

TOWN OF PECOS CITY, TEXAS

FINANCIAL REPORT

SEPTEMBER 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To 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 and each major fund of the Town of Pecos City, Texas (the City) as of and for the year ended September 30, 2014, 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

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the City Council
Town of Pecos City, Texas

Basis for Adverse Opinion on Omission of Discretely Presented Component Unit

The financial statements do not include financial data for the City's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net position, revenues, and expenses of the discretely presented component unit that have been omitted would have been presented as assets of \$2,860,483, liabilities of \$317,002, net position of \$2,543,482 revenues of \$753,846 and expenses of \$352,427.

Adverse Opinion on Omission of Discretely Presented Component Unit

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Omission of Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly in accordance with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component unit of the Town of Pecos City, Texas, as of September 30, 2014 or the changes in financial position thereof for the year then ended.

Unmodified Opinions on the Governmental Activities, Business-Type Activities, Major Funds, and Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Town of Pecos City, Texas, as of September 30, 2014, and the changes in financial position and 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 on pages 4 – 13 and schedule of funding progress for participation in Texas Municipal Retirement System, and budgetary comparison information for the general and airport fund on pages 57-60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any

To the City Council
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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 May 28, 2015, on our consideration of City's 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 City's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Odessa, Texas
May 28, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWN OF PECOS CITY, TEXAS

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, 2014. 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 \$33,445,187, an increase of \$7,531,054 from previous year. Of this amount, \$23,605,826 (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 \$17,456,456, an increase of \$10,634,993 in comparison with the prior year. Approximately 75% of this total amount, \$13,124,373, 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 \$13,124,273, or 75% of total general fund expenditures.

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: (1) 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 in regards to 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWN OF PECOS CITY, TEXAS

OVERVIEW OF THE FINANCIAL STATEMENTS – CONTINUED

Government-wide Statements – Continued

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.

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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWN OF PECOS CITY, TEXAS**

OVERVIEW OF THE FINANCIAL STATEMENTS – CONTINUED

Governmental Funds – Continued

The Town of Pecos 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 Town of Pecos 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 Town of Pecos City's progress in funding its obligation to provide 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWN OF PECOS CITY, TEXAS**

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 exceeded liabilities by \$33,445,187 at the close of the fiscal year.

The largest portion of the City's Net position, \$23,605,826, or 71%, reflects unrestricted net position.

Town of Pecos City's Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 18,701,575	\$ 8,447,479	\$ 9,676,587	\$ 14,890,107	\$ 28,378,162	\$ 23,337,586
Capital assets	3,871,960	2,784,279	25,126,849	18,656,011	28,998,809	21,440,290
Total assets	<u>22,573,535</u>	<u>11,231,758</u>	<u>34,803,436</u>	<u>33,546,118</u>	<u>57,376,971</u>	<u>44,777,876</u>
Deferred inflows of resources	-	-	299,005	206,478	299,005	206,478
Current liabilities	935,737	1,278,289	820,860	1,477,654	1,756,597	2,755,943
Other liabilities	9,179,746	1,588,951	13,284,446	14,095,893	22,464,192	15,684,844
Total liabilities	<u>10,115,483</u>	<u>2,867,240</u>	<u>14,105,306</u>	<u>15,780,025</u>	<u>24,220,789</u>	<u>18,647,265</u>
Net investment in capital assets	(3,884,452)	2,712,944	12,893,942	5,675,207	9,009,490	8,388,151
Restricted	839,871	902,136	-	-	839,871	902,136
Unrestricted	15,502,633	4,749,438	8,103,193	11,884,408	23,605,826	16,633,846
Total net position	<u>\$ 12,458,052</u>	<u>\$ 8,364,518</u>	<u>\$ 20,997,135</u>	<u>\$ 17,559,615</u>	<u>\$ 33,455,187</u>	<u>\$ 25,924,133</u>

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 a whole, as well as for its separate governmental and business-type activities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWN OF PECOS CITY, TEXAS**

