes to the financial statements are an integral part of this statement

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF CASH FLOWS

For the Year Ended February 28, 2015

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 177,096,429	\$ 15,821,781	\$ -	\$ 192,918,210
Cash received from Municipal Drainage Utility	1,470,339	-	(1,470,339)	-
Cash received from Water and Wastewater Utility	-	104,791	(104,791)	-
Environmental Services fees collected for the City of El Paso	58,457,099	-	-	58,457,099
Franchise fees collected	1,937,221	-	-	1,937,221
Cash payments to suppliers for goods and services	(48,766,755)	(4,017,685)	-	(52,784,440)
Cash payments to employees for services	(37,109,487)	(1,252,522)	-	(38,362,009)
Environmental Services fees paid to the City of El Paso	(58,017,801)	-	-	(58,017,801)
Payments to City of El Paso per bond covenants	(9,958,521)	-	-	(9,958,521)
Payments to City of El Paso Franchise fees	(1,292,793)	-	-	(1,292,793)
Cash payments to Municipal Drainage Utility	(104,791)	-	104,791	-
Cash payments to Water and Wastewater Utility	-	(1,470,339)	1,470,339	-
Net cash provided by operating activities	<u>83,710,940</u>	<u>9,186,026</u>	<u>-</u>	<u>92,896,966</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from				
Revenue bonds	131,650,000	-	-	131,650,000
Premiums received on revenue bonds	13,245,483	-	-	13,245,483
Commercial paper	30,000,000	-	-	30,000,000
Cash receipts from grants	466,059	-	-	466,059
Acquisition and construction from capital grants	(456,732)	-	-	(456,732)
Acquisition and construction of capital assets net of disposals	(95,077,532)	(18,206,900)	-	(113,284,432)
Refunding revenue bonds	(116,445,000)	-	-	(116,445,000)
Refunding commercial paper	(25,000,000)	-	-	(25,000,000)
Principal payments on revenue bonds	(25,150,000)	(2,524,000)	-	(27,674,000)
Interest and fees on revenue bonds and commercial paper	(24,554,932)	(2,859,219)	-	(27,414,151)
IRS tax credit on Build America Bonds	214,302	800,675	-	1,014,977
Principal payments on land notes payable	(752,693)	-	-	(752,693)
Interest payments on notes and other long term debt	(263,422)	-	-	(263,422)
Proceeds from sale of assets net of related expenses	790,372	92,247	-	882,619
Net cash used by capital and related financing activities	<u>(111,334,095)</u>	<u>(22,697,197)</u>	<u>-</u>	<u>(134,031,292)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from the sale and maturities of investment securities	100,425,027	32,241,292	-	132,666,319
Purchase of investment securities	(89,639,818)	(20,998,240)	-	(110,638,058)
Interest received on investment securities	406,564	117,137	-	523,701
Net cash provided by investing activities	<u>11,191,773</u>	<u>11,360,189</u>	<u>-</u>	<u>22,551,962</u>
Net decrease in cash and cash equivalents	(16,431,382)	(2,150,982)	-	(18,582,364)
Cash and cash equivalents				
Beginning of year	89,308,657	33,356,411	-	122,665,068
End of year	<u>\$ 72,877,275</u>	<u>\$ 31,205,429</u>	<u>\$ -</u>	<u>\$ 104,082,704</u>

The notes to the financial statements are an integral part of this statement

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF CASH FLOWS

For the Year Ended February 28, 2015

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 33,319,357	\$ 8,378,469	\$ -	\$ 41,697,826
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	52,041,478	1,364,863	-	53,406,341
Bond issue expense	972,424	-	-	972,424
(Increase) decrease in assets:				
Accounts receivable	(5,753,698)	(55,152)	-	(5,808,850)
Due from Water and Wastewater Utility	-	(234,705)	234,705	-
Inventory	109,080	-	-	109,080
Prepaid expenses	20,383	-	-	20,383
Other current assets	(127,773)	-	-	(127,773)
Increase (decrease) in liabilities				
Accounts payable	(263,378)	(361,012)	-	(624,390)
Other current liabilities	2,487,254	210	-	2,487,464
Due to Municipal Drainage Utility	234,705	-	(234,705)	-
Accrued vacation payable	2,079	26,284	-	28,363
Accrued payroll and benefits	41,341	(4,557)	-	36,784
Other Post-Employment Benefits	969,336	71,626	-	1,040,962
Self insurance claims	(341,648)	-	-	(341,648)
Net cash provided by operating activities	<u>\$ 83,710,940</u>	<u>\$ 9,186,026</u>	<u>\$ -</u>	<u>\$ 92,896,966</u>
Noncash investing, capital, and financing activities				
Contribution in aid of construction	\$ 8,122,065	\$ -	\$ -	\$ 8,122,065
Decrease in accounts receivable capital grants	(9,327)	-	-	(9,327)
Change in fair value of investments	14,853	3,686	-	18,539
	<u>\$ 8,127,591</u>	<u>\$ 3,686</u>	<u>\$ -</u>	<u>\$ 8,131,277</u>

The notes to the financial statements are an integral part of this statement

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF CASH FLOWS

For the Year Ended February 28, 2014

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 181,465,426	\$ 15,802,839	\$ -	\$ 197,268,265
Cash received from Municipal Drainage Utility	1,042,321	-	(1,042,321)	-
Cash received from Water and Wastewater Utility	-	104,856	(104,856)	-
Environmental Services fees collected for the City of El Paso	52,511,352	-	-	52,511,352
Cash payments to suppliers for goods and services	(46,865,900)	(4,153,559)	-	(51,019,459)
Cash payments to employees for services	(36,773,939)	(1,138,533)	-	(37,912,472)
Environmental Services fees paid to the City of El Paso	(51,977,487)	-	-	(51,977,487)
Payments to City of El Paso per bond covenants	(10,484,432)	-	-	(10,484,432)
Cash payments to Municipal Drainage Utility	(104,856)	-	104,856	-
Cash payments to Water and Wastewater Utility	-	(1,042,321)	1,042,321	-
Net cash provided by operating activities	<u>88,812,485</u>	<u>9,573,282</u>	<u>-</u>	<u>98,385,767</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from				
Revenue bonds	64,900,000	-	-	64,900,000
Premiums received on revenue bonds	7,540,774	-	-	7,540,774
Commercial paper	27,000,000	-	-	27,000,000
Cash receipts from grants	1,460,404	-	-	1,460,404
Acquisition and construction from capital grants	(1,182,310)	-	-	(1,182,310)
Acquisition and construction of capital assets net of disposals	(68,676,431)	(5,475,993)	-	(74,152,424)
Refunding revenue bonds	(40,335,000)	-	-	(40,335,000)
Refunding commercial paper	(30,000,000)	-	-	(30,000,000)
Principal payments on revenue bonds	(25,100,000)	(2,359,000)	-	(27,459,000)
Interest and fees on revenue bonds and commercial paper	(22,872,177)	(2,931,435)	-	(25,803,612)
IRS tax credit on Build America Bonds	221,332	828,171	-	1,049,503
Principal payments on land notes payable	(764,376)	-	-	(764,376)
Interest payments on notes and other long term debt	(232,508)	-	-	(232,508)
Proceeds from sale of assets net of related expenses	2,262,984	256,595	-	2,519,579
Net cash used by capital and related financing activities	<u>(85,777,308)</u>	<u>(9,681,662)</u>	<u>-</u>	<u>(95,458,970)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from the sale and maturities of investment securities	83,681,308	32,019,402	-	115,700,710
Purchase of investment securities	(123,318,773)	(40,591,561)	-	(163,910,334)
Interest received on investment securities	140,029	112,766	-	252,795
Net cash used by investing activities	<u>(39,497,436)</u>	<u>(8,459,393)</u>	<u>-</u>	<u>(47,956,829)</u>
Net decrease in cash and cash equivalents	(36,462,259)	(8,567,773)	-	(45,030,032)
Cash and cash equivalents				
Beginning of year	125,770,916	41,924,184	-	167,695,100
End of year	<u>\$ 89,308,657</u>	<u>\$ 33,356,411</u>	<u>\$ -</u>	<u>\$ 122,665,068</u>

The notes to the financial statements are an integral part of this statement

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF CASH FLOWS

For the Year Ended February 28, 2014

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 35,974,982	\$ 7,369,350	\$ -	\$ 43,344,332
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	50,592,539	1,484,740	-	52,077,279
Bond issue expense	663,091	-	-	663,091
(Increase) decrease in assets				
Accounts receivable	(403,817)	84,597	-	(319,220)
Due from Water and Wastewater Utility	-	303,261	(303,261)	-
Inventory	(207,683)	-	-	(207,683)
Prepaid expenses	(95,385)	-	-	(95,385)
Other current assets	(97,114)	-	-	(97,114)
Increase (decrease) in liabilities:				
Accounts payable	75,939	255,812	-	331,751
Other current liabilities	1,502,438	15	-	1,502,453
Due to Municipal Drainage Utility	(303,261)	-	303,261	-
Accrued vacation payable	35,500	11,352	-	46,852
Accrued payroll and benefits	125,486	37,250	-	162,736
Other Post-Employment Benefits	833,973	50,995	-	884,968
Retainage payable on operating contracts	-	(24,090)	-	(24,090)
Self insurance claims	115,797	-	-	115,797
Net cash provided by operating activities	<u>\$ 88,812,485</u>	<u>\$ 9,573,282</u>	<u>\$ -</u>	<u>\$ 98,385,767</u>
Noncash investing, capital, and financing activities				
Contribution in aid of construction	\$ 12,646,548	\$ -	\$ -	\$ 12,646,548
Decrease in accounts receivable capital grants	(278,094)	-	-	(278,094)
Change in fair value of investments	52,721	6,423	-	59,144
	<u>\$ 12,421,175</u>	<u>\$ 6,423</u>	<u>\$ -</u>	<u>\$ 12,427,598</u>

The notes to the financial statements are an integral part of this statement

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - El Paso City Ordinance No. 752, adopted May 22, 1952, established a five-member board of trustees known as the "Public Service Board" (PSB) which was given the complete management and control of the city's Water and Wastewater Utility System, and as such a separate entity known as Public Service Board - El Paso Water Utilities (EPWU) was created. Ordinance No. 017167 adopted August 11, 2009 increased the number of board members from five to seven. The PSB consists of the Mayor of the City of El Paso and six residents of El Paso County, Texas. With the exception of the Mayor, all other trustees are appointed by the City Council and serve staggered four-year terms.

EPWU prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB), and it complies with the requirements of contracts and grants of agencies from which it receives funds. EPWU's basic financial statements include the accounts of all EPWU's operations, and there are no component units as defined by GASB which are included in EPWU's reporting entity. However, EPWU is a component unit of the City of El Paso based upon the selection of the governing authority.

The Enterprise Funds Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position are the financial statements for EPWU as a whole. They report information on both of EPWU's funds after elimination of the interfund activities, payables and receivables. The two funds of EPWU are the Water and Wastewater Utility Fund and the Municipal Drainage Utility Fund.

Nature of Activities - EPWU provides water, wastewater, and drainage services for the El Paso area residents. In addition to the water, wastewater, and drainage system revenue, EPWU receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

During the year ended February 28, 2006, EPWU acquired a municipal golf course and has contracted a managing agent to operate the facility. The assets, liabilities, and results of operations are included in these financial statements as part of the Water and Wastewater Utility.

Fund Accounting - Public Service Board - El Paso Water Utilities is comprised of two funds, the Water and Wastewater Utility and the Municipal Drainage Utility. The funds are accounted for as enterprise funds, which are proprietary funds. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

EPWU reports the following major enterprise funds:

- Water and Wastewater Utility - This fund is used to account for the activity related to providing water and wastewater services to El Paso area residents.

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Municipal Drainage Utility** - This fund is used to account for the activity related to the management and collection of storm water runoff.

City Ordinance No. 752 established certain "funds" for the Water and Wastewater Utility Fund. These "funds" are mandatory asset segregation and not funds in the sense of governmental fiscal and accounting entities with self-balancing sets of accounts. These "funds" are more fully explained in Note 2.

Annual Budget - EPWU prepares, prior to the beginning of each fiscal year, separate detailed comprehensive annual budgets for the Water and Wastewater Utility and Municipal Drainage Utility reflecting estimates of revenues and expenses and other requirements for the ensuing fiscal year in sufficient detail to indicate the probable gross revenues and pledged revenues for such fiscal year. The budgets are prepared using the accrual basis of accounting and are approved by the Public Service Board.

Basis of Accounting - The financial statements are prepared using the accrual basis of accounting. Revenue is recognized as it is earned and expenses are recognized when goods or services are delivered.

In fiscal year 2014, EPWU implemented GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34, which became effective for reporting periods beginning after June 15, 2012. As a result, no component units are presented in the financial statements for the years ended February 28, 2015 and 2014.

In fiscal year 2014, EPWU also implemented GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", which establishes accounting and financial reporting standards that reclassify certain items previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources. This statement impacts how EPWU accounts for debt issue costs and gains and losses associated with debt refunding. Debt issue costs are now expensed but were previously recognized as assets and amortized. Losses are now categorized as deferred outflows of resources and gains are categorized as deferred inflows of resources.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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 EPWU are charges to customers for sales and services. EPWU also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. In addition, EPWU acts as a billing and collecting agent on behalf of the City of El Paso for environmental services collection, and an administrative fee is recognized as operating revenue for this service. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets as well as payments to the City of El Paso based upon 10% of water sales. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates - Preparation of these financial statements in conformity with generally accepted accounting principles requires the use of management's estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Flows Statement - For purposes of the statement of cash flows, EPWU considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments - All investments with an original maturity greater than one year from date of purchase are stated at fair value based on quoted market prices as of year end. Investments with an original maturity of less than one year are reported at amortized cost. Premiums and discounts on investments are amortized or accreted using the straight-line method, which approximates the interest method, over the terms of the related securities. It is the intent of management to hold securities until maturity, and the securities not available within a year after year-end are considered non-current.

Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold.

Inventory - Materials and Supplies - EPWU reports inventories of supplies at the lower of cost (average cost) or market. Supplies are recorded as expenses when they are consumed.

Restricted Assets - Based upon certain bond covenants and other requirements, EPWU is required to establish and maintain prescribed amounts of resources (consisting of cash and temporary investments) that can be used only to service outstanding debt and other activities specifically restricted (construction and improvements).

Capital Assets - Capital assets include assets with an individual cost of \$5,000 or more and an estimated useful life in excess of one year. Utility plant and drainage asset additions are recorded at cost, which includes materials, labor, overhead, and interest capitalized during construction. Overhead consists of internal costs that are clearly related to the acquisition of capital assets. Assets acquired through contributions, such as from developers, are capitalized and recorded at estimated fair value as of the date of donation. Included in capital assets are intangible assets, which consist of purchased water rights and land easements. It is the policy of EPWU to capitalize infrastructure assets. Maintenance and repairs that do not add to the value or life of the asset are charged to operating expense. Major plant replacements are capitalized.

