



**Public Service Board  
El Paso Water Utilities**

**A Component Unit of the City of El Paso**

**Comprehensive  
Annual Financial Report  
For the Fiscal Year Ended February 28, 2007**

**El Paso, Texas**

**Prepared by:**

**Departments of Finance & Accounting**

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES**  
**A COMPONENT UNIT OF THE CITY OF EL PASO**  
**Comprehensive Annual Financial Report**  
For the Fiscal Year Ended February 28, 2007

TABLE OF CONTENTS

<b><u>INTRODUCTORY SECTION</u></b>	<b><u>Page</u></b>
Transmittal Letter	1
GFOA Certificate of Achievement for Excellence in Financial Reporting	7
Organizational Chart	8
List of Principal Officers and Staff	9
<b><u>FINANCIAL SECTION</u></b>	
Report of Independent Certified Public Accountants	11
Management's Discussion and Analysis	13
Basic Financial Statements	
Balance Sheets	24
Statements of Revenues, Expenses, and Changes in Net Assets	26
Statements of Cash Flows	27
Notes to Financial Statements	29
Supplementary Schedules	
Schedule of Operating Revenues	64
Schedule of Operating Expenses	65
Schedule of Net Operating Revenue - Water & Reclaimed Water	66
Schedule of Net Operating Revenue - Wastewater	67
Schedule of Insurance Coverage	68
Schedule of Accounts Receivable - Government Grants	70
Schedule of Changes in Revenue Bonds Payable	71
Schedule of Debt Service Requirements	72
<b><u>STATISTICAL SECTION (Unaudited)</u></b>	
A- Financial Trends Information	A-1
B- Revenue Capacity Information	B-1
C- Debt Capacity Information	C-1
D- Demographic and Economic Information	D-1
E- Operating Information	E-1



EDMUND G. ARCHULETA, P.E.

July 19, 2007

Public Service Board  
El Paso Water Utilities

Dear Public Service Board Member:

We are pleased to submit the Comprehensive Annual Financial Report of the El Paso Water Utilities (EPWU) - Public Service Board for the fiscal year ended February 28, 2007 pursuant to the City of El Paso Bond Ordinance 752, as amended. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with EPWU. This Comprehensive Annual Financial Report was prepared by the Finance Department of EPWU. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of EPWU; and that all disclosures necessary to enable the readers to gain the maximum understanding of EPWU's financial activity have been included. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report of the Public Service Board – El Paso Water Utilities, a component unit of the City of El Paso.

This report consists of management's representation concerning the finances of the Public Service Board – El Paso Water Utilities. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the EPWU has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of EPWU's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the EPWU's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The El Paso Water Utilities' financial statements have been audited by Dunbar, Broadus, Gibson, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the El Paso Water Utilities for the fiscal year ended February 28, 2007, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent

auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the El Paso Water Utilities' financial statements for the fiscal year February 28, 2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the El Paso Water Utilities was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the El Paso Water Utilities' separately issued Single Audit Report.

GASB requires that the management provide a narrative introduction, overview, and analysis to accompany the basic financial statement in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to compliment the MD&A and should be read in conjunction with it. The El Paso Water Utilities' MD&A can be found immediately following the independent auditor's report.

### **Profile of the Government**

City of El Paso Ordinance No. 752, adopted May 22, 1952, established the Public Service Board – El Paso Water Utilities. The five-member board of trustees, known as the "Public Service Board (PSB)," was given complete management and control of the city's water system. The PSB consists of the Mayor of the City of El Paso and four 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. The PSB meets the second and fourth Wednesdays of each month, except during holiday seasons, at EPWU's administrative office.

*Mission Statement* - The mission of the El Paso Water Utilities - Public Service Board is to furnish at fair and reasonable costs to our customers:

- \* High quality potable water in sufficient quantities and at adequate pressures to satisfy domestic, industrial, and fire protection requirements, and in accordance with the Board's Water Conservation Plan.
- \* Collection of liquid waste from individual customers for treatment and disposal without hazard to the health of the community in a manner that will protect the environment.

