Town of Pecos City, Texas

Annual Financial Report
September 30, 2018

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TOWN OF PECOS CITY, TEXAS

Audited Financial Statements

September 30, 2018

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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, 2018, 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.

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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, 2018, 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, 48, 49, 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 audition 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 September 15, 2019, 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

Corpus Christi, Texas
September 15, 2019

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TOWN OF PECOS CITY, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2018

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, 2018. 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 $81,075,058, an increase of $27,059,790 from previous year. Of this amount, $49,419,846 (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 $40,188,684, an increase of $15,828,787 in comparison with the prior year. Approximately 56% of this total amount, $22,625,191, 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 $22,625,191, or 141% of total general fund expenditures for the year ended 2018.

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.

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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.

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Government-Wide Financial Analysis

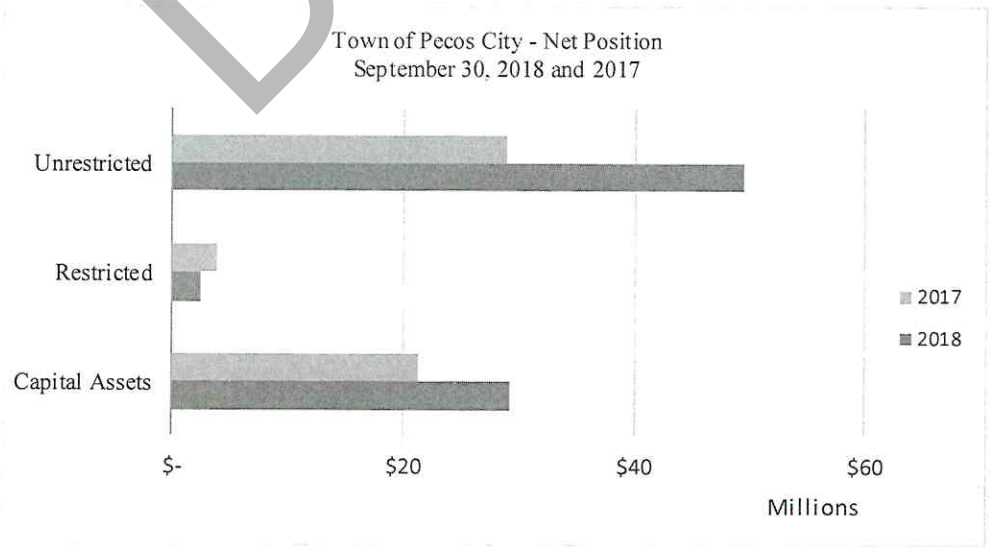
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the fiscal year.

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	
	2018	2017	2018	2017	2018	2017
Current and other assets	$ 42,004,861	$ 25,234,292	$ 13,624,589	$ 8,164,373	$ 55,629,450	$ 33,398,665
Capital assets	15,179,116	11,665,214	37,651,614	37,076,428	52,830,730	48,741,642
Total assets	57,183,977	36,899,506	51,276,203	45,240,801	108,460,180	82,140,307
Deferred outflows	446,174	853,488	392,440	486,534	838,614	1,340,022
Current liabilities	1,921,443	1,729,962	3,408,362	3,728,740	5,329,805	5,458,702
Other liabilities	7,151,140	6,737,552	14,875,080	17,263,354	22,026,220	24,000,906
Total liabilities	9,072,583	8,467,514	18,283,442	20,992,094	27,356,025	29,459,608
Deferred inflows	544,923	3,981	322,788	1,472	867,711	5,453
Net investment in capital assets	8,861,648	3,714,614	20,343,722	17,610,372	29,205,370	21,324,986
Restricted	1,730,473	3,312,220	719,369	500,980	2,449,842	3,813,200
Unrestricted	37,420,524	22,254,665	11,999,322	6,622,417	49,419,846	28,877,082
Total net position	$ 48,012,645	$ 29,281,499	$ 33,062,413	$ 24,733,769	$ 81,075,058	$ 54,015,268

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.



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Town of Pecos City's Change in Net Position

	Governmental Activities		Proprietary Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues						
Charges for services	$ 5,162,699	$ 4,316,882	$ 15,842,569	$ 10,574,717	$ 21,005,268	$ 14,891,599
Operating grants and contributions		70,445	29,218	-	29,218	$ 70,445
Capital grants and contributions	922,830	300,000	-	-	922,830	$ 300,000
General revenues						
Property taxes	2,452,824	2,343,964	-	-	2,452,824	$ 2,343,964
Other taxes	17,281,891	10,743,036	-	-	17,281,891	$ 10,743,036
Rent and royalties	5,840,493	2,163,977	420,834	-	6,261,327	$ 2,163,977
Other	826,530	649,705	294,763	61,033	1,121,293	710,738
Total revenues	32,487,267	20,588,009	16,587,384	10,635,750	49,074,651	31,223,759
Expenses:						
General government	5,798,259	5,577,234	-	-	5,798,259	5,577,234
Public safety	2,508,038	2,389,229	-	-	2,508,038	2,389,229
Streets and sanitation	2,520,533	3,704,020	-	-	2,520,533	3,704,020
Culture and recreation	822,893	721,077	-	-	822,893	721,077
Court	569,607	680,885	-	-	569,607	680,885
Fire and rescue	1,181,751	467,386	-	-	1,181,751	467,386
Planning and Inspection	221,244	247,407	-	-	221,244	247,407
Interest on long-term debt	133,796	145,030	-	-	133,796	145,030
Water and sewer	-	-	5,393,485	5,638,111	5,393,485	5,638,111
Ambulance Fund	-	-	439,100	442,848	439,100	442,848
Criminal Justice Fund	-	-	2,426,155	2,288,611	2,426,155	2,288,611
Total expenses	13,756,121	13,932,268	8,258,740	8,369,570	22,014,861	22,301,838
Excess of revenues over expenses	18,731,146	6,655,741	8,328,644	2,266,180	27,059,790	8,921,921
Transfers	-	196,894	-	(196,894)	-	-
Change in net position	18,731,146	6,852,635	8,328,644	2,069,286	27,059,790	8,921,921
Net position, beginning	29,281,499	22,428,864	24,733,769	22,664,483	54,015,268	45,093,347
Net position ending	$ 48,012,645	$ 29,281,499	$ 33,062,413	$ 24,733,769	$ 81,075,058	$ 54,015,268