EPWU records depreciation of capital assets in service on the straight-line method at amounts estimated to amortize costs of assets over their estimated useful lives. At the time of retirement of capital assets, the allowance for depreciation is charged with the original cost of the asset and the cost of removal.

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following estimated useful lives are used in providing for depreciation of capital assets:

Building and shops	25 - 33 years
Vehicles and heavy equipment	5 years
Equipment and tools	3 - 33 years
Water plant	10 - 50 years
Wastewater plant	5 - 50 years
Water rights contract	75 years
Drainage system	50 - 100 years

Vacation and Sick Pay - Full time, permanent Public Service Board - El Paso Water Utilities employees earn vacation leave as follows:

<u>Years Employed</u>	<u>Vacation Leave</u>
1 - 5	12 days/year
6- 15	17 days/year
Over 15	20 days/year

Permanent EPWU employees who work 40 hours per week can accumulate a total of 400 vacation leave hours. As of February 28, 2015 and 2014, EPWU's total vacation leave liability was \$3,018,500 and \$2,990,137, respectively.

Vacation payable for the Water and Wastewater Utility is as follows:

	<u>2015</u>	<u>2014</u>
Total payable, beginning of year	\$ 2,881,680	\$ 2,846,180
Vacation earned	1,859,803	1,913,241
Vacation used	<u>(1,857,724)</u>	<u>(1,877,741)</u>
Total payable, end of year	<u>\$ 2,883,759</u>	<u>\$ 2,881,680</u>

Vacation payable for the Municipal Drainage Utility is as follows:

	<u>2015</u>	<u>2014</u>
Total payable, beginning of year	\$ 108,457	\$ 97,105
Vacation earned	112,492	76,153
Vacation used	<u>(86,208)</u>	<u>(64,801)</u>
Total payable, end of year	<u>\$ 134,741</u>	<u>\$ 108,457</u>

Sick leave is earned at a rate of 15 days per year for permanent, full time EPWU employees, with an unlimited accumulation of days. EPWU does not record any liability for sick pay as employees are not reimbursed upon termination.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacation is recorded as an expense and related liability in the year earned. Sick pay is recorded as an expense in the year incurred.

2. CITY ORDINANCE NO. 752

On May 22, 1952, City Ordinance No. 752 created the Public Service Board - El Paso Water Utilities for the purpose of providing water and wastewater services that are reported in the Water and Wastewater Utility Fund. This ordinance authorized the issuance of a series of Revenue Bonds entitled "City of El Paso, Texas, Water and Sewer Revenue Bonds Series 1952 (the Series 1952 Bonds)," and the City reserved the right and option in the 1952 resolution to issue, under certain conditions, additional bonds on a parity as to lien and right with the Series 1952 Bonds. This bond ordinance has been amended as a result of subsequent bond issues, but still contains the following key covenants.

Ordinance No. 752, as amended, requires that gross revenues of the System be applied in sequence to: (a) current expenses of maintenance and operations; (b) debt service and reserve requirements; (c) capital expenditures, or unexpected or extraordinary repairs or replacements, or for any other lawful purpose. The following funds have been established to account for the application of the gross revenues: (i) Water and Sewer Revenue Bonds Waterworks and Sewage Fund; (ii) Water and Sewer Revenue Bonds Interest and Sinking Fund; (iii) Water and Sewer Revenue Bonds Reserve Fund; and (iv) Water and Sewer Improvement Fund. All revenues of every nature received through operations of the System shall be paid into the Waterworks and Sewage Fund. The Bond Funds are required to contain an amount of money and investments equal to the principal and interest requirements during the fiscal year.

Ordinance No. 752 also requires that EPWU maintain rates sufficient to produce or yield revenues to produce in each fiscal year an amount adequate to pay all expenses incurred for the operations and maintenance of the System as such expenses shall accrue during the year and to produce an additional amount equal to 150% of the aggregate amount required to be paid in such year for principal and interest and redemption premiums on bonds payable from the Bond Funds.

Ordinance No. 752 also provides that EPWU will permit no free water or services to be supplied to the City or to any other user. However, the ordinance requires that 10% of the total amounts received by EPWU from the sale of water be paid to the City Treasurer. The money so received by the City Treasurer may be expended by the City under the direction of the City Council for any purpose for which revenues of the System may legally be used under the laws of the State of Texas.

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

3. CITY ORDINANCE NO. 016668 ESTABLISHMENT OF A MUNICIPAL DRAINAGE UTILITY SYSTEM

On June 19, 2007, the City of El Paso adopted Ordinance #016668 establishing a Municipal Drainage Utility System. The ordinance states that the Public Service Board - El Paso Water Utilities shall have complete authority and control of the management and operation of the Municipal Drainage Utility on behalf of the City. The Municipal Drainage Utility is necessary and essential to ensure that the management and control of the storm water runoff adequately protects the health, safety, and welfare of the citizens of the City. EPWU assumed full responsibility and control of the Municipal Drainage Utility as of March 1, 2008. City personnel, equipment, and all assets of the Drainage System including infrastructure and land were transferred to EPWU. EPWU began billing drainage fees to fund the operating and capital expenses of the Municipal Drainage Utility as of March 1, 2008.

The Ordinance further states that the Board shall prepare a Master Stormwater Management Plan which shall be approved by the City Council and took effect in March of 2009. In developing the Stormwater Plan, the Board shall take into account the use of open space as natural drainage and to the extent reasonably possible preserve the City's open spaces, greenways, arroyos and wilderness areas in their natural state. The Board shall also allocate an amount equal to 10% of the System's annual drainage utility fee revenues for Green Projects which have the potential dual purposes of stormwater management and preservation of the City's open spaces, greenways, arroyos and wilderness areas. Since March 1, 2008, \$10,736,486 has been set aside from 10% of revenues for Green Projects and as of February 28, 2015, \$6,604,298 has been spent including the purchase of 202.658 acres for \$2,465,000 on March 31, 2010 and \$1,800,000 for eight Park-Pond Conversions throughout the City.

The Ordinance also requires that a drainage utility fee be imposed on each improved parcel within the City for services and facilities provided by the System, except as to exemptions provided for by law or by the ordinance. At least once a year beginning with the City's Fiscal Year ending August 31, 2009, the Board shall present to the City Council a report on the status of the system.

Ordinance #016668 also requires that the revenues collected from drainage utility fees must be segregated and completely identifiable from other City or Board accounts. The Board has adopted a debt service coverage ratio of 1.25 times for all Municipal Drainage Utility bonds which is included in the bond ordinances for such bonds.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

4. CASH, CASH EQUIVALENTS AND INVESTMENTS

The cash, cash equivalents, and investments of EPWU must be deposited and invested under the terms of a contract, contents of which are set out in the depository contract. EPWU accepts as collateral to secure its deposited funds, to the extent not insured by the Federal Deposit Insurance Corporation ("FDIC"), allowable pledged book-entry securities (Eligible Securities) of any type permitted by the provisions of the Public Funds Collateral Act, Title 10, Chapter 2257 of the Texas Government Code, which are eligible to be held in a Securities Account at a Federal Reserve Bank under Federal Reserve Bank Operating Circular 7. The depository bank places these allowable government securities as collateral for safekeeping and trust with EPWU's agent bank in an amount sufficient to protect EPWU deposits on a day-to-day basis during the period of the contract.

The carrying amount of cash for the Water and Wastewater Utility at February 28, 2015 and 2014, was \$13,010,519 and \$1,092,787, respectively, and the bank balances totaled \$16,788,720 and \$4,670,566, respectively. The carrying amount of cash for the Municipal Drainage Utility at February 28, 2015 and 2014 was \$1,931,512, and \$244,228, respectively, and the bank balances totaled \$3,448,353 and \$372,149, respectively. As of February 28, 2015, \$250,000 of the bank balances were covered by FDIC and the remaining balance was secured by government securities with a fair value of \$22,437,475. As of February 28, 2014, \$250,000 of the bank balances were covered by FDIC and the remaining balance was secured by government securities with a fair value of \$5,377,966.

Cash, cash equivalents and investments for the Water and Wastewater Utility consist of the following:

	February 28, 2015			
	Cash and Cash Equivalents			Investments
	Cash	Cash Equivalents	Total	
Unrestricted assets	\$ 8,396,760	\$ 8,496,627	\$ 16,893,387	\$ 17,624,513
Restricted assets				
Bond requirements	-	36,146,346	36,146,346	27,673,524
Construction and improvements	4,613,759	15,223,783	19,837,542	35,421,245
Total restricted assets	4,613,759	51,370,129	55,983,888	63,094,769
Total	\$ 13,010,519	\$ 59,866,756	\$ 72,877,275	\$ 80,719,282

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

	February 28, 2014			
	Cash and Cash Equivalents			Investments
	Cash	Cash Equivalents	Total	
Unrestricted assets	\$ 681,228	\$ 11,905,496	\$ 12,586,724	\$ 18,477,618
Restricted assets				
Bond requirements	-	34,504,077	34,504,077	27,108,072
Construction and improvements	411,559	41,806,297	42,217,856	45,933,654
Total restricted assets	411,559	76,310,374	76,721,933	73,041,726
Total	\$ 1,092,787	\$ 88,215,870	\$ 89,308,657	\$ 91,519,344

Cash, cash equivalents and investments for the Municipal Drainage Utility consist of the following:

	February 28, 2015			
	Cash and Cash Equivalents			Investments
	Cash	Cash Equivalents	Total	
Unrestricted assets	\$ 992,147	\$ 1,112,276	\$ 2,104,423	\$ -
Restricted assets				
Bond requirements	-	4,946,317	4,946,317	2,960,522
Construction and improvements	939,365	23,215,324	24,154,689	15,956,201
Total restricted assets	939,365	28,161,641	29,101,006	18,916,723
Total	\$ 1,931,512	\$ 29,273,917	\$ 31,205,429	\$ 18,916,723

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

February 28, 2014				
Cash and Cash Equivalents				Investments
	Cash	Cash Equivalents	Total	
Unrestricted assets	\$ (85,953)	\$ 2,289,015	\$ 2,203,062	\$ -
Restricted assets				
Bond requirements	-	4,915,490	4,915,490	2,452,770
Construction and improvements	330,181	25,907,678	26,237,859	27,710,691
Total restricted assets	330,181	30,823,168	31,153,349	30,163,461
Total	\$ 244,228	\$ 33,112,183	\$ 33,356,411	\$ 30,163,461

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires EPWU to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Texas statutes and ordinances of the City of El Paso authorize EPWU to expend funds for the operation of EPWU, including the purchase of investments. EPWU is permitted to invest available funds in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market mutual funds, (5) investment pools, (6) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; obligations of states, agencies, counties, cities, and other political subdivisions of any state having a rating of not less than A or its equivalent, and (7) fully collateralized repurchase agreements having a defined termination date and secured by obligations of the United States or its agencies and instrumentalities.

The Act also requires EPWU to have independent auditors perform test procedures related to investment practices as provided by the Act. EPWU is in substantial compliance with the requirements of the Act and with local policies.

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

EPWU participates in TEXPOOL, which is a government investment pool in the State of Texas. The State Comptroller of Public Accounts maintains oversight responsibility for TEXPOOL. This responsibility includes the ability to influence operations, designation of management and accountability for fiscal matters. There is also the TEXPOOL Advisory Board which advises on TEXPOOL'S Investment policy and approves any fee increases. The Advisory Board is composed equally of participants in TEXPOOL and other persons who are qualified to advise TEXPOOL. Federated Investors manage the daily operations of the pool under a contract with the Comptroller. Although TEXPOOL is not registered with the SEC as investment companies, it operates in a manner consistent with the SEC's Rule 2(a)7 of the Investment Company Act of 1940. GASB allows 2(a)7-like pools to use amortized cost (which excludes unrealized gains and losses) rather than fair value to report net assets to compute share price. The fair value of EPWU's position in TEXPOOL is the same as the value of TEXPOOL shares.

EPWU also participates in TexSTAR which is an investment service created by local governments for local governments. TexSTAR was organized in conformity with the interlocal cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These acts provide for the creation of public funds investment pools such as TexSTAR and authorize eligible governmental entities to invest their public funds in investment pools. So long as the Fund continues to utilize amortized accounting, although all securities are marked to market daily using the fair value method, amortized cost, which generally approximates the market value of the securities, has been deemed to be a proxy for fair value. The stated objective of TexSTAR is to maintain a stable \$1 per unit net asset value. The amortized cost approximates fair value as of February 28, 2015. Section 2256.016(g)(1) of the Public Funds Investment Act requires TexSTAR to establish and maintain an advisory board composed of Participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Members are appointed and serve at the will of the Board. The names of the Advisory Board members are available on the TexSTAR website at www.texstar.org. The business and affairs of TexSTAR are managed by the Board in accordance with the bylaws (the "*Bylaws*"). The Bylaws set forth procedures governing the selection of, and action taken by, the Board. Board oversight of TexSTAR is maintained through various reporting requirements.

EPWU also participates in the Federally Insured Liquidity Account (FILA) which is a money market program that provides next day liquidity and is fully FDIC insured. All banks within the FILA program are only those classified as "well capitalized" by the FDIC and are carefully screened and monitored. The current capacity for FILA is limited to \$25 million.

State statutes permit EPWU to enter into certain repurchase agreements. That is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. All sales of investments under reverse repurchase agreements must be for fixed terms. In investing the proceeds of reverse repurchase agreements, the term to maturity of the investments is the same as the term of reverse repurchase agreement. During fiscal years 2015 and 2014, EPWU did not enter into any reverse repurchase agreements.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Water and Wastewater Utility investments at February 28, 2015 and 2014 are categorized as summarized below:

February 28, 2015						
Investment Type	Fair Value	Maturities		Weighted Avg. Maturity (days)	Credit Rating Standard & Poor's	Percent of Grand Total
		Less than 1 year	1-5 years			
Government Investment Pools and Safekeeping						
Account						
FILA*	\$ 9,219,409	\$ 9,219,409	\$ -	1	Not Rated	6.56%
TexPool	10,792,546	10,792,546	-	1	AAA	7.68%
TexSTAR	1,484,505	1,484,505	-	1	AAA	1.06%
Total Pools and Safekeeping	21,496,460	21,496,460	-			15.30%
Mutual Funds						
Fidelity Treasury Money Market Funds	36,146,346	36,146,346	-	1	AAA	25.71%
Government Money Market Fund	2,223,950	2,223,950	-	1	AAA	1.58%
Total Mutual Funds	38,370,296	38,370,296	-			27.29%
Securities						
Municipal Bonds Discounts	1,649,405	199,723	1,449,682	47	AA	1.17%
Federal Agency Discounts						
Overseas Private Investments	1,304,060	-	1,304,060	539	AA	0.93%
Federal Agency Coupons						
Federal National Mortgage Assoc.	5,598,838	330,308	5,268,530	422	AA	3.98%
Federal Farm Credit Bank	3,471,066	-	3,471,066	343	AA	2.46%
Federal Home Loan Bank	8,428,922	2,511,567	5,917,355	229	AA	6.00%
Federal Home Loan Mortgage Corp	2,164,807	-	2,164,807	568	AA	1.54%
Federal Agricultural Mortgage Corp	750,194	-	750,194	257	AA	0.53%
Certificates of Deposit **	29,600,944	240,056	29,360,888	331	Not Rated	21.06%
Municipal Bonds	27,751,046	3,769,609	23,981,437	256	AA	19.74%
Total Securities	80,719,282	7,051,263	73,668,019	305		57.41%
Portfolio Total	\$ 140,586,038	\$ 66,918,019	\$ 73,668,019	176		100.00%

* FILA is not rated but is FDIC insured.