In the fall of 2006, the Public Service Board updated its Strategic Plan to reflect changing conditions and identify and address new initiatives. The Board and its senior management staff update the Strategic Plan annually. The updated plan identifies driving forces and key issues and addresses how EPWU should proactively deal with these "critical success factors" on a prioritized basis.

The El Paso Water Utilities provides for water, wastewater and reclaimed water service to its customers. For financial reporting purposes, the El Paso Water Utilities is considered a component unit of the City of El Paso. The PSB operates and manages EPWU on behalf of the City of El Paso. It adopts an annual combined operating, capital and debt service budget along with associated rates and fees for services; and also issues updates to its Rules and Regulations, which have the force of law. EPWU recovers the cost of providing water, wastewater and reclaimed water services primarily through user charges. EPWU does not assess or collect ad valorem property taxes. As part of the mission and vision statements of the Board, the Utility strives to balance customer needs with proper resource and financial management as well as regional leadership.

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 Strategic Planning update sessions held by the Board and management. In September, budget documents with 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 budget and presents the recommended combined operating and capital budget to the Public Service Board over a series of public meetings held November through January. The PSB approves the combined annual operating and capital budget and accompanying updates to the Rules and Regulations, in January, effective 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 of expenditure 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 Public Service Board. 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 located in far West Texas on the international boundary between the United States and Mexico on the Rio Grande. The City of El Paso is the fifth largest city in Texas, the twenty-third largest in the United States and the largest U.S. city on the U.S. and Mexico border. The City of El Paso's estimated population is 624,365 with an additional 130,720 in the remaining areas of El Paso County. The population of Ciudad Juarez, Mexico, El Paso's sister city, is currently estimated at over 1.57 million.

The City has a very diverse economy. Military installations in the El Paso area include Fort Bliss and White Sands Missile Range. With the recent BRAC realignments, Fort Bliss is expected to gain over 20,000 troops and 30,000 family members. Over 2,500 troops have already arrived

with the rest of the troops expected to arrive in 2008 and 2009. El Paso is identified with “maquiladoras” or twin plants with over 500 industrial firms in El Paso and Ciudad Juarez including over seventy Fortune 500 companies. These firms manufacture electrical components and equipment, automotive components, injected molded plastics and clothing apparel. Western Refining oil refinery and Phelps-Dodge copper refinery are major employers in the El Paso area. In addition, there are five major producers of copper wire and wire products in El Paso. The City’s current unemployment rate of 6.7% remains above the national rate of 4.4%.

The University of Texas at El Paso and El Paso Community College, both with enrollments of almost 20,000 students each, plus the three major school districts in El Paso employ over 30,000 people. The City and County of El Paso also employ over 9,000 people in the El Paso area.

Long-term financial planning - In 2006, the Public Service Board updated its 50-year water supply master plan. Region E was one of sixteen regions created in 1997 as part of Senate Bill 1. EPWU updated its 50-year plan as part of the update in 2006 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. The PSB 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 and wastewater needs of the El Paso region. While EPWU aggressively seeks grants and other alternative revenue sources, it is projected that water and wastewater rates will increase an estimated 20% over the next ten years to finance identified projects. The EPWU has nearly completed construction of desalination facilities that will produce 27.5 millions gallons per day (mgd) and is estimated to cost \$87 million with an additional \$2.5 million of operating and maintenance (O&M) costs once online. The plant is projected to come online summer 2007. The Utility expects to spend over \$84 million in fiscal year 2007-08 for water and wastewater facilities to meet the growth demands of the city. Wastewater plants are also targeted for major rehabilitation over the next ten years, including the renovation of the Fred Hervey Water Reclamation Plant beginning in 2007 and the expansion of the Roberto Bustamante Wastewater Treatment Plant in 2015.

The effect of the Storm 2006, which caused the annual rainfall to more than double compared to historical averages to 19.12 inches this fiscal year, highlighted the effect of rainfall on water demand. It had a direct impact on the water revenues of the Utility by decreasing revenues by almost \$5 million. The Utility must continue to take into account water demand during its financial planning.

