

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 2<sup>nd</sup> or 3<sup>rd</sup> 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 feet 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**

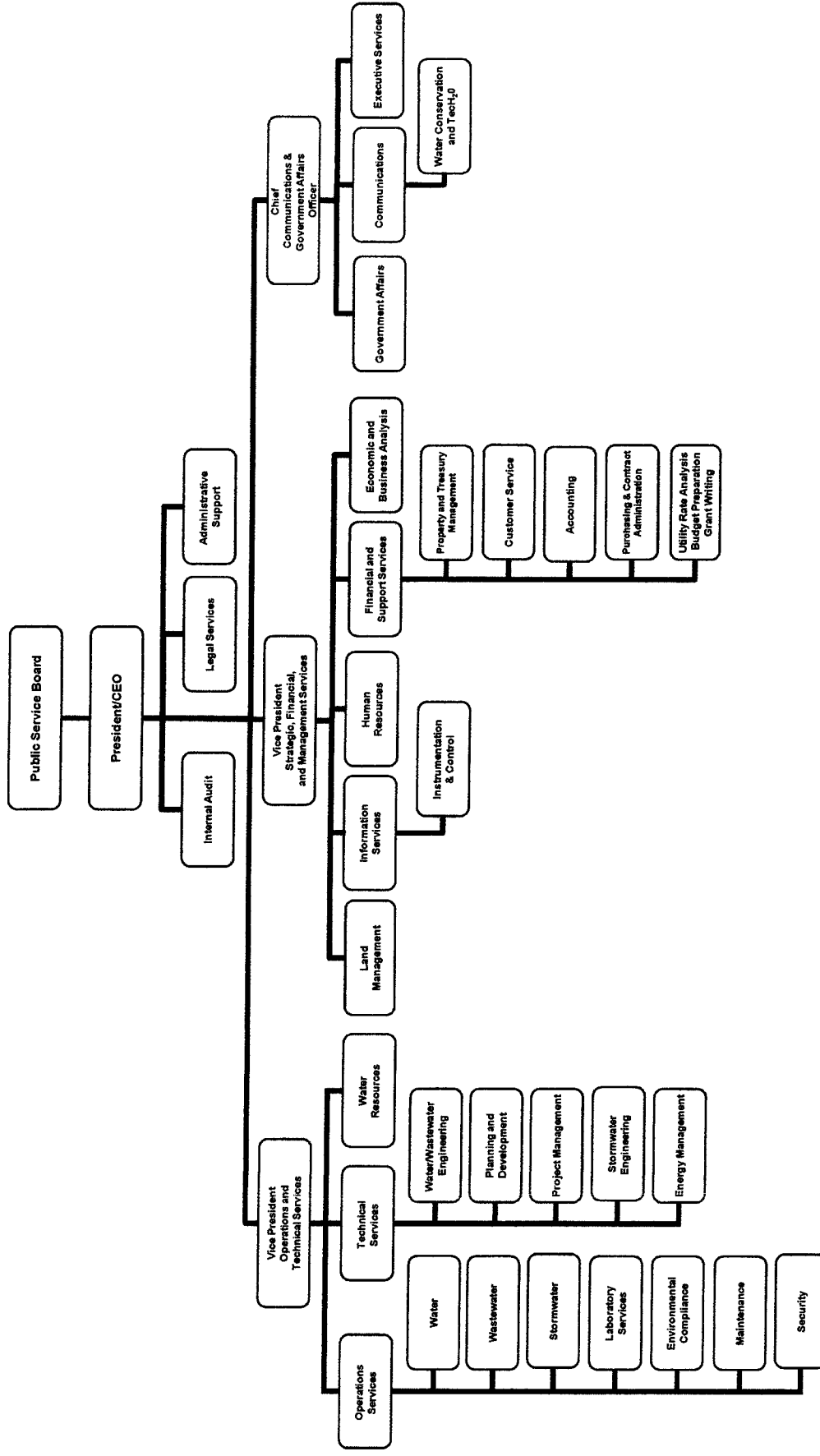
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**February 28, 2014**