** Certificates of Deposit are not rated but are fully collateralized or FDIC insured.

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

February 28, 2014						
Investment Type	Fair Value	Maturities		Weighted Avg. Maturity (days)	Credit Rating Standard & Poor's	Percent of Grand Total
		Less than 1 year	1-5 years			
Government Investment Pools and Safekeeping						
Account						
TexPool	\$ 39,455,983	\$ 39,455,983	\$ -	1	AAA	21.95%
TexSTAR	9,710,100	9,710,100	-	1	AAA	5.40%
Total Pools and Safekeeping	49,166,083	49,166,083	-			27.35%
Mutual Funds						
Fidelity Treasury Money Market Funds	34,504,077	34,504,077	-	1	AAA	19.20%
Government Money Market Fund	4,545,710	4,545,710	-	1	AAA	2.53%
Total Mutual Funds	39,049,787	39,049,787	-			21.73%
Securities						
Municipal Bonds Discounts	1,440,561	-	1,440,561	397	AA	0.80%
Federal Agency Coupons						
Federal National Mortgage Assoc.	1,253,486	-	1,253,486	903	AA	0.70%
Federal Farm Credit Bank	3,319,520	500,082	2,819,438	299	AA	1.85%
Federal Home Loan Bank	20,112,674	13,253,426	6,859,248	187	AA	11.19%
Federal Home Loan Mortgage Corp	8,420,963	4,103,499	4,317,464	253	AA	4.69%
Certificates of Deposit *	24,825,798	11,944,071	12,881,727	383	Not Rated	13.80%
Municipal Bonds	32,146,342	4,742,522	27,403,820	329	AA	17.89%
Total Securities	91,519,344	34,543,600	56,975,744	313		50.92%
Portfolio Total	\$ 179,735,214	\$ 122,759,470	\$ 56,975,744	161		100.00%

* Certificates of Deposit are not rated but are fully collateralized.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Municipal Drainage Utility investments at February 28, 2015 and 2014 are categorized as summarized below:

February 28, 2015						
Investment Type	Fair Value	Maturities		Weighted Avg. Maturity (days)	Credit Rating Standard & Poor's	Percent of Grand Total
		Less than 1 year	1-5 years			
Government Investment Pools and Safekeeping Account						
FILA*	\$ 15,696,990	\$ 15,696,990	\$ -	1	Not Rated	32.57%
TexPool	5,532,548	5,532,548	-	1	AAA	11.48%
TexStar	3,098,062	3,098,062	-	1	AAA	6.43%
Total Pools and Safekeeping	24,327,600	24,327,600	-			50.48%
Mutual Funds						
Advantage Money Market Fund #008	4,546,190	4,546,190	-	1	AAA	9.43%
Government Money Market Fund	400,127	400,127	-	1	AAA	0.83%
Total Mutual Funds	4,946,317	4,946,317	-			10.26%
Securities						
Federal Agency Coupons						
Federal National Mortgage Assoc.	866,658	748,697	117,961	322	AA	1.80%
Federal Farm Credit Bank	300,198	-	300,198	412	AA	0.63%
Federal Home Loan Bank	1,597,190	1,507,196	89,994	171	AA	3.31%
Federal Home Loan Mortgage Corp	455,439	-	455,439	240	AA	0.95%
Certificates of Deposit **	7,586,906	2,488,000	5,098,906	192	Not Rated	15.74%
Municipal Bonds	8,110,332	3,489,779	4,620,553	213	AA	16.83%
Total Securities	18,916,723	8,233,672	10,683,051	204		39.26%
Portfolio Total	\$ 48,190,640	\$ 37,507,589	\$ 10,683,051	81		100.00%

* FILA is not rated but is FDIC insured.

** Certificates of Deposit are not rated but are fully collateralized or FDIC insured.

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PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

February 28, 2014						
Investment Type	Fair Value	Maturities		Weighted Avg. Maturity (days)	Credit Rating Standard & Poor's	Percent of Grand Total
		Less than 1 year	1-5 years			
Government Investment Pools and Safekeeping						
Account						
TexPool	\$ 20,189,350	\$ 20,189,350	\$ -	1	AAA	31.91%
TexStar	8,007,343	8,007,343	-	1	AAA	12.65%
Total Pools and Safekeeping	28,196,693	28,196,693	-			44.56%
Mutual Funds						
Advantage Money Market Fund #008	4,498,030	4,498,030	-	1	AAA	7.11%
Government Money Market Fund	417,460	417,460	-	1	AAA	0.66%
Total Mutual Funds	4,915,490	4,915,490	-			7.77%
Securities						
Federal Agency Coupons						
Federal National Mortgage Assoc	750,306	750,306	-	14	AA	1.19%
Federal Farm Credit Bank	1,225,555	1,050,097	175,458	299	AA	1.94%
Federal Home Loan Bank	7,283,408	6,113,855	1,169,553	125	AA	11.51%
Federal Home Loan Mortgage Corp	2,156,918	1,755,666	401,252	141	AA	3.40%
Certificates of Deposit *	10,081,462	6,198,074	3,883,388	308	Not Rated	15.93%
Municipal Bonds	8,665,812	2,190,773	6,475,039	232	AA	13.70%
Total Securities	30,163,461	18,058,771	12,104,690	222		47.67%
Portfolio Total	\$ 63,275,644	\$ 51,170,954	\$ 12,104,690	107		100.00%

* Certificates of Deposit are not rated but are fully collateralized.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Credit Risk

Credit risk is the risk of loss due to failure of an issuer not fulfilling its obligations.

EPWU minimizes credit risk by limiting investments to the safest types of securities as authorized by its investment policy and described on page 49, and by pre-qualifying the financial institutions and broker/dealers with which EPWU will do business with.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

EPWU minimizes concentration of credit risk by diversifying the investment portfolio so that potential losses on individual securities will be minimized. In addition, they also invest in securities with varying maturities, and are continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs) and money market funds.

Diversification by investment type shall be established by the following maximum percentages of investment type to the total EPWU portfolio:

U.S. Government Securities	100%
State, Agencies, Counties, Cities, and other	50%
Certificates of Deposit	50%
Money Market Mutual Funds	80%
Eligible Investment Pools	100%

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, EPWU will not be able to recover deposits or collateral securities that are in the possession of an outside party. For investments, the custodial credit risk, is the risk that, in the event of the failure of the counterparty to a transaction, EPWU will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

EPWU minimizes depository custodial credit risk by depositing and investing under the terms of a contract, contents of which are set out in the depository contract. The depository bank places approved pledged securities for safekeeping and trust with EPWU's agent bank in an amount sufficient to protect EPWU funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

4. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

EPWU minimizes investment custodial credit risk by requiring that all collateral securities be held by a third party institution. EPWU requires full collateralization of all EPWU investments, other than investments which are obligations of the U.S. government and its agencies and instrumentalities, or by the Federal Reserve Bank, except the collateral for certificates of deposits in banks. The collateral for certificates of deposits in banks will be registered in EPWU's name in the bank's trust department or, alternatively, in a Federal Reserve Bank account in EPWU's name.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of investments.

EPWU minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. It is also minimized by investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. The operating funds portfolio should have a weighted average maturity less than 270 days with a maximum of two years.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

EPWU does not directly invest in foreign securities; however, the escrow accounts money market fund might invest a minimal amount of the fund's portfolio in foreign securities.

5. RECEIVABLES

No reserve has been provided for doubtful accounts as EPWU charges directly to income those accounts determined to be uncollectible. The accounts written off for the Water and Wastewater Utility during the years ended February 28, 2015 and 2014, totaled \$581,330 and \$567,104, respectively. The write-off for the Municipal Drainage Utility for fiscal year ending February 28, 2015 and 2014, totaled \$46,168 and \$44,861, respectively. Management is of the opinion that any additional losses resulting from the collection of notes and accounts receivable will not be material.

The Public Service Board - El Paso Water Utilities uses the cycle method of billing customers for services. Under this method, customer billings are made by specified cycles established for the service area and each cycle billed on a specific day each month. For financial reporting purposes, billings made in March which relate to services provided for the month of February are included in customer accounts receivable as unbilled charges. These amounts are summarized as follows for the fiscal years included in the accompanying financial statements:

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

5. RECEIVABLES (Continued)

	<u>2015</u>	<u>2014</u>
Water and Wastewater Utility		
Water	\$ 2,412,809	\$ 2,221,352
Wastewater	<u>2,304,037</u>	<u>1,987,671</u>
Total unbilled accounts receivable	<u>\$ 4,716,846</u>	<u>\$ 4,209,023</u>

6. INTERFUND BALANCES AND CHARGES

Interfund Balances - The following interfund balances are the result of normal operations and are periodically cleared out. Management intends to pay these balances within one year.

	<u>February 28, 2015</u>	
	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
Water and Wastewater Utility	\$ -	\$ 270,840
Municipal Drainage Utility	<u>270,840</u>	<u>-</u>
Total	<u>\$ 270,840</u>	<u>\$ 270,840</u>

	<u>February 28, 2014</u>	
	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
Water and Wastewater Utility	\$ -	\$ 36,135
Municipal Drainage Utility	<u>36,135</u>	<u>-</u>
Total	<u>\$ 36,135</u>	<u>\$ 36,135</u>

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

6. INTERFUND BALANCES AND CHARGES (Continued)

Interfund Charges - The following eliminations were done in order to eliminate duplicate transactions at the overall entity level for revenue and expenses between the two funds.

	<u>February 28, 2015</u>	
	<u>Water and Wastewater Utility</u>	<u>Municipal Drainage Utility</u>
Drainage fee revenue	\$ -	\$ 104,792
Rent Revenue	24,000	-
Operation and maintenance - drainage		5,367
Operations and maintenance - water and reclaimed water	(70,925)	-
Operations and maintenance - wastewater	(52,474)	-
General, administrative and engineering	1,182,240	-
Indirect cost allocation	-	(1,193,000)
	<u>\$ 1,082,841</u>	<u>\$ (1,082,841)</u>

	<u>February 28, 2014</u>	
	<u>Water and Wastewater Utility</u>	<u>Municipal Drainage Utility</u>
Drainage fee revenue	\$ -	\$ 104,856
Rent Revenue	24,000	-
Operation and maintenance - drainage	-	7,417
Operations and maintenance - water and reclaimed water	(72,975)	-
Operations and maintenance - wastewater	(52,474)	-
General, administrative and engineering	1,294,176	-
Indirect cost allocation	-	(1,305,000)
	<u>\$ 1,192,727</u>	<u>\$ (1,192,727)</u>

Indirect Cost Allocation - The indirect cost allocation from the Water and Wastewater Utility to the Municipal Drainage Utility is to pay for indirect costs that the Water and Wastewater Utility incurs related to the general and administrative functions to manage the Municipal Drainage Utility. For fiscal years 2015 and 2014, the revised budgeted and actual indirect cost were \$1,193,000 and \$1,305,000, respectively. During the budget process the indirect cost allocation will be adjusted based on estimated indirect costs.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

7. WATER AND WASTEWATER UTILITY GOVERNMENT GRANTS RECEIVABLE

The Water and Wastewater Utility had \$500,136 and \$509,463 in government grants receivable for years ended February 28, 2015 and 2014.

<u>Government Grant Projects</u>	<u>2015</u>	<u>2014</u>
<u>Federal Grants</u>		
North Central Reclaimed - EPA#XP96638401	\$ 285,173	\$ 25,599
Leak Detection - USBR#R12AP40018	-	80,000
Advanced Purification - Bustamante - USBR #R14AP00106	81,551	-
<u>Non Federal Grants</u>		
Desalination Concentrate Management - WaterReuse Foundation WRF11-09	-	35,641
Turf Estates Construction - TWDB	-	310,548
Canutillo 1 st Time Users Area 1 - TWDB	19,957	16,609
Canutillo 1 st Time Users Area 2 - TWDB	45,372	41,066
Canutillo 1 st Time Wastewater Area 1&2 TWDB	36,808	-
Montana Vista Collector - TWDB	31,275	-
Totals	<u>\$ 500,136</u>	<u>\$ 509,463</u>

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

8. CAPITAL ASSETS

Components of the capital assets for the Water and Wastewater Utility are summarized as follows:

	Beginning Balance 03/01/2014	Additions	Transfers	Deletions	Ending Balance 02/28/2015
Utility plant, not being depreciated:					
Land and right-of-way	\$ 6,962,201	\$ 49,940	\$ 179,210	\$ -	\$ 7,191,351
Land not in service	64,067,002	-	1,402,205	109,645	65,359,562
Construction work in progress	119,354,839	92,041,510	(44,096,623)	-	167,299,726
Total utility plant, not being depreciated	190,384,042	92,091,450	(42,515,208)	109,645	239,850,639
Utility plant and irrigation water rights being depreciated:					
Irrigation water rights contracts	9,385,840	456,771	-	-	9,842,611
Buildings and shops	14,739,767	-	954,811	-	15,694,578
Vehicles	15,900,779	38,900	1,752,884	640,493	17,052,070
Equipment and tools	36,781,240	18,255	3,839,798	259,665	40,379,628
Water system	993,043,101	10,640,585	29,575,890	5,304,892	1,027,954,684
Wastewater system	732,073,486	4,640,229	6,391,825	411,411	742,694,129
Total utility plant, being depreciated:	1,801,924,213	15,794,740	42,515,208	6,616,461	1,853,617,700
Less accumulated depreciation for:					
Irrigation water rights contracts	(1,004,151)	(128,190)	-	-	(1,132,341)
Buildings and shops	(8,793,594)	(644,547)	-	-	(9,438,141)
Vehicles	(13,554,980)	(975,891)	-	(640,493)	(13,890,378)
Equipment and tools	(31,334,050)	(1,624,526)	-	(259,665)	(32,698,911)
Water system	(403,700,735)	(28,727,074)	-	(5,304,892)	(427,122,917)
Wastewater system	(350,893,959)	(19,941,250)	-	(411,411)	(370,423,798)
Total accumulated depreciation	(809,281,469)	(52,041,478)	-	(6,616,461)	(854,706,486)
Total utility plant and irrigation water rights being depreciated, net	992,642,744	(36,246,738)	42,515,208	-	998,911,214
Utility plant	\$ 1,183,026,786	\$ 55,844,712	\$ -	\$ 109,645	\$ 1,238,761,853

Total depreciation charged to operations for the year ended February 28, 2015 was \$52,041,478.