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Town of Pecos City's General Revenues and Transfers

	2018	2017	Variance	Percent Variance
Property taxes, penalties, and interest	$ 2,452,824	$ 2,343,964	108,860	5%
Other taxes	17,281,891	10,743,036	6,538,855	61%
Unrestricted investment income	346,789	92,062	254,727	277%
Gain on sale of assets	12,631	103,800	(91,169)	-88%
Rent and royalties	5,840,493	2,163,977	3,676,516	170%
Miscellaneous	467,110	453,843	13,267	3%
Transfers	-	196,894	(196,894)	-100%
Total revenues and transfers	$ 26,401,738	$ 16,097,576	$ 10,304,162	

The City's general revenues and transfers provided $26,401,738 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 $5,162,699 and was used to pay for expenses associated with governmental activities of $13,756,121.

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 $33,062,413 at the close of the fiscal year and reflect a $8,328,644 increase from the prior year. Program revenue (charges for services) of business-type activities contributed $15,842,569 to the operations of the City. Expenses associated with these activities totaled $8,258,740.

The major components of the revenue stream for business-type activities represent Water and Sewer revenues of $12,701,530, Ambulance revenues of $686,437 and Criminal Justice Center revenue of $2,454,602.

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, 2018, the City's governmental funds reported a combined ending fund balance of $40,188,684, an increase of $15,828,787 in comparison with the prior year. Approximately 56% of this total amount, $22,625,191 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, 2018, the unassigned fund balance of the general fund was $22,625,191, while total fund balance was $33,476,337. 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 141% of total general fund expenditures, while total fund balance represents 209% of that same amount. The fund balance of the City's General Fund increased by $12,363,130 over prior year due to increases in

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sales tax receipts and increased activity in areas with charges for services.

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 $33,216,684. The total change in net position was an increase of $7,25,042. 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 $(953,873). The change in net position from the previous fiscal year was a $324,557 increase.

Net position of the criminal justice center fund at the end of the year totaled $799,602. The change in net position was a $79,045 increase. 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, 2018 for its governmental activities amounted to $15,179,116 and for its business-type activities amounted to $37,651,614 (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	
	2018	2017	2018	2017	2018	2017
Land	$ 2,658,626	$ 159,689	$ 766,635	$ 766,635	$ 3,425,261	$ 926,324
CIP	200,868	2,415,531	45,097	3,230,166	245,965	5,645,697
Buildings	1,414,304	1,452,258	2,242,677	2,314,013	3,656,981	3,766,271
Infrastructure	7,524,133	4,837,826	33,443,445	29,324,939	40,967,578	34,162,765
Equipment	2,150,274	1,363,864	779,148	893,344	2,929,422	2,257,208
Vehicles	1,230,911	1,436,046	374,612	547,331	1,605,523	1,983,377
Totals	$ 15,179,116	$ 11,665,214	$ 37,651,614	$ 37,076,428	$ 52,830,730	$ 48,741,642

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of $23,385,364. Of this amount, general obligation bonds of $5,320,000, and equipment lease of $987,582 are supported by governmental activities. Water and Sewer system revenues support $15,375,202, PMCJ revenues support $1,675,000, and Ambulance revenues support $27,580 of business-type activity debt.

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

	Governmental Activities		Proprietary Activities		Totals	
	2018	2017	2018	2017	2018	2017
Certificates of obligation	$ -	$ -	$ 10,885,000	$ 12,170,000	$ 10,885,000	$ 12,170,000
Water and sewer bonds	-	-	4,400,000	4,675,000	4,400,000	4,675,000
General obligation refunding bonds	-	-	1,675,000	2,060,000	1,675,000	2,060,000
General Obligation	5,320,000	5,735,000	-	-	5,320,000	5,735,000
Note No. 1	-	171,558	-	-	-	171,558
Note No. 2	-	48,727	-	60,623	-	109,350
Capital Leases	987,582	-	117,782	-	1,105,364	-
Totals	$ 6,307,582	$ 5,955,285	$ 17,077,782	$ 18,965,623	$ 23,385,364	$ 24,920,908

The City's total debt decreased $1,535,544 during the current fiscal year. Debt serviced by governmental-type activities increased by $352,297, while debt serviced by business-type activities decreased by $1,887,841.

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.

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BASIC FINANCIAL STATEMENTS

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TOWN OF PECOS CITY, TEXAS
STATEMENT OF NET POSITION
September 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Pecos Economic Development Corporation
ASSETS				
Cash and cash equivalents	$ 35,824,981	$ 9,418,801	$ 45,243,782	$ 2,744,108
Investments	-	633,523	633,523	-
Internal balances	424,799	(424,799)	-	-
Accounts receivable (net of allowance for uncollectibles)	3,924,608	3,277,695	7,202,303	173,083
Assets held for sale	-	-	-	1,067,084
Note receivable- current	100,000	-	100,000	-
Restricted assets				
Cash and cash equivalents	1,372,706	507,446	1,880,152	-
Net Pension Asset	357,767	211,923	569,690	-
Capital assets (net of accumulated depreciation)				
Land	2,658,626	766,635	3,425,261	1,468,840
Construction in progress	200,868	45,097	245,965	832,502
Buildings	1,414,304	2,242,677	3,656,981	445,659
Infrastructure	7,524,133	33,443,445	40,967,578	-
Equipment	2,150,274	779,148	2,929,422	-
Vehicles	1,230,911	374,612	1,605,523	-
Total assets	57,183,977	51,276,203	108,460,180	6,731,276
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources - net pension liability	446,174	264,295	710,469	-
Deferred charge on refunding	-	128,145	128,145	-
Total deferred outflows of resources	446,174	392,440	838,614	-
LIABILITIES				
Obligations in excess of cash	-	585,281	585,281	-
Accounts payable and accrued liabilities	1,089,126	567,727	1,656,853	18,862
Compensated absences	235,833	52,652	288,485	5,677
Due within one year	596,484	2,202,702	2,799,186	-
Due in more than one year	7,151,140	14,875,080	22,026,220	-
Total liabilities	9,072,583	18,283,442	27,356,025	24,539
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources- net pension liability	544,923	322,788	867,711	-
Total deferred inflows of resources	544,923	322,788	867,711	-
NET POSITION				
Net investment in capital assets	8,861,648	20,343,722	29,205,370	2,747,000
Restricted	1,730,473	719,369	2,449,842	3,959,737
Unrestricted	37,420,524	11,999,322	49,419,846	-
Total net position	$ 48,012,645	$ 33,062,413	$ 81,075,058	$ 6,706,737

