

City of El Paso, Texas

Accountants' Report on Application of Agreed-Upon Procedures

March 27, 2009

BKD^{LLP}
CPAs & Advisors

City of El Paso, Texas
March 27, 2009

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Independent Accountants' Report on Application of Agreed-upon Procedures

The Honorable Mayor, City Council, and City Manager
City of El Paso, Texas
El Paso, Texas

We have performed the procedures enumerated in the attachment to this report, which were agreed to by the management of the City of El Paso, Texas (the City), solely to assist you with respect to evaluating management's assertion about the City's compliance with the financial assurances of the Local Government Financial Test as required by Texas Administrative Code (Title 30, Part 1, Chapter 37, Subchapter C, §37.271) as of and for the year ended August 31, 2008. The management of the City is responsible for its compliance with these regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the City. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The findings obtained, if any, are described in the attachment to this report.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the specified elements, accounts or items described above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City and its management, and the Texas Commission on Environmental Quality and is not intended to be an should not be used by anyone other than these specified parties.

BKD, LLP

March 27, 2009

City of El Paso, Texas
Engagement Findings
March 27, 2009

Presented in this section are all our findings from performing the procedures described in the “Engagement Scope and Procedures” section of this report. Except as described in the remainder of this report section, no exceptions resulted from performance of the procedures.

1. The City did not meet the “computation of excess revenue over expenditures by fund” test for fiscal year ending August 31, 2007. As required by Texas Administrative Code, Title 30, Part 1, Chapter 37, Subchapter C, Rule 37.271 (1)(C)(ii), the owner operator must not have operated at a deficit equal to 5.0% or more of total annual revenue in each of the past two fiscal years. The City operated at a deficit of 9.6% of annual revenue for the year ended August 31, 2007. The City issuance of \$101,240,000 in General Obligation Bonds to fund its Police and Fire Pension plans was the cause for the 2007 operating deficit. The City correctly recorded this expenditure in the Public Safety function of the General Fund to be in compliance with the modified accrual basis of accounting under accounting principles generally accepted in the United States of America. However, the proceeds from the bond issue were not recorded as revenue to comply with Texas Administrative Code regulations. Had this expenditure not been incurred, the City would have operated at a surplus of 9.3% of annual revenue and would have met the “computation of excess revenue over expenditures by fund” requirement for 2007.

City of El Paso, Texas
Engagement Scope and Procedures
March 27, 2009

1. We will recalculate the ratio of cash plus marketable securities to total expenditures and verify that the ratio is greater than or equal to 0.05. We will also compare the amounts that comprise the numerator and denominator to the related amounts in the Comprehensive Annual Financial Report (CAFR) of the City as of and for the year ended August 31, 2008.
2. We will recalculate the ratio of annual debt service to total expenditures and verify that the ratio is less than or equal to 0.20. We will also compare the amounts that comprise the numerator and denominator to the related amounts in the CAFR of the City as of and for the year ended August 31, 2008.
3. We will obtain a copy of the City's independent accountants' report included in the CAFR to determine whether the financials statements as of and for the year ended August 31, 2008, were prepared in accordance with accounting principles generally accepted in the United States of America and that an unqualified opinion was issued.
4. We will recalculate the computation of excess revenues over expenditures for the years ending August 31, 2008 and 2007, and verify that the City has not operated at a deficit equal to 5.0% or more of the total annual revenue for each of those periods. In addition, we will clerically test the amounts that comprise the total annual revenue and expenditures and compare them to the related amounts in the CAFR of the City for the years ended August 31, 2008 and 2007.

City of El Paso, Texas
Engagement Scope and Procedures
March 27, 2009

1) *Ratio of cash and marketable securities to total expenditures*

Cash and marketable securities	\$ 142,077,388
Total expenditures	\$ 520,833,297
Ratio of cash and marketable securities to total expenditures	0.27
Requirement (Greater than or equal to)	0.05
Does the ratio meet the requirement?	Yes

2) *Ratio of annual debt service to total expenditures*

Annual debt service	\$ 71,161,687
Total expenditures	\$ 520,833,297
Ratio of annual debt service to total expenditures	0.14
Requirement (Less than or equal to)	0.20
Does the ratio meet the requirement?	Yes

3) A copy of the Independent Accountants' Report on the City's CAFR was obtained to verify that an unqualified opinion was issued and that the CAFR was prepared in accordance with accounting principles generally accepted in the United States of America.

4) *Computation of excess revenue over expenditures by fund:*

	Years Ending	
	8/31/2008	8/31/2007
Total annual revenues	\$ 559,697,286	\$ 536,624,678
Total annual expenditures	<u>520,833,297</u>	<u>588,226,331</u>
Excess of revenue over expenditures	<u>\$ 38,863,989</u>	<u>\$ (51,601,653)</u>
Percent excess divided by annual revenue	6.9%	-9.6%
 <i>Requirement</i> : Cannot operate at a deficit of greater than 5% for current or previous years. Has the requirement been met?		 <u><u>No</u></u>