Executive Director/CEO

# El Paso Water Utilities

## Organizational Structure





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

### PUBLIC SERVICE BOARD



Richard T. Schoephoerster, Ph.D., P.E.  
*Chair*



Ruth Katherine Brennand  
*Vice Chair*



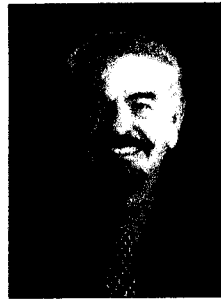
Terri Garcia  
*Secretary-Treasurer*



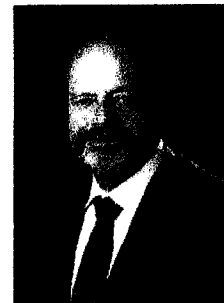
Henry Gallardo  
*Member*



Christopher A. Antcliff  
*Member*



Bradley Roe  
*Member*



Oscar Leeser  
*Mayor, City of El Paso*

### EXECUTIVE STAFF

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

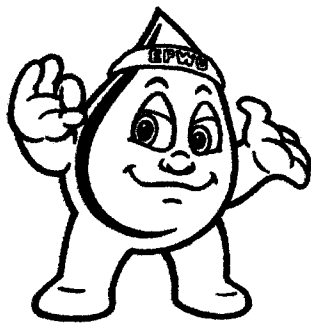
Arturo Duran, Chief Financial Officer

### 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.

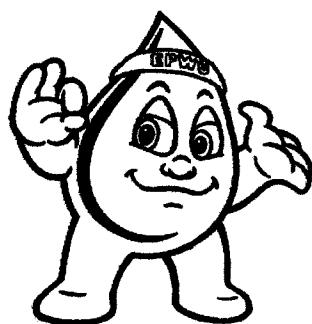
The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**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



## *Public Service Board - El Paso Water Utilities*

### **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.

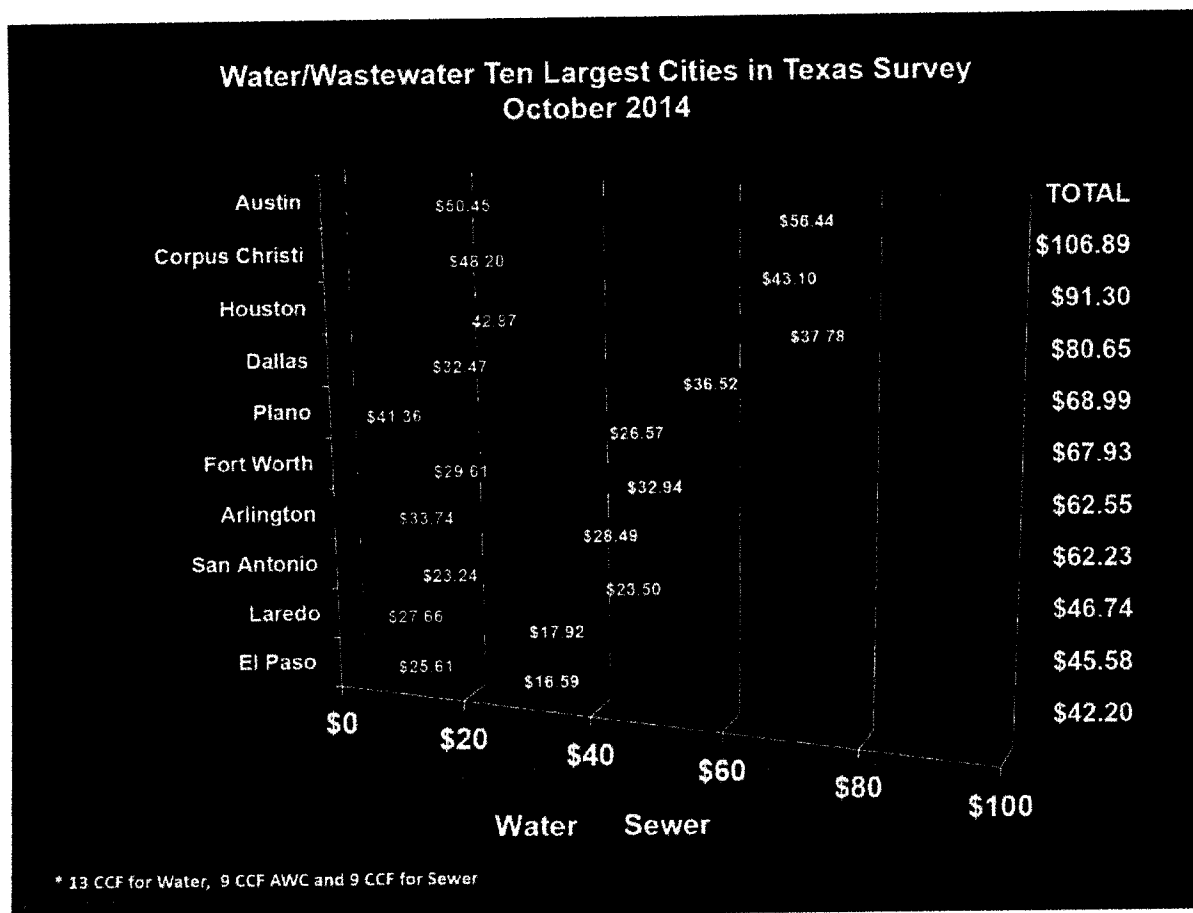
Wholesale Customers	FY 2015	FY 2014	FY 2013
Lower Valley Water District			
<i>Water Customers</i>	16,472	15,901	15,492
<i>Wastewater Customers</i>	13,553	12,949	12,675
County of El Paso - East Montana - <i>Water Customers</i>	1,754	1,736	1,719
Haciendas del Norte WID- <i>Water Customers</i>	345	345	345
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.

