

Town of Pecos City, Texas

Annual Financial Report
September 30, 2019



PARK FOWLER & CO.

Certified Public Accountants & Management Consultants
A Professional Limited Liability Company

TOWN OF PECOS CITY, TEXAS

Audited Financial Statements

September 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council

Town of Pecos City, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Pecos City, Texas, (the "City") as of and the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this include the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Pecos Economic Development Corporation (the Corporation), which represent 100 percent, of the assets, liabilities, net position, revenues and expenditures of the governmental activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts for the Corporation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 an all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Pecos City, Texas, as of September 30, 2019, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net pension liability and related ratios – Texas Municipal Retirement System, the schedule of contributions on pages 3-9, 49, 50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 audit 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 or audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2020, on our consideration of the Town of Pecos City, Texas internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Pecos City, Texas internal control over financial reporting and compliance.

Park Fowler & Co., PLLC

Park Fowler & CO., PLLC

Corpus Christi, Texas

November 20, 2020



TOWN OF PECOS CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2019

As the management of the Town of Pecos City (the City), we offer readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2019. The management's discussion and analysis should be read in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- At fiscal year-end, net position totaled \$105,929,113, an increase of \$24,854,055 from previous year. Of this amount, \$66,417,538 (unrestricted net position) may be used to meet the City's ongoing obligations.
- As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$49,445,393, an increase of \$9,256,709 in comparison with the prior year. Approximately 57% of this total amount, \$28,090,789, is available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$28,090,789, or 114% of total general fund expenditures for the year ended 2019.

Overview of the Financial Statements

The management's discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-Wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private sector business. They present the financial picture of the City from an economic resource measurement focus using the accrual basis of accounting. These statements include all assets of the City, including infrastructure, as well as all liabilities, including long-term debt. Additionally, certain eliminations have occurred regarding interfund activity, payables and receivables.

The statement of net position includes all of the government's assets and liabilities, with the difference between the two being reported as net position. Increases or decreases in net position contrasted with budgetary decisions should serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year using full accrual basis of accounting. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused vacation, and accounts receivable).

In its statement of net position and statement of activities, the City is divided between two kinds of activities.

- Governmental activities. Most of the City's basic services are included here, such as general government, public safety, streets and sanitation, culture and recreation, court, fire and rescue, and planning and inspection. Property taxes, sales taxes, franchise fees, and charges for services finance most of these activities.
- Business-type activities. A fee is charged to customers by the City to cover the cost of services it provides. The City's utility systems (water and sewer, and ambulance) and criminal justice activities are reported here.

TOWN OF PECOS CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2019

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and airport service fund, both of which are considered to be major funds, as well as the debt service fund, which is considered a non-major governmental fund.

The City adopts an annual appropriated budget for its general fund, the airport fund and the debt service fund. The statements of revenues, expenditures, and changes in fund budget (GAAP basis and accrual) for the General fund and Airport service fund have been provided in this report.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise funds to account for the operations in water and sewer, ambulance service, and the criminal justice center fund.

Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for operations in the water and sewer fund, ambulance fund and criminal justice center fund, all except the ambulance fund are major funds of the City.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's pension benefits to its employees.

The General Fund and Airport Service Fund budgetary comparison schedules are presented as part of the required supplementary information statements.

TOWN OF PECOS CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2019

Government-Wide Financial Analysis

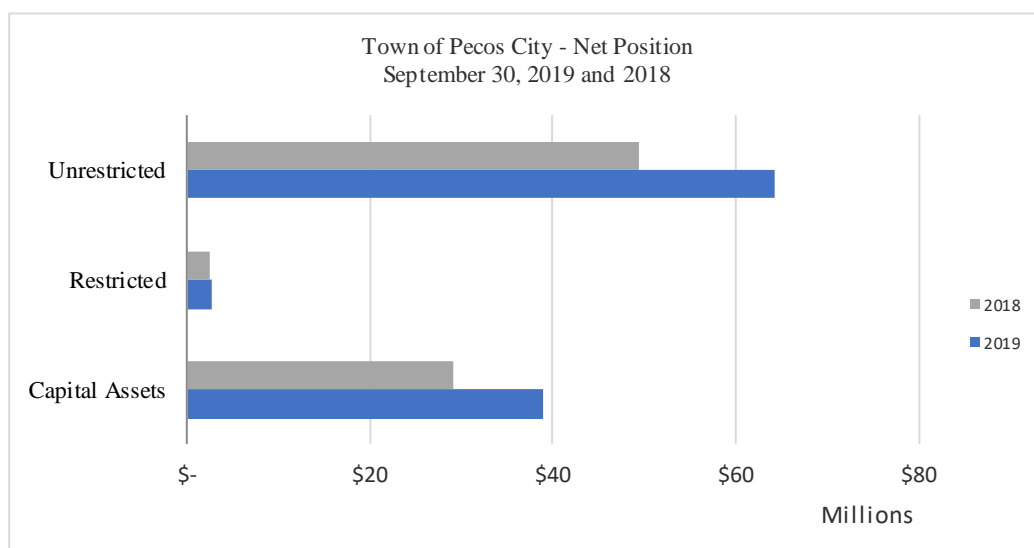
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the fiscal year.

The largest portion of the City's Net position reflects unrestricted net position.

Town of Pecos City's Net Position

	Governmental Activities		Proprietary Activities		Totals	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 54,790,415	\$ 42,004,861	\$ 27,355,619	\$ 13,624,589	\$ 82,146,034	\$ 55,629,450
Capital assets	21,240,971	15,179,116	37,234,328	37,651,614	58,475,299	52,830,730
Total assets	76,031,386	57,183,977	64,589,947	51,276,203	140,621,333	108,460,180
Deferred outflows	1,125,823	446,174	686,266	392,440	1,812,089	838,614
Current liabilities	2,629,502	1,921,443	2,736,647	3,408,362	5,366,149	5,329,805
Other liabilities	17,043,891	7,151,140	13,455,677	14,875,080	30,499,568	22,026,220
Total liabilities	19,673,393	9,072,583	16,192,324	18,283,442	35,865,717	27,356,025
Deferred inflows	416,377	544,923	222,215	322,788	638,592	867,711
Net investment in capital assets	16,579,444	8,861,648	22,247,027	20,343,722	38,826,471	29,205,370
Restricted	2,253,330	1,730,473	516,619	719,369	2,769,949	2,449,842
Unrestricted	38,234,665	37,420,524	26,098,028	11,999,322	64,332,693	49,419,846
Total net position	\$ 57,067,439	\$ 48,012,645	\$ 48,861,674	\$ 33,062,413	\$ 105,929,113	\$ 81,075,058

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government, as well as for its separate governmental and business-type activities.



TOWN OF PECOS CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2019

Town of Pecos City's Change in Net Position

	Governmental Activities		Proprietary Activities		Totals	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues						
Charges for services	\$ 4,940,545	\$ 5,162,699	\$ 15,323,011	\$ 15,842,569	\$ 20,263,556	\$ 21,005,268
Operating grants and contributions	89,204	-	-	29,218	89,204	29,218
Capital grants and contributions	868,569	922,830	-	-	868,569	922,830
General revenues						
Property taxes	2,925,168	2,452,824	-	-	2,925,168	2,452,824
Other taxes	18,925,879	17,281,891	-	-	18,925,879	17,281,891
Rent and royalties	5,217,137	5,840,493	-	420,834	5,217,137	6,261,327
Other	1,881,455	826,530	328,815	294,763	2,210,270	1,121,293
Total revenues	34,847,957	32,487,267	15,651,826	16,587,384	50,499,783	49,074,651
Expenses:						
General government	5,587,515	5,798,259	-	-	5,587,515	5,798,259
Public safety	3,777,376	2,508,038	-	-	3,777,376	2,508,038
Streets and sanitation	2,520,714	2,520,533	-	-	2,520,714	2,520,533
Culture and recreation	1,230,470	822,893	-	-	1,230,470	822,893
Court	816,835	569,607	-	-	816,835	569,607
Fire and rescue	930,184	1,181,751	-	-	930,184	1,181,751
Planning and Inspection	230,930	221,244	-	-	230,930	221,244
Interest on long-term debt	394,453	133,796	-	-	394,453	133,796
Water and sewer	-	-	7,417,821	5,393,485	7,417,821	5,393,485
Ambulance Fund	-	-	2,538,746	439,100	2,538,746	439,100
Criminal Justice Fund	-	-	543,824	2,426,155	543,824	2,426,155
Total expenses	15,488,477	13,756,121	10,500,391	8,258,740	25,988,868	22,014,861
Excess of revenues over expenses	19,359,480	18,731,146	5,151,435	8,328,644	24,510,915	27,059,790
Transfers	(10,304,686)	-	10,304,686	-	-	-
Change in net position	9,054,794	18,731,146	15,456,121	8,328,644	24,510,915	27,059,790
Net position, beginning	48,012,645	29,281,499	33,405,553	24,733,769	81,418,198	54,015,268
Net position ending	\$ 57,067,439	\$ 48,012,645	\$ 48,861,674	\$ 33,062,413	\$ 105,929,113	\$ 81,075,058

TOWN OF PECOS CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2019

Town of Pecos City's General Revenues and Transfers

	2019	2018	Variance	Percent Variance
Property taxes, penalties, and interest	\$ 2,925,168	\$ 2,452,824	472,344	19%
Other taxes	18,925,879	17,281,891	1,643,988	10%
Unrestricted investment income	917,494	346,789	570,705	165%
Gain on sale of assets	-	12,631	(12,631)	-100%
Rent and royalties	5,217,137	5,840,493	(623,356)	-11%
Miscellaneous	963,961	467,110	496,851	106%
Transfers	(10,304,686)	-	(10,304,686)	
Total revenues and transfers	<u>\$ 18,644,953</u>	<u>\$ 26,401,738</u>	<u>\$ (7,756,785)</u>	

The City's general revenues and transfers provided \$18,644,953 to fund the costs associated with those activities that are not self-supporting. It is anticipated that governmental activities will not be self-supporting and will be paid for through general revenue. Program revenue (charges for services) for governmental activities was \$4,940,545 and was used to pay for expenses associated with governmental activities of \$15,488,477.

The primary sources of revenue for governmental activities are rent and royalties, sales taxes, and charges for services.

Net positions from business-type activities were \$48,861,674 at the close of the fiscal year and reflect a \$15,799,261 increase from the prior year. Program revenue (charges for services) of business-type activities contributed \$15,323,011 to the operations of the City. Expenses associated with these activities totaled \$10,500,391.

The major components of the revenue stream for business-type activities represent Water and Sewer revenues of \$12,442,365, Ambulance revenues of \$634,360 and Criminal Justice Center revenue of \$2,246,286.

Financial Analysis of the Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund accounting and budget controls has been the framework of the City's fiscal management and accountability.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unassigned fund balance serves as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of September 30, 2019, the City's governmental funds reported a combined ending fund balance of \$49,445,393 an increase of \$9,256,709 in comparison with the prior year. Approximately 57% of this total amount, \$28,090,789 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted or committed to indicate that it is not available for new spending.

The general fund is the chief operating fund of the City. At September 30, 2019, the unassigned fund balance of the general fund was \$28,090,789, while total fund balance was \$41,197,561. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures.

Unassigned fund balance represents 114% of total general fund expenditures, while total fund balance represents 167% of that same amount. The fund balance of the City's General Fund increased by \$7,721,224 over prior year due to increases in sales tax receipts and increased activity in areas with charges for services.

TOWN OF PECOS CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2019

Proprietary Fund

The City's proprietary fund provides the same type of information found in the business-type activities in the government-wide financial statements, but in more detail.

The net position of the Water and Sewer Fund at the end of the year amounted to \$49,163,838. The total change in net position was an increase of \$15,947,154. The primary factors for this increase are increases in usage and related charges for service.

Net deficit of the ambulance fund at the end of the year totaled \$(854,335). The change in net position from the previous fiscal year was a \$99,538 increase.

Net position of the criminal justice center fund at the end of the year totaled \$552,171. The change in net position was a \$247,431 decrease. The primary revenues for the PMJC are from the contract with the United States Marshalls Service.

Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business type activities.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets as of September 30, 2019 for its governmental activities amounted to \$21,240,971 and for its business-type activities amounted to \$37,234,328 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, infrastructure, equipment, and vehicles.