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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, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Revenues	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	$ 5,798,259	5,169	$ -	$ 922,830
Public safety	2,508,038	280,215	-	-
Streets and sanitation	2,520,533	3,576,071	-	-
Culture and recreation	822,893	10,230	-	-
Court	569,607	143,827	-	-
Fire and rescue	1,181,751	450,500	-	-
Planning and inspection	221,244	696,687	-	-
Interest on long-term debt	133,796	-	-	-
Total governmental activities	13,756,121	5,162,699	-	922,830
Business - type activities:				
Water and sewer	5,393,485	12,701,530	-	-
PMJC Center	2,426,155	2,454,602	-	-
Ambulance	439,100	686,437	29,218	-
Total business-type activities	8,258,740	15,842,569	29,218	-
Total primary government	22,014,861	21,005,268	29,218	922,830
Component Unit				
Pecos Economic Development Corporation	350,174	180,912	-	-
Total component unit	$ 350,174	$ 180,912	$ -	$ -
Criminal Justice Center				

General revenues:
- Property taxes
- Other taxes
- Investment earnings
- Gain (loss) on sale of assets
- Rent and royalties
- Miscellaneous

Total general revenues

Change in net position

Net position--beginning

Net position--ending

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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
$ (4,870,260)	$ -	$ (4,870,260)	
(2,227,823)	-	(2,227,823)	
1,055,538	-	1,055,538	
(812,663)	-	(812,663)	
(425,780)	-	(425,780)	
(731,251)	-	(731,251)	
475,443	-	475,443	
(133,796)	-	(133,796)	
(7,670,592)	-	(7,670,592)	
-	7,308,045	7,308,045	
-	28,447	28,447	
-	276,555	276,555	
-	7,613,047	7,613,047	
(7,670,592)	7,613,047	(57,545)	
			$ 169,262
			169,262
2,452,824	-	2,452,824	-
17,281,891	-	17,281,891	973,465
346,789	105,212	452,001	37,254
12,631	-	12,631	1,089,016
5,840,493	420,834	6,261,327	-
467,110	189,551	656,661	97,218
26,401,738	715,597	27,117,335	2,196,953
18,731,146	8,328,644	27,059,790	2,027,691
29,281,499	24,733,769	54,015,268	4,679,046
$ 48,012,645	$ 33,062,413	$ 81,075,058	$ 6,706,737

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

TOWN OF PECOS CITY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2018

	General	Airport Service	Debt Service	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 30,511,525	$ 4,820,455	$ 493,001	$ 35,824,981
Due from other funds	424,799	-	-	424,799
Accounts receivable, net:				
Property taxes	267,528	-	158,284	425,812
Sales taxes	2,275,771	-	-	2,275,771
Other	1,215,450	7,575	-	1,223,025
Note Receivable	100,000	-	-	100,000
Restricted assets - Cash and equivalents	-	-	1,372,706	1,372,706
Total assets	$ 34,795,073	$ 4,828,030	$ 2,023,991	$ 41,647,094
LIABILITIES				
Accounts payable	$ 847,841	$ 1,427	$ -	$ 849,268
Accrued wages	239,859	-	-	239,859
Total liabilities	1,087,700	1,427	-	1,089,127
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property tax	231,036	-	138,247	369,283
Total deferred inflows of resources	231,036	-	138,247	369,283
FUND BALANCES				
Restricted				
Airport	-	4,826,603	-	4,826,603
Police Department	137,666	-	-	137,666
Donor stipulations	-	-	-	-
Debt service	-	-	1,885,744	1,885,744
Committed - Main Street	10,713,480	-	-	10,713,480
Unassigned	22,625,191	-	-	22,625,191
Total fund balances	33,476,337	4,826,603	1,885,744	40,188,684
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 34,795,073	$ 4,828,030	$ 2,023,991	$ 41,647,094

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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 2018

Total fund balances - governmental funds	$ 40,188,684
Amounts reported for governmental activities in the statement of net position are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	14,191,534
Revenues earned but not available within 60 days of fiscal year-end are not recognized as revenue in the governmental funds financial statements.	369,283
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.	(6,736,856)
Net position of governmental activities	$ 48,012,645

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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, 2018