Land not in service is essentially unimproved land that EPWU has purchased for its surface and ground water rights. EPWU owns a total of 101,758.42 acres of land which includes 26,211.29 acres in El Paso County, 74,678.68 acres in Hudspeth, Presidio, Jeff Davis, and Culberson County, and 868.45 acres in New Mexico.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

8. CAPITAL ASSETS (Continued)

	Beginning Balance 03/01/2013	Additions	Transfers	Deletions	Ending Balance 02/28/2014
Utility plant, not being depreciated:					
Land and right-of-way	\$ 6,917,180	\$ -	\$ 45,021	\$ -	\$ 6,962,201
Land not in service	64,086,779	-	-	19,777	64,067,002
Construction work in progress	58,084,002	71,647,676	(10,376,839)	-	119,354,839
Total utility plant, not being depreciated:	129,087,961	71,647,676	(10,331,818)	19,777	190,384,042
Utility plant and irrigation water rights being depreciated:					
Irrigation water rights contracts	9,131,221	254,619	-	-	9,385,840
Buildings and shops	14,739,767	-	-	-	14,739,767
Vehicles	15,808,062	-	377,482	284,765	15,900,779
Equipment and tools	36,287,193	60,078	683,508	249,539	36,781,240
Water system	975,899,620	11,775,352	6,791,390	1,423,261	993,043,101
Wastewater system	721,786,096	7,820,346	2,479,438	12,394	732,073,486
Total utility plant, being depreciated:	1,773,651,959	19,910,395	10,331,818	1,969,959	1,801,924,213
Less accumulated depreciation for					
Irrigation water rights contracts	(880,704)	(123,447)	-	-	(1,004,151)
Buildings and shops	(8,183,700)	(609,894)	-	-	(8,793,594)
Vehicles	(13,038,813)	(800,932)	-	(284,765)	(13,554,980)
Equipment and tools	(30,088,338)	(1,495,251)	-	(249,539)	(31,334,050)
Water system	(377,697,075)	(27,426,921)	-	(1,423,261)	(403,700,735)
Wastewater system	(330,770,259)	(20,136,094)	-	(12,394)	(350,893,959)
Total accumulated depreciation	(760,658,889)	(50,592,539)	-	(1,969,959)	(809,281,469)
Total utility plant and irrigation water rights being depreciated, net	1,012,993,070	(30,682,144)	10,331,818	-	992,642,744
Utility plant	\$ 1,142,081,031	\$ 40,965,532	\$ -	\$ 19,777	\$ 1,183,026,786

Total depreciation charged to operations for the year ended February 28, 2014 was \$50,592,539.

Included in capital assets of the Water and Wastewater Utility are assets for the Desalination Plant and related activities and the TechH2O Center which are owned and operated by EPWU and are located on Fort Bliss land for which EPWU has a long term land lease. These assets are currently being depreciated over the economic life.

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PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

8. CAPITAL ASSETS (Continued)

Components of the capital assets for the Municipal Drainage Utility are summarized as follows:

	Beginning Balance 03/01/2014	Additions	Transfers	Deletions	Ending Balance 02/28/2015
Drainage Work in Progress, not being depreciated:					
Land and right of way	\$ 6,601,105	\$ 32,379	\$ 3,183,671	\$ -	\$ 9,817,155
Construction work in progress	9,976,295	21,173,955	(8,600,838)	-	22,549,412
Total drainage Work in Progress, not being depreciated.	16,577,400	21,206,334	(5,417,167)	-	32,366,567
Drainage System, being depreciated:					
Drainage implementation costs	544,106	-	-	-	544,106
Buildings and shops	96,718	-	-	-	96,718
Vehicles	4,356,504	-	791,788	117,700	5,030,592
Equipment and tools	1,052,648	-	-	-	1,052,648
Drainage system	52,948,690	239,802	4,625,379	-	57,813,871
Total Drainage system, being depreciated	58,998,666	239,802	5,417,167	117,700	64,537,935
Less accumulated depreciation for:					
Drainage implementation costs	(544,106)	-	-	-	(544,106)
Buildings and shops	(16,546)	(3,870)	-	-	(20,416)
Vehicles	(3,973,505)	(196,571)	-	(117,700)	(4,052,376)
Equipment and tools	(862,364)	(40,391)	-	-	(902,755)
Drainage system	(3,834,777)	(1,124,031)	-	-	(4,958,808)
Total accumulated depreciation	(9,231,298)	(1,364,863)	-	(117,700)	(10,478,461)
Total Drainage System, being depreciated, net	49,767,368	(1,125,061)	5,417,167	-	54,059,474
Drainage System	\$ 66,344,768	\$ 20,081,273	\$ -	\$ -	\$ 86,426,041

Total depreciation charged to operations for the year ended February 28, 2015 was \$1,364,863.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

8. CAPITAL ASSETS (Continued)

	Beginning Balance 03/01/2013	Additions	Transfers	Deletions	Ending Balance 02/28/2014
Drainage Work in Progress, not being depreciated:					
Land and right of way	\$ 4,852,158	\$ -	\$ 1,748,947	\$ -	\$ 6,601,105
Construction work in progress	18,626,370	5,096,545	(13,746,620)	-	9,976,295
Total drainage Work in Progress, not being depreciated:	23,478,528	5,096,545	(11,997,673)	-	16,577,400
Drainage System, being depreciated					
Drainage implementation costs	544,106	-	-	-	544,106
Buildings and shops	97,920	-	-	1,202	96,718
Vehicles	4,343,704	-	12,800	-	4,356,504
Equipment and tools	1,011,956	40,692	-	-	1,052,648
Drainage system	40,404,635	559,182	11,984,873	-	52,948,690
Total Drainage system, being depreciated:	46,402,321	599,874	11,997,673	1,202	58,998,666
Less accumulated depreciation for:					
Drainage implementation costs	(474,609)	(69,497)	-	-	(544,106)
Buildings and shops	(13,856)	(3,892)	-	(1,202)	(16,546)
Vehicles	(3,545,768)	(427,737)	-	-	(3,973,505)
Equipment and tools	(828,687)	(33,677)	-	-	(862,364)
Drainage system	(2,884,840)	(949,937)	-	-	(3,834,777)
Total accumulated depreciation	(7,747,760)	(1,484,740)	-	(1,202)	(9,231,298)
Total Drainage System, being depreciated, net	38,654,561	(884,866)	11,997,673	-	49,767,368
Drainage System	\$ 62,133,089	\$ 4,211,679	\$ -	\$ -	\$ 66,344,768

Total depreciation charged to operations for the year ended February 28, 2014 was \$1,484,740.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

8. CAPITAL ASSETS (Continued)

Water and Wastewater Utility construction work in progress at February 28, 2015 and 2014, composed of the following:

	<u>February 28, 2015</u>	
	<u>Estimated Cost</u>	<u>Cost Incurred To Date</u>
<u>Water Projects</u>		
Paisano Water Line Replacement Project - Construction	\$ 29,007,469	\$ 28,756,396
Emergency Back-Up Power	25,507,633	8,759,426
Well Construction, Plugging & Test Holes	20,339,375	17,842,225
Advance Water Treatment Plant - Engineering	5,377,584	374,011
Montana North 30-Inch Water Trans Line/6.1 MGD Pump Station- Construction	3,300,000	2,800,564
Montana North Pump Station - Construction	3,300,000	2,260,156
Paisano Waterline Replacement Project - Engineering	2,827,906	2,477,180
Mesa Street 24-Inch Water Transmission-Construction	2,660,000	2,523,485
Economic Dispatch System	2,356,655	2,184,586
JDF Injection Test Well	2,194,000	2,109,413
Northeast Franklin 24-Inch Water Line - Construction	2,023,768	2,000,868
Jonathan Rogers Water Treatment Plant 80 MGD Expansion-Construction	1,850,000	1,222,428
Country Club Road Water Line Replacement - Construction	1,725,000	861,472
Disinfection By-Product Rule/Surface Water Rule	1,704,105	1,566,681
Eastside Planned Service Area Extension of Water Lines at Paseo Del Este	1,676,201	1,526,958
Montwood Drive Project	1,356,550	801,127
GLO Well Drilling Project	1,300,000	23,872
Canal 54-Inch Discharge Line Pump Station	1,070,000	965,260
Water Resource Plans	1,068,962	608,529
Pershing 16-Inch Transmission Main - Construction	1,020,000	-
Other Water Projects Under \$1,000,000	36,404,355	18,474,009
	<u>148,069,563</u>	<u>98,138,646</u>
Subtotal - Water Projects		

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

8. CAPITAL ASSETS (Continued)

	February 28, 2015	
	Estimated Cost	Cost Incurred To Date
<u>Wastewater Projects</u>		
Eastside Interceptor Phase V - Construction	19,824,510	19,139,575
Lower Valley Interceptor Emergency - Construction	8,635,821	8,057,304
William Beaumont Army Medical Center Offsite Sanitary Sewer- Construction	4,405,967	1,408,843
Haskell Street Odor Control - Construction	3,005,114	1,053,222
Country Club Road Sewer Line Replacement	2,850,000	1,936,412
Process Automation SCADA - Sewer	2,406,297	1,876,046
Mowad Interceptor Line - Construction	2,391,781	2,390,920
Wastewater Master Plan	2,170,000	1,889,678
Montwood Lift Station Phase II - Construction	2,100,000	1,085
Northwest Filter Retrofit	1,910,000	140,735
Haskell R. Street Primary Clarifier Rehab	1,850,000	136,810
Eastside Interceptor Phase V - Engineering	1,769,407	1,677,100
Routine Lift Station Rehab	1,496,000	1,089,177
Cottonwood Collector - Construction	1,462,182	115,842
Canutillo Bosque Wastewater LS/FM - Construction	1,446,233	12,335
Northwest WWTP Odor Control - Construction	1,300,000	1,104,151
Montana East Wastewater System and Lift Station - Construction	1,462,377	1,462,377
Doniphan 24-Inch Collector Reach 1 and 3 Rehabilitation - Construction	1,280,501	1,136,291
Other Sanitary Sewer Interceptors at Tierra Del Este Area 8 - Construction	1,162,388	684,830
Plant Emergencies/Small Upgrades	1,010,931	985,342
Loop 375/I-10/Franklin Mountain State Park Sewer Main - Construction	1,000,000	711,674
Other Sewer Projects Under \$1,000,000	18,974,234	10,055,711
Subtotal-Wastewater Projects	83,913,743	57,065,460
<u>Reclaimed Water Projects</u>		
Haskell North Central Reclaimed Water System	13,199,253	8,029,212
Bustamante WWTP Effluent Line to Rio Bosque Wetlands Park- Construction	1,385,000	1,174,206
Bustamante WWTP Indirect Potable Re-use Pilot Testing - Engineering	1,139,455	841,066
Other Reclaimed Projects Under \$1,000,000	3,548,283	2,051,136
Subtotal - Reclaimed Water Projects	19,271,991	12,095,620
Totals	\$ 251,255,297	\$ 167,299,726

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

8. CAPITAL ASSETS (Continued)

	February 28, 2014	
	Estimated Cost	Cost Incurred To Date
<u>Water Projects</u>		
Paisano Water Line Replacement Project - Construction	\$ 28,172,469	\$ 26,467,359
Emergency Back-Up Power	25,507,633	2,728,164
Well Construction, Plugging & Test Holes	8,033,975	5,192,694
Well Drilling and Equipping - Plugging - Testhole Drilling	4,156,613	4,048,386
Replacement Leak Detection System	4,000,000	660,599
Partello Street 30-Inch Water Transmission Line - Construction	3,663,923	3,453,803
Emergency Drought Wells Project	3,452,360	3,267,172
Economic Dispatch System	2,756,655	1,726,855
Paisano - Racetrack to Sunset Water Line Replacement Project -Engineering	2,734,906	2,364,396
Mesa Street-Fountain to Crestmont 24-In Water Transmission-Construction	2,015,000	423,220
Vista Del Sol Pump Station - Construction	2,014,166	2,014,165
JDF Injection Test Well	1,850,000	1,232,800
Spur 1966 Water Line Relocations	1,733,292	866,646
Disinfection By-Product Rule/Surface Water Rule	1,704,105	1,507,538
Eastside Planned Service Area Extension of Water Lines at Paseo Del Este	1,676,201	1,507,341
Activated Carbon for JRWTP and/or Canal Plant	1,480,000	-
Montwood Drive Project	1,179,988	652,133
Eastside Planned Service Area - Pellicano - Sunfire to Aircoupe 24-Inch Water Line - Construction	1,035,982	778,556
Pershing Drive Magnolia to Raynor 16-Inch Transmission Main- Construction	1,020,000	-
Country Club Road Water Line Replacement - Construction	1,000,000	58,946
Other Water Projects Under \$1,000,000	34,147,201	15,632,457
Subtotal - Water Projects	133,334,469	74,583,230
<u>Wastewater Projects</u>		
Eastside Interceptor Phase V - Construction	21,070,003	10,917,023
Lower Valley Interceptor Emergency - Construction	8,777,372	7,385,017
Mowad Interceptor Line - Construction	3,577,046	1,644,942
Country Club Road Sewer Line Replacement	2,650,000	203,414
Wastewater Master Plan	1,900,000	1,469,053
Eastside Interceptor Phase V - Engineering	1,609,407	1,055,461
Northwest WWTP Odor Control - Construction	1,300,000	151,729
Other Sanitary Sewer Interceptors at Tierra Del Este Area 8 - Construction	1,162,388	591,855
Loop 375/I-10/Franklin Mountain State Park Sewer Main - Construction	1,000,000	585,240
Other Sewer Projects Under \$1,000,000	23,502,151	10,520,706
Subtotal-Wastewater Projects	66,548,367	34,524,440

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

8. CAPITAL ASSETS (Continued)

	<u>February 28, 2014</u>	
	<u>Estimated Cost</u>	<u>Cost Incurred To Date</u>
<u>Reclaimed Water Projects</u>		
Haskell North Central Reclaimed Water System	15,415,712	7,559,232
Bustamante WWTP Indirect Potable Re-use Pilot Testing - Engineering	4,210,622	144,745
Northwest and Bustamante Reclaimed WTP - Construction	4,093,549	-
Rio Bosque Wetlands Pipeline	2,450,000	96,768
Northwest WWTP Reclaimed Water Tank - Construction	2,336,949	-
Newman 2500 GPM Reclaimed Pump Station & 16-Inch Reclaimed Transmission Line - Construction	2,090,000	-
Northwest Reclaimed Water Facility Phase II-D - Construction	1,878,660	225,497
Painted Dunes Golf Course Irrigation System Improvements - Construction	1,600,000	1,820
Haskell Street WWTP/Central - Delta Line - Construction	1,448,997	-
Other Reclaimed Projects Under \$1,000,000	4,416,578	2,219,107
	<u>39,941,067</u>	<u>10,247,169</u>
Subtotal - Reclaimed Water Projects		
	<u>\$ 239,823,903</u>	<u>\$ 119,354,839</u>
Totals		