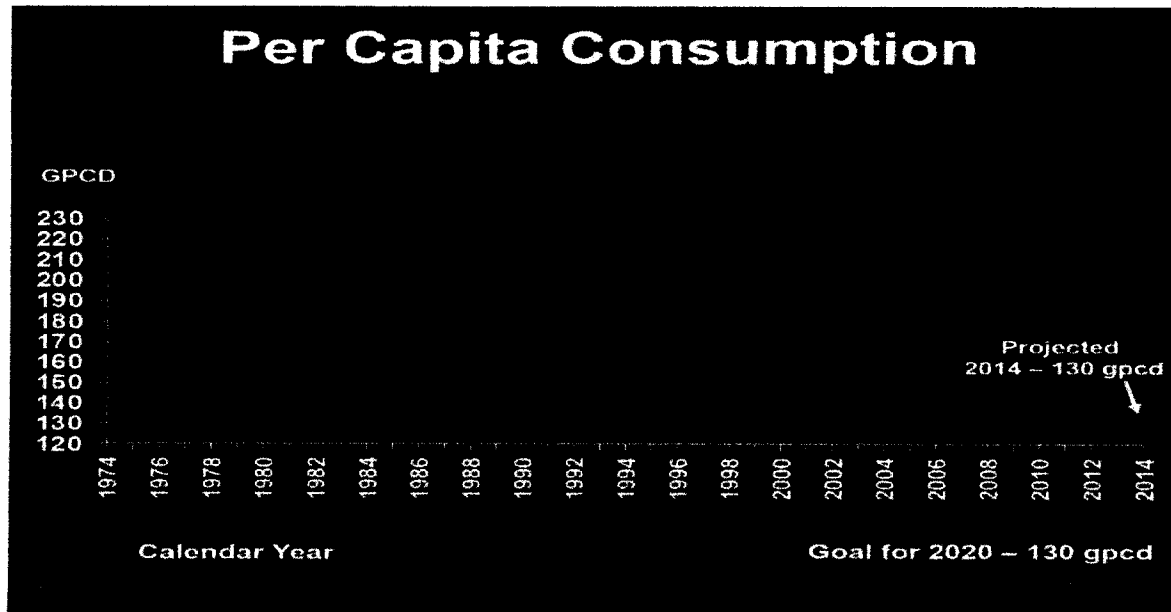
In 2005, EPWU began operating four treatment plants specifically designed to achieve compliance with EPA's new maximum contaminant level (MCL) for arsenic, which became effective January 23, 2006. These plants have a combined treatment capacity of 41 MGD. The largest of the four plants is the 30 MGD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