Cash management policies and practices - EPWU has a banking service agreement with a local depository bank to handle daily cash management operations. EPWU utilizes compensating balances to pay for cash management services. The Public Service Board has adopted an investment policy based on Government Finance Officer Association guidelines and the Public Funds Investment Act of the state of Texas. EPWU utilizes mutual funds and direct purchases of authorized investments to manage cash flows. In addition, EPWU purchases investments through a competitive bid process. The primary objectives of the cash management program, in priority order, are: 1) safety of principal, 2) liquidity of investments and 3) maximizing interest revenue while reducing risk and meeting cash flow requirements.

El Paso Water Utilities is currently in compliance with all aspects of the Public Funds

Investment Act including investment reporting to the PSB on a quarterly basis and continuing education and investment training for staff.

*Risk Management* - EPWU has a comprehensive risk management program, which includes coverage as provided for insurance policies listed on the Schedule of Insurance Coverage on pages 68 and 69. In addition, EPWU's Risk Management Committee meets at least quarterly to review and coordinate issues related to worker compensation, safety, health, and property insurance related issues.

Over the past ten years, workers compensation costs have decreased by over \$1.2 million. We believe with continued proactive management in safety, training and intervention, EPWU will continue to see a reduction in worker related injuries and associated costs.

*Pension and other post employment benefits* - The Public Service Board contributes to the City Employees' Pension Fund (CEPF), which is a single-employer defined benefit plan. It is the responsibility of the City Employees' Pension Fund to function as an investment and administrative agent for the City of El Paso and the PSB with respect to the Pension Plan. Employees contribute 6.75% of their gross wages, while the PSB contributes 10.25% of gross wages paid. As of September 1, 2006, the Funded Ratio as a percent of the Actuarial Value of Fund Assets as compared to the Actuarial Accrued Liability was 83%.

In addition, the City (including the Public Service Board) provides certain health care benefits for retired employees. Please see Note 12 to the Financial Statements for a more detailed explanation of pension and other post employment benefits.

### **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, 2006. This was the eleventh 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 only. 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, 2007, which was the ninth 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 department. We would like to express

our appreciation to Arturo Duran, Chief Accountant, 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 El Paso Water Utilities finances.



Marcela Navarrete, C.P.A.  
Chief Financial Officer



Edmund G. Archuleta, P.E.  
President and Chief Executive Officer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