	General	Airport Service	Debt Service	Total Governmental Funds
REVENUES				
Property Taxes	$ 1,384,967	$ -	$ 1,056,053	$ 2,441,020
Hotel Occupancy Tax	4,556,980	-	-	4,556,980
Other taxes	11,469,039	-	-	11,469,039
Franchise taxes	1,255,872	-	-	1,255,872
Permits and fees	710,795	-	-	710,795
Intergovernmental revenues	450,500	-	-	450,500
Fines and forfeitures	1,366,838	-	-	1,366,838
Court fees	262,913	-	-	262,913
Other revenues	302,149	-	-	302,149
Charges for services	3,329,101	-	-	3,329,101
Rent and royalties	2,635,234	3,007,901	-	5,643,135
Interest	317,233	13,064	16,492	346,789
Miscellaneous	363,519	20,050	-	383,569
Total revenues	28,405,140	3,041,015	1,072,545	32,518,700
EXPENDITURES				
Current				
General government	7,465,963	99,128	10	7,565,101
Streets and sanitation	2,146,659	-	-	2,146,659
Culture and recreation	789,069	-	-	789,069
Court	519,172	-	-	519,172
Fire and rescue	566,437	-	-	566,437
Planning and inspection	137,185	-	-	137,185
Capital outlay	4,207,499	-	-	4,207,499
Debt service:				
Principal retirement	220,285	-	415,000	635,285
Interest charges	2,372	-	133,765	136,137
Total expenditures	16,054,641	99,128	548,775	16,702,544
Excess (Deficiency) of revenues over expenditures	12,350,499	2,941,887	523,770	15,816,156
Other financing sources (uses):				
Proceeds on sale of assets	12,631	-	-	12,631
Total other financing sources (uses)	12,631	-	-	12,631
Net change in fund balances	12,363,130	2,941,887	523,770	15,828,787
FUND BALANCES, beginning of year	21,113,207	1,884,716	1,361,974	24,359,897
FUND BALANCES, end of year	$ 33,476,337	$ 4,826,603	$ 1,885,744	$ 40,188,684

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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, 2018

Net change in fund balances -- total governmental funds	$ 15,828,787
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	4,207,499
Depreciation expense	(1,681,179)
The repayment of the principal of long term debt consumes current financial resources of governmental funds	635,285
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	(259,246)
Change in net position of governmental activities.	$ 18,731,146

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

TOWN OF PECOS CITY. TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2018

	Business-type Activities Enterprise Funds			
	Water and Sewer Fund	PMCJ Center	Ambulance	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalent	$ 9,418,801	$ -	$ -	$ 9,418,801
Investments	633,523	-	-	633,523
Accounts receivable (net of allowances)	2,765,748	434,050	77,897	3,277,695
Due from other funds	494,906	-	-	494,906
Restricted cash	507,446	-	-	507,446
Total current assets	13,820,424	434,050	77,897	14,332,371
NONCURRENT ASSETS				
Net pension asset	121,912	90,011	-	211,923
Capital assets:				
Land	724,094	42,541	-	766,635
Construction in progress	45,097	-	-	45,097
Buildings	114,127	3,174,544	-	3,288,671
Infrastructure	57,808,216	-	-	57,808,216
Equipment	2,399,034	64,311	110,041	2,573,386
Vehicles	818,899	152,043	965,551	1,936,493
Accumulated depreciation	(26,698,867)	(1,287,613)	(780,404)	(28,766,884)
Total noncurrent assets	35,332,512	2,235,837	295,188	37,863,537
TOTAL ASSETS	49,152,936	2,669,887	373,085	52,195,908
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding	-	128,145	-	128,145
Deferred outflows of resources - net pension liability	152,040	112,255	-	264,295
TOTAL DEFERRED OUTFLOWS OF RESOURCES	152,040	240,400	-	392,440
LIABILITIES				
CURRENT LIABILITIES				
Obligations in excess of cash	-	205,965	379,316	585,281
Accounts payable and accrued liabilities	501,096	66,274	357	567,727
Due to other funds	-	-	919,705	919,705
Current portion of capital leases	15,858	-	9,193	25,051
Current portion of bonds payable	1,585,000	395,000	-	1,980,000
Total current liabilities	2,101,954	667,239	1,308,571	4,077,764
NONCURRENT LIABILITIES				
Compensated absences	26,304	26,348	-	52,652
Capital leases	74,344	-	18,387	92,731
Bonds payable	13,700,000	1,280,000	-	14,980,000
Total noncurrent liabilities	13,800,648	1,306,348	18,387	15,125,383
TOTAL LIABILITIES	15,902,602	1,973,587	1,326,958	19,203,147
DEFERRED INFLOWS OF RESOURCES				
Deferred outflow of resources - net pension liability	185,690	137,098	-	322,788
TOTAL DEFERRED INFLOWS OF RESOURCES	185,690	137,098	-	322,788
NET POSITION				
Net investment in capital assets	19,385,398	1,760,826	267,608	21,413,832
Restricted	629,358	90,011	-	719,369
Unrestricted	13,201,928	(1,051,235)	(1,221,481)	10,929,212
TOTAL NET POSITION	$ 33,216,684	$ 799,602	$ (953,873)	$ 33,062,413

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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, 2018

	Business-type Activities Enterprise Funds			
	Water and Sewer Fund	PMCJ Center	Ambulance	Total
OPERATING REVENUES				
Water service charges	$ 6,736,373	$ -	$ -	$ 6,736,373
Sewage service charges	5,172,392	-	-	5,172,392
Service charges	-	2,454,602	686,437	3,141,039
Other income	1,304,862	50,286	77,220	1,432,368
Total Operating Revenues	13,213,627	2,504,888	763,657	16,482,172
OPERATING EXPENSES				
Salaries, wages and benefits	1,761,578	1,321,569	4,000	3,087,147
Materials and supplies	143,931	228,414	1,967	374,312
Utilities	521,710	217,765	19,386	758,861
Repairs and maintenance	459,677	214,445	14,930	689,052
Travel	17,425	3,467	-	20,892
Depreciation and amortization	2,157,927	80,247	114,575	2,352,749
Miscellaneous	57,369	237,813	284,242	579,424
Total Operating Expenses	5,119,617	2,303,720	439,100	7,862,437
OPERATING INCOME (DEFICIT)	8,094,010	201,168	324,557	8,619,735
NON OPERATING REVENUES (EXPENSES)				
Amortization	-	(42,715)	-	(42,715)
Interest earned on investments	104,900	312	-	105,212
Interest expense	(273,868)	(79,720)	-	(353,588)
Total non operating revenues (expenses)	(168,968)	(122,123)	-	(291,091)
Change in net position	7,925,042	79,045	324,557	8,328,644
NET POSITION- Beginning of year	25,291,642	720,557	(1,278,430)	24,733,769
NET POSITION - Ending of year	$ 33,216,684	$ 799,602	$ (953,873)	$ 33,062,413

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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, 2018