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

8. CAPITAL ASSETS (Continued)

Municipal Drainage Utility construction work in progress as of February 28, 2015 and 2014 composed of the following:

	<u>February 28, 2015</u>	
	<u>Estimated Cost</u>	<u>Cost Incurred To Date</u>
<u>Drainage Projects</u>		
Cebada Force Main at Piedras/Magnolia - Construction	\$ 12,528,664	\$ 4,039,922
Cebada Pump Station at Piedras/Magnolia - Construction	11,660,000	3,180,814
Northeast Channel 2 Phase 2 Improvements - Construction	4,483,343	28,866
Austin Ponds Improvements - Construction	2,800,000	-
Gateway West Stormwater Retention Pond - Engineering	2,335,837	2,332,171
Cebada Pump Station at Piedras/Magnolia - Engineering	2,031,723	1,456,396
Various Localized Flooding Projects	1,834,584	1,563,281
Cebada Force Main at Piedras/Magnolia - Engineering	1,350,000	1,180,093
Gateway West & East Pond Expansion - Engineering	1,240,949	1,062,609
Pico Norte Pond Expansion/Rehab - Construction	1,160,000	38,131
Morenci Pond Phase 1B - Construction	1,150,000	1,046,287
Austin Ponds - Engineering	1,082,850	827,677
Other Drainage Projects Under \$1,000,000	14,371,636	5,793,165
	<u>\$ 58,029,586</u>	<u>\$ 22,549,412</u>

	<u>February 28, 2014</u>	
	<u>Estimated Cost</u>	<u>Cost Incurred To Date</u>
<u>Drainage Projects</u>		
Cebada Force Main at Piedras/Magnolia - Construction	\$ 11,586,329	\$ 1,281
Cebada Pump Station at Piedras/Magnolia - Construction	10,333,285	-
Various Open Space Projects/Park Ponds	6,417,616	7,483
Doniphan Ditch Improvements - Construction	4,450,000	746,752
Flow Path 20 Dams - Construction	3,150,000	669
Gateway West Storm Retention Pond - Construction	1,274,680	1,069,187
Cebada Force Main at Piedras/Magnolia - Engineering	1,229,054	835,628
Morenci Pond - CE4 Phase 1B - Construction	1,150,000	469,290
Various Localized Flooding Projects	1,053,462	762,921
Cebada Pump Station at Piedras/Magnolia - Engineering	1,045,000	895,607
Other Drainage Projects Under \$1,000,000	13,238,190	5,187,477
	<u>\$ 54,927,616</u>	<u>\$ 9,976,295</u>

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

9. LONG-TERM LIABILITIES

Long-term activity for the Water and Wastewater Utility for the years ended February 28, 2015 and 2014 were as follows:

	Beginning Balance 03/01/2014	Additions	Reductions	Ending Balance 02/28/2015	Due Within One Year	Long-term Portion
Water and Wastewater Utility:						
Water and Sewer Revenue Bonds	\$ 492,250,000	\$ 131,650,000	\$ 141,595,000	\$ 482,305,000	\$ 27,345,000	\$ 454,960,000
Unamortized premiums net of discounts	35,001,162	17,562,668	5,042,825	47,521,005	2,821,377	44,699,628
Land notes payable	4,159,087	-	752,693	3,406,394	790,328	2,616,066
Commercial Paper payable	5,000,000	30,000,000	25,000,000	10,000,000	-	10,000,000
Other governments payable	2,760,792	-	128,932	2,631,860	134,854	2,497,006
Other Post Employment Benefits	6,720,592	969,336	-	7,689,928	-	7,689,928
Self insurance claims	1,384,915	3,988,848	4,330,496	1,043,267	299,060	744,207
Accrued vacation	2,881,680	1,859,803	1,857,724	2,883,759	1,794,440	1,089,319
Total Long-term liabilities						
Water and Wastewater Utility	<u>\$ 550,158,228</u>	<u>\$ 186,030,655</u>	<u>\$ 178,707,670</u>	<u>\$ 557,481,213</u>	<u>\$ 33,185,059</u>	<u>\$ 524,296,154</u>

	Restated Beginning Balance 03/01/2013	Additions	Reductions	Ending Balance 02/28/2014	Due Within One Year	Long-term Portion
Water and Wastewater Utility:						
Water and Sewer Revenue Bonds	\$ 492,785,000	\$ 64,900,000	\$ 65,435,000	\$ 492,250,000	\$ 25,150,000	\$ 467,100,000
Unamortized premiums net of discounts	30,496,030	8,075,464	3,570,332	35,001,162	2,273,256	32,727,906
Land notes payable	4,923,463	-	764,376	4,159,087	752,693	3,406,394
Commercial Paper payable	8,000,000	27,000,000	30,000,000	5,000,000	-	5,000,000
Other governments payable	2,884,060	-	123,268	2,760,792	128,931	2,631,861
Other Post Employment Benefits	5,886,619	833,973	-	6,720,592	-	6,720,592
Self insurance claims	1,269,118	3,763,153	3,647,356	1,384,915	836,027	548,888
Accrued vacation	2,846,180	1,913,241	1,877,741	2,881,680	1,749,273	1,132,407
Total Long-term liabilities						
Water and Wastewater Utility	<u>\$ 549,090,470</u>	<u>\$ 106,485,831</u>	<u>\$ 105,418,073</u>	<u>\$ 550,158,228</u>	<u>\$ 30,890,180</u>	<u>\$ 519,268,048</u>

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

9. LONG-TERM LIABILITIES (Continued)

Long-term activity for the Municipal Drainage Utility for the years ended February 28, 2015 and 2014 were as follows:

	Beginning Balance 03/01/2014	Additions	Reductions	Ending Balance 02/28/2015	Due Within One Year	Long-term Portion
Municipal Drainage Utility:						
Drainage Revenue Bonds	\$ 63,384,000	\$ -	\$ 2,524,000	\$ 60,860,000	\$ 2,644,000	\$ 58,216,000
Unamortized premiums net of discounts	832,667	-	46,259	786,408	46,259	740,149
Accrued vacation	108,457	112,492	86,208	134,741	70,324	64,417
Other Post Employment Benefits	196,987	71,626	-	268,613	-	268,613
Total Long-term liabilities Municipal Drainage Utility	\$ 64,522,111	\$ 184,118	\$ 2,656,467	\$ 62,049,762	\$ 2,760,583	\$ 59,289,179

	Beginning Balance 03/01/2013	Additions	Reductions	Ending Balance 02/28/2014	Due Within One Year	Long-term Portion
Municipal Drainage Utility:						
Drainage Revenue Bonds	\$ 65,743,000	\$ -	\$ 2,359,000	\$ 63,384,000	\$ 2,524,000	\$ 60,860,000
Unamortized premiums net of discounts	878,927	-	46,260	832,667	46,259	786,408
Accrued vacation	97,105	76,153	64,801	108,457	58,633	49,824
Other Post Employment Benefits	145,992	50,995	-	196,987	-	196,987
Total Long-term liabilities Municipal Drainage Utility	\$ 66,865,024	\$ 127,148	\$ 2,470,061	\$ 64,522,111	\$ 2,628,892	\$ 61,893,219

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

10. REVENUE BONDS

Water and Wastewater Utility

Water and Sewer Revenue Bonds payable for the Water and Wastewater Utility Fund, in the amount of \$482,305,000 and \$492,250,000, as of February 28, 2015 and 2014, respectively, are equally and ratably secured by and payable from an irrevocable first lien on and pledge of the net revenue of the Water and Wastewater Utility Fund which is presented in Note 14. The pledge of net revenue is in effect until the bonds are extinguished. The Revenue Bonds payable as of February 28, 2015 and 2014 include the following individual issues:

	Amounts Outstanding 2/28/14	Issued	Retired/ Refunded	Amounts Outstanding 2/28/15	Due Within One Year
\$8,000,000 1990B Series due in annual installments of \$1,600,000, with interest at 0%. Final payment due in 2017.	\$ 6,400,000	\$ -	\$ 1,600,000	\$ 4,800,000	\$ 1,600,000
\$1,000,000 2003A Series due in annual installments of \$50,000 with interest at 0%. Final payment due 2024.	550,000	-	50,000	500,000	50,000
\$10,000,000 2003B Series due in annual installments of \$5,000 with interest due at 3.29%. Refunded \$9,955,000 with the 2012A Bonds.	5,000	-	5,000	-	-
\$36,070,000 2004 Series with one more installment of \$1,940,000 with interest due at 5%. Refunded \$23,870,000 with the 2012A Bonds.	1,940,000	-	1,940,000	-	-
\$14,360,000 2004A Series with one more installment of \$630,000 with interest due at 5%. Refunded \$9,550,000 with the 2012A Bonds.	630,000	-	630,000	-	-
\$45,660,000 2005A Series with one more installment of \$1,075,000 with interest due at 5%. Refunded \$40,335,000 with the 2014 Bonds. Final payment due in 2015.	2,095,000	-	1,020,000	1,075,000	1,075,000
\$36,515,000 2005B Series with one more installment of \$5,365,000 with interest due at 5.25%. Refunded \$26,430,000 with the 2015 Bonds. Final payment due in 2015.	33,590,000	-	28,225,000	5,365,000	5,365,000

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

10. REVENUE BONDS (Continued)

	Amounts Outstanding 2/28/14	Issued	Retired/ Refunded	Amounts Outstanding 2/28/15	Due Within One Year
\$10,000,000 2005C Series with one more installment of \$465,000 with interest due at 3.10%. Refunded \$6,245,000 with the 2015 Bonds. Final payment due in 2015.	7,160,000	-	6,695,000	465,000	465,000
\$37,745,000 2006 Series due in annual installments of \$325,000 to \$845,000 with interest due at 4% to 5%. Refunded \$10,555,000 with the 2015 Bonds. Final payment due in 2030.	19,270,000	-	11,335,000	7,935,000	810,000
\$45,200,000 2006A Series with one more installment of \$3,350,000 with interest due at 5%. Refunded \$21,010,000 with the 2015 Bonds. Final payment due in 2015.	27,535,000	-	24,185,000	3,350,000	3,350,000
\$35,500,000 2007 Series due in annual installments of \$1,725,000 to \$1,910,000 with interest due at 5%. Refunded \$25,320,000 with the 2015 Bonds. Final payment due 2017.	32,415,000	-	26,965,000	5,450,000	1,725,000
\$30,520,000 2008 Series due in annual installments of \$450,000 to \$970,000 with interest due at 3.63% to 5%. Final payment due 2033.	13,005,000	-	430,000	12,575,000	450,000
\$14,000,000 2008A Series due in annual installments of \$720,000 to \$1,175,000 with interest due at 2.50% to 3.95%. Final payment due 2029.	13,980,000	-	5,000	13,975,000	720,000
\$22,000,000 2008B Series due in annual installments of \$1,135,000 to \$1,850,000 with interest due at 2.50% to 3.95%. Final payment due 2029.	21,980,000	-	5,000	21,975,000	1,135,000
\$35,000,000 2008C Series due in annual installments of \$1,540,000 to \$1,785,000 with interest due at 5%. Refunded \$26,885,000 with the 2015 Bonds. Final payment due 2018.	35,000,000	-	28,355,000	6,645,000	1,540,000

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

10. REVENUE BONDS (Continued)

	Amounts Outstanding 2/28/14	Issued	Retired/ Refunded	Amounts Outstanding 2/28/15	Due Within One Year
\$22,115,000 2010 Series due in annual installments of \$555,000 to \$1,575,000 with interest due at 3.5% to 4.5%. Final payment due 2030.	17,495,000	-	1,455,000	16,040,000	1,335,000
\$15,000,000 2010 Taxable Series due in annual installments of \$595,000 to \$1,205,000 with interest due at 4.75%. Final payment due in 2030.	14,460,000	-	565,000	13,895,000	595,000
\$42,580,000 2010A Series due in annual installments of \$935,000 to \$5,855,000 with interest due at 3% to 5%. Final payment due in 2027.	38,820,000	-	4,100,000	34,720,000	935,000
\$14,680,000 2011 Series due in annual installments of \$100,000 to \$3,400,000 with interest due at 3% to 5%. Final payment due 2031.	14,580,000	-	540,000	14,040,000	500,000
\$52,780,000 2012 Series due in annual installments of \$1,120,000 to \$4,705,000 with interest due at 3% to 5%. Final payment due 2028.	52,780,000	-	2,310,000	50,470,000	1,120,000
\$75,715,000 2012A Series due in annual installments of \$1,865,000 to \$6,575,000 with interest due at 2% to 5%. Final payment due 2033.	73,660,000	-	1,180,000	72,480,000	3,710,000
\$64,900,000 2014 Series due in annual installments of \$865,000 to \$5,405,000 with interest due at 2% to 5%. Final payment due 2034.	64,900,000	-	-	64,900,000	865,000
\$131,650,000 2015 Series due in annual installments of \$1,405,000 to \$12,100,000 with interest due at 3% to 5%. Final payment due 2035.	-	131,650,000	-	131,650,000	-
Total bonds outstanding	492,250,000	<u>\$131,650,000</u>	<u>\$141,595,000</u>	482,305,000	<u>\$ 27,345,000</u>
Less current maturities	<u>25,150,000</u>			<u>27,345,000</u>	
Total long term portion	<u>\$467,100,000</u>			<u>\$454,960,000</u>	

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

10. REVENUE BONDS (Continued)

Interest costs incurred on revenue bonds totaled \$23,348,380 in 2015 of which \$973,887 was capitalized and \$21,838,805 in 2014 of which \$475,960 was capitalized.

Water and Wastewater Utility Fund Annual Revenue Bond Debt Service Requirements

<u>Year Ending February</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 27,345,000	\$ 17,774,315	\$ 45,119,315
2017	28,025,000	18,784,067	46,809,067
2018	30,040,000	17,841,439	47,881,439
2019	31,335,000	16,740,983	48,075,983
2020	32,415,000	15,489,678	47,904,678
2021 - 2025	161,485,000	56,558,249	218,043,249
2026 - 2030	129,055,000	22,238,711	151,293,711
2031 - 2035	40,950,000	3,732,094	44,682,094
2036	1,655,000	28,963	1,683,963
	<u>\$ 482,305,000</u>	<u>\$ 169,188,499</u>	<u>\$ 651,493,499</u>

On December 26, 2012, the Public Service Board - El Paso Water Utilities issued \$75,715,000 in Water and Sewer Revenue Refunding and Improvement Bonds, Series 2012A with an average interest rate of 4.12% to refund \$15,000,000 of Water and Sewer Commercial Paper Notes with an average interest rate of 0.24%, \$25,000,000 to fund Emergency backup power generation, and advance refund the following outstanding bonds:

<u>Series</u>	<u>Amount</u>	<u>Average Coupon</u>
2003B	\$ 9,955,000	4.16%
2004	23,870,000	5.23%
2004A	9,550,000	5.41%

The liabilities associated with these bonds were removed from the related payables. As of February 28, 2015 and February 28, 2014 \$0 and \$43,375,000 of bonds remained outstanding with an estimated related escrow balance of \$0 and \$44,376,525, respectively. The refunding of the 2003B, 2004, and 2004A reduced debt service by \$7,283,471 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$6,521,301.