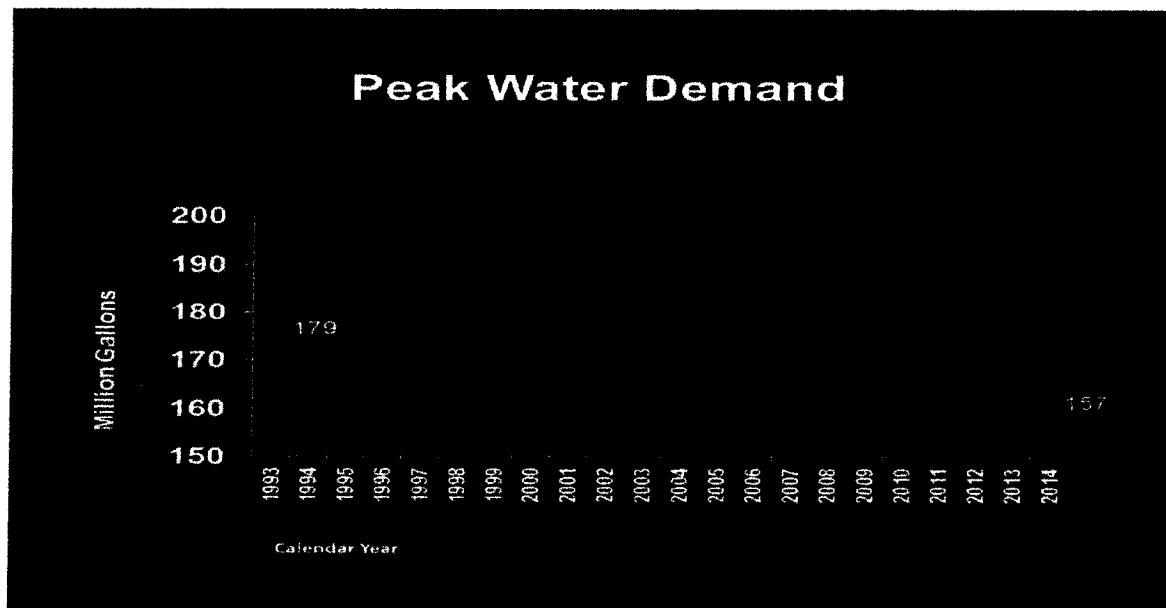
The Utility was one of only seven public drinking water systems that received the Platinum Award for Utility Excellence from the Association of Metropolitan Water Agencies (AMWA) in 2010. This award recognizes the outstanding achievements in implementing the nationally recognized Attributes of Effectively 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 1<sup>st</sup> 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			
	FY 2015	FY 2014	FY 2013 (Restated)
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	\$ 1,563,475,081	\$ 1,519,204,880	\$ 1,469,969,408
Current Liabilities	100,497,462	89,697,090	78,046,293
Noncurrent Liabilities	583,585,333	581,161,267	583,405,013
Total Liabilities	684,082,795	670,858,357	661,451,306
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	879,260,390	848,203,478	808,363,907
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 1,563,475,081	\$ 1,519,204,880	\$ 1,469,969,408

### 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.

<b>Enterprise Funds Statements of Revenues, Expenses, and Changes in Net Position</b>			
	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u> <u>(Restated)</u>
<b>Operating Revenues:</b>			
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
<b>Total Operating Revenues</b>	<b>199,906,397</b>	<b>196,690,823</b>	<b>192,321,310</b>
<b>Operating Expenses:</b>			
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
<b>Total Operating Expenses</b>	<b>158,208,571</b>	<b>153,346,491</b>	<b>154,788,336</b>

### 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
<b>Nonoperating Revenues (Expenses):</b>			
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)
<b>Total Nonoperating Expenses</b>	(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	\$879,260,390	\$848,203,478	\$808,363,907

#### 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	<u>\$1,325,187,894</u>	<u>\$1,249,371,554</u>	<u>\$1,204,214,120</u>