	Business-type Activities Enterprise Funds			
	Water and sewer Fund	PMCA Center	Ambulance	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	$ 11,484,607	$ 2,466,624	$ 691,593	$ 14,642,824
Cash paid to employees	(1,761,866)	(1,278,540)	(4,000)	(3,044,406)
Cash paid to suppliers	(1,218,998)	(727,492)	(678,400)	(2,624,890)
Net cash provided by operating activities	8,503,743	460,592	9,193	8,973,528
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on debt	(1,994,080)	(385,000)	(9,193)	(2,388,273)
Interest paid on debt	(273,868)	(79,720)	-	(353,588)
Acquisition on capital assets	(2,927,936)	-	-	(2,927,936)
Net cash used in capital and related financing activities	(5,195,884)	(464,720)	(9,193)	(5,669,797)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(11,164)	-	-	(11,164)
Interest on investments	104,900	312	-	105,212
Net cash provided (used) by investing activities	93,736	312	-	94,048
Net change in cash	3,401,595	(3,816)	-	3,397,779
Cash and cash equivalents - beginning of the year	6,524,652	3,816	-	6,528,468
Cash and cash equivalents - end of the year (Includes $507,446 of restricted cash)	$ 9,926,247	$ -	$ -	$ 9,926,247
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	$ 8,094,010	$ 201,168	$ 324,557	$ 8,619,735
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	2,157,927	80,248	114,576	2,352,751
Accounts receivable	(1,729,020)	(38,264)	(72,064)	(1,839,348)
Accounts payable	(17,696)	191,712	(357,876)	(183,860)
Accrued employee benefit payable	(1,478)	25,728	-	24,250
Net cash provided by operating activities	$ 8,503,743	$ 460,592	$ 9,193	$ 8,973,528

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

NOTES TO THE FINANCIAL STATEMENTS

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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 modifies 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 that 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.

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Individual Component Unit Disclosures:

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.

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,

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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.

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.

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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, 2018, represents the final unpaid billings issued prior to September 30, 2018, and includes an amount for unbilled September 2018 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.

F. Restricted Assets

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

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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 shorted 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.

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J. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused personal time not to exceed 30 days or 320 hours. Any unused personal tie 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 $288,485.

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, 2018.

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, 2018.

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.

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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, 2018, 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.

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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 $(6,736,856) difference is as follows:

Deferred outflows of resources – related to pension activity	$ 446,174
Deferred inflows of resources - related to pension activity	(544,923)
Net pension Asset	357,767
General obligation	(5,320,000)
Landfill closure/post-closure	(1,440,041)
Compensated absences	(235,833)
Net adjustment to reduce fund balance – total government funds to arrive at net position - governmental activities	$ (6,736,856)

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 $369,283 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 $2,526,320 difference are as follows:

Capital outlay	$ 4,207,499
Depreciation expense	(1,681,179)
Net adjustment to increase net change in fund balance - total governmental funds to arrive at change in net position of governmental activities	$ 2,526,320

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 $(635,285) 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 $(259,246) differences are as follows:

Landfill	$ (32,376)
Net pension adjustment	(235,107)
Property Tax	11,803
Compensated absences	(3,566)
Net adjustment to increase net change in fund balance- total governmental funds to arrive at change in net position of governmental activities	$ (259,246)

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.
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, 2018, 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.

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B. Deficit Fund Equity

The Ambulance fund had a deficit fund balance at September 30, 2018 of $953,873. 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, 2018, expenditures exceeded appropriations in the General Fund and Airport Fund are as follows:

General Fund

- Culture and Recreation – Expenditures exceeded appropriations by $233,924.

Airport Fund

- General Government: General Disbursement – Expenditures exceeded appropriations by $37,378.

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, 2018, 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, 2018. At year-end, the carrying amount of the City's deposits and bank balance was $46,598,038. Of the total bank balance of $46,598,038, the federal Depository Insurance Corporation (FDIC) and the Securities Investor Protection Corporation covered $250,000 and $51,000,000 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, 2018, 100% of the City's investments were in external investment pools.

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The City's investments carried at fair value as of September 30, 2018, are:

Investments measured at amortized cost:	September 30, 2018	Percent of Total Investments	Weighted Average Maturity Days	Credit Rating (S&P)
TEXPOOL PRIME	$ 633,523	100%	37	AAAm
Total Portfolio	$ 633,523	100%		
Total Portfolio Weighted Average			37	

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, 2018, 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.

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NOTE 5 – RECEIVABLES

Receivables as of September 30,2018, 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	$ 292,442	$ -	$ -	$ -	$ 172,259	$ 464,701
Sales Taxes	2,275,771	-	-	-	-	2,275,771
Hotel Occupancy Tax	380,019	-	-	-	-	380,019
Accounts	359,405	-	3,337,044	434,050	77,897	4,208,396
Other	559,257	7,575	-	-	-	566,832
Gross Receivables	3,866,894	7,575	3,337,044	434,050	250,156	7,895,719
Less: allowance for uncollectible	(108,145)	-	(571,296)	-	(13,975)	(693,416)
Net Receivables	$ 3,758,749	$ 7,575	$ 2,765,748	$ 434,050	$ 236,181	$ 7,202,303

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, 2018, deferred inflows in the amount of $369,283 were reported.