GOVERNMENT-WIDE FINANCIAL ANALYSIS – CONTINUED

Town of Pecos City's Change in Net Position

	Governmental Activities		Proprietary Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 6,138,744	\$ 4,658,829	\$ 9,519,955	\$ 9,444,531	\$ 15,658,699	\$ 14,103,360
Operating grants and contributions	4,741	26,425	-	-	4,741	26,425
Capital grants and contributions	-	-	7,945	307,719	7,945	307,719
General revenues:						
Property taxes	1,058,838	1,022,423	-	-	1,058,838	1,022,423
Other taxes	4,522,208	3,791,009	-	-	4,522,208	3,791,009
Other	774,107	1,030,331	13,566	15,054	787,673	1,045,385
Total revenues	<u>12,498,638</u>	<u>10,529,017</u>	<u>9,541,466</u>	<u>9,767,304</u>	<u>22,040,104</u>	<u>20,296,321</u>
Expenses:						
General government	3,282,466	2,765,128	-	-	3,282,466	2,765,128
Public safety	1,642,266	1,700,106	-	-	1,642,266	1,700,106
Streets and sanitation	1,802,746	1,602,288	-	-	1,802,746	1,602,288
Culture and recreation	395,089	449,790	-	-	395,089	449,790
Court	423,480	434,419	-	-	423,480	434,419
Fire and rescue	354,749	254,756	-	-	354,749	254,756
Planning and inspection	345,027	205,122	-	-	345,027	205,122
Interest on long-term debt	159,281	17,298	-	-	159,281	17,298
Water and sewer	-	-	3,656,350	4,501,325	3,656,350	4,501,325
Ambulance fund	-	-	343,079	447,858	343,079	447,858
Criminal justice fund	-	-	2,104,517	2,008,340	2,104,517	2,008,340
Total expenses	<u>8,405,104</u>	<u>7,428,907</u>	<u>6,103,946</u>	<u>6,957,523</u>	<u>14,509,050</u>	<u>14,386,430</u>
Change in net position	<u>4,093,534</u>	<u>3,100,110</u>	<u>3,437,520</u>	<u>2,809,781</u>	<u>7,531,054</u>	<u>5,909,891</u>
Net position, beginning as previously reported	8,364,518	5,264,408	17,559,615	14,910,895	25,924,133	20,175,303
Prior period adjustment - change in accounting principle	-	-	-	(161,061)	-	(161,061)
Net position, beginning	<u>8,364,518</u>	<u>5,264,408</u>	<u>17,559,615</u>	<u>14,749,834</u>	<u>25,924,133</u>	<u>20,014,242</u>
Net position, ending	<u>\$ 12,458,052</u>	<u>\$ 8,364,518</u>	<u>\$ 20,997,135</u>	<u>\$ 17,559,615</u>	<u>\$ 33,455,187</u>	<u>\$ 25,924,133</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWN OF PECOS CITY, TEXAS**

GOVERNMENT-WIDE FINANCIAL ANALYSIS – CONTINUED

Town of Pecos City's General Revenues and Transfers

	<u>2014</u>	<u>2013</u>	<u>Variance</u>	<u>Percent Variance</u>
Property taxes, penalties and interest	\$ 1,058,838	\$ 1,022,423	\$ 36,415	4%
Other taxes	4,522,208	3,791,009	731,199	19%
Unrestricted investment income	17,035	14,220	2,815	20%
Gain on sale of assets	283,891	18,995	264,896	1395%
Miscellaneous	473,181	997,116	(523,935)	-53%
Total general revenues and transfers	<u>\$ 6,355,153</u>	<u>\$ 5,843,763</u>	<u>\$ 511,390</u>	

The City's general revenues and transfers provided \$6,355,153 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 \$6,138,744 and was used to pay for expenses associated with governmental activities of \$8,405,104.

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

Net positions from business-type activities were \$20,997,135 at the close of the fiscal year and reflect a \$3,437,520 increase from the prior year. Program revenue (charges for services) of business-type activities contributed \$9,519,955 to the operations of the Town of Pecos City. Expenses associated with these activities totaled \$6,103,946.

The major components of the revenue stream for business-type activities represent Water and Sewer revenues of \$6,971,563, Ambulance revenues of \$153,004 and Criminal Justice Center revenue of \$2,395,388.