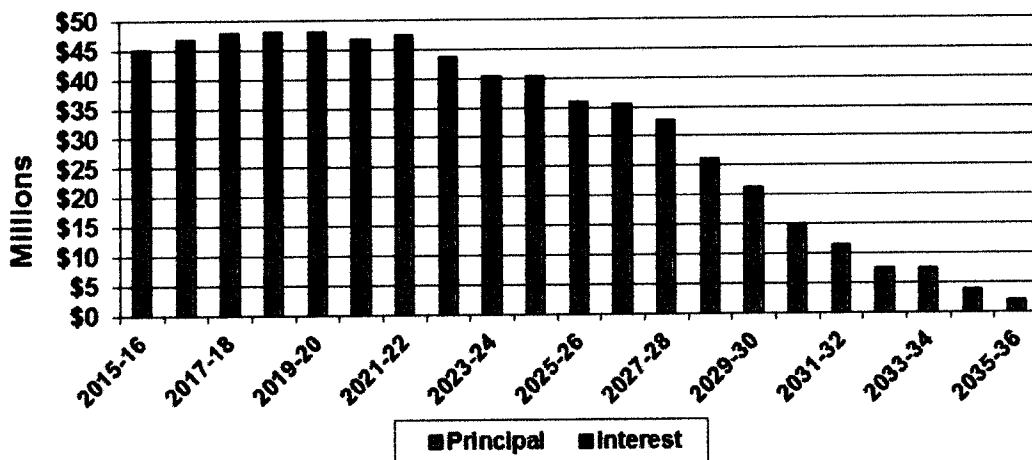
#### **Debt Administration**

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.

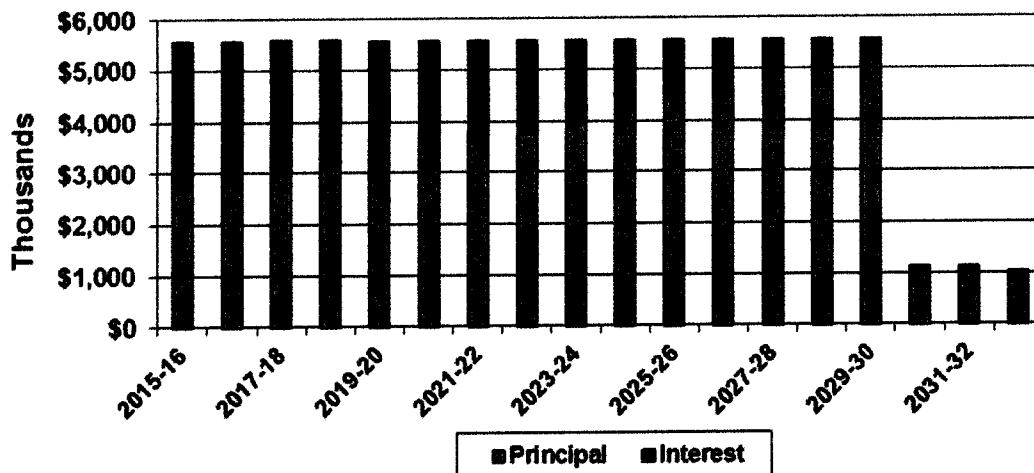
The following charts show, as of February 28, 2015, all outstanding principal and interest owed by EPWU. An adequate level of debt and strong financial positions reflects superior fiscal management that have allowed EPWU to continue to earn among the highest ratings that can be awarded by rating agencies 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 &amp; 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

**Water & Sewer Utility Fund Outstanding Bond Debt**



**Drainage Utility Fund Outstanding Bond Debt**



**Summary of Significant Outstanding Debt**

	<u>FY 2015</u>	<u>FY 2014</u>	<u>FY 2013</u>
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	<u>\$604,878,807</u>	<u>\$600,133,357</u>	<u>\$602,826,420</u>

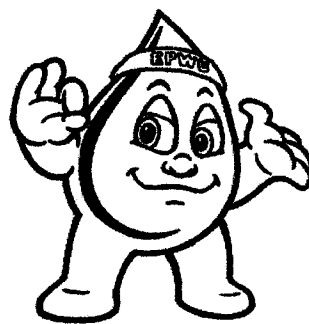
## **Economic Factors and Next Year's Budget and Rates**

- 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](mailto: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
<b>ASSETS</b>				
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	<u>152,150,754</u>	<u>48,488,133</u>	<u>(270,840)</u>	<u>200,368,047</u>
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)	<u>1,238,761,853</u>	<u>86,426,041</u>	<u>-</u>	<u>1,325,187,894</u>
Total noncurrent assets	<u>1,268,586,499</u>	<u>89,288,384</u>	<u>-</u>	<u>1,357,874,883</u>
Total assets	<u>1,420,737,253</u>	<u>137,776,517</u>	<u>(270,840)</u>	<u>1,558,242,930</u>
Deferred outflows of resources				
Losses on bond refunding	5,232,151	-	-	5,232,151
Total assets and deferred outflows of resources	<u>\$ 1,425,969,404</u>	<u>\$ 137,776,517</u>	<u>\$ (270,840)</u>	<u>\$ 1,563,475,081</u>