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, 2018 was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Government Activities				
Capital assets, not being depreciated				
Land	$ 159,689	$ 2,498,937	$ -	$ 2,658,626
Construction in progress	2,415,531	-	(2,214,663)	200,868
Total capital assets, not being depreciated	2,575,220	2,498,937	(2,214,663)	2,859,494
Capital assets being depreciated				
Buildings	2,276,738	-	-	2,276,738
Infrastructure	17,090,292	3,357,554	-	20,447,846
Equipment	4,258,917	1,286,452	-	5,545,369
Vehicles	3,522,270	266,801	-	3,789,071
Total capital assets. being depreciated	27,148,217	4,910,807	-	32,059,024
Less accumulated depreciation for				
Buildings	824,480	37,954	-	862,434
Infrastructure	12,252,466	671,248	-	12,923,714
Equipment	2,895,053	500,042	-	3,395,095
Vehicles	2,086,224	471,935	-	2,558,159
Total accumulated depreciation	18,058,223	1,681,179	-	19,739,402
Total capital assets. being depreciated. net	9,089,994	3,229,628	-	12,319,622
Governmental activities capital assets.net	$ 11,665,214	$ 5,728,565	$ (2,214,663)	$ 15,179,116

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	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated				
Land	$ 766,635	$ -	$ -	$ 766,635
Construction in progress	3,230,167	-	(3,185,070)	45,097
Total capital assets, not being depreciated	3,996,801	-	(3,185,070)	811,732
Capital assets being depreciated				
Buildings	3,288,671	-	-	3,288,671
Infrastructure	51,695,211	6,113,005	-	57,808,216
Equipment	2,573,386	-	-	2,573,386
Vehicles	1,936,491	-	-	1,936,491
Total capital assets. being depreciated	59,493,759	6,113,005	-	65,606,764
Less accumulated depreciation for				
Buildings	974,659	71,335	-	1,045,994
Infrastructure	22,370,272	1,994,497	-	24,364,769
Equipment	1,680,042	114,196	-	1,794,238
Vehicles	1,389,160	172,721	-	1,561,881
Total accumulated depreciation	26,414,132	2,352,749	-	28,766,882
Total capital assets. being depreciated. net	33,079,627	3,760,256	-	36,839,882
Business-type activities capital assets, net	$ 37,076,428	$ 3,760,256	$ (3,185,070)	$ 37,651,614

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

Government Activities:	
General government	$ 756,531
Public safety	336,236
Street and sanitation	336,236
Planning and inspection	33,623
Fire and rescue	50,435
Court	84,059
Culture and recreation	84,059
Total depreciation expense	$ 1,681,179
Business-type Activities:	
Water and sewer	$ 2,157,927
Ambulance	114,575
Criminal justice center	80,247
Total depreciation expense	$ 2,352,749

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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 $185,255 at September 30, 2018. 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 balances as of September 30, 2018, are as follows:

	Interfund	
	Receivables	Payables
Governmental Funds		
General Fund	$ 424,799	$ -
Enterprise Funds		
Ambulance Fund	-	919,705
Water and Sewer Fund	494,906	-
	$ 919,705	$ 919,705

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, 2018:

	Balance September 30, 2017	Additions	Reductions	Balance September 30, 2018	Due Within One Year	Due After One Year
General Obligation Bond 2014	$ 5,735,000	$ -	$ 415,000	$ 5,320,000	$ 425,000	$ 4,895,000
Note Payable No. 1	171,558	-	171,558	-	-	-
Note Payable No. 2	48,727	-	48,727	-	-	-
First Capital Leasing Corp.	-	987,582	-	987,582	171,484	816,098
Landfill Closure and Post Closure Liability	1,407,666	32,376	-	1,440,042	-	1,440,042
Compensated Absences	232,267	3,566	-	235,833	-	-
	$ 7,595,218	$ 1,023,524	$ 635,285	$ 7,983,457	$ 596,484	$ 7,151,140

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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
2019	425,000	123,602	$ 548,602
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
2024-2028	2,540,000	222,037	2,762,037
2029-2030	540,000	6,534	546,534
Total	$ 5,320,000	$ 739,555	$ 6,059,555

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, 2018 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, 2018.

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, 2018 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, 2018.

Business-type Activities:

The following is a summary of debt transactions for business-type activities of the City for the year ended September 30, 2018:

	Balance September 30, 2017	Additions	Reductions	Balance September 30, 2018	Due Within One Year	Due After One Year
Certificates of Obligation	12,170,000	-	1,285,000	10,885,000	1,310,000	9,575,000
Revenue Bonds	4,675,000	-	275,000	4,400,000	275,000	4,125,000
Capital Leases	500,433	-	382,651	117,782	15,858	101,924
General Obligation Bond	2,060,000	-	385,000	1,675,000	395,000	1,280,000
Compensated Absences	57,729	-	5,077	52,652	-	52,652
Total	19,463,162	-	2,332,728	17,130,434	1,995,858	15,134,576

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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 Payments	Interest Payments	Total Payments
2019	$ 605,000	$ 11,550	$ 616,550
2020	550,000	5,500	555,500
Total	$ 1,155,000	$ 17,050	$ 1,172,050

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 Payments	Interest Payments	Total Payments
2019	$ 30,000	$ 3,788	$ 33,788
2020	35,000	2,048	37,048
Total	$ 65,000	$ 5,836	$ 70,836

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

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semiannually on each March 1 and September 1 while this Certificate of Obligation or any portion hereof is outstanding and unpaid.

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

	Principal Payments	Interest Payments	Total Payments
2019	365,000	$ 120,454	$ 485,454
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
2024-2028	2,165,000	226,092	2,391,092
2029-2032	945,000	23,717	968,717
Total	$ 5,020,000	$ 758,019	$ 5,778,019

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 Payments	Interest Payments	Total Payments
2019	$ 310,000	$ 107,311	$ 417,311
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
2024-2028	1,825,000	254,356	2,079,356
2029-2031	1,200,000	49,498	1,249,498
Total	$ 4,645,000	$ 763,929	$ 5,408,929

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.