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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWN OF PECOS CITY, TEXAS**

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS – CONTINUED

Governmental Funds – Continued

As of September 30, 2014, the City's governmental funds reported a combined ending fund balance of \$17,456,456, an increase of \$10,634,993 in comparison with the prior year. Approximately 75% of this total amount, \$13,124,373, 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, 2014, the unassigned fund balance of the general fund was \$13,124,373, while total fund balance was \$16,690,806. 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 180% of that same amount. The fund balance of the City's general fund increased by \$10,696,126 during the current fiscal year. Some reasons for the increase are increases in property and sales taxes as well as increases in charges for service.

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 \$22,147,030. The total change in net position was an increase of \$3,336,533. Major factors impacting this change include operating income of \$3,421,951 and \$98,793 in interest expense. Operating income was \$668,288 higher in 2014 than it was in 2013. This increase is due to decrease in expenses.

Net position of the ambulance fund at the end of the year totaled \$(968,489). The change in net position from the previous fiscal year was a \$190,075 decrease. The primary reason for the decrease was on-going expenses despite the discontinuance of operations.

Net position of the criminal justice center fund at the end of the year totaled \$(181,406). The change in net position from the previous fiscal year was a \$291,062 increase. The primary reason for the increase is due to the center continuing to operate profitable.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Although there were differences between original budget and final amended budget within the line items, function totals remained the same.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWN OF PECOS CITY, TEXAS**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets as of September 30, 2014 for its governmental activities amounted to \$3,871,960 and for its business-type activities amounted to \$25,126,849 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, equipment, and vehicles.

Town of Pecos City's Capital Assets

	Governmental Activities		Proprietary Activities		Totals	
	2014	2013	2014	2013	2014	2013
Land	\$ 309,689	\$ 37,415	\$ 766,635	\$ 731,790	\$ 1,076,324	\$ 769,205
Construction in progress	-	-	7,785,248	2,207,134	7,785,248	2,207,134
Buildings	315,154	329,141	2,289,473	2,351,818	2,604,627	2,680,959
Infrastructure	1,532,578	1,533,582	13,804,643	12,957,677	15,337,221	14,491,259
Equipment	1,349,209	457,907	269,601	120,937	1,618,810	578,844
Vehicles	365,330	426,234	211,249	286,655	576,579	712,889
Totals	<u>\$ 3,871,960</u>	<u>\$ 2,784,279</u>	<u>\$ 25,126,849</u>	<u>\$ 18,656,011</u>	<u>\$ 28,998,809</u>	<u>\$ 21,440,290</u>

Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$20,263,611. Of this amount, \$100,000 is governmental-type tax-supported debt, general obligation bonds of \$6,840,000, and notes payables of \$816,412. Water and Sewer system revenues support \$9,140,000, and PMCJ center revenues support \$3,170,000 of business-type activity debt.

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

	Governmental Activities		Proprietary Activities		Totals	
	2014	2013	2014	2013	2014	2013
Certificates of Obligation	\$ 100,000	\$ 195,000	\$ 3,640,000	\$ 4,135,000	\$ 3,740,000	\$ 4,330,000
Certificates of Participation	-	-	-	-	-	-
Water and sewer bonds	-	-	5,500,000	5,775,000	5,500,000	5,775,000
General obligation refunding bonds	-	-	3,170,000	3,530,000	3,170,000	3,530,000
General obligation	6,840,000	-	-	-	6,840,000	-
Notes payable	158,503	-	197,199	-	355,702	-
Notes payable	657,909	-	-	-	657,909	-
Totals	<u>\$ 7,756,412</u>	<u>\$ 195,000</u>	<u>\$ 12,507,199</u>	<u>\$ 13,440,000</u>	<u>\$ 20,263,611</u>	<u>\$ 13,635,000</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWN OF PECOS CITY, TEXAS**

CAPITAL ASSET AND DEBT ADMINISTRATION – CONTINUED

Long-Term Debt – Continued

The City's total debt increased \$6,628,611 during the current fiscal year. Debt serviced by governmental-type activities increased by \$7,561,412, while debt serviced by business-type activities decreased by \$932,801. New debt in the amount of \$8,068,993 was issued in 2014 primarily to fund water and sewer projects.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Town of Pecos City is enjoying a boom, one fueled by the dramatic increase in oilfield activities. The rise in both revenues and population means that the City will be busy in the foreseeable future preparing to meet the increased demand on its services. Of course, the City must also prepare for inevitable bumps along the road to prosperity. The current budget strikes a balance between these priorities by 1) providing for the current needs of residents and 2) pushing forward with improvements to the City's infrastructure, all while 3) ensuring that the City's financial policies remain prudent for today and tomorrow.