Town of Pecos City's Capital Assets

	Governmental Activities		Proprietary Activities		Totals	
	2019	2018	2019	2018	2019	2018
Land	\$ 2,658,626	\$ 2,658,626	\$ 766,635	\$ 766,635	\$ 3,425,261	\$ 3,425,261
CIP	686,296	200,868	-	45,097	686,296	245,965
Buildings	4,343,430	1,414,304	2,300,607	2,242,677	6,644,037	3,656,981
Infrastructure	9,263,346	7,524,133	32,650,074	33,443,445	41,913,420	40,967,578
Equipment	2,110,452	2,150,274	946,897	779,148	3,057,349	2,929,422
Vehicles	2,178,821	1,230,911	570,115	374,612	2,748,936	1,605,523
Totals	<u>\$ 21,240,971</u>	<u>\$ 15,179,116</u>	<u>\$ 37,234,328</u>	<u>\$ 37,651,614</u>	<u>\$ 58,475,299</u>	<u>\$ 52,830,730</u>

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$30,783,329. Of this amount, general obligation bonds of \$14,895,000, and equipment lease of \$816,098 are supported by governmental activities. Water and Sewer system revenues support \$13,774,344, PMCJ revenues support \$1,280,000, and Ambulance revenues support \$18,387 of business-type activity debt.

TOWN OF PECOS CITY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
September 30, 2019

Town of Pecos City's Outstanding Debt, at Year-End

	Governmental Activities		Proprietary Activities		Totals	
	2019	2018	2019	2018	2019	2018
Certificates of obligation	\$ -	\$ -	\$ 9,575,000	\$ 10,885,000	\$ 9,575,000	\$ 10,885,000
Water and sewer bonds	-	-	4,125,000	4,400,000	4,125,000	4,400,000
General obligation refunding bonds	-	-	1,280,000	1,675,000	1,280,000	1,675,000
General Obligation	14,895,000	5,320,000	-	-	14,895,000	5,320,000
Capital Leases	816,098	987,582	92,731	117,782	908,829	1,105,364
Landfill Closure and Post Closure Liability	1,465,963	1,440,042	-	-	1,465,963	1,440,042
Net Pension Liability	574,193	-	306,438	-	880,631	-
Compensated Absences	330,440	235,833	61,559	52,652	391,999	288,485
Totals	<u>\$ 18,081,694</u>	<u>\$ 7,983,457</u>	<u>\$ 15,440,728</u>	<u>\$ 17,130,434</u>	<u>\$ 33,522,422</u>	<u>\$ 25,113,891</u>

The City's total debt increased by \$8,408,531 during the current fiscal year. Debt serviced by governmental-type activities increased by \$10,098,237, while debt serviced by business-type activities decreased by \$1,689,706.

Economic Environment and Expectations

Pecos, Texas is in the heart of the Permian Basin, the top oil and gas production area in the world, surpassing Saudi Arabia and other Middle East areas in production of oil. Pecos has a full-time population of approximately 10,000 with additional daily visitors of roughly 40,000 and anticipates quadrupling in population and services within five years. The City's significant growth in population and wealth generation is based on the dramatic increase in energy related business activities. The City is a regional commercial center for ranching, oil and gas production and agriculture. Strategic planning is currently underway to utilize the new income growth on projects that will benefit the Pecos community and make Pecos, Texas an even greater place to live and work.

The lack of adequate housing remains as the single greatest obstacle and threat to the economic progress and long-term economic stability of Pecos. Pecos will continue to implement measures to attract developers and to create a suitable stock of permanent housing. Retail and corporate entities have been attracted to Pecos because of its strong increase in economic activity, resulting in major development projects such as the Pecos Corners project under construction. This comprehensive project on 27 acres will feature two 100 room hotels, a 140-unit apartment complex, a retail plaza center, several restaurants, a major super market, and a convenience store, all designed to meet the strong growth in population. Other major projects are underway as well, creating a vibrant business/ economic environment in Pecos Texas.

The future of Pecos is very bright, and upcoming City budgets will reflect the momentum and determination to bring Pecos, Texas to the quality of life levels envisioned and desired by its citizens. Projects being planned include improved infrastructure, new sports and event complex, improved parks, and other new/improved public facilities.

Requests for Information

This financial report is designed to provide a general overview of the City's finances 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 City's Finance Office, at the Town of Pecos City, P.O. Box 929, Pecos, Texas 79772.

BASIC FINANCIAL STATEMENTS

TOWN OF PECOS CITY, TEXAS
STATEMENT OF NET POSITION
September 30, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Pecos Economic Development Corporation
ASSETS				
Cash and cash equivalents	\$ 43,108,154	\$ 9,930,001	\$ 53,038,155	\$ 3,520,203
Investments	-	15,650,301	15,650,301	-
Internal balances	1,848,603	(1,848,603)	-	-
Accounts receivable (net of allowance for uncollectibles)	4,067,833	3,107,301	7,175,134	273,035
Assets held for sale	3,446,830	-	3,446,830	898,924
Note receivable - current	65,665	-	65,665	-
Restricted assets				
Cash and cash equivalents	2,253,330	516,619	2,769,949	-
Capital assets (net of accumulated depreciation)				
Land	2,658,626	766,635	3,425,261	1,468,840
Construction in progress	686,296	-	686,296	-
Buildings	4,343,430	2,300,607	6,644,037	251,334
Infrastructure	9,263,346	32,650,074	41,913,420	177,333
Equipment	2,110,452	946,897	3,057,349	4,217
Vehicles	2,178,821	570,115	2,748,936	-
Total assets	76,031,386	64,589,947	140,621,333	6,593,886
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - net pension liability	1,125,823	600,836	1,726,659	-
Deferred charge on refunding	-	85,430	85,430	-
Total deferred outflows of resources	1,125,823	686,266	1,812,089	-
LIABILITIES				
Accounts payable	1,044,606	197,834	1,242,440	13,496
Accrued wages and payroll liabilities	442,684	97,512	540,196	3,083
Deposits and advances	41,619	336,183	377,802	-
Interest payable	62,790	120,067	182,857	-
Due within one year	1,037,803	1,985,051	3,022,854	5,714
Due in more than one year	17,043,891	13,455,677	30,499,568	-
Total liabilities	19,673,393	16,192,324	35,865,717	22,293
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - net pension liability	416,377	222,215	638,592	-
Total deferred inflows of resources	416,377	222,215	638,592	-
NET POSITION				
Net investment in capital assets	16,579,444	22,247,027	38,826,471	1,901,724
Restricted	2,253,330	516,619	2,769,949	-
Unrestricted	38,234,665	26,098,028	64,332,693	4,669,869
Total net position	\$ 57,067,439	\$ 48,861,674	\$ 105,929,113	\$ 6,571,593

The accompanying notes are an integral part of these financial statements.

TOWN OF PECOS CITY, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Revenues	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 5,587,515	\$ 18,159	\$ 76,094	\$ 868,569
Public safety	3,777,376	273,080	13,110	-
Streets and sanitation	2,520,714	3,692,012	-	-
Culture and recreation	1,230,470	150	-	-
Court	816,835	180,729	-	-
Fire and rescue	930,184	188,125	-	-
Planning and inspection	230,930	588,290	-	-
Interest on long-term debt	394,453	-	-	-
Total governmental activities	15,488,477	4,940,545	89,204	868,569
Business - type activities:				
Water and sewer	7,417,821	12,442,365	-	-
PMJC Center	2,538,746	2,246,286	-	-
Ambulance	543,824	634,360	-	-
Total business-type activities	10,500,391	15,323,011	-	-
Total primary government	25,988,868	20,263,556	89,204	868,569
Component Unit				
Pecos Economic Development Corporation	1,296,153	118,620	-	-
Total component unit	\$ 1,296,153	\$ 118,620	\$ -	\$ -

General revenues:

Property taxes
Other taxes
Investment earnings
Gain (loss) on sale of assets
Rent and royalties
Miscellaneous
Transfers

Total general revenues

Change in net position

Net position--beginning

Prior period adjustments

Net position--beginning as restated

Net position--ending

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Position			Component Unit
Governmental Activities	Business-type Activities	Total	Pecos Economic Development Corporation
\$ (4,624,693)	\$ -	\$ (4,624,693)	
(3,491,186)	-	(3,491,186)	
1,171,298	-	1,171,298	
(1,230,320)	-	(1,230,320)	
(636,106)	-	(636,106)	
(742,059)	-	(742,059)	
357,360	-	357,360	
(394,453)	-	(394,453)	
(9,590,159)	-	(9,590,159)	423,440
-	5,024,544	5,024,544	
-	(292,460)	(292,460)	
-	90,536	90,536	
-	4,822,620	4,822,620	
(9,590,159)	4,822,620	(4,767,539)	
			1,177,533
			<u>\$ 1,177,533</u>
2,925,168	-	2,925,168	1,106,836
18,925,879	-	18,925,879	-
917,494	166,859	1,084,353	60,514
-	-	-	450,343
5,217,137	-	5,217,137	-
963,961	161,956	1,125,917	67,575
(10,304,686)	10,304,686	-	-
18,644,953	10,633,501	29,278,454	1,685,268
9,054,794	15,456,121	24,510,915	507,735
48,012,645	33,062,413	81,075,058	6,706,737
-	343,140	343,140	(642,879)
48,012,645	33,405,553	81,418,198	6,063,858
<u>\$ 57,067,439</u>	<u>\$ 48,861,674</u>	<u>\$ 105,929,113</u>	<u>\$ 6,571,593</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF PECOS CITY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2019

	General	Airport Service	Debt Service	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 37,140,478	\$ 5,967,676	\$ -	\$ 43,108,154
Due from other funds	1,925,612	-	-	1,925,612
Accounts receivable, net:				
Property taxes	314,381	-	167,294	481,675
Sales taxes	2,199,100	-	-	2,199,100
Other	1,408,094	8,075	-	1,416,169
Note Receivable	65,665	-	-	65,665
Restricted assets - Cash and equivalents	-	-	2,253,330	2,253,330
Total assets	<u>\$ 43,053,330</u>	<u>\$ 5,975,751</u>	<u>\$ 2,420,624</u>	<u>\$ 51,449,705</u>
LIABILITIES				
Accounts payable	\$ 1,043,320	\$ 1,286	\$ -	\$ 1,044,606
Accrued wages	442,684	-	-	442,684
Due to other funds	77,009	-	-	77,009
Deposits and Advances	41,619	-	-	41,619
Total liabilities	<u>1,604,632</u>	<u>1,286</u>	<u>-</u>	<u>1,605,918</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property tax	251,137	-	147,257	398,394
Total deferred inflows of resources	<u>251,137</u>	<u>-</u>	<u>147,257</u>	<u>398,394</u>
FUND BALANCES				
Restricted				
Airport	-	5,974,465	-	5,974,465
Police Department	59,286	-	-	59,286
Debt service	743,097	-	2,273,367	3,016,464
Committed - Main Street	12,304,389	-	-	12,304,389
Unassigned	28,090,789	-	-	28,090,789
Total fund balances	<u>41,197,561</u>	<u>5,974,465</u>	<u>2,273,367</u>	<u>49,445,393</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 43,053,330</u>	<u>\$ 5,975,751</u>	<u>\$ 2,420,624</u>	<u>\$ 51,449,705</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF PECOS CITY, TEXAS
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
September 30 2019

Total fund balances - governmental funds	\$ 49,445,393
Amounts reported for governmental activities in the statement of net position are different because	
Capital assets and assets held for sale used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	24,687,801
Revenues earned but not available within 60 days of fiscal year-end are not recognized as revenue in the governmental funds financial statements.	398,394
Long-term liabilities, including compensated absences, leases, bonds and landfill, are not due and payable in the current period and therefore, are not reported in the funds.	(18,081,694)
Some assets, deferred outflows of resources, liabilities and deferred inflows of resources will not be recognized in the current period and therefore are not reported in the fund financial statements.	<u>617,545</u>
Net position of governmental activities	<u><u>\$ 57,067,439</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF PECOS CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For The Year Ended September 30, 2019