	Water & Wastewater Utility	Municipal Drainage Utility	Eliminations	Total
<b>LIABILITIES</b>				
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
<b>NET POSITION</b>				
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
<b>ASSETS</b>				
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	<u>169,657,255</u>	<u>59,082,695</u>	<u>(36,135)</u>	<u>228,703,815</u>
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)	<u>1,183,026,786</u>	<u>66,344,768</u>	<u>-</u>	<u>1,249,371,554</u>
Total noncurrent assets	<u>1,216,823,407</u>	<u>71,734,313</u>	<u>-</u>	<u>1,288,557,720</u>
Total assets	<u>1,386,480,662</u>	<u>130,817,008</u>	<u>(36,135)</u>	<u>1,517,261,535</u>
Deferred outflows of resources				
Losses on bond refunding	1,943,345	-	-	1,943,345
Total assets and deferred outflows of resources	<u>\$ 1,388,424,007</u>	<u>\$ 130,817,008</u>	<u>\$ (36,135)</u>	<u>\$ 1,519,204,880</u>

	Water & Wastewater Utility	Municipal Drainage Utility	Eliminations	Total
<b>LIABILITIES</b>				
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
<b>NET POSITION</b>				
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	<u>184,053,675</u>	<u>15,981,514</u>	<u>(128,792)</u>	<u>199,906,397</u>
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	<u>150,734,318</u>	<u>7,603,045</u>	<u>(128,792)</u>	<u>158,208,571</u>
Operating income	<u>33,319,357</u>	<u>8,378,469</u>	<u>-</u>	<u>41,697,826</u>
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	<u>(17,456,073)</u>	<u>(1,763,637)</u>	<u>-</u>	<u>(19,219,710)</u>
Increase in net position, before capital contributions	<u>15,863,284</u>	<u>6,614,832</u>	<u>-</u>	<u>22,478,116</u>
Federal grant contributions	371,364	-	-	371,364
Capital and non-federal grant contributions	8,207,432	-	-	8,207,432
Total contributions	<u>8,578,796</u>	<u>-</u>	<u>-</u>	<u>8,578,796</u>
Change in net position	<u>24,442,080</u>	<u>6,614,832</u>	<u>-</u>	<u>31,056,912</u>
Total net position - beginning	<u>785,214,409</u>	<u>62,989,069</u>	<u>-</u>	<u>848,203,478</u>
Total net position - ending	<u>\$ 809,656,489</u>	<u>\$ 69,603,901</u>	<u>\$ -</u>	<u>\$ 879,260,390</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 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
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
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	83,710,940	9,186,026	-	92,896,966
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
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	(111,334,095)	(22,697,197)	-	(134,031,292)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
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	11,191,773	11,360,189	-	22,551,962
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	\$ 72,877,275	\$ 31,205,429	\$ -	\$ 104,082,704

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
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
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>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
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>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
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**  
**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)**

- **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**  
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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.

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**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)**

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](http://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**  
**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)**

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			
<b>Government Investment Pools and Safekeeping</b>						
<b>Account</b>						
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%
<b>Total Pools and Safekeeping</b>	<b>21,496,460</b>	<b>21,496,460</b>	<b>-</b>			<b>15.30%</b>
<b>Mutual Funds</b>						
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%
<b>Total Mutual Funds</b>	<b>38,370,296</b>	<b>38,370,296</b>	<b>-</b>			<b>27.29%</b>
<b>Securities</b>						
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%
<b>Total Securities</b>	<b>80,719,282</b>	<b>7,051,263</b>	<b>73,668,019</b>	<b>305</b>		<b>57.41%</b>
<b>Portfolio Total</b>	<b>\$ 140,586,038</b>	<b>\$ 66,918,019</b>	<b>\$ 73,668,019</b>	<b>176</b>		<b>100.00%</b>

\* 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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