El Paso Water Utilities/Public  
Service Board, Texas

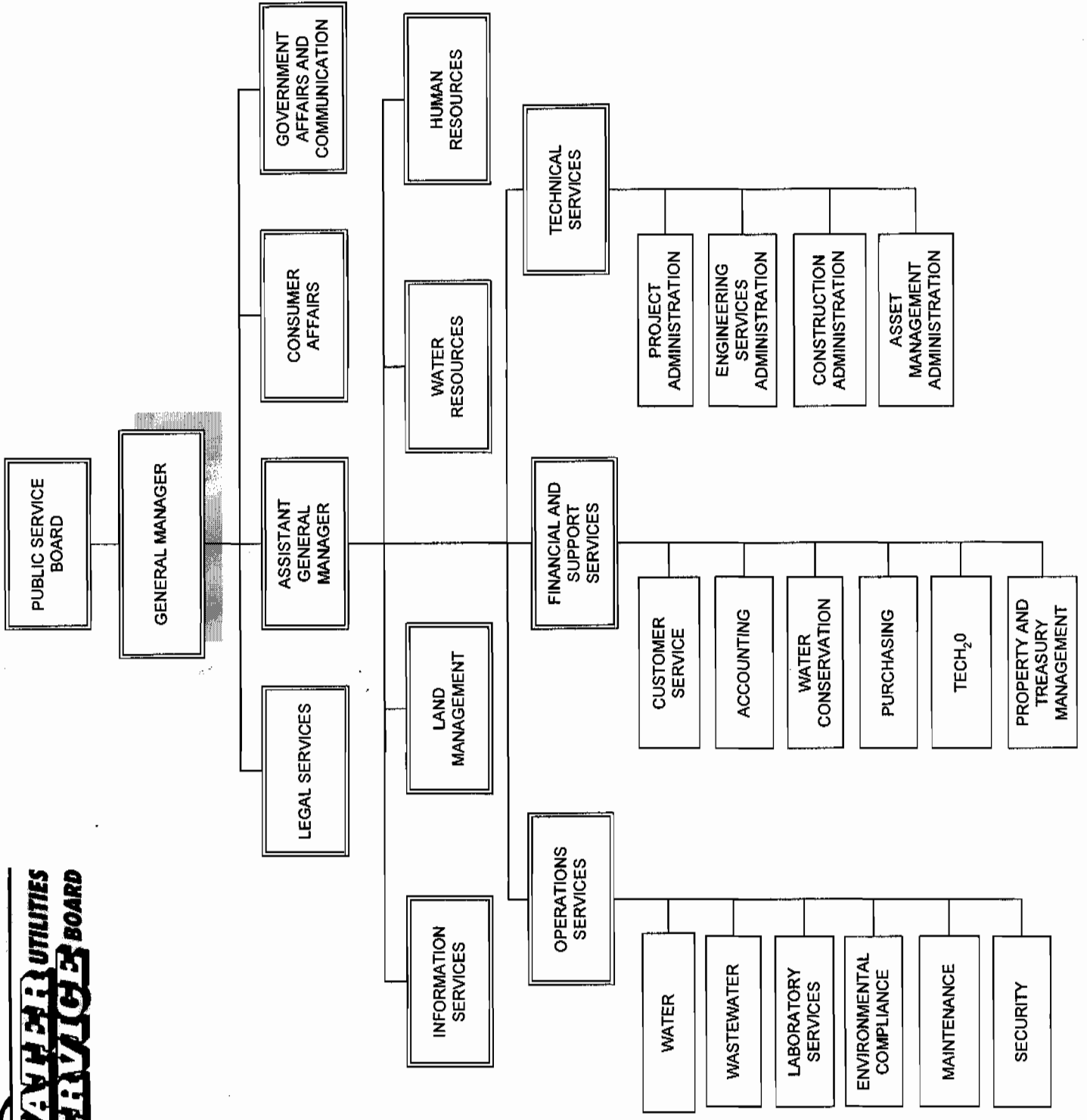
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
February 28, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director





# COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR 2006-2007

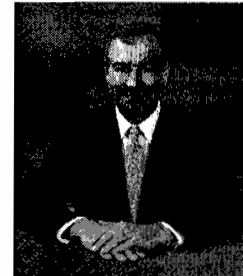
## PUBLIC SERVICE BOARD



Richard O. Martinez  
Vice Chair



Fermin Acosta, Jr.  
Chair



Ruben E. Guerra  
Secretary-Treasurer



Maria F. Teran  
Member



John F. Cook  
Mayor, City of El Paso



Edmund G. Archuleta, P.E.  
General Manager

### ADMINISTRATIVE STAFF

Nicholas J. Costanzo, Assistant General Manager  
David R. Brosman, P.E., Chief Operations Officer  
Bert Juarez, Chief Technical Officer  
Marcela Navarrete, C.P.A. Chief Financial Officer  
Hector Gonzalez, Government Affairs and Communications Manager  
Bill Hutchison, Water Resources Manager  
Jim Shelton, Utility Land & Water Rights Manager  
Armando Renteria, Chief Information Officer  
Fred Loweree, Human Resources Manager  
Paula Lisko-Apodaca, Consumer Affairs Manager  
Sandra Hernandez, Executive Secretary

### ACCOUNTING/ASSET MANAGEMENT

Arturo Duran, Accounting Manager  
Leo Fierro, Asset Manager

### GENERAL COUNSEL

Robert D. Andron, General Counsel  
Lowell Stokes, Assistant General Counsel