	General	Airport Service	Debt Service	Total Governmental Funds
REVENUES				
Property Taxes	\$ 2,925,168	\$ -	\$ -	\$ 2,925,168
Hotel Occupancy Tax	4,759,583	-	-	4,759,583
Other taxes	13,321,281	-	-	13,321,281
Franchise taxes	845,015	-	-	845,015
Permits and fees	595,111	-	-	595,111
Intergovernmental revenues	454,779	-	-	454,779
Fines and forfeitures	974,968	-	-	974,968
Court fees	13,984	-	-	13,984
Other revenues	735,077	-	-	735,077
Charges for services	3,682,943	-	-	3,682,943
Rent and royalties	5,217,137	-	-	5,217,137
Interest	869,991	23,342	24,161	917,494
Miscellaneous	347,855	57,565	-	405,420
Total revenues	34,742,892	80,907	24,161	34,847,960
EXPENDITURES				
Current				
General government	7,651,518	106,268	-	7,757,786
Public safety	3,591,411	-	-	3,591,411
Streets and sanitation	1,913,187	-	-	1,913,187
Culture and recreation	1,177,903	-	-	1,177,903
Court	800,647	-	-	800,647
Fire and rescue	785,401	-	-	785,401
Planning and inspection	153,832	-	-	153,832
Capital outlay	8,178,251	-	-	8,178,251
Debt service:				
Principal retirement	171,484	-	425,000	596,484
Interest charges	208,233	-	123,430	331,663
Total expenditures	24,631,867	106,268	548,430	25,286,565
Excess (Deficiency) of revenues over expenditures	10,111,025	(25,361)	(524,269)	9,561,395
Other financing sources (uses):				
Transfer In	13,021,549	1,630,251	911,892	15,563,692
Transfer Out	(25,411,350)	(457,028)	-	(25,868,378)
Proceeds of Bonds	10,000,000	-	-	10,000,000
Total other financing sources (uses)	(2,389,801)	1,173,223	911,892	(304,686)
Net change in fund balances	7,721,224	1,147,862	387,623	9,256,709
FUND BALANCES, beginning of year	33,476,337	4,826,603	1,885,744	40,188,684
FUND BALANCES, end of year	\$ 41,197,561	\$ 5,974,465	\$ 2,273,367	\$ 49,445,393

The accompanying notes are an integral part of these financial statements.

TOWN OF PECOS CITY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
For the year ended September 30, 2019

Net change in fund balances -- total governmental funds	\$ 9,256,709
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the capital assets recorded in the current period in excess of depreciation expense.	
Capital outlay	8,178,251
Assets held for sale	3,446,830
Depreciation expense	(2,116,396)
The repayment of the principal of long term debt consumes current financial resources of governmental funds	596,484
Net change in revenues in the statement of activities that do not provide current financial resources and are not reported as revenue in the funds	<u>(10,307,084)</u>
Change in net position of governmental activities.	<u><u>\$ 9,054,794</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF PECOS CITY, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2019

	Business-type Activities Enterprise Funds			
	Water and Sewer Fund	PMCJ Center	Ambulance	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalent	\$ 9,846,901	\$ 83,100	\$ -	\$ 9,930,001
Investments	15,650,301	-	-	15,650,301
Accounts receivable (net of allowances)	2,638,325	416,796	52,180	3,107,301
Due from other funds	77,009	-	-	77,009
Restricted cash	516,619	-	-	516,619
Total current assets	28,729,155	499,896	52,180	29,281,231
NONCURRENT ASSETS				
Capital assets:				
Land	724,094	42,541	-	766,635
Buildings	114,127	3,313,044	-	3,427,171
Infrastructure	59,325,229	-	-	59,325,229
Equipment	2,784,030	64,311	110,041	2,958,382
Vehicles	1,165,620	152,043	965,548	2,283,211
Accumulated depreciation	(29,322,946)	(1,311,193)	(892,161)	(31,526,300)
Total noncurrent assets	34,790,154	2,260,746	183,428	37,234,328
TOTAL ASSETS	63,519,309	2,760,642	235,608	66,515,559
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding	-	85,430	-	85,430
Deferred outflows of resources - net pension liability	333,523	267,313	-	600,836
TOTAL DEFERRED OUTFLOWS OF RESOURCES	333,523	352,743	-	686,266
LIABILITIES				
CURRENT LIABILITIES				
Accounts, contracts and retainage payable	42,952	154,784	98	197,834
Accrued wages and benefits payable	97,512	-	-	97,512
Deposits and advances	336,183	-	-	336,183
Due to other funds	-	854,154	1,071,458	1,925,612
Interest payable	120,067	-	-	120,067
Current portion of capital leases	15,858	-	9,193	25,051
Current portion of bonds payable	1,550,000	410,000	-	1,960,000
Total current liabilities	2,162,572	1,418,938	1,080,749	4,662,259
NONCURRENT LIABILITIES				
Compensated absences	24,482	37,077	-	61,559
Capital leases	58,486	-	9,194	67,680
Bonds payable	12,150,000	870,000	-	13,020,000
Net pension liability	170,103	136,335	-	306,438
Total noncurrent liabilities	12,403,071	1,043,412	9,194	13,455,677
TOTAL LIABILITIES	14,565,643	2,462,350	1,089,943	18,117,936
DEFERRED INFLOWS OF RESOURCES				
Deferred outflow of resources - net pension liability	123,351	98,864	-	222,215
TOTAL DEFERRED INFLOWS OF RESOURCES	123,351	98,864	-	222,215
NET POSITION				
Net investment in capital assets	21,015,810	1,066,176	165,041	22,247,027
Restricted	516,619	-	-	516,619
Unrestricted	27,631,409	(514,005)	(1,019,376)	26,098,028
TOTAL NET POSITION	\$ 49,163,838	\$ 552,171	\$ (854,335)	\$ 48,861,674

The accompanying notes are an integral part of these financial statements.

TOWN OF PECOS CITY, TEXAS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended September 30, 2019

	Business-type Activities Enterprise Funds			
	Water and Sewer Fund	PMJC Center	Ambulance	Total
OPERATING REVENUES				
Water service charges	\$ 6,928,125	\$ -	\$ -	\$ 6,928,125
Sewage service charges	4,644,162	-	-	4,644,162
Service charges	-	2,246,286	634,360	2,880,646
Other income	978,003	45,029	9,002	1,032,034
Total Operating Revenues	12,550,290	2,291,315	643,362	15,484,967
OPERATING EXPENSES				
Salaries, wages and benefits	1,898,120	1,537,714	-	3,435,834
Materials and supplies	182,781	244,951	-	427,732
Utilities	466,561	301,993	13,025	781,579
Repairs and maintenance	1,891,389	42,890	178	1,934,457
Travel	20,012	5,996	-	26,008
Depreciation and amortization	2,565,063	84,592	63,796	2,713,451
Miscellaneous	12,429	244,313	466,825	723,567
Total Operating Expenses	7,036,355	2,462,449	543,824	10,042,628
OPERATING INCOME (DEFICIT)	5,513,935	(171,134)	99,538	5,442,339
NON OPERATING REVENUES (EXPENSES)				
Amortization	-	(42,715)	-	(42,715)
Interest earned on investments	166,859	-	-	166,859
Interest expense	(381,466)	(33,582)	-	(415,048)
Total non operating revenues (expenses)	(214,607)	(76,297)	-	(290,904)
Income (loss) before transfers	5,299,328	(247,431)	99,538	5,151,435
TRANSFERS				
Transfers In	10,805,382	-	-	10,805,382
Transfers out	(500,696)	-	-	(500,696)
Change in net position	15,604,014	(247,431)	99,538	15,456,121
NET POSITION- Beginning of year	33,216,684	799,602	(953,873)	33,062,413
Prior period adjustment	343,140	-	-	343,140
NET POSITION- Beginning of year as restated	33,559,824	799,602	(953,873)	33,405,553
NET POSITION - Ending of year	\$ 49,163,838	\$ 552,171	\$ (854,335)	\$ 48,861,674

The accompanying notes are an integral part of these financial statements.

TOWN OF PECOS CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2019

	Business-type Activities Enterprise Funds			
	Water and sewer Fund	PMCJ Center	Ambulance	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 13,095,610	\$ 2,308,569	\$ 669,079	\$ 16,073,258
Cash paid to employees	(1,851,749)	(1,493,931)	-	(3,345,680)
Cash paid to suppliers	(2,477,554)	(957,599)	(811,740)	(4,246,893)
Net cash provided (used) by operating activities	8,766,307	(142,961)	(142,661)	8,480,685
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating transfers from (to) primary government	-	-	-	-
Transfers from other funds	10,805,382	854,154	151,854	11,811,390
Transfers to other funds	(500,696)	-	-	(500,696)
Net cash provided by noncapital financing activities	10,304,686	854,154	151,854	11,310,694
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on debt	(1,600,858)	(395,000)	(9,193)	(2,005,051)
Other proceeds	343,140	-	-	343,140
Interest paid on debt	(381,466)	(33,582)	-	(415,048)
Acquisition on capital assets	(2,144,617)	(199,511)	-	(2,344,128)
Net cash used in capital and related financing activities	(3,783,801)	(628,093)	(9,193)	(4,421,087)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(15,016,778)	-	-	(15,016,778)
Interest on investments	166,859	-	-	166,859
Net cash provided (used) by investing activities	(14,849,919)	-	-	(14,849,919)
Net change in cash	437,273	83,100	-	520,373
Cash and cash equivalents - beginning of the year	9,926,247	-	-	9,926,247
Cash and cash equivalents - end of the year (Includes \$516,619 of restricted cash)	\$ 10,363,520	\$ 83,100	\$ -	\$ 10,446,620
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	5,513,935	(171,134)	99,538	5,442,339
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				-
Depreciation and amortization	2,565,063	84,591	63,796	2,713,450
Accounts receivable	127,423	17,254	25,717	170,394
Accounts payable	95,618	(117,455)	(331,712)	(353,549)
Due to/due from	417,897	-	-	417,897
Accrued employee benefit payable	46,371	43,783	-	90,154
Net cash provided by operating activities	\$ 8,766,307	\$ (142,961)	\$ (142,661)	\$ 8,480,685

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Town of Pecos City, Texas (the City) was incorporated in 1885. The City operates under a Council Manager form of government and provides the following services as authorized by its charter: general government, public safety, streets and sanitation, culture and recreation, court, fire and rescue, and planning and inspection, water and sewer, ambulance and criminal justice.

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative literature. The following is a summary of the more significant policies:

GASB requires that the basic financial statements and required supplementary information (RSI) for general purpose governments consist of:

- Management's Discussion and Analysis (MD&A) – MD&A is RSI presented before the basic financial statements, which introduces the basic financial statements and provides an analytical overview of the government's financial activities.
- Basic Financial Statements – The basic financial statements, including notes to the financial statements that are essential to a user's understanding of the statements, are presented on two basic levels:
- The government-wide level where all statements are prepared using the economic resources measurement focus and the accrual basis of accounting. These statements present all assets, liabilities, revenues, expenses and gains and losses of the City and distinguish between governmental and business-type activities of the City.
- The fund level, where governmental fund statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting, and proprietary and fiduciary fund statements are prepared using the economic resources measurement focus and the accrual basis of accounting. These statements focus on information about the City's major governmental and enterprise funds. Information presented about the city's funds at this level is similar to prior financial statements, with some modification to financial statement format as prescribed by GASB.
- Required Supplementary Information – RSI, other than MD&A, includes budgetary comparison schedules for the General Fund, Airport Service Fund and other data, such as pension related data, required by other GASB statements.

A. Reporting Entity

Accounting principles generally accepted in the United States of America require that these financial statements present the City (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board) and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. GASB states that certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. If these certain organizations were excluded, they would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met.

The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

- The primary government, or its component units, is entitled to or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the primary government, or its component units, is entitled to or has the ability to otherwise access, are significant to that primary government.

In addition, other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgement to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity.

Individual Component Unit Disclosures:

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

Discretely Presented Component Unit:

1. Pecos Economic Development Corporation – “the Corporation” is a non-profit corporation created pursuant to the Development Corporation Act of 1979, as amended, exclusively for the purpose of benefiting and accomplishing public purposes of the City by promoting, assisting and enhancing economic development activities for the City.

The Corporation is considered to be part of the City’s financial reporting entity because the City Council appoints its Board of Directors, approves its budget and exercises final authority over its operations. The Corporation is discretely presented in a separate column of the City’s comprehensive annual financial report to emphasize that it is legally separate from the City. Further information concerning the Corporation may be found in Note 15 of this financial report.