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

	Principal Payments	Interest Payments	Total Payments
2019	$ 275,000	$ -	$ 275,000
2020	275,000	-	275,000
2021	275,000	-	275,000
2022	275,000	-	275,000
2023	275,000	-	275,000
2024-2028	1,375,000	-	1,375,000
2029-2033	1,375,000	-	1,375,000
2034	275,000	-	275,000
Total	$ 4,400,000	$ -	$ 4,400,000

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 March1, 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 Payments	Interest Payments	Total Payments
2019	$ 395,000	$ 69,132	$ 464,132
2020	410,000	54,912	464,912
2021	425,000	38,512	463,512
2022	445,000	20,026	465,026
Total	$ 1,675,000	$ 182,582	$ 1,857,582

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NOTE 10 – CAPITAL LEASE OBLIGATIONS

Governmental Activities:

On September 6, 2018, the city executed an equipment lease purchase agreement with First Capital Equipment Leasing Corp. Future lease payments in governmental activities as of September 30, 2018 are as follows:

	First Capital Equipment Leasing Corp.		
Year Ending September 30,	Principal	Interest	Total
2019	$ 171,484	$ 8,233	$ 179,718
2020	152,803	26,915	179,718
2021	157,842	21,875	179,718
2022	163,048	16,670	179,718
2023	168,425	11,293	179,718
2024	173,980	5,738	179,718
Total	$ 987,582	$ 90,724	$ 1,078,305

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, 2018 are as follows:

	Payments	Payments	Payments
2019	$ 25,051	$ 3,208	$ 28,259
2020	25,615	2,644	28,259
2021	26,200	2,060	28,260
2022	40,916	1,454	42,370
Total	$ 117,782	$ 9,366	$ 127,148

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, 2018, $0 was expended for the post closure care costs for the landfill, and $4,687 was increased to the liability to reflect inflated estimated costs. The City's post-closure liability as of September 30, 2018 was $265,049. 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 30,2018, 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 2018. During the year ended September 30, 2018, $32,376 was charged for post-closure care costs for the landfill, and $20,202 was added to the liability to reflect inflated estimated costs. The City's current closure cost liability as of September 30, 2018 was $1,142,617. 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, 2018 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, 2018.

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.

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

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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 contributary, 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, 2017 include:	
Inactive employees or beneficiaries currently receiving benefits	61
Inactive employees entitled to but not yet receiving benefits	110
Active employees	117
Total	288

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 2016 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018 were $312,916 and were equal to the required contributions.

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D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2016 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, 2017, 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).

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

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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 Fiducuary Net Position (b)	Net Pension (Asset) Liability (a) - (b)
Balance at 12/31/2016	$ 14,015,699	$ 13,528,874	$ 486,825
Charges for the year:			
Service cost	593,908	-	593,908
Interest	945,894	-	945,894
Change of benefit terms	-	-	-
Difference between expected and actual experience	(141,776)	-	(141,776)
Change of assumptions	-	-	-
Contributuons - employer	-	317,634	(317,634)
Contributions - employee	-	272,936	(272,936)
Net investment income	-	1,874,182	(1,874,182)
Benefit payments, including refunds of employee contributions	(598,827)	(598,827)	-
Administrative expense	-	(9,717)	9,717
Other charges	-	(494)	494
Net changes	799,199	1,855,714	(1,056,515)
Balance at 12/31/2017	$ 14,814,898	$ 15,384,588	$ (569,690)

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)	$ 1,411,444	$ (569,690)	$ (2,200,062)

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.

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

For the year ended September 30, 2018, the City recognized pension expense of $210,024. At September 30, 2018, 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	$ 35,969	$ (98,419)
Changes in actual assumptions	12,553	-
Difference between projected and actual investment earnings	377,216	-
Contributions subsequent to the measurement date	284,731	(769,292)
	$ 710,469	$ (867,711)

For the year ended September 30, 2018, $284,731 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,	
2018	$ 8,081
2019	(53,789)
2020	(204,070)
2021	(192,195)
Total	$ (441,973)

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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.

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.

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In the fund financial statements, governmental funds ate 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.

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.

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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.

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 $2,750,713.01. All of the deposits were considered collateralized as Category 1 credit risks.

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G. Capital Assets

Capital assets for the year ended September 30, 2018 were as follows:

	Balance at 9/30/2017	Additions	Disposals	Balance at 9/30/2018
Land	$ 1,546,590	$ -	$ (77,750)	$ 1,468,840
Leasehold Improvements	279,741	-	-	279,741
Furniture and Equipment	253,392	-	-	253,392
Totals at Historical Cost	2,079,723	-	(77,750)	2,001,973
Accumulated Depreciation	(72,563)	(14,911)	-	(87,474)
Capital Assets - Net	$ 2,007,160	$ (14,911)	$ (77,750)	$ 1,914,499

Depreciation expense for the year was $14,911.

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 30,2018.

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.

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, 2018.

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.

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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:

GASB Statement No. 75, Accounting and Financial Reporting for postemployment Benefits Other Than Pensions. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of GASB Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions, as amended and GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. This statement is effective for fiscal years beginning after June 15, 2018. The City has not fully determined the effects that implementation of this statement will have on the City's financial statements.

Statement No. 77. Tax Abatement Disclosures – This statement requires governments that enter into tax abatement agreement to provide certain disclosures regarding these commitments. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015 with earlier adoption encouraged.

Statement No. 80. Blending Requirement for Certain Component Units – an amendment of GASB No. 14 – this statement applies to component units organized as not-for-profit organizations in which the primary government is the sole corporate member. The requirements of this statement are effective for reporting periods beginning after June 15, 2016.

Statement No. 82. Pension Issues – an amendment of GASB No. 67 and No 73 – This statement applies to employer accounting for pensions by government and to pension plan reporting – addresses issues raised with regard to previous GASB statements. The requirements of this statement are effective for reporting periods beginning after June 15, 2016.

Statement No. 83. Certain Asset Retirement Obligation – This statement addresses accounting and financial reporting for certain asset retirement obligation (AROs). It establishes criteria for determining the timing and pattern for recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 85, Omnibus 2017 – The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurements and applications, and postemployment benefits. The requirements of this Statement are effective for reporting period beginning after June 15, 2017.

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 September 15, 2019, the date that the financial statements were available to be issued.