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

10. REVENUE BONDS (Continued)

On February 5, 2014, the Public Service Board - El Paso Water Utilities issued \$64,900,000 in Water and Sewer Revenue Refunding Bonds, Series 2014 with an average interest rate of 4.83% to refund \$30,000,000 of Water and Sewer Commercial Paper Notes with an average interest rate of 0.12%, to advance refund \$40,335,000 of 2005A Water and Sewer Revenue Refunding bonds with an average interest rate of 5.11%. The liabilities associated with these bonds were removed from the related payables. As of February 28, 2015 and February 28, 2014, \$40,335,000 and \$40,335,000 of bonds remained outstanding with an estimated related escrow balance of \$41,312,631 and \$43,285,533 respectively. The refunding of the 2005A reduced debt service by \$4,379,527 and resulted in an economic gain (difference between the present values of the old and new service payments) of \$3,060,590.

On January 8, 2015, the Public Service Board - El Paso Water Utilities issued \$131,650,000 in Water and Sewer Revenue Refunding Bonds, Series 2015 with an average interest rate of 4.45% to refund \$25,000,000 of Water and Sewer Commercial Paper notes with an average interest rate of 0.10% and to advance refund the following outstanding bonds:

<u>Series</u>	<u>Amount</u>	<u>Average Coupon</u>
2005B	\$ 26,430,000	5.25%
2005C	6,245,000	3.62%
2006	10,555,000	4.72%
2006A	21,010,000	4.26%
2007	25,320,000	4.85%
2008C	26,885,000	5.30%

The liabilities associated with these bonds were removed from the related payables. As of February 28, 2015 \$116,445,000, of bonds remained outstanding with an estimated escrow balances of \$125,345,648. The refunding of the 2005B, 2005C, 2006, 2006A, 2007 and 2008C reduced debt service by \$11,082,719 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$10,276,163.

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

10. REVENUE BONDS (Continued)

Municipal Drainage Utility

Municipal Drainage Revenue Bonds payable for the Municipal Drainage Utility Fund in the amount of \$60,860,000 and \$63,384,000 as of February 28, 2015 and 2014 are equally and ratably secured by and payable from an irrevocable first lien on and pledge of the net revenue of the Municipal Drainage Utility Fund which is presented in Note 14. The pledge of net revenue is in effect until the bonds are extinguished. The Revenue Bonds payable as of February 28, 2015 include the following individual issues:

	Amounts Outstanding 2/28/14	Issued	Retired/ Refunded	Amounts Outstanding 2/28/15	Due Within One Year
\$53,000,000 2009 Series due in annual installments of \$2,040,000 to \$4,335,000 with interest due at 5.38%. Final payment due 2029.	\$ 47,780,000	\$ -	\$ 1,935,000	\$ 45,845,000	\$ 2,040,000
\$2,163,000 2009A Series due in annual installments of \$107,000 to \$109,000 with interest at 0%. Final payment due 2031.	1,944,000	-	109,000	1,835,000	109,000
\$14,075,000 2012 Series due in annual installments of \$495,000 to \$995,000 with interest due at 3% to 5%. Final payment due 2032.	13,660,000	-	480,000	13,180,000	495,000
Total bonds outstanding	63,384,000	\$ -	\$ 2,524,000	60,860,000	\$ 2,644,000
Less current maturities	2,524,000			2,644,000	
Total long term portion	<u>\$ 60,860,000</u>			<u>\$ 58,216,000</u>	

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

10. REVENUE BONDS (Continued)

Interest costs incurred on revenue bonds totaled \$2,993,724 in 2015 of which \$191,355 was capitalized, and \$3,107,427 in 2014 of which \$285,533 was capitalized.

Municipal Drainage Utility Fund Annual Revenue Bond Debt Service Requirements

Year Ending February	Principal	Interest	Total
2016	\$ 2,644,000	\$ 2,087,368	\$ 4,731,368
2017	2,774,000	1,996,393	4,770,393
2018	2,919,000	1,898,035	4,817,035
2019	3,069,000	1,791,593	4,860,593
2020	3,224,000	1,676,767	4,900,767
2021 - 2025	18,871,000	6,435,693	25,306,693
2026 - 2030	24,260,000	2,646,567	26,906,567
2031 - 2033	3,099,000	153,740	3,252,740
	<u>\$ 60,860,000</u>	<u>\$ 18,686,156</u>	<u>\$ 79,546,156</u>

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. Arbitrage is evaluated and estimated on an annual basis by a third party arbitrage rebate service company. The company has estimated no liability for EPWU as of February 28, 2015.

EPWU is required to comply with various requirements in the ordinances authorizing the bond issuances. Management of EPWU has indicated they are in compliance with all significant requirements.

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

11. LAND NOTES PAYABLE

During the fiscal year ending February 29, 2004, EPWU purchased two parcels of land totaling 8,865.15 acres that were financed through note instruments. The first note was for a total of \$401,692 with an interest rate of 3.95% for a period of ten years and payments of \$49,402 due in March of each year. This note was paid off in March 2013. The second note was for a total of \$9,971,186 with an interest rate of 5% for the first year and adjusted by the change in rate of a 10 year U.S. Treasury Note on September 1st of each year thereafter. This note is for a period of 15 years with payments due in September that fluctuate in amount based upon the interest rate. The \$9,971,186 purchase also included a lease back of the property for a period of 15 years and an annual lease payment of \$400,000. The following is a list of the principal and interest payments due for the note payable:

Year Ending February	Principal	Interest	Total
2016	\$ 790,328	\$ 101,170	\$ 891,498
2017	829,844	78,482	908,326
2018	871,337	53,587	924,924
2019	914,885	27,447	942,332
	<u>\$ 3,406,394</u>	<u>\$ 260,686</u>	<u>\$ 3,667,080</u>

12. COMMERCIAL PAPER

EPWU through the City of El Paso and JP Morgan Chase Bank (the "Bank") entered into a revolving credit agreement (the "Credit Agreement") in February 2009 pursuant to which the Bank is obligated under the Credit Agreement to loan to the City amounts not to exceed \$40,000,000 for the purpose of paying amounts due on the Commercial Paper Program. The purpose of the Commercial Paper Program is to provide funds for the interim financing of a portion of the costs of capital improvements to the system. On July 3, 2013, the parties amended (the "Credit Agreement") to extend the Final Date to August 3, 2015. Any borrowing under the Credit Agreement is equally and ratably secured by and payable from the above-described sources pledged for payment of the Commercial Paper Program and from a pledge of the Net Revenues of the Water and Wastewater Utility, such pledge being subordinate to the pledge of Net Revenues securing all Senior Lien Obligations. Management intends to continue the remarketing of the tax exempt commercial paper notes as it intends to maintain a portion of its debt in variable rates.

The borrowings under the Commercial Paper Program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the Commercial Paper Program and (ii) borrowing under and pursuant to the revolving credit agreement.

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

12. COMMERCIAL PAPER (Continued)

Since the commercial paper represents activity that is the result of EPWU's long term financing plan, the amounts outstanding are presented as long term. The "paper" can be sold in \$100,000 increments and matures from one to 270 days. As of February 28, 2014 there was \$5,000,000 outstanding and as of February 28, 2015 the following amount was outstanding:

	2015	Maturity Date	Coupon Rate
\$	8,000,000	04/06/2015	0.05%
\$	2,000,000	04/01/2015	0.05%

13. OTHER GOVERNMENT PAYABLES

During the fiscal year ending February 28, 2010, EPWU entered into a wholesale contract with Fort Bliss to provide water services for a 20 year period effective June 1, 2009. The El Paso Water Utility is to credit Fort Bliss \$3,300,000 with an interest rate of 4.5% totaling \$5,010,583 over 20 years (\$20,877 monthly) for the engineering/environmental analysis in connection with the Desalination Plant. The following is a list of the principal and interest payments due to Fort Bliss as of February 28, 2015:

Year Ending February	Principal	Interest	Total
2016	\$ 134,854	\$ 115,675	\$ 250,529
2017	141,049	109,480	250,529
2018	147,529	103,000	250,529
2019	154,307	96,222	250,529
2020	161,396	89,133	250,529
2021 - 2025	925,246	327,400	1,252,646
2029 - 2030	967,479	97,270	1,064,749
	<u>\$ 2,631,860</u>	<u>\$ 938,180</u>	<u>\$ 3,570,040</u>

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

14. DEBT SERVICE COVERAGE

Water and Wastewater Utility

The bond ordinances require the EPWU Water and Wastewater Utility Fund to maintain revenues in each fiscal year, after deductions for maintenance and operation expenses, in an amount equal to at least 1.5 times the debt service requirements in such year. The computations of this ratio are summarized below for the years ended February 28, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Revenues available for debt service	<u>\$ 92,744,976</u>	<u>\$ 94,119,209</u>
Debt service requirements		
Principal	25,150,000	25,100,000
Interest	<u>19,701,136</u>	<u>19,946,447</u>
Total requirements	<u>44,851,136</u>	<u>45,046,447</u>
Debt service ratio	<u>2.07</u>	<u>2.09</u>

Revenues available for debt service are determined as follows:

	<u>2015</u>	<u>2014</u>
Water and wastewater revenue	\$ 172,616,917	\$ 172,115,795
Operating revenue deductions	<u>82,230,188</u>	<u>80,439,770</u>
Net water and wastewater revenue	<u>90,386,729</u>	<u>91,676,025</u>
Other revenues available for debt service:		
Interest income	401,998	265,915
IRS Tax Credit Build America Bonds	214,302	221,332
Property rentals	1,958,038	2,019,831
Administration fees - City Environmental Services	613,136	608,171
Other miscellaneous operating revenue	1,486,686	1,615,576
Gain on sale of miscellaneous assets	646,916	314,473
Other miscellaneous operating expenses	<u>(2,962,829)</u>	<u>(2,602,114)</u>
Net other revenues available for debt service	<u>2,358,247</u>	<u>2,443,184</u>
Revenues available for debt service	<u>\$ 92,744,976</u>	<u>\$ 94,119,209</u>

Municipal Drainage Utility

The bond ordinances require the EPWU Municipal Drainage Utility Fund to maintain revenues in each fiscal year, after deductions for maintenance and operation expenses, in an amount equal to at least 1.25 times the debt service requirements in such year. The computations of this ratio are summarized below for the years ended February 28, 2015 and 2014.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

14. DEBT SERVICE COVERAGE (Continued)

	<u>2015</u>	<u>2014</u>
Revenues available for debt service	<u>\$ 10,802,501</u>	<u>\$ 9,822,915</u>
Debt service requirements		
Principal	2,524,000	2,359,000
Interest	<u>3,050,575</u>	<u>3,216,969</u>
Total requirements	<u>5,574,575</u>	<u>5,575,969</u>
Debt service ratio	<u>1.94</u>	<u>1.76</u>

Revenues available for debt service are determined as follows:

	<u>2015</u>	<u>2014</u>
Municipal drainage utility revenue	<u>\$ 15,298,948</u>	<u>\$ 15,162,459</u>
Operating revenue deductions	<u>6,166,556</u>	<u>6,918,000</u>
Net municipal drainage utility revenue	<u>9,132,392</u>	<u>8,244,459</u>
Other revenues available for debt service:		
Interest income	99,550	89,659
IRS Tax Credit Build American Bonds	800,675	828,171
Property rentals	43,628	41,725
Gain on sale of miscellaneous assets	87,318	-
Other miscellaneous operating revenue	<u>638,938</u>	<u>618,901</u>
Other revenues available for debt service	<u>1,670,109</u>	<u>1,578,456</u>
Revenues available for debt service	<u>\$ 10,802,501</u>	<u>\$ 9,822,915</u>

15. RISK MANAGEMENT

EPWU is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Additionally, the Water and Wastewater Utility and the Municipal Drainage Utility, through the City of El Paso, maintain insurance policies acquired from independent insurance carriers covering all material structural property.

EPWU, in conjunction with the City of El Paso, provides health benefits, life insurance, and workers' compensation benefits under a self-insurance plan for eligible employees and retirees. EPWU and the City of El Paso fund these plans separately, and EPWU is responsible for the costs incurred related to the employees of EPWU.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

15. RISK MANAGEMENT (Continued)

The City maintains a group health insurance plan for active and retired employees and their eligible dependents through a self-insured plan of benefits administered by Aetna. Reinsurance coverage limits the annual liability of EPWU to \$225,000 per claim per covered member. Contributions to the fund are provided by both EPWU and participating employees. The group life insurance plan is provided by a commercial carrier. Health expenses and liabilities are recorded separately by EPWU for any eligible EPWU members enrolled in these plans. Costs are recorded in the fund from which the employees' compensation is paid.

Claims Administrative Services administers the workers' compensation self insurance program. A separate bank account is used to pay all claims for workers' compensation, and EPWU accrues estimated future liabilities for workers' compensation claims filed as of the end of the year. Management feels that the contributions made during the year for workers' compensation will offset any claims paid during the year.

For the years ended February 28, 2015, 2014, and 2013 the amount of settlements did not exceed insurance coverage and there were no significant reductions in the coverage from the prior year. The estimated liability for unpaid health claims is based upon the claim lag report. The estimated liability for unpaid workers' compensation claims, is the discounted future payments, as actuarially determined, of case reserves plus claims incurred but not reported as of the actuarial report date of January 1, 2015. Accrued liabilities for these self insurance programs are summarized below for the years ended February 28, 2015, 2014, and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Health Insurance	\$ 171,399	\$ 513,047	\$ 206,704
Workers' Compensation	<u>871,868</u>	<u>871,868</u>	<u>1,062,414</u>
Total payable	1,043,267	1,384,915	1,269,118
Less current portion	<u>299,060</u>	<u>836,027</u>	<u>356,765</u>
Estimated Long-term portion	<u>\$ 744,207</u>	<u>\$ 548,888</u>	<u>\$ 912,353</u>

Changes in accrued liabilities for self insurance programs were as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total payable, beginning of year	\$ 1,384,915	\$ 1,269,118	\$ 1,267,609
Additional claims incurred	3,988,848	3,763,153	4,823,825
Claims paid during the year	<u>(4,330,496)</u>	<u>(3,647,356)</u>	<u>(4,822,316)</u>
Total payable, end of year	<u>\$ 1,043,267</u>	<u>\$ 1,384,915</u>	<u>\$ 1,269,118</u>

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

16. PENSION AND RETIREMENT PLAN

General - The Public Service Board - El Paso Water Utilities contributes to the City Employees' Pension Fund (CEPF) which is a single-employer defined benefit pension plan. It is the responsibility of the CEPF to function as an investment and administrative agent for the City of El Paso and EPWU with respect to the pension plan. Stand-alone financial statements may be obtained from the City Employees' Pension Fund administrative office at City of El Paso, 400 W. San Antonio Ave., Suite B, El Paso, Texas 79901.