B. Government-Wide and Fund Financial Statements

As previously discussed, the basic financial statements of the City are presented at two basic levels, the government-wide level and the fund level. These statements focus on the City as a whole at the government-wide level and on the major fund at the fund level whereas financial statements prior to GASB No. 34 focused on reporting by fund type. The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities for the financial reporting entity of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which are normally supported by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The government-wide statement of net position reports all financial and capital resources of the City and is presented in an “assets plus deferred outflows of resources minus liabilities and deferred inflows of resources equal net position” format with net position reported in the order of relative liquidity. Also, assets and deferred outflows of resources and liabilities and deferred inflows of resources are presented in relative order of liquidity with liabilities which have an average maturity of more than one year separated into the amount due within one year and the amount due in more than one year.

The government-wide statement of activities identifies the relative financial burden of each of the City’s functions (general government, public safety, streets and sanitation, culture and recreation, court, fire and rescue, and planning and inspection) or segments (water and sewer, ambulance and criminal justice) on the taxpayers by identifying direct expenses and the extent of self-support through program revenues. Direct expenses are clearly identifiable expenses that can be specifically associated with a function or segment. Program revenues derived directly from the function or segment or from other sources which reduce the net cost of the function to be financed from general government revenues.

Program revenues are: 1) charges to customers who purchase, use or directly benefit from services provided by function or segment and which are generated by that function, 2) grants and contributions restricted to operating requirements of a function or segment and, 3) grants and contributions restricted to capital requirements of a function or segment. Items such as taxes, investment earnings and non-specific grants are not included as program revenues but are reported as general revenues which normally cover the net cost of a function or segment.

Fund level financial statements are presented for governmental funds, proprietary funds with a focus on major funds. A major fund is defined by GASB as a fund meeting certain specific asset, liability, revenue, or expenditure/expense criteria relative to all funds of that type and relative to the total for all governmental and enterprise funds combined.

Additionally, any fund deemed particularly important by the City may be reported as a major fund. The financial information for each major fund is presented in a separate column, with nonmajor funds aggregated and displayed in a single column, on either the governmental or proprietary fund financial statements.

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

C. Measurement Focus and Basis of Accounting

The government-wide statements and proprietary fund statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The agency funds have no measurement focus. Exchange and exchange-like transactions, transactions in which the City gives or receives value and receives or gives equal value, that create revenues, expenses, gains losses, assets deferred outflows of resources, liabilities or deferred inflows of resources are recognized when the exchange occurs. Nonexchange transactions, transactions in which the City gives or receives value without receiving or giving equal value in exchange, that result in revenues, expense, gains, losses, assets, deferred outflows of resources, liabilities or deferred inflows of resources are recognized in accordance with GASB. The treatment of nonexchange transactions is grouped in four classes based upon the principal characteristics of the transaction and reported according to those characteristics. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Capital assets are reported as historical cost and depreciated, except for inexhaustible assets such as land, in accordance with the City's depreciation policy.

Governmental fund financial statements are reported using a current financial resources measurement focus and modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

In the case of property and sales taxes available means due within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Grant revenues are considered to be available if they are to be received within one year. Expenditures are generally recorded when a liability is incurred. However, expenditures related to general long-term debt, compensated absences and claims and judgements are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, royalties and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Governmental fund level revenues which have been accrued based upon the susceptible to accrual concept are:

- General fund – ad valorem taxes, sales taxes, interest and federal and state grant proceeds, except where such grants are expenditure driven and other requirements related to the grant have not been met.
- Special Revenue Funds – federal and state grant proceeds and interest except where grants are expenditure driven and other requirements related to the grant have not been met.
- Debt Service Fund – ad valorem taxes and interest.

Proprietary fund activities are accounted for using the economic resources measurement focus and the accrual basis of accounting. This measurement focus includes all assets and liabilities on the balance sheet. Operating statements using this focus present a net position vies of increases (revenues) and decreases (expenses) in the fund.

All applicable GASB pronouncements are followed in both government-wide and proprietary fund financial statements.

Proprietary fund operating statements distinguish between operating and non-operating revenues and expenses. Operating revenues and expenses generally are the result of providing or delivering goods or services in association with the fund's principal ongoing operations. The principal operating revenues of the City's water and sewer, ambulance service, and the criminal justice center funds are charges of this type. Operating expenses include the costs of administration, sales services and depreciation.

Transactions resulting in nonoperating revenues and expenses are normally created by such items as cash flows from capital and related financing activities, noncapital financing activities, investing activities, and include most nonexchange and exchange-like revenues.

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
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The following major funds are used by the City:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Airport Service Fund – the Airport Service Fund is used to account for financial resources to be used for the airport facility.

Other Governmental Funds – The non-major governmental funds include:

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Financing is provided by property tax levies.

Proprietary Funds

All Proprietary Funds are considered major funds except for the Ambulance Fund.

Water and Sewer Fund – The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including administration, operations, maintenance, financing and billing and collection.

Pecos Municipal Criminal Justice Center Fund (PMJC) – The PMJC Fund is used to account for the provision of the criminal justice center to the citizens of the city.

Ambulance Fund – The Ambulance Fund is used to account for the provision of ambulance services to the residents of the City.

D. Cash and Investments

Cash and investments include amounts in demand deposits as well as investments. Cash and cash equivalents, as defined for cash flow purposes, include cash and investments with original maturity dates no longer than three months. The City's investments are stated at fair value, except for external investment pools. Fair value is based on quoted market prices as of the valuation date. Management's intent is to hold all investments to maturity and thereby recover the full value of the various investments made. The gain/loss resulting from valuation will be reported within the "unrestricted investment earnings" account on the statement of activities.

The portfolio held the following investments:

TexPool – TexPool is an external pool that is not SEC-registered. It was created by an interlocal contract and is governed by the Public Funds Investment Act. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Texpool uses amortized cost rather than market value to report net position to compute share price. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

Further information concerning the City's deposits and investments may be found in Note 4 of this financial report.

E. Receivables, Payables and Interfund Transactions

The City's Water and Sewer Enterprise Fund operates on a monthly billing cycle, issuing billings several times throughout the month. The accounts receivable for water and sewer at September 30, 2019, represents the final unpaid billings issued prior to September 30, 2019, and includes an amount for unbilled September 2019 consumption.

Short-term loans between funds are reported as interfund receivables in the fund making the loan and as interfund payables in the fund receiving the loan. Arms-length transactions between funds for goods and services are reported as revenues in the selling fund and as expenses/expenditures in the acquiring fund. Any unpaid amounts are appropriately recorded as interfund receivables/payables. Any residential balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances", flows of assets from one fund to another with no requirement for repayment or without an equivalent flow of assets in return are accounted for as transfers.

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

F. Restricted Assets

These assets consist of cash and other investments legally restricted for the repayment of as required by applicable bond covenants.

G. Capital Assets

Capital assets are defined as purchase, construction or other acquisition of any equipment, facilities or other similar assets, in which the cost is in excess of \$5,000 and has a useful life of more than one year. These assets include property, plant, equipment, infrastructure and all other tangible and intangible assets purchased or acquired. Purchased or constructed assets are carried at historical cost or estimated historical cost. Infrastructure assets which include streets and associated drainage, sidewalks, bridges, drainage systems, water and sewer systems, lighting systems and other systems and other similar type assets, have been recorded at historical or estimated historical cost. Donated assets are recorded at estimated fair market value at the time of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets for business-type activities is capitalized as part of the value of the asset during the construction period.

Depreciable capital assets are depreciated using the straight-line method over the following estimated useful lives.

Buildings	25 – 50 Years	Equipment	3 – 20 Years
Infrastructure	25 – 50 Years	Vehicles	2 – 15 Years

H. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category. They are the deferred loss on refunding and deferred outflows related to the net pension liability which are reported in the government-wide and proprietary fund Statement of Net position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred resource outflow related to net pension liability results from differences in projected and actual earnings on plan investments and contributions made subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resource (revenue) until that time. The City has one item, which under the modified accrual basis of accounting, qualifies for reporting in this category. Accordingly, the item, unavailable revenues from property taxes, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. Additionally, the City has one item which is reported in the government-wide and proprietary fund Statement of Net Position. This item is the deferred inflow of resources related to the net pension liability resulting from the differences in expected and actual experience.

TOWN OF PECOS CITY, TEXAS
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September 30, 2019

J. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused personal time not to exceed 320 hours. Any unused personal time will be compensated at the employee's regular rate of pay at the time of termination. Total accumulated unused personal time at year end was \$391,999.

K. Long-term Obligations

Certificates of obligation and capital leases which have been issued to fund purchases and capital projects of the general government that are to be repaid from tax revenues of the City are reported in the government-wide statement of net position. Certificates of obligation, revenue bonds and capital leases which have been issued to fund capital projects of proprietary funds that are to be repaid with funds from proprietary fund assets are reported in the proprietary funds.

L. Fund Equity

Fund Balance

In the fund financial statements, fund balances are required to be reported according to the following classifications:

- 1) Nonspendable fund balance includes amounts that cannot be spent because they are either in non-spendable form, or for legal contractual reasons, must be kept intact. The City had no nonspendable fund balance at September 30, 2019.
- 2) Restricted fund balance represents amounts constrained to use by either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- 3) Committed fund balance includes amounts constrained to specific purposes determined by a formal action of the City itself, using its highest level of decision-making authority (City Council resolution). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest-level action to remove or change the constraint.
- 4) Assigned fund balance includes amounts that are constrained by the City's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. The City has no assigned fund balance as September 30, 2019.
- 5) Unassigned fund balance is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance.

The City's policy is to use restricted resources first, then unrestricted resources as they are needed. Within unrestricted fund balance the committed amount is used first, assigned amount next, and unassigned amount is used last.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investments in capital assets, consists of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction, or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use, either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

M. Revenue Recognition – Property Taxes

Property taxes attach as an enforceable lien on property as of January 1st. taxes are levied on the following October 1st and are due and payable at that time, becoming delinquent at the following January 31st. tax liens are automatic on January 31st each year. The tax lien is part of a lawsuit for property that can be filed any time after taxes become delinquent (February 1st). the City usually waits until after July 1st to file suits on real estate property. As of July 1st, 15% collection cost may be added to all delinquent accounts.

TOWN OF PECOS CITY, TEXAS
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Property taxes at the fund level are recorded as receivables and revenue in the period they become available. Current-year revenues recognized are those ad valorem taxes collected within the current period or soon enough thereafter to pay current liabilities, which is sixty days after year-end. All other outstanding receivables are adjusted from revenue and recognized as deferred for future collections. An allowance is provided for delinquent taxes not expected to be collected in the future.

General property taxes are limited by Home Rule Charter to \$2.00 per \$100 for assessed valuation. There is no limitation within the \$2.00 ceiling for debt service. The combined tax rate for the year ended September 30, 2019, was \$0.50000 per \$100 of assessed valuation.

State statutes limit the debt service tax rate to an amount no greater than that needed to meet current year principal and interest requirements but does provide for an allowance for the uncollected current year's tax levy. The City has adopted a policy to record delinquent taxes in both general fund and the debt service funds based on rates adopted for the year of the levy.

N. Federal and State Grants and Entitlements

Grants and entitlements may be accounted for within any of the fund types. The purpose and requirements of each grant or entitlement are carefully analyzed to determine the proper fund type in which to record the related transactions. Grants or entitlements received for purposes normally financed through a particular fund type may be accounted for in that fund type provided that applicable legal restrictions can be appropriately satisfied. Such revenues received for purposes normally financed through the general government are accounted for within the Special Revenue Funds. The recognition of these revenues is expenditure driven.

O. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

- A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between fund balance – total government funds and net position governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “some assets, deferred inflows of resources, liabilities and deferred outflows of resources will not be recognized in the current period and therefore are not reported in the fund financials statements.”

The details of this \$(17,464,149) difference is as follows:

Deferred outflows of resources – related to pension activity	\$ 1,125,823
Deferred inflows of resources - related to pension activity	(416,377)
Interest Payable	(62,790)
Change in Deferred Property Tax	(29,111)
Net pension liability	(574,193)
General obligation	(14,895,000)
Lease obligation	(816,098)
Landfill closure/post-closure	(1,465,963)
Compensated absences	(330,440)
Net adjustment to reduce fund balance – total government funds	
to arrive at net position - governmental activities	<u>\$ (17,464,149)</u>

TOWN OF PECOS CITY, TEXAS
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Another element of that reconciliation states that “Revenues earned but not available with sixty days of fiscal year end are not recognized as revenue in the governmental funds financial statements.” The difference of \$398,394 is unavailable property taxes revenue.