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Required Supplementary Information
(Unaudited)

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TOWN OF PECOS CITY, TEXAS
Schedule of Changes in Net Pension Liability and Related Ratios
Texas Municipal Retirement System
Year Ended September 30, 2018

		2018	2017	2016	2015
A.	**Total pension liability**				
	1. Service cost	$ 593,908	$ 604,343	$ 595,834	$ 425,498
	2. Interest on the Total Pension Liability	945,894	880,177	828,210	778,271
	3. Changes on benefit terms	-	-	-	-
	4. Difference between expected and actual experience	(141,776)	83,221	54,545	(41,969)
	5. Changes in assumptions	-	-	281,527	-
	6. Benefit payments, including refunds or employee contributions	(598,827)	(579,046)	(533,543)	(533,545)
	7. Net change in Total Pension Liability	799,199	988,695	1,226,573	628,255
	8. Total Pension Liability - beginning	14,015,699	13,027,004	11,800,431	11,172,176
	9. Total Pension Liability - ending	14,814,898	14,015,699	13,027,004	11,800,431
B.	**Plan fiduciary net position**				
	1. Contributions - employer	317,634	286,308	301,131	242,457
	2. Contributions - employee	272,936	276,968	281,965	240,874
	3. Net investment income	1,874,182	857,889	18,653	687,114
	4. Benefit payments, including refunds of employee contributions	(598,827)	(579,046)	(533,543)	(533,545)
	5. Administrative expenses	(9,717)	(9,691)	(11,361)	(7,174)
	6. Other	(494)	(522)	(561)	(590)
	7. Net change in plan fiduciary net position	1,855,714	831,906	56,284	629,136
	8. Plan fiduciary net position - beginning	13,528,874	12,696,968	12,640,684	12,011,548
	9. Plan fiduciary net position - ending	$ 15,384,588	$ 13,528,874	$ 12,696,968	$ 12,640,684
C.	**Net pension liability (asset) (A9-B9)**	$ (569,690)	$ 486,825	$ 330,036	$ (840,253)
D.	**Plan fiduciary net position as a percentage of the total pension asset (B9/A9)**	103.85%	96.53%	97.47%	107.12%
E.	**Covered - employee payroll**	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)**	-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, 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 at the years ended December 31, 2016 and 2017, the current measurement dates.

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TOWN OF PECOS CITY, TEXAS
Schedule of Contributions
Texas Municipal Retirement System
Year Ended September 30 2018

	2018	2017	2016	2015
Actuarially Determined Contribution	$ 366,475	$ 286,308	$ 296,434	$ 287,723
Contributions in relation to the actuarially determined contribution	366,475	286,308	296,434	287,723
Contribution deficiency (excess)	-	-	-	-
covered employee payroll	5,458,716	5,539,351	5,631,706	5,226,785
Contributions as a percentage of covered employee payroll	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

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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 , 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amount	Over/(Under)
Revenues				
Property Taxes	$ 2,200,000	$ 2,200,000	$ 1,384,967	$ (815,033)
Hotel Occupancy Tax	1,500,000	1,615,500	4,556,980	2,941,480
Other taxes	4,940,950	7,147,200	11,469,039	4,321,839
Franchise taxes	750,000	1,000,000	1,255,872	255,872
Permits and fees	137,250	137,250	710,795	573,545
Intergovernmental revenues	150,500	150,500	450,500	300,000
Fines and forfeitures	1,624,428	1,624,428	1,366,838	(257,590)
Court fees	40,500	40,500	262,913	222,413
Other revenues	159,250	159,250	302,149	142,899
Charges for services	2,039,000	2,057,000	3,329,101	1,272,101
Rents and Royalties	500,000	500,000	2,635,234	2,135,234
Interest	9,900	9,900	317,233	307,333
Miscellaneous	67,100	105,100	363,519	258,419
Total revenues	14,118,878	16,746,628	28,405,140	11,658,512
Expenditures				
General government	7,583,601	8,330,701	7,465,963	864,738
Streets and sanitation	3,205,388	3,315,388	2,146,659	1,168,729
Culture and recreation	555,145	555,145	789,069	(233,924)
Court	635,295	635,295	519,172	116,123
Fire and rescue	509,450	623,654	566,437	57,217
Planning and inspection	299,393	299,393	137,185	162,208
Capital outlay	9,536,000	15,255,000	4,207,499	11,047,501
Debt service:				
Principal retirement	401,200	453,200	220,285	232,915
Interest charges	19,400	19,400	2,372	17,028
Total general government	22,744,872	29,487,176	16,054,641	13,432,535
Excess (Deficiency) of revenues over expenditures	(8,625,994)	(12,740,548)	12,350,499	25,091,047
Other financing sources (uses):				
Proceeds on sale of assets	1,000	1,000	12,631	11,631
Transfers in	4,427,643	6,987,643	-	(6,987,643)
Transfers out	(1,177,033)	(1,177,033)	-	1,177,033
Total other financing sources (uses)	3,251,610	5,811,610	12,631	(5,798,979)
Net change in fund balances	(5,374,384)	(6,928,938)	12,363,130	19,292,068
FUND BALANCES, beginning of year	23,848,850	13,385,937	21,113,207	-
FUND BALANCES, end of year	$ 18,474,466	$ 6,456,999	$ 33,476,337	$ 19,292,068

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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, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amount	Over/(Under)
Revenues				
Charges for services	$ 50,000	$ 50,000	$ 3,007,901	$ 2,957,901
Interest	15	15	13,064	13,049
Grant	610,500	610,500	-	(610,500)
Miscellaneous	20,000	20,000	20,050	50
Total revenues	680,515	680,515	3,041,015	2,360,500
Expenditures				
General government				
General disbursement	61,750	61,750	99,128	(37,378)
Capital Outlay	1,250,000	1,250,000	-	1,250,000
Total expenditures	1,311,750	1,311,750	99,128	1,212,622
Deficiency of revenues over expenditures	(631,235)	(631,235)	2,941,887	1,147,878
Other financing sources (uses)				
Operating transfers in	631,235	631,235	-	(631,235)
Total other financing sources (uses)	631,235	631,235	-	(631,235)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	-	-	2,941,887	2,941,887
FUND BALANCE, beginning of year	777,814	777,814	777,814	-
FUND BALANCE, end of year	$ 777,814	$ 777,814	$ 3,719,701	$ 2,941,887

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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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 15, 2019.

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. However, material weaknesses may exist that have not been identified.

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 and opinion on compliance with those provisions was not an objective of

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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

Corpus Christi, Texas
September 15, 2019

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