Basis of Accounting - The accounting policies for the CEPF have been established to conform to generally accepted accounting principles for state and local governments as promulgated by authoritative pronouncements issued by the Governmental Accounting Standards Board. The CEPF is accounted for on an economic resources measurement focus using the accrual basis of accounting.

The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America requires the CEPF's management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the CEPF's financial statements and the reported changes in net position during the reporting period. Actual results may differ from those estimates.

Valuation of Investments - Investments are stated at fair value. The fair value of marketable investments, including U.S. government securities, mutual funds, and corporate bonds and stocks, is determined by the latest bid price or by the closing exchange price at statement of plan net position dates (fair value). The fair value of investments in bank collective investment, commingled and real estate investment funds are determined by the investment funds based on the fair values of the underlying securities in the funds. Bank collective investment funds are governed by Section 9.18 of Regulation 9 issued by the Office of Comptroller of the Currency and by other applicable regulations as defined by the Mellon Bank, N.A. Employee Benefit Collective Investment Fund Plan.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Net appreciation in fair value of investments reflected in the CEPF statements of changes in plan net position represents gains or losses realized during the year plus or minus the change in the net unrealized gains or losses on investments. The change in net unrealized gains or losses on investments represent the change in the difference between the cost and fair value of investments at the beginning versus the end of the year.

Concentration of Investments - The following table presents the fair value of investments that represent 5% or more of the CEPF's net position available for benefits at August 31, 2014. These investments are in bank collective investment funds which consist of diversified portfolios of investments as described previously.

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16. PENSION AND RETIREMENT PLAN (Continued)

	Shares	Fair Value
EB MCM DV International Specialized Investment Mellon Capital Management Corp.	159,696	\$ 64,625,595
EB MCM DV Aggregate Bond Index Fund Mellon Capital Management Corporation	21,257	\$ 56,219,567
EB MCM DV Mid Cap Specialized Investment Mellon Capital Management Corporation	164,374	\$ 55,736,034
Franklin Templeton Global Multi Sector Plus Franklin Templeton Investments	2,998,804	\$ 38,744,547
EB MCM DV Tangent Added Fund Mellon Capital Management Corporation	218,809	\$ 41,224,061
EB MCM DV Stock Index Fund Mellon Capital Management Corporation	85,003	\$ 40,148,854
UBS Trumbull Property Fund UBS Realty Investors	4,321	\$ 39,929,910

Plan Description - The CEPF covers substantially all full-time employees of the City (including EPWU). Certain contract and permanent part-time employees have the option to participate, but they must sign an irrevocable election regarding membership in the plan. Non-employer contributions are limited to participating employees. The designated purpose of the CEPF is to provide retirement, death, and disability benefits to participants or their beneficiaries.

The CEPF is administered by the CEPF Board which is comprised of two citizens designated by the Mayor who are not officers or employees of the City, four elected City employees, a retiree, and two district representatives. The CEPF Board contracts with an independent pension custodian, investment managers, a pension consultant, and an actuary to assist in managing the CEPF.

The CEPF is not required to maintain any legally required reserves.

Participation is mandatory for classified employees (except permanent part-time employees). For non-classified employees, participation is mandatory for employees hired after July 1997. Classified employees include all persons who are permanent, full-time employees and are not otherwise excluded from the CEPF. There are two tiers of benefits, employees who became plan participants before September 1, 2011 are Tier 1, and those who became eligible after are Tier 2.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

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16. PENSION AND RETIREMENT PLAN (Continued)

First Tier Plan

Participants who leave the plan before completion of five years of service receive a refund of their contributions. Participants leaving the plan with more than five years of service but less than ten years of service may receive a refund of their contributions plus interest at 5.5%, compounded annually, provided they are not eligible for normal retirement.

Participants become fully vested after reaching forty years of age and ten years of service or forty-five years of age and seven years of service. Normal retirement is the earlier of (i) fifty-five years of age with ten years of service, or (ii) sixty years of age with seven years of service or (iii) thirty years of service regardless of age. Participants who have met the minimum vesting requirements may retire but defer receiving pension payments until they reach normal retirement age. Alternatively, such vested participants may elect an early retirement which will provide an actuarially reduced pension benefit payment upon termination.

Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.5% of final wages defined as the greatest of (i) 2.5% of the average monthly gross earnings received by the employee during the three years immediately prior to retirement, (ii) 2.5% of the average monthly base salary received by the employee during the year immediately prior to retirement, or (iii) 2.5% of the monthly base salary for the month immediately prior to retirement, multiplied by the number of completed years of service, plus .2083 of 1% of such average for each additional completed or fractional part of a month of service.

Second Tier Plan

Participants who leave the plan before completion of seven years of service receive a refund of their contributions. Participants leaving the plan with more than seven years of service but less than ten years of service may receive a refund of their contributions plus interest at 3%, compounded annually, provided they are not eligible for normal retirement.

Participants become vested after reaching 45 years of age and 7 years of service. Normal retirement is the earlier of (i) sixty years of age with seven years of service, or (ii) thirty-five years of service regardless of age. Participants who have met the minimum vesting requirements may retire but defer receiving pension payments until they reach normal retirement age. Alternatively, such vested participants may elect an early retirement which will provide an actuarially reduced pension benefit payment upon termination. Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.25% of the average monthly gross earnings received by the employee during the three years immediately prior to retirement, plus .1875 of 1% of such average for each additional completed or fractional part of a month of service, limited to 90% of the three year average final pay.

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PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

16. PENSION AND RETIREMENT PLAN (Continued)

A pension benefit is available to surviving spouses and dependents. The plan includes no automatic increase in retirement benefits; however, the Board, at its discretion after consideration of a recent actuarial review of the funding status, may provide ad hoc cost of living or other increases in retirement benefits.

Membership in the above described pension plan is as follows as of August 31, 2014:

Retirees and beneficiaries receiving benefits	2,605
Terminated plan members entitled to but not yet receiving benefits	72
Active plan members	<u>4,164</u>
Total	<u><u>6,841</u></u>

Contributions - Contribution rates for the CEPF are based upon local statutes and are not actuarially determined. However, each time a new actuarial valuation is performed, contribution requirements are compared to the actuarially determined amount necessary to fund service costs and amortize the unfunded actuarial accrued liability (using entry-age-normal cost method) over 30 years. As of the most recent actuarial valuation, the contribution rate was 22.1% of annual covered payroll.

EPWU's gross payroll for fiscal years ended 2015, 2014, and 2013, were \$32,772,087, \$32,572,161, and \$31,140,855, respectively. The portion attributable to eligible employees covered by the pension plan for fiscal years ended 2015, 2014, and 2013 were \$32,349,087, \$31,870,410, and \$30,838,768, respectively. Covered payroll refers to all compensation paid by EPWU to active employees covered by the City PERS on which contributions to the pension are based.

Total contributions into the plan represent 22.1% of wages paid to eligible employees of which 14.05% was contributed by EPWU and 8.95% was contributed by the employees on a pre-tax basis. Total contributions for fiscal years ended 2015, 2014, and 2013 were \$7,283,496, \$6,888,257, and \$6,391,868, respectively. EPWU contributed a total of \$4,440,561, \$4,183,125, and \$3,865,481, and employees contributed \$2,842,935, \$2,705,132, and \$2,526,387, for fiscal years ended 2015, 2014, and 2013, respectively. EPWU contributed 100% of the annual required contributions in the City of El Paso Pension plan for each of the fiscal years ended 2015, 2014, and 2013.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

16. PENSION AND RETIREMENT PLAN (Continued)

Securities Lending - The CEPF enters into securities lending transactions with broker/dealers for which fees are paid to the CEPF. The CEPF Board may legally and contractually authorize the use of CEPF's securities for lending transactions. The securities involved in the lending transactions continue to be recorded at fair value. Parameters are established by the CEPF's investment guidelines for securities lending transactions. These guidelines require that all securities lending occur with specified broker/dealers and that securities be collateralized using U.S. issuer securities at 102% and non U.S. issuer securities at 105% of the fair value of the securities. U.S. issuer securities used as collateral are marked to fair value on a daily basis to evaluate whether the collateralization requirements of the fair value of investments is always maintained. The CEPF may not pledge or sell the collateral securities except on default of the borrower. Because of this, CEPF administration believes there is some minimal credit risk associated with securities lending transactions. There is no loss indemnification provided to the CEPF by the investment managers or broker/dealers. As of August 31, 2014, the fair value of securities loaned to others, consisted of:

Corporate Stocks	<u>\$ 22,906,404</u>
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Annual Pension Cost and Net Pension Obligation - The annual pension cost and net pension obligation to CEPF for the years ended August 31, 2014, 2013, and 2012 are shown below. Since the annual cost and obligation of the pension plan are the responsibility of the City of El Paso, these amounts are recorded in its financial statements. EPWU is a participant of the plan and contributes to the plan but does not have any liability associated with the pension plan.

Year	Annual Required Contribution (ARC)	Interest on NPO	Adjustment to ARC	Annual Pension Cost	Contributions Made	Increase (Decrease) in NPO	Net Pension Obligation
8/31/2014	\$ 22,649,727	\$ 143,703	\$ (107,101)	\$ 22,686,329	\$ 21,739,159	\$ 947,170	\$ 2,863,215
8/31/2013	21,075,292	98,880	(73,695)	21,100,477	20,502,828	597,649	1,916,045
8/31/2012	19,605,418	96,690	(67,408)	19,634,700	19,524,934	109,766	1,318,396

The percentage of Annual Pension Cost Contributed for the above three years is 95.8%, 97.2%, and 99.4%, respectively.

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

16. PENSION AND RETIREMENT PLAN (Continued)

Schedule of Funding Progress:

Actuarial valuation date	(1) Actuarial value of assets (dollars in thousands)	(2) Actuarial accrued liability (AAL) entry age (dollars in thousands)	(3) Unfunded AAL (UAAL) (2) - (1) (dollars in thousands)	(4) Funded ratio (1) : (2)	(5) Covered payroll (dollars in thousands)	(6) UAAL as a percentage of covered payroll (3) : (5)
9-1-2014	732,892	859,629	126,737	85.3%	153,613	82.5%
9-1-2012	581,725	788,204	206,479	73.8%	147,740	139.8%
9-1-2010	569,723	709,997	140,274	80.2%	143,107	98.0%

The information presented in the schedule of funding progress was determined as part of actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Actuarial Valuation Date	September 1, 2014
Actuarial Cost Method	Entry Age
Asset Valuation Method	Five-year smoothed
Assumed Inflation Rate	3.5%
Assumed Investment Rate of Return	7.5%
Assumed Projected Salary Increases	3.5%
Assumed Cost of Living Adjustment	13 th Check
Amortization Method	Level percent open
Remaining Amortization Period	21 years
Factors that significantly affect the identification of trends	None

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

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17. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The City (including the Public Service Board - El Paso Water Utilities) sponsors and administers an informal single-employer defined benefit healthcare plan. Texas statute provides that retirees from a municipality with a population of 25,000 or more and that receive retirement benefits from a municipal retirement plan are entitled to purchase continued health benefits coverage for the retiree and the retiree's dependents unless the retiree is eligible for group health benefits coverage through another employer. The State of Texas has the authority to establish and amend the requirements of this statute. The City does not issue stand alone financial statements of the healthcare plan but all required information is presented in this report.

The contribution requirements of plan members are established by City ordinance and may be amended as needed. Retiree coverage is the same as the coverage provided to active City employees and for retirees under 65. Retirees over 65 are covered through a Medicare Advantage Plan. Retirees pay premiums ranging from \$106 per month to \$1,319 per month depending on the coverage elected. The cost of retiree health care benefits is recognized as an expense as liabilities are incurred. Of 2,677 retirees eligible (including the City and EPWU), there were 2,605 retirees covered under this plan at August 31, 2014. Dependent coverage was provided for 390 of the retirees, respectively. Total benefits (including the City and EPWU) paid for retirees during the year ended August 31, 2014 and 2013 was approximately \$21,830,044 and \$1,920,450, respectively. For the year ended August 31, 2014, retirees contributed \$14,039,600 or 39% of the total current year cost, and for the year ended August 31, 2013, retirees contributed \$1,658,043 or 45% of the total current year cost.

Funding Policy

Permanent EPWU employees and retirees under 65 years of age have the same benefits as offered by the City of El Paso. The plan premium rates are determined annually by the City's OMB Department in collaboration with an outside benefits consulting firm and are approved by the El Paso City's Council. The City's adopted budget policy maintains that retirees must pay 45% of the cost of premiums. Retirees are responsible for the full cost of coverage for their dependents who participate in the plan. The City employs a pay-as-you-go method and adjusts the rates annually as needed. EPWU self-funds its benefits plan that is offered to its employees, and effective August 1, 2012 pays premiums to a fully insured plan for its retirees.

Annual OPEB costs and Net OPEB Obligation

EPWU's annual other post-employment benefit (OPEB) cost for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following tables show the components of the annual OPEB cost for the years ended February 28, 2015 and 2014, the amount actually contributed to the plan, and changes in the net OPEB obligation.

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

17. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

	<u>February 28, 2015</u>	Water and Wastewater Utility	Municipal Drainage Utility
Annual Required Contribution	\$ 1,354,201	\$ 79,398	
Interest on Net OPEB Obligation	302,427	8,864	
Adjustment to Annual Required Contribution	<u>(280,195)</u>	<u>(8,213)</u>	
Annual OPEB Cost	1,376,433	80,049	
Less Contributions Made	<u>(407,097)</u>	<u>(8,423)</u>	
Increase in Net OPEB Obligation	969,336	71,626	
Net OPEB Obligation - Beginning of year	<u>6,720,592</u>	<u>196,987</u>	
Net OPEB Obligation - End of year	<u>\$ 7,689,928</u>	<u>\$ 268,613</u>	

	<u>February 28, 2014</u>	Water and Wastewater Utility	Municipal Drainage Utility
Annual Required Contribution	\$ 1,231,744	\$ 60,505	
Interest on Net OPEB Obligation	264,898	6,570	
Adjustment to Annual Required Contribution	<u>(245,425)</u>	<u>(6,087)</u>	
Annual OPEB Cost	1,251,217	60,988	
Less Contributions Made	<u>(417,244)</u>	<u>(9,993)</u>	
Increase in Net OPEB Obligation	833,973	50,995	
Net OPEB Obligation - Beginning of year	<u>5,886,619</u>	<u>145,992</u>	
Net OPEB Obligation - End of year	<u>\$ 6,720,592</u>	<u>\$ 196,987</u>	

The Waster and Wastewater Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 1,376,433	\$ 407,097	29.58%	\$ 7,689,928
2014	\$ 1,251,217	\$ 417,244	33.35%	\$ 6,720,592
2013	\$ 1,212,591	\$ 381,162	31.43%	\$ 5,886,619

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

17. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

The Municipal Drainage Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 80,049	\$ 8,423	10.52%	\$ 268,613
2014	\$ 60,988	\$ 9,993	16.39%	\$ 196,987
2013	\$ 59,034	\$ 1,096	1.86%	\$ 145,992

Management feels that the contributions made during the year to other post employment benefits will offset any claims paid during the year. Therefore, the entire liability is estimated to be long term and recorded as such.

Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the plan was not funded as shown in the table below:

	Water and Wastewater Utility	Municipal Drainage Utility
Actuarial Accrued Liability (AAL)	\$ 14,019,879	\$ 604,874
Actuarial Value of Plan Assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 14,019,879	\$ 604,874
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Covered payroll	\$ 30,374,930	\$ 2,297,528
Unfunded actuarial accrued liability as a percentage of covered payroll	46.16%	26.33%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

17. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Actuarial Methods and Assumptions

Projections of health benefits are based on the substantive plan (the plan understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant method and assumptions used for this fiscal year valuation were as follows:

Actuarial Methods and Assumptions

Actuarial Valuation Date	January 1, 2015
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level as a percentage of employee payroll
Amortization Period	30 year, open amortization
Inflation Rate	3% per annum
Investment Rate of Return	4.5% net of expenses
Payroll Growth	3% per annum
Healthcare cost trend rate	Initial rate of 7% declining to an ultimate rate of 4.75% after 15 years

18. DEFERRED COMPENSATION

The EPWU through the City of El Paso offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457.

The plan, available to all EPWU employees, permits them to defer a portion of their salaries until future years. EPWU does not make any contributions to the plan. The deferred compensation is not available to employees until termination, retirement, or unforeseeable emergency. Deferred compensation is available to employees' beneficiaries in case of death. The investments are managed by an outside administrator and investment options are made by participants.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants.

In management's opinion, EPWU has no liability for losses under the Plan. However, the City of El Paso and EPWU does have the duty of due care that would be required of an ordinary, prudent fiduciary.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

19. LEASING ARRANGEMENTS WITH EPWU AS LESSOR

EPWU leases real properties under various long-term lease agreements under the operating method of accounting for leases. Minimum future rentals to be received on non-cancelable leases as of February 28, 2015, for each of the next five years and in the aggregate are:

Water and Wastewater Utility

<u>Year ended February</u>	<u>Amount</u>
2016	\$ 1,789,810
2017	1,776,800
2018	1,750,948
2019	1,562,541
2020	1,161,286
2021 - 2025	4,806,988
2026 - 2030	2,513,668
2031 - 2035	1,498,204
2036 - 2039	25,194
2040 - 2044	1,320
2045 - 2049	1,320
2050 - 2054	1,320
2055 - 2059	858
Total minimum future rentals	<u>\$ 16,890,257</u>

Municipal Drainage Utility

<u>Year ended February</u>	<u>Amount</u>
2016	\$ 44,232
2017	21,720
2018	17,220
2019	15,720
2020	15,720
2021 - 2025	19,850
2026 - 2030	3,600
2031 - 2035	3,600
2036 - 2040	3,000
Total minimum future rentals	<u>\$ 144,662</u>

(Continued)

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

20. LEASING ARRANGEMENTS WITH EPWU AS LESSEE

EPWU leases buildings, land, computer equipment, and copiers for the Water and Wastewater Utility and the Municipal Drainage Utility under various long-term lease agreements which are recognized using the operating method of accounting for leases. Minimum future payments as of February 28, 2015 are as follows:

Water and Wastewater Utility

<u>Year ended February</u>	<u>Amount</u>
2016	\$ 761,191
2017	668,943
2018	620,508
2019	464,090
2020 - 2024	2,234,996
2025 - 2029	2,197,148
2030 - 2034	2,212,565
2035 - 2039	2,229,943
2040 - 2044	2,249,560
2045 - 2049	2,121,414
2050 - 2054	2,047,500
2055 - 2059	2,047,500
2060	102,375
	<u>\$ 19,957,733</u>

Rental expense for the years ended February 28, 2015 and 2014 was \$1,286,210 and \$1,203,109, respectively.

Municipal Drainage Utility:

<u>Year ended February</u>	<u>Amount</u>
2016	\$ 19,847
2017	14,733
2018	<u>14,733</u>
	<u>\$ 49,313</u>

Rental expense for the years ended February 28, 2015 and 2014 was \$24,049 and \$17,089, respectively.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

21. WHOLESALE WATER SUPPLY AND WASTEWATER TREATMENT CONTRACTS

EPWU has entered into various wholesale water supply and wastewater treatment contracts to supply water and provide wastewater treatment to several Municipal Utility Districts and other entities who provide retail service to their customers. The contracts vary in length from 5 years to 20 years with renewal options available with the consent of both parties. The wholesale rates are updated annually based on cost of service including specific cost credits or offsets to specific entities due to grant proceeds related to specific water and wastewater service areas.

The following is a summary of wholesale water and wastewater rates to each entity served by EPWU:

<u>Name of Entity</u>	<u>Water Rate</u>	<u>Wastewater Rate</u>
Lower Valley Water District	\$1.00 per ccf	\$0.75 per ccf
County - East Montana	\$0.87 per ccf	N/A
Haciendas Del Norte WID	\$1.34 per ccf	N/A
Ponderosa/Western Village	\$1.78 per ccf	N/A
Gaslight Square MHE	\$1.94 per ccf	\$1.40 per ccf
Paseo del Este MUD	\$1.93 per ccf	\$1.70 per ccf
(includes fixed base differential rate of \$0.26 for water and \$0.33 for wastewater)		
Fort Bliss	\$0.78 per ccf	\$1.38 per ccf
County - Mayfair/Nuway and Schuman	\$1.49 per ccf	N/A
County - Colonia Revolucion	\$1.68 per ccf	N/A

Transactions with these entities are summarized below:

	<u>2015</u>	<u>2014</u>
Water Sales	<u>\$ 4,426,451</u>	<u>\$ 4,548,425</u>
Wastewater Services	<u>\$ 2,151,904</u>	<u>\$ 2,731,329</u>

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

22. SURFACE WATER CONTRACTS

The EPWU purchases all its Rio Grande Project surface water from the El Paso County Water Improvement District #1 (District) through various contracts, briefly described below, among the United States Department of Interior-Bureau of Reclamation, the Lower Valley Water District (LVWD), and the City of El Paso, through EPWU.

In a full allocation year, EPWU is currently entitled to receive approximately 28,784 acre feet (AF) of District water under two contracts titled the "1941 Contract" and the "1962 Contract". The 1941 Contract authorizes EPWU to purchase up to 2,000 acres of water rights land and to receive the water appurtenant to such land. The 1962 Contract authorizes EPWU to lease the water rights from residential land tracts inside the city limits and to receive the annual water allotment up to a maximum of 3.50 AF per acre. Under these two contracts, EPWU currently receives water based on its full land purchase authorization of 2,000 acres and 6,245 acres of leased water rights, whose terms range from 25 years to 75 years. During calendar year 2014, the cost of the water purchased from the District for the water associated with the land owned was composed of two parts; a land assessment fee of \$25 per acre, plus a water assessment fee of \$20 per AF. These two charges plus a one-time administrative fee of \$100 and an account service charge of \$12 per lease also applies to the water acquired through leases. EPWU also receives water rights associated with land owned and leases on 3,602 acres obtained within the LVWD. During a full allocation year, these LVWD water rights are equivalent to 14,413 AF worth of raw surface water.

In April of 2001, EPWU executed a contract titled "2001 Implementing Third Party Contract" (ITPC) which allows EPWU to purchase up to 28,116 AF of District water, and as little as zero AF, based on the District's annual water allotment. EPWU, currently owns a total 3,127.832 acres of water rights land. Under the terms of the ITPC (as amended March 2010), EPWU pays \$15 per AF in the initial year of the contract for water allotted to EPWU owned acreage in excess of 2,000 acres, up to a 2,250 acre maximum. This price is adjusted annually by the "Consumer Price Index-All Urban Consumers, All Items". For all other water made available by the District under this contract, EPWU pays \$193.50 per AF for the calendar year commencing January 1, 2001, escalating to \$260 per AF for the calendar year commencing January 1, 2010. In March of 2010, the PSB and the District executed a First Amendment to the ITPC in which the parties agreed to increase said price by the CPI starting on January 1, 2013, with the price for the 2011 and 2012 calendar years set a \$260 per AF. This amendment also increased the quantity of water allotted pursuant to PSB owned acreage in excess of 3,000 acres to 3,250 acres.

Also under the terms of the ITPC, in any year when the Directors of the District determine that the annual water allotment is two AF or greater, then for each AF of usable sewage effluent discharged by EPWU from the Haskell Street Wastewater Treatment Plant into the American Canal, the District allows the City a credit against any charges of the District equal to the current year's price per AF multiplied by one-half. The maximum allowable credit for usable sewage effluent for any given year is 15,000 AF.

(Continued)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

22. SURFACE WATER CONTRACTS (Continued)

In addition to the price of District water, EPWU pays the federal revenue component on all District water delivered to EPWU. This federal revenue component is \$5 per AF or 5% of current year's contract price of the water, whichever is greater. In calendar year 2014, EPWU received an allotment of 1.50 AF per acre of surface water and treated 24,093 AF of this water for distribution to its customers.

This note is intended to summarize major components of the contracts; however, it is recommended that the contracts be reviewed, in their entirety, by interested parties.

23. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Through the ordinary course of its operations, EPWU becomes subject to various claims and litigation. As of the date of these financial statements, EPWU was named in various legal actions. To the extent the outcome of such litigation is determined to result in probable loss to the EPWU, such loss is accrued in the financial statements. However, as of February 28, 2015, no amounts have been accrued because legal counsel has not determined that the litigation will result in a probable loss to EPWU since the outcome cannot be determined at this time. Management and legal counsel are of the opinion that settlement of these claims and pending litigation will not have a materially adverse effect on EPWU's financial statements.

EPWU has received federal and state financial assistance for specific purposes that are subject to review and audit by the grantor agencies. Although management believes compliance with grant guidelines is adhered to, grantor audits could result in requests for reimbursement of expenditures determined to be disallowed. Management believes such disallowances, if any, will be immaterial.

EPWU has ongoing construction projects under non-cancelable contracts. At February 28, 2015, the Water and Wastewater Utility had appropriations and estimated commitments for services yet to be performed that totaled \$83,955,571. At February 28, 2015, the Municipal Drainage Utility had appropriations and estimated commitments for services yet to be performed totaling \$35,480,174.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

24. RELATED PARTY TRANSACTIONS

The Public Service Board - El Paso Water Utilities makes payments to the City of El Paso based upon a percentage of water sales. In addition, EPWU acts as a billing and collecting agent for environmental services for the City. The following is a summary of those transactions:

	<u>2015</u>	<u>2014</u>
Revenues from City:		
Water and Wastewater Sales	\$ 3,475,921	\$ 3,268,002
Billing and Collecting Agent fees	\$ 875,907	\$ 868,815
Drainage fees	\$ 281,999	\$ 284,238
Expenses to City:		
10% of Water Sales	\$ 10,586,093	\$ 10,452,519
5% on gain on sale of land	\$ 7,173	\$ 100,697
City of El Paso Franchise fee	\$ 1,937,221	\$ -
Receivable:		
Accounts Receivable from City	\$ -	\$ 599
Payable:		
Environmental Services collections fees payable to City	\$ 5,084,817	\$ 4,645,520
10% of water sales payable to City	\$ 1,261,379	\$ 626,634
Franchise fee payable to City	\$ 644,428	\$ -
Property and health insurance payable to City	\$ 483,460	\$ 806,094
City projects and other expenses payable to City	\$ 852,359	\$ 316,691

25. RESTRICTED NET POSITION

Amounts have been restricted for construction projects and for payment of bonded debt.

26. FRANCHISE FEE DUE TO THE CITY OF EL PASO

Effective September 1, 2014, City Council established a Franchise fee to be paid by the El Paso Water Utilities to compensate the City of El Paso for the use of city streets and rights of way for utility lines and wear and tear on City streets in a total amount of Three Million Five Hundred Fifty Thousand and No/100 Dollars (\$3,550,000). Non-residential meters were billed a calculated monthly fee of \$15.92 to meet the amount established by the City of El Paso City Council. As of February 28, 2015 \$1,937,221 has been billed of which \$1,292,794 has been paid to the City of El Paso.

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**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2015 and 2014

27. SUBSEQUENT EVENTS

The El Paso Water Utilities Public Service Board approved that the City's Franchise fee will be assessed to all residential, non-residential and standby fire protection accounts based on meter size effective June 2015. Non-residential meters who had been charged the \$15.92 from September 1, 2014 to April 2015 were credited the amount billed in May of 2015. For fiscal year ended February 28, 2015 this totaled \$1,937,221. Refer to Note 26.

On April 7, 2015, the Public Service Board - El Paso Water Utilities issued \$22,240,000 in Municipal Drainage Utility System Revenue Bonds, Series 2015 with an average interest rate of 4.84% to finance drainage projects and improvements throughout the City of El Paso.

**REQUIRED SUPPLEMENTARY INFORMATION
FOR
OTHER POST-EMPLOYMENT BENEFITS PLAN**

REQUIRED SUPPLEMENTARY INFORMATION

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

WATER AND WASTEWATER UTILITY FUND

**Other Post-Employment Benefits Plan
Schedule of Funding Progress**

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percent Funded (1)/(2)	(4) Unfunded AAL (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded AAL as a Percent of Covered Payroll (4) / (5)
01/01/2015	\$ -	\$ 14,019,879	0.00%	\$ 14,019,879	\$ 30,374,930	46.16%
01/01/2013	\$ -	\$ 13,411,767	0.00%	\$ 13,411,767	\$ 29,165,415	45.99%
03/01/2010	\$ -	\$ 11,973,164	0.00%	\$ 11,973,164	\$ 28,099,784	42.61%

**Other Post-Employment Benefits Plan
Schedule of Employer Contributions**

Fiscal Year	(1) Actual Contribution	(2) Annual Required Contribution	(3) Percent Contributed (1)/(2)
2015	\$ 407,097	\$ 1,354,201	30.06%
2014	\$ 417,244	\$ 1,231,744	33.87%
2013	\$ 381,162	\$ 1,195,868	31.87%