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes reconciliation between net changes in fund balances – total governmental funds and change in net position of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

The details of this \$9,508,685 difference are as follows:

Capital outlay	\$ 8,178,251
Asset held for sale	3,446,830
Depreciation expense	<u>(2,116,396)</u>
Net adjustment to increase net change in fund balance - total governmental funds to arrive at change in net position of governmental activities	<u><u>\$ 9,508,685</u></u>

Another element of that reconciliation states that, “repayment of the principal of long-term debt consumes current financial resources of governmental funds.” The difference of \$596,484 is general obligation and notes payable principal payments.

Another element of that reconciliation states that, “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.”

The details of the \$(10,307,084) differences are as follows:

Landfill	\$ (25,921)
Net pension adjustment	(123,766)
Bond Proceeds	(10,000,000)
Accrued Interest Expense	(62,790)
Compensated absences	<u>(94,607)</u>
Net adjustment to increase net change in fund balance- total governmental funds to arrive at change in net position of governmental activities	<u><u>\$ (10,307,084)</u></u>

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) In accordance with the City Charter, prior to September 1, the City manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. The City Charter requires that the budget be submitted in summary form. In additions, more detailed line item budgets are included for administrative control is at the functional level.
- 2) Public hearings are conducted with public notice being given with statutory limits, for obtaining taxpayers comments.
- 3) Prior to October 1, the budget is legally enacted through passage of an ordinance.
- 4) The City Manager is authorized to transfer budgeted amounts between departments within any funds; however, any revisions that increase the total expenditures of any fund must be approved by the City Council after appropriate public notice and citizen participation.

TOWN OF PECOS CITY, TEXAS
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- 5) Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds and Debts Service Fund. The Capital Projects Funds are budgeted over the life of the respective projects. As of and for the year ended September 30, 2019, there are no capital projects funds.
- 6) Budgets for the General Fund, Special Revenue Funds and Debt Service Fund are legally adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Proprietary Funds are included in the annual budget adopted as a financial plan only.
- 7) All annual appropriations lapse at the end of each fiscal year.

B. Deficit Fund Equity

The Ambulance fund had a deficit fund balance at September 30, 2019 of \$854,335. The deficit in the fund resulted from uncollectable receivables and amounts due to other funds.

C. Excess of Expenditures over Appropriations

For the year ended September 30, 2019, expenditures exceeded appropriations in the General Fund and Airport Fund are as follows:

General Fund

- General Government – Expenditures exceeded appropriations by \$1,192,856
- Public Safety – Expenditures exceeded appropriations by \$228,292
- Capital Outlay – Expenditures exceeded appropriations by \$1,398,625.

Airport Fund

- General Government: Transfers – Expenditures exceeded appropriations by \$16,777.

NOTE 4 – DEPOSITS AND INVESTMENTS

In order to facilitate cash management and increase income through combined investment activities, the operating cash of certain fund is pooled into one account in a local bank. At September 30, 2019, certain funds have made disbursements from the pooled account in excess of their individual equity in the pooled cash account, which is recorded as a liability (interfund payable) in the financial statements. The City is authorized to use demand accounts and certificates of deposit.

Deposits – State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. All of the City's deposits were fully insured or collateralized as required by the state statutes at September 30, 2019. At year-end, the carrying amount of the City's deposits and bank balance was \$55,808,104. Of the total bank balance of \$55,808,104, the federal Depository Insurance Corporation (FDIC) and the Securities Investor Protection Corporation covered \$250,000 and \$60,000,000 was covered by collateral held by the pledging bank's agent for the City in the City's name.

Investments – State statutes, city bond ordinances and city resolutions authorize the City's investments. The City is authorized to invest in U.S. Government obligations and its agencies or instrumentalities; direct obligations of this state or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States with five years or less stated final maturity (cannot be an inverse floater, a principal only or interest only); obligations of state agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent rating; no-load, SEC registered mutual funds with a weighted average stated maturity of less than two years that are invested in allowable securities; obligations of Texas and its agencies; fully collateralized repurchase agreements and reverse repurchase agreements; prime domestic commercial paper; prime domestic bankers' acceptances; insured or collateralized certificates of deposit government pools; and no-load SEC registered money market funds consisting of any of these securities listed.

At September 30, 2019, 100% of the City's investments were in external investment pools.

TOWN OF PECOS CITY, TEXAS
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September 30, 2019

The City's investments carried at fair value as of September 30, 2019, are:

Investments measured at amortized cost:	September 30, 2019	Percent of Total Investments	Weighted Average Maturity Days	Credit Rating (S&P)
TEXPOOL	\$ 15,000,878	96%	34	AAAm
TEXPOOL PRIME	649,423	4%	32	AAAm
Total Portfolio	<u>\$ 15,650,301</u>	<u>100%</u>		
Total Portfolio Weighted Average			<u>34</u>	

Interest Rate Risk – As required by the City's investment policy, the City minimizes the interest rate risk, related to the decline in market value of securities due to rising interest rates in the portfolio by: 1) limiting the effective duration of security types not to exceed three years with the exception of securities purchases related to reserve funds, 2) structuring the investment portfolio so that securities matured to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the secondary market prior to maturity; 3) monitoring credit ratings of portfolio positions to assure compliance with rating requirements imposed by the Public Funds Investment Act, and 4) investing operating funds primarily in shorter-term securities and government investment pools.

Credit Risk – In compliance with the City's investment policy, as September 30, 2019, the City minimized credit risk losses due to default of a security issuer or backer, by: 1) limiting investments to the safest types of securities by purchasing investments in US Agencies Notes that were rated AAAm by Standard and Poor's, 2) pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business, and 3) diversifying the investment portfolio so that potential losses on individual securities were minimized.

NOTE 5 – RECEIVABLES

Receivables as of September 30, 2019, for the City's individual major funds, and non-major and all other funds in the aggregate, including applicable allowances for uncollectible amounts, are as follows:

	General	Airport	Water and Sewer	PMJC	Nonmajor and other Funds	Total
Property Taxes	\$ 339,295	\$ -	\$ -	\$ -	\$ 181,269	\$ 520,564
Sales Taxes	2,199,100	-	-	-	-	2,199,100
Hotel Occupancy Tax	-	-	-	-	-	-
Accounts	1,347,930	-	3,285,346	416,796	52,180	5,102,252
Other	120,810	8,075	-	-	-	128,885
Gross Receivables	4,007,135	8,075	3,285,346	416,796	233,449	7,950,801
Less: allowance for uncollectible	(85,560)	-	(647,021)	-	(13,975)	(746,556)
Net Receivables	<u>\$ 3,921,575</u>	<u>\$ 8,075</u>	<u>\$ 2,638,325</u>	<u>\$ 416,796</u>	<u>\$ 219,474</u>	<u>\$ 7,204,245</u>

The City reports in its governmental funds, deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At September 30, 2019, deferred inflows in the amount of \$398,394 were reported.

TOWN OF PECOS CITY, TEXAS
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NOTE 6 – CAPITAL ASSETS

Capital asset acquisition and disposals of the reporting entity was restricted to activities of the primary government only. Capital asset activity for the year ended September 30, 2019 was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Government Activities				
Capital assets, not being depreciated				
Land	\$ 2,658,626	\$ -	\$ -	\$ 2,658,626
Construction in progress	200,868	485,428	-	686,296
Total capital assets, not being depreciated	2,859,494	485,428	-	3,344,922
Capital assets being depreciated				
Buildings	2,276,738	3,024,181	-	5,300,919
Infrastructure	20,447,846	2,537,329	-	22,985,175
Equipment	5,545,369	443,794	-	5,989,163
Vehicles	3,789,071	1,687,519	-	5,476,590
Total capital assets, being depreciated	32,059,024	7,692,823	-	39,751,847
Less accumulated depreciation for				
Buildings	862,434	95,055	-	957,489
Infrastructure	12,923,714	798,115	-	13,721,829
Equipment	3,395,095	483,616	-	3,878,711
Vehicles	2,558,159	739,610	-	3,297,769
Total accumulated depreciation	19,739,402	2,116,396	-	21,855,798
Total capital assets, being depreciated, net	12,319,622	5,576,427	-	17,896,049
Governmental activities capital assets, net	<u>\$ 15,179,116</u>	<u>\$ 6,061,855</u>	<u>\$ -</u>	<u>\$ 21,240,971</u>

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TOWN OF PECOS CITY, TEXAS
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September 30, 2019

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated				
Land	\$ 766,635	\$ -	\$ -	\$ 766,635
Construction in progress	45,098	-	(45,098)	-
Total capital assets, not being depreciated	811,733	-	(45,098)	766,635
Capital assets being depreciated				
Buildings	3,288,671	138,500	-	3,427,171
Infrastructure	57,808,216	1,517,013	-	59,325,229
Equipment	2,573,386	384,996	-	2,958,382
Vehicles	1,936,491	346,720	-	2,283,211
Total capital assets, being depreciated	65,606,764	2,387,229	-	67,993,993
Less accumulated depreciation for				
Buildings	1,045,994	80,570	-	1,126,564
Infrastructure	24,364,769	2,310,386	-	26,675,155
Equipment	1,794,238	171,280	45,967	2,011,485
Vehicles	1,561,881	151,215	-	1,713,096
Total accumulated depreciation	28,766,882	2,713,451	45,967	31,526,300
Total capital assets, being depreciated, net	36,839,882	(326,222)	(45,967)	36,467,693
Business-type activities capital assets, net	<u>\$ 37,651,615</u>	<u>\$ (326,222)</u>	<u>\$ (91,065)</u>	<u>\$ 37,234,328</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Government Activities:	
General government	\$ 1,200,067
Public safety	144,617
Street and sanitation	525,863
Planning and Inspection	75,333
Fire and rescue	128,353
Culture and recreation	42,163
Total depreciation expense	<u>\$ 2,116,396</u>
Business-type Activities:	
Water and sewer	\$ 2,565,063
Ambulance	84,592
Criminal justice center	63,796
Total depreciation expense	<u>\$ 2,713,451</u>

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 7 – INSURANCE

Health Insurance

Effective September 1, 2013, the City changed from a self-insured plan to a fully insured health insurance with the Texas Municipal League. Under this plan, the City is not liable for any foreseeable and probable claims, as such, no liability has been accrued.

Workers Compensation

The City's worker's compensation plan is administered by the Texas Municipal League Intergovernmental Risk Pool (TML). TML reviews and processes all workers compensation claims. The city has acquired stop loss coverage, which limits the City's possible loss to \$25,000 per occurrence. Estimated liability for worker's compensation claims was \$189,236 at September 30, 2019. The amount is included in accounts payable and accrued liabilities in the general fund and the governmental activities.

NOTE 8 – INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. The governmental and proprietary type funds' financial statements generally reflect such transactions as transfers. The proprietary funds record operating subsidies as other income whereas the fund paying the subsidy records it as either an expenditure or transfer. The purpose of the interfund balances is to track amounts owed between funds for short-term loans between funds and unpaid amounts for arms-length transactions between funds for goods and services. Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to spend them; and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund activity for the year ended September 30, 2019, are as follows:

	Interfund	
	Receivables	Payables
Governmental Funds		
General Fund	\$ 1,925,612	\$ 77,009
Enterprise Funds		
Ambulance Fund	77,009	1,071,458
PMJC	-	854,154
	<u>\$ 2,002,621</u>	<u>\$ 2,002,621</u>

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TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 9 – LONG-TERM DEBT

Governmental Activities:

The following is a summary of debt transactions for governmental activities of the City for the year ended September 30, 2019:

	Balance September 30, 2018	Additions	Reductions	Balance September 30, 2019	Due Within One Year	Due After One Year
General Obligation Bond 2014	\$ 5,320,000	\$ -	\$ 425,000	\$ 4,895,000	\$ 435,000	\$ 4,460,000
General Obligation Bond 2019	-	10,000,000	-	10,000,000	450,000	9,550,000
First Capital Leasing Corp.	987,582	-	171,484	816,098	152,803	663,295
Landfill Closure and Post Closure Liability	1,440,042	25,921	-	1,465,963	-	1,465,963
Net Pension Liability	-	574,193	-	574,193	-	574,193
Compensated Absences	235,833	94,607	-	330,440	-	330,440
	<u>\$ 7,983,457</u>	<u>\$ 10,694,721</u>	<u>\$ 596,484</u>	<u>\$ 18,081,694</u>	<u>\$ 1,037,803</u>	<u>\$ 17,043,891</u>

General Obligation Bond 2014

Town of Pecos City issued \$6,840,000 series 2014 general obligation bonds for the purpose of constructing and acquiring street and side work improvement. The initial general obligation was authorized to be issued, sold and delivered in denominations of \$5,000 dated September 14, 2014, with interest at the rate of 2.42% per annum, payable in annual instalments on March 1 in each of the years outstanding.

Future payments on this obligation are as follows:

Year Ending September 30,	General Obligation Bond 2014		
	Principal	Interest	Total
2020	435,000	113,196	\$ 548,196
2021	450,000	102,487	552,487
2022	460,000	91,476	551,476
2023	470,000	80,223	550,223
2024	485,000	68,668	553,668
2025-2029	2,595,000	159,902	2,754,902
Total	<u>\$ 4,895,000</u>	<u>\$ 615,952</u>	<u>\$ 5,510,952</u>

Certificate of Obligation 2019

Town of Pecos City issued \$10,000,000 Series 2019 Certificate of Obligation for the purpose of funding the design, planning, acquisition, construction, equipping, expansion, repair, renovation and/or rehabilitation of public property, as well as the payment of fees for professional services related thereto

The initial Certificate of Obligation was authorized to be issued, sold and delivered as a single fully registered Certificate of Obligation, without interest coupons, dated May 29, 2019, payable in annual installments of principal due and payable on September 30 in each of the years outstanding and to pay interest, from the date of initial Certificate of Obligation, on the balance of each such installment of principal, at the rate of 3.23% with said interest being payable semiannually on each March 1 and September 1 while this Certificate of Obligation or any portion hereof is outstanding and unpaid.

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

Future payments on the Series 2019 Certificate of Obligation are as follows:

Year Ending September 30,	General Obligation Bond 2019		
	Principal	Interest	Total
2020	\$ 450,000	\$ 398,277	\$ 848,277
2021	550,000	299,583	849,583
2022	565,000	281,575	846,575
2023	585,000	263,003	848,003
2024	605,000	243,784	848,784
2025-2029	3,330,000	907,953	4,237,953
2030-2034	3,915,000	324,373	4,239,373
Total	<u>\$ 10,000,000</u>	<u>\$ 2,718,548</u>	<u>\$ 12,718,548</u>

Notes Payable

Note Payable No. 1

On December 6, 2013, the City received a note payable in the amount of \$813,382 from a financial institution for the purchase of equipment for the general fund. The note matures September 30, 2019 and bears an interest rate of 2.88%. Principal and interest are payable in monthly installments of \$43,664. The note is secured by ad valorem taxes. This note was paid in full during the year ended September 30, 2019.

Note Payable No. 2

On February 14, 2014, the City received a note payable in the amount of \$415,611 from a financial institution for the purchase of equipment for the general fund and vehicle for the business fund. The note matures December 30, 2019 and bears an interest rate of 2.88%. Principal and interest are payable in monthly installments of \$22,305. The note is secured by ad valorem taxes. This note was paid in full during the year ended September 30, 2019.

Business-type Activities:

The following is a summary of debt transactions for business-type activities of the City for the year ended September 30, 2019:

	Balance September 30, 2018	Additions	Reductions	Balance September 30, 2019	Due Within One Year	Due After One Year
Certificates of Obligation	\$ 10,885,000	\$ -	\$ 1,310,000	\$ 9,575,000	\$ 1,275,000	\$ 8,300,000
Revenue Bonds	4,400,000	-	275,000	4,125,000	275,000	3,850,000
General Obligation Bond	1,675,000	-	395,000	1,280,000	410,000	870,000
Capital Leases	117,782	-	25,051	92,731	25,051	67,680
Net Pension Liability	-	306,438	-	306,438	-	306,438
Compensated Absences	52,652	8,907	-	61,559	-	61,559
Total	<u>\$ 17,130,434</u>	<u>\$ 315,345</u>	<u>\$ 2,005,051</u>	<u>\$ 15,440,728</u>	<u>\$ 1,985,051</u>	<u>\$ 13,455,677</u>

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

Certificates of Obligation

Series 2000A

Town of Pecos City issued \$8,375,000 Series 2000A Certificate of Obligation for the purpose of improving and extending the waterworks system, to-wit: hydrological exploration, land and easement acquisition, engineering of a well field, construction of a well field, and for paying professional services for legal, fiscal and engineering fees in connection with this project.

The Town of Pecos issued \$8,315,000 (original issue was \$60,000 less than previously stated and the last payment was reduced by \$60,000) Series 2000A Certificate of Obligation for the purpose of improving and extending the waterworks system.

The initial Certificate of Obligation was authorized to be issued, sold and delivered as a single fully registered Certificate of Obligation, without interest coupons, dated August 1, 2000 payable in annual installments of principal due and payable on June 15 in each of the years outstanding and to pay interest, from the date of initial Certificate of Obligation, on the balance of each such installment of principal, at the rate of 1% with said interest being payable semiannually on each June 15 and December 15 while this Certificate of Obligation or any portion hereof is outstanding and unpaid.

The schedule of future payments on the series 2000A Certificates of Obligation is as follows:

	Principal	Interest	Total
2020	\$ 550,000	\$ 5,500	\$ 555,500
Total	\$ 550,000	\$ 5,500	\$ 555,500

Series 2000B

The City issued \$460,000 Series 2000B Certificate of Obligation for the purpose of improving and extending the waterworks system, to-wit: hydrological exploration, land and easement acquisition, engineering of a well field, construction of a well field, and for paying professional services for legal, fiscal and engineering fees in connection with this project.

The initial Certificate of Obligation was authorized to be issued, sold and delivered as a single fully registered Certificate of Obligation, without interest coupons, dated August 1, 2000 payable in annual installments of principal due and payable on June 15 in each of the years outstanding, and to pay interest, from the date of initial Certificate of Obligation, on the balance of each such installment of principal at the rate between 4.5% and 5.85% with said interest being payable semiannually on each June 15 and December 15 which this Certificate of Obligation or any portion hereof is outstanding and unpaid.

The Schedule of future payments on the Series 2000B Certificate of Obligation is as follows:

	Principal	Interest	Total
2020	\$ 35,000	\$ 2,048	\$ 37,048
Total	\$ 35,000	\$ 2,048	\$ 37,048

Series 2015

During 2015, the City issued \$6,000,000 of Series 2015 Certificate of Obligation bonds. The proceeds from which will be used for water and sewer improvements and to pay for the cost of issuing of the debt. The bonds are payable in annual installments of principal due and payable on March 1 in each of the years outstanding, and to pay interest, from the date of initial Certificate of Obligation, on the balance of each such installment of principal, at the rate of 2.5% with said interest being payable semiannually on each March 1 and September 1 while this Certificate of Obligation or any portion hereof is outstanding and unpaid.

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

The schedule of future payments on the Series 2015 Certificates of Obligation is as follows:

	Principal	Interest	Total
2020	\$ 375,000	\$ 111,241	\$ 486,241
2021	380,000	101,841	481,841
2022	390,000	92,255	482,255
2023	400,000	82,419	482,419
2024	410,000	72,335	482,335
2025-2029	2,220,000	200,694	2,420,694
2030-2032	480,000	5,976	485,976
Total	<u>\$ 4,655,000</u>	<u>\$ 666,761</u>	<u>\$ 5,321,761</u>

Series 2016

During 2016, the City issued \$5,200,000 of Series 2016 Certificate of Obligation bonds. The proceeds from which will be used for water and sewer improvements and to pay for the cost of contractual obligations for professional services in connection therewith. The bonds are payable in annual installments of principal due and payable in March 1 in each of the years outstanding, and to pay interest, from the date of the initial Certificate of Obligation, on the balance of each such installment of principal, at the rate of 2.4% with said interest being payable semiannually on each March 1 and September 1 while the Certificate of Obligation or any portion hereof is outstanding and unpaid.

The schedule of future payments on the Series 2016 Certificates of Obligation is as follows:

	Principal	Interest	Total
2020	\$ 315,000	\$ 99,842	\$ 414,842
2021	325,000	92,194	417,194
2022	330,000	84,367	414,367
2023	340,000	76,361	416,361
2024	350,000	68,115	418,115
2025-2029	1,865,000	210,260	2,075,260
2030-2031	810,000	19,479	829,479
Total	<u>\$ 4,335,000</u>	<u>\$ 650,618</u>	<u>\$ 4,985,618</u>

Revenue Bonds Series 2008

Town of Pecos City issued \$6,870,000 Series 2008 Revenue Bonds for the purpose of acquiring, constructing, installing and equipping additions, improvements and extensions to the wastewater system and paying the costs incurred in connection with the issuance of the bonds.

The initial Revenue Bonds were authorized to be issued, sold and delivered hereunder one fully registered bond, without interest coupons, dated July 15, 2008. The bonds shall mature and be payable serially on March 15, in each of the years and in the principal amounts from the dates set forth in the form of bond.

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

The schedule of future payments on the Series 2008 Revenue bond is as follows:

	Principal	Interest	Total
2020	\$ 275,000	\$ -	\$ 275,000
2021	275,000	-	275,000
2022	275,000	-	275,000
2023	275,000	-	275,000
2024	275,000	-	275,000
2025-2029	1,375,000	-	1,375,000
2030-2034	1,375,000	-	1,375,000
Total	<u>\$ 4,125,000</u>	<u>\$ -</u>	<u>\$ 4,125,000</u>

General Obligation Refunded Bond Series 2013

Town of Pecos City issued \$3,530,000 general obligation refunding bond for the purpose of refunding the City's 2001 certificate of participation bond. The bond will be payable on March 1 and September 1 of each year, commencing March 1, 2014 until maturity, and interest will be calculated based on a 360-day year of twelve 30-day months.

The schedule of future payments on the Series 2013 General Obligation Bond is as follows:

	Principal	Interest	Total
2020	\$ 410,000	\$ 54,912	\$ 464,912
2021	425,000	38,512	463,512
2022	445,000	20,026	465,026
Total	<u>\$ 1,280,000</u>	<u>\$ 113,450</u>	<u>\$ 1,393,450</u>

NOTE 10 – CAPITAL LEASE OBLIGATIONS

Governmental Activities:

On September 6, 2019, the city executed an equipment lease purchase agreement with First Capital Equipment Leasing Corp. Future lease payments in governmental activities as of September 30, 2019 are as follows:

Year Ending September 30,	First Capital Equipment Leasing Corp.		
	Principal	Interest	Total
2020	\$ 152,803	\$ 26,915	\$ 179,718
2021	157,842	21,875	179,717
2022	163,048	16,670	179,718
2023	168,425	11,293	179,718
2024	173,980	5,738	179,718
Total	<u>\$ 816,098</u>	<u>\$ 82,490</u>	<u>\$ 898,588</u>

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

Business-type Activities:

The city is obligated under various capital leases for equipment in business-type activities which cost \$2,528,898. Future minimum lease payments in business-type activities as of September 30, 2019 are as follows:

	Principal	Interest	Total
2020	\$ 25,615	\$ 2,644	\$ 28,259
2021	26,200	2,060	28,260
2022	40,916	1,454	42,370
Total	<u>\$ 92,731</u>	<u>\$ 6,158</u>	<u>\$ 98,889</u>

NOTE 11- LANDFILL CLOSURE AND POST-CLOSURE CARE COST

State and federal laws and regulations require the City to place a final cover on its City landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure.

The City's first landfill site reached its operating capacity during the 2000 fiscal year. The site received approval to enter the post-closure care period during that fiscal year. During the year ended September 30, 2019, \$0 was expended for the post closure care costs for the landfill, and \$4,881 was increased to the liability to reflect inflated estimated costs. The City's post-closure liability as of September 30, 2019 was \$276,026. The post-closure care costs are based on prior estimates and have been adjusted for inflation. Actual costs may vary due to changes in inflation, changes in technology or changes in regulations. Although closure and post-closure care cost has been paid only near or after the date that the landfill stopped accepting waste, the City reported a portion of these estimated closure and post-closure care costs as an operating expense in the prior periods based on landfill capacity used in those prior periods. At September 30, 2019, the city does not operate this landfill.

The City's second landfill site's operating capacity is at 80 percent and estimated remaining landfill life is 25.5 years at the end of 2019. During the year ended September 30, 2019, \$0 was expended for post-closure care costs for the landfill, and \$21,040 was added to the liability to reflect inflated estimated costs. The City's current closure cost liability as of September 30, 2019 was \$1,465,963. The current closure costs are based on prior estimates and have been adjusted for inflation. Actual costs may vary due to changes in inflation, changes in technology or changes in regulations. Although closure and post-closure care costs will be paid only near the date and the landfill stopped accepting waste, the City reported a portion of these estimates closure and post-closure care costs as an operating expense in the prior period based on landfill capacity used in those prior periods. At September 30, 2019 the City is operating this landfill.

The City has not met the financial and public notice component sections of the Local Financial Test and Government Guarantee but is otherwise in compliance with the state and federal laws and regulations governing landfill closure and post-closure care at September 30, 2019.

NOTE 12 – COMMITMENTS

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement, which may arise as the result of these audits, is not believed to be material.

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 13 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2007-2008, the City obtained general liability coverage at a cost that is economically justifiable by joining together with other governmental entities in the state as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies or claims in excess of acceptable risk levels, however, each category of coverage has its own level or reinsurance. The city continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settle claims resulting from these risks have not exceeded in any of the past three years.

NOTE 14 – EMPLOYEE RETIREMENT BENEFITS

A. Plan Description.

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act. Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and managements of the system with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the city are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions with interest and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24 and 36 monthly payments which cannot exceed 75% of the member's deposits and interest.

The provisions of the City plan include a 5-year vesting period with all vested participants eligible to receive retirement benefits upon reaching 5 years of service and age 60 or 20 years of service with no age requirement. The plan requires participant contributions of 5% and the City matches at a ratio of 2 to 1.

Employees covered by benefits as of September 30, 2018 include:

Inactive employees or beneficiaries currently receiving benefits	66
Inactive employees entitled to but not yet receiving benefits	122
Active employees	<u>127</u>
Total	<u><u>315</u></u>

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

C. Contributions

The contribution rate for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the city were 5.43% and 6.07% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019 were \$345,480 and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by an additional factor of 100.0%. The rates are projected in a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Health Mortality Table with Blue Collar Adjustment are used with male rates by 109% and female rates multiplied by 103% with a 3-year-set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated on a Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments were determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

TOWN OF PECOS CITY, TEXAS
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September 30, 2019

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	5.0%	7.75%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension (Asset) Liability:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a) - (b)
Balance at 12/31/2017	\$ 14,814,898	\$ 15,384,588	\$ (569,690)
Charges for the year:			
Service cost	696,912	-	696,912
Interest	998,663	-	998,663
Change of benefit terms	-	-	-
Difference between expected and actual experience	(9,660)	-	(9,660)
Change of assumptions	-	-	-
Contributions - employer	-	388,494	(388,494)
Contributions - employee	-	317,066	(317,066)
Net investment income	-	(460,596)	460,596
Benefit payments, including refunds of employee contributions	(736,694)	(736,694)	-
Administrative expense	-	(8,907)	8,907
Other charges	-	(463)	463
Net changes	<u>949,221</u>	<u>(501,100)</u>	<u>1,450,321</u>
Balance at 12/31/2018	<u>\$ 15,764,119</u>	<u>\$ 14,883,488</u>	<u>\$ 880,631</u>

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability (asset)	\$ 2,996,474	\$ 880,631	\$ (856,038)

Pension Plan Fiduciary Net Position

Detained information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained on the internet at www.tmrs.com.

E. Pension Expense and Deferred Outflows of Resource and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2019, the City recognized pension expense of \$210,024. At September 30, 2019, the City reported deferred outflows of resources and determined inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 8,695	\$ (61,666)
Difference between projected and actual earnings on pension plan investments	795,558	-
Contributions subsequent to the measurement date	345,480	-
	<u>\$ 1,149,733</u>	<u>\$ (61,666)</u>

For the year ended September 30, 2019, \$345,480 was reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	
2019	\$ 242,965
2020	92,684
2021	107,127
2022	299,811
Total	<u>\$ 742,587</u>

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 15 – DISCRETE COMPONENT UNIT – PECOS ECONOMIC DEVELOPMENT CORPORATION

The financial report of the Pecos Economic Development Corporation can be obtained or reviewed by writing to Pecos Economic Development Corporation Treasurer, P.O. Box 1493, Pecos, Texas 79772.

Significant Accounting Policies

The Pecos Economic Development Corporation (PEDC) complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary type funds apply Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions based on or after November 30, 1989. For the fiscal year ended prior to September 30, 2008, the Corporation had implemented the new financial reporting requirements of GASB Statement Nos 33 and 34. As a result, an entirely new financial presentation format was implemented.

A. Financial Reporting Entity

The Pecos Economic Development Corporation was created November 23, 1998 via provisions of the State of Texas. The Corporation was created under the Development Corporation Act of 1979, Tex. Rev. Ann. Art. 5190.6 Section 4A, with the approval of the governing body of the Town of Pecos City. The Corporation operated with five board members appointed by the City Council and one person was contracted to handle the operations of the Corporation. The Corporation was organized exclusively for the purpose of benefitting and accomplishing public purposes of the Town of Pecos City by promoting, assisting, and enhancing economic development activities for the Town of Pecos City as provided by the Development Corporation Act of 1979 as amended.

In October 2007, the PEDC Board of Director's along with the Pecos City Council, initiated an election that abolished the 4A PEDC and create a new 4B PEDC. The election was successful, and the board was restructured, that now includes 7 appointed members from the community and City officials.

B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information for the reporting entity as a whole. They include all the funds for the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary.

An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Corporation or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total of all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total of all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds - The General Fund is reported in the governmental fund section and is the Corporation's only fund.

C. Measurement Focus and Basis of Accounting

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the "economic resources" measurement focus as defined in item "1" below.

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

In the governmental fund financial statements, the “current financial resources” measurement is used.

1. The government-wide financial statements utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Governmental fund equity is classified as net position.
2. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balances as their measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the Statement of Net Position and the Statement of Activities transactions are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented in the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

D. Assets, Liabilities and Equity

Cash and Investments

For the purpose of the Statements of net Position and Governmental Fund Balance Sheet, “cash, including time deposits” includes all demand, savings accounts, and certificates of deposits of the Corporation.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales tax revenues and interest income.

Fixed Assets

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to September 30, 2007.

Government-wide statements

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the asset’s estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings & Improvements	15-39 years
Furniture & Equipment	5-7 years
Infrastructure	50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the government fund upon acquisition.

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

Equity Classifications

Equity in the Statement of Net Position is classified as net position and displayed in three components:

1. *Invested in capital assets, net of related debt* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. *Restricted net position* - Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. *Unrestricted net position* - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Equity in the Governmental Funds Balance Sheet is classified as fund balance and displayed and classified in five components:

1. *Non-spendable fund balance* – Amounts are not in spendable form or are legally or contractually required to be maintained intact, such as inventories.
2. *Restricted fund balance* – Amounts are restricted to specific purposes by their providers (grantors, bondholders, higher levels of government, etc.) or through constitutional provisions or enabling legislation
3. *Committed fund balance* – Amounts are restricted for purposes which the Board of Directors, the Corporation’s highest level of decision-making authority, has designated for their use. Committed amounts cannot be used for any other purpose unless the Boards removes or changes the specified use by taking formal Board action.
4. *Assigned fund balance* – Amounts that are constrained by the Corporation’s intent to be used for specific purposes but are neither restricted nor committed.
5. *Unassigned fund balance* – Amounts that are available for any purpose that have not been restricted, committed or assigned for specific purposes.

Unless otherwise provided by the Board or their designee, restricted funds are spent first when the expenditure is incurred for purposes for which both restricted and unrestricted net position can be used. In addition, when an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances can be used, the Corporation considers amounts to have been spent first out of committed amounts, followed by assigned amounts and then unassigned amounts, unless the Board or their designee has provided otherwise.

E. Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

Operating revenues and expenditures for the General Fund are those that occur from the allocation of sales tax proceeds from the Town of Pecos City. It also includes all revenue and expenditures not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for the governmental activities.

In the fund financial statements, governmental funds report expenditures of financial resources.

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

F. Cash and Investments

The Corporation's policies regarding deposits of cash are discussed in the Summary of Significant Accounting Policies. Custody credit risk is classified into three categories. The categories are as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the Corporation or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Corporation's name.

Category 3 – Uninsured and collateralized; or collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Corporation's name or collateralized with no written or approved collateral agreement.

At year-end the Corporation's cash and investments totaled \$3,520,203. All of the deposits were considered collateralized as Category 1 credit risks.

G. Capital Assets

Capital assets for the year ended September 30, 2019 were as follows:

	Balance at 9/30/2018	Additions	Disposals	Balance at 9/30/2019
Land	\$ 1,468,840	\$ -	\$ -	\$ 1,468,840
Leasehold Improvements	279,741	1,983	-	281,724
Furniture and Equipment	253,392	-	-	253,392
Totals at Historical Cost	2,079,723	1,983	-	2,003,956
Accumulated Depreciation	(87,475)	(14,757)	-	(102,232)
Capital Assets - Net	<u>\$ 1,992,248</u>	<u>\$ (12,774)</u>	<u>\$ -</u>	<u>\$ 1,901,724</u>

Depreciation expense for the year was \$14,757.

H. Tax Revenue

The Corporation receives a portion of the sales tax collected by the Town of Pecos City to fund its operations. The Corporation received one eighth of the City's one-half percent sales tax due to a proposition passed by an election held in March 2016.

I. Contingencies

Litigation

In the normal course of providing services to the public the Corporation from time to time is subjected to litigation claims. The Corporation defends itself against such claims based on internal assessment of liability and risk. Litigation expenses and damages are recorded as expense in the period when services are rendered. No liabilities have been accrued in the financial statements relative to litigation in process for the year ended September 30, 2019.

J. Risk Management

Pecos Economic Development Corporation is exposed to various risks of loss related to torts: thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees; and natural disasters. The Corporation maintains insurance policies acquired from independent insurance carriers covering structural property, dishonesty, errors, and omissions, personal property and general liability. There have been no significant reductions in insurance coverage from prior years and settlements did not exceed insurance coverage for each of the past three years.

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

K. Related Part Transactions

From time to time the Corporation may enter into transactions with related parties through the normal course of business. If a member of the Board of Directors has a conflict of interest, proper documentation is completed, and he/she is required to abstain from any discussion or voting regarding the matter. Management is not aware of any material related party transactions that occurred for the fiscal year ended September 30, 2019.

L. Subsequent Events

In preparing the financial statements the management of the Pecos Economic Development Corporation has evaluated events and transactions for potential recognition or disclosure through February 5, 2019, the date the financial statements were issued. No events including instances of noncompliance, have occurred subsequent to the statement of financial position date that would require adjustment to or further disclosure in the financial statements.

NOTE 16 – NEW PRONOUNCEMENTS

The City's management typically reviews the impact, if any, and implementation of new GASB accounting and reporting standards as they are issued by gathering required information. All required disclosures are typically included in the financial statements at the time they are required.

Future GASB Statement Implementations:

The GASB has issued the following statements which will become effective in future years.

In November 2016, the GASB issued *Statement No. 83, Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). The statement will become effective for periods beginning after June 15, 2018.

In January 2017, the GASB issued *Statement No. 84, Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of governments and for identifying fiduciary component units and post-employment benefit arrangements that are fiduciary activities. The statement will become effective for periods beginning after December 15, 2018.

In June 2017, the GASB issued *Statement No. 87, Leases*. This statement changes the recognition requirements for certain lease assets and liabilities for leases that are currently classified as operating leases. The statements will become effective or periods beginning after December 15, 2019.

In August 2018, the GASB issued *Statement No. 90, Majority Equity Interest-an amendment of GASB Statements No. 14 and No. 61*. This statement will improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this statement become effective for reporting periods beginning after December 15, 2018.

In May 2019, the GASB issued *Statement No. 91, Conduit Debt Obligations*. This statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

In January 2020, the GASB Issued *Statement No. 92, Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements related to Statement 87 and Implementation Guide 2019-3 are effective upon issuance. The other requirements of this statement are effective for fiscal years beginning after June 15, 2020.

The City will fully analyze the impact of these new Statements prior to the effective dates for the Statements listed above.

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2019

NOTE 17 – DATE OF MANAGEMENT’S REVIEW

In preparing the financial statements, the City has evaluated event and transactions for potential recognition or disclosure through November 20, 2020, the date that the financial statements were available to be issued.

NOTE 18 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was required in the City’s water and sewer fund balance and business-type activities net position as a result of adjusting interfund activity. This resulted in a increase of fund balance and net position in the amount of \$343,140 which was approved by City Council.

	Government-wide Statement of activities	Proprietary fund Statement of revenues, expenses, and changes in net position Water & Sewer Fund
	Business-type Activities	
Beginning net position	\$ 33,216,684	\$ 33,216,684
Prior period adjustment	343,140	343,140
Beginning net position - as restated	<u>\$ 33,559,824</u>	<u>\$ 33,559,824</u>

NOTE 19 – SUBSEQUENT EVENTS

In March 2020, the Governor of the state of Texas declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

Management is monitoring the potential financial impact of these shutdowns and the overall slowing of the local economy particularly the oil and gas industry. As of the date of this report, sales tax revenue is down by approximately 60 percent or more and other revenue sources are expected to be impacted as well. Therefore, management is closely monitoring the budget and adjusting, as necessary.

The length of time these measures will be in place, and the full extent of the financial impact on the City is unknown at this time.

**Required Supplementary Information
(Unaudited)**

TOWN OF PECOS CITY, TEXAS
Schedule of Changes in Net Pension Liability and Related Ratios
Texas Municipal Retirement System
Year Ended September 30, 2019

	2019	2018	2017	2016	2015
A. Total pension liability					
1. Service cost	\$ 696,912	\$ 593,908	\$ 604,343	\$ 595,834	\$ 425,498
2. Interest on the Total Pension Liability	998,663	945,894	880,177	828,210	778,271
3. Changes on benefit terms	-	-	-	-	-
4. Difference between expected and actual experience	(9,660)	(141,776)	83,221	54,545	(41,969)
5. Changes in assumptions	-	-	-	281,527	-
6. Benefit payments, including refunds or employee contributions	(736,694)	(598,827)	(579,046)	(533,543)	(533,545)
7. Net change in Total Pension Liability	949,221	799,199	988,695	1,226,573	628,255
8. Total Pension Liability - beginning	14,814,898	14,015,699	13,027,004	11,800,431	11,172,176
9. Total Pension Liability - ending	15,764,119	14,814,898	14,015,699	13,027,004	11,800,431
B. Plan fiduciary net position					
1. Contributions - employer	388,494	317,634	286,308	301,131	242,457
2. Contributions - employee	317,066	272,936	276,968	281,965	240,874
3. Net investment income	(460,596)	1,874,182	857,889	18,653	687,114
4. Benefit payments, including refunds of employee contributions	(736,694)	(598,827)	(579,046)	(533,543)	(533,545)
5. Administrative expenses	(8,907)	(9,717)	(9,691)	(11,361)	(7,174)
6. Other	(463)	(494)	(522)	(561)	(590)
7. Net change in plan fiduciary net position	(501,100)	1,855,714	831,906	56,284	629,136
8. Plan fiduciary net position - beginning	15,384,588	13,528,874	12,696,968	12,640,684	12,011,548
9. Plan fiduciary net position - ending	\$ 14,883,488	\$ 15,384,588	\$ 13,528,874	\$ 12,696,968	\$ 12,640,684
C. Net pension liability (asset)	\$ 880,631	\$ (569,690)	\$ 486,825	\$ 330,036	\$ (840,253)
D. Plan fiduciary net position as a percentage of the total pension asset	94.41%	103.85%	96.53%	97.47%	107.12%
E. Covered - employee payroll	5,747,219	5,458,716	5,631,706	5,631,706	4,817,471
F. Net pension liability as a percentage of covered employee payroll (C/E)	15.32%	-10.44%	8.64%	5.86%	-17.44%

Notes to schedule of changes in the City's Net Pension Liability and Related Ratios

GASB Statement No. 68 requires 10 year of data; however, five years of data is presented as the data for years prior to 2015 is not available. Additionally, GASB Statement No. 68. requires that information on this schedule correspond with the period covered as at the year ended December 31, 2018 and 2017, the current measurement dates.

TOWN OF PECOS CITY, TEXAS
Schedule of Contributions
Texas Municipal Retirement System
Year Ended September 30 2019

	2019	2018	2017	2016	2015
Actuarially Determined Contribution	\$ 374,121	\$ 366,475	\$ 286,308	\$ 296,434	\$ 287,723
Contributions in relation to the actuarially determined contribution	374,121	366,475	286,308	296,434	287,723
Contribution deficiency (excess)	-	-	-	-	-
Covered employee payroll	5,747,219	5,458,716	5,539,351	5,631,706	5,226,785
Contributions as a percentage of covered employee payroll	6.51%	6.71%	5.17%	5.26%	5.50%

Notes to Schedule of contributions

GASB Statement No. 68 requires 10 year of data; however, four years of data is presented as the data for years prior to 2015 is not available. Additionally, GASB Statement No. 68 requires that information on this schedule correspond with the period covered as of the years ended December 31, 2016 and 2017, the current measurement dates.

Valuation date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market, 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experienced-based table of rates that are specific to the City's plan of benefits Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.

Mortality

RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information

There were no benefit changes during the year

TOWN OF PECOS CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND
Year Ended September 30 , 2019

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amount	Final Budget
				Over/(Under)
Revenues				
Property Taxes	\$ 2,853,000	\$ 2,855,000	\$ 2,925,168	\$ 70,168
Hotel Occupancy Tax	-	-	4,759,583	4,759,583
Other taxes	8,944,000	11,944,000	13,321,281	1,377,281
Franchise taxes	450,000	180,000	845,015	665,015
Permits and fees	180,450	257,280	595,111	337,831
Intergovernmental revenues	271,680	271,680	454,779	183,099
Fines and forfeitures	102,100	103,000	974,968	871,968
Court fees	40,500	40,500	13,984	(26,516)
Other revenues	105,250	115,250	735,077	619,827
Charges for services	2,800,000	4,000,000	3,682,943	(317,057)
Rents and Royalties	500,000	1,649,479	5,217,137	3,567,658
Interest	8,500	5,000	869,991	864,991
Miscellaneous	79,271	79,771	347,855	268,084
Total revenues	16,334,751	21,500,960	34,742,892	13,241,932
Expenditures				
General government	3,444,311	6,458,661	7,651,518	(1,192,857)
Public safety	2,631,389	3,363,119	3,591,411	(228,292)
Streets and sanitation	2,518,621	4,940,147	1,913,187	3,026,960
Culture and recreation	815,755	1,207,006	1,177,903	29,103
Court	643,208	866,061	800,647	65,414
Fire and rescue	843,737	1,070,723	785,401	285,322
Planning and inspection	329,114	341,326	153,832	187,494
Capital outlay	270,164	6,779,626	8,178,251	(1,398,625)
Debt service:				
Principal retirement	199,066	499,066	171,484	327,582
Interest charges	-	-	208,233	(208,233)
Total general government	11,695,365	25,525,735	24,631,867	893,868
Excess (Deficiency) of revenues over expenditures	4,639,386	(4,024,775)	10,111,025	14,135,800
Other financing sources (uses):				
Proceeds of debt issuance	-	1,902,500	10,000,000	8,097,500
Sale of assets	1,000	-	-	-
Transfers in	767,393	13,880,128	13,021,549	(858,579)
Transfers out	(1,077,825)	(7,928,109)	(25,411,350)	(17,483,241)
Total other financing sources (uses)	(309,432)	7,854,519	(2,389,801)	(10,244,320)
Net change in fund balances	4,329,954	3,829,744	7,721,224	3,891,480
FUND BALANCES, beginning of year	18,474,466	6,456,999	33,476,337	-
FUND BALANCES, end of year	<u>\$ 22,804,420</u>	<u>\$ 10,286,743</u>	<u>\$ 41,197,561</u>	<u>\$ 3,891,480</u>

TOWN OF PECOS CITY, TEXAS
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and actual
Airport service Fund
Year Ended September 30, 2019

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amount	Final Budget
				Over/(Under)
Revenues				
Interest	\$ 15	\$ 15	\$ 23,342	\$ 23,327
Grant	5,233,000	5,233,000	-	(5,233,000)
Miscellaneous	68,000	68,000	57,565	(10,435)
Total revenues	5,301,015	5,301,015	80,907	(5,220,108)
Expenditures				
General government				
General disbursement	129,750	129,750	106,268	23,482
Capital Outlay	6,970,000	6,970,000	-	6,970,000
Total expenditures	7,099,750	7,099,750	106,268	6,993,482
Deficiency of revenues over expenditures	(1,798,735)	(1,798,735)	(25,361)	(12,213,590)
Other financing sources (uses)				
Operating transfers in	1,190,000	1,190,000	1,630,251	440,251
Operating transfers out	-	-	(457,028)	(457,028)
Total other financing sources (uses)	1,190,000	1,190,000	1,173,223	(16,777)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(608,735)	(608,735)	1,147,862	1,756,597
FUND BALANCE, beginning of year	777,814	777,814	4,826,603	-
FUND BALANCE, end of year	<u>\$ 169,079</u>	<u>\$ 169,079</u>	<u>\$ 5,974,465</u>	<u>\$ 1,756,597</u>



PARK FOWLER & CO.

Certified Public Accountants & Management Consultants
A Professional Limited Liability Company

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Ronald H. Park, CPA

IN-OFFICE COUNCIL:
Daniel T.A. Cotts, JD, LLM

ASSOCIATES:
Clara A. Moreno, CPA
Marc D. Kennedy, CPA
P. Andrew Hall, CPA
Wendy Pullin, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council

Town of Pecos City, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each mayor fund, and the aggregate remaining fund information of the Town of Pecos City, Texas, the "City" as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 20, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-01 and 2019-02 that we consider to be significant deficiencies.

Compliance and Other Matters.

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we don't express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Pecos City, Texas Response to Findings.

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's response was not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Park Fowler & Co., PLLC

Park Fowler & Co., PLLC
Corpus Christi, Texas
November 20, 2020

TOWN OF PECOS CITY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
September 30, 2019

Significant Deficiency in Internal Control over Financial Reporting

Finding: 2019-01

Criteria: Sequential and controlled check numbers are key component of the internal controls around the disbursement process (check writing) and bank reconciliation process.

Condition: For approximately half of the fiscal year, check numbers generated within the City's general ledger system did not match the preprinted check stock used to print checks.

Cause: During software implementation, system generated check numbers were not setup properly to ensure check numbers matched bank issued check stock and that checks were issued in sequential order.

Effect: The internal control weakness described above create the potential for the City's resources to be misappropriated , misused or lost without detection in a timely manner.

Recommendation: Management should ensure the bank reconciliation process is performed timely and any discrepancies between general ledger and bank checks are identified. Management should develop a review process to identify discrepancies between accounting system entries and bank records in a timely manner.

Corrective Action: The City has corrected the general ledger system setup and has recently hired an experienced Finance Director to oversee the finance/accounting department.

Finding - 2019-02

Criteria: Capital assets listings and detail depreciation schedules should be updated, maintained and agreed to the general ledger on a regular basis by the City. Acquisitions should be properly classified as capital outlay. Capital assets should be depreciated based on City policy.

Condition: Although the City has a capital asset listing and detailed depreciation schedule, they were not completely maintained and agreed to the general ledger on a regular basis by the City. Adjustments were made in order to capitalize some assets that were expensed and should have been capitalized in accordance to the City's capitalization policy.

Cause: Management does not have controls in place to identify transactions that involve items of a capital nature. Management does not have controls in place to ensure additions are recorded in the capital asset register and depreciated.

Effect: Capital items may not be recorded and depreciated causing misstatement to both assets and expense.

Recommendation: Management should establish a process to identify capital asset purchases , ensure that they are recorded as capital outlay and added to the capital asset listing and depreciated. Management should also implement processes to reconcile additions to capital outlay annually.

City's Response: The Finance Director is responsible for the corrective action and plans to improve these reporting processes during the 2020 fiscal year to facilitate improved capital asset reporting. We are also implementing forms to be completed upon acquisition, transfer and disposal of capital assets.