The City faces great infrastructure challenges in the next few years, but the City is ready to tackle these challenges. First, in 2014, City voters passed a \$6,800,000 proposition for new streets, and City Council approved the bond issue. Second, in the same election in 2014, City voters elected to dedicate a percentage of the City's sales tax toward the improvement of its current streets. Third, City Council also approved a \$6,000,000 bond in early 2015, with these proceeds dedicated to the improvement of the City's water and wastewater activities. The work on all these projects begins in earnest in spring 2015.

Housing remains a concern, but City officials are aggressively addressing this issue with land and fee incentives. The City let out several requests for proposals for both City-owned and private housing. Developers answered the call. Developers are breaking ground throughout the City.

The City has seen increases from a variety of revenue sources. Among them, franchise fees and building permits are on the rise. The City Council passed increased water and wastewater rates. Solid waste revenues also continue on an upward tick. The greatest percentage of increase in the City's revenues comes from hotel occupancy tax and sales tax. Sales tax is hitting levels never before seen by the Town of Pecos City, and high hotel occupancy rates mean increased tax revenue for the City.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWN OF PECOS CITY, TEXAS**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES – CONTINUED

The increased economic activity means great things for residents. Each resident shoulders a smaller share of this burden as many more people share the burden collectively. The City's delivery of municipal services is the lowest among most cities in our region. Water, wastewater, and landfill rates are low in comparison to these other cities. The tax rate decreased significantly again this year. Even the tax rate is on the low end compared to the City's peers. Even better, the City expects property values to increase in the years to come, leading to potential decreases in future years' tax rates.

Pecos is in prime position to enjoy all the benefits of the current economic boom. The next year will require much effort from City staff and patience from residents, but the end product will be a better Pecos for all to enjoy.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's Finance Office, at the Town of Pecos City, P.O. Box 929, Pecos, Texas 79772.

BASIC FINANCIAL STATEMENTS

**TOWN OF PECOS CITY, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 16,324,506	\$ 7,704,007	\$ 24,028,513
Investments	-	612,722	612,722
Internal balances	577,340	(577,340)	-
Accounts receivable (net of allowance for uncollectibles)	1,687,997	947,751	2,635,748
Restricted assets			
Cash and cash equivalents	111,732	989,447	1,101,179
Capital assets (net of accumulated depreciation)			
Land	309,689	766,635	1,076,324
Construction in progress	-	7,785,248	7,785,248
Buildings	315,154	2,289,473	2,604,627
Infrastructure	1,532,578	13,804,643	15,337,221
Equipment	1,349,209	269,601	1,618,810
Vehicles	365,330	211,249	576,579
Total assets	22,573,535	34,803,436	57,376,971
DEFERRED INFLOWS OF RESOURCES			
Deferred charge on refunding	-	299,005	299,005
Total deferred inflows of resources	-	299,005	299,005
LIABILITIES			
Accounts payable and accrued liabilities	935,737	820,860	1,756,597
Noncurrent liabilities			
Due within one year	597,979	1,275,093	1,873,072
Due in more than one year	8,581,767	12,009,353	20,591,120
Total liabilities	10,115,483	14,105,306	24,220,789
NET POSITION			
Net investment in capital assets	(3,884,452)	12,893,942	9,009,490
Restricted	839,871	-	839,871
Unrestricted	15,502,633	8,103,193	23,605,826
Total net position	\$ 12,458,052	\$ 20,997,135	\$ 33,455,187

The Notes to Financial Statements are an integral part of this statement.

**TOWN OF PECOS CITY, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2014**

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ 3,282,466	\$ 4,349,580	\$ 4,741	\$ -
Public safety	1,642,266	745,077	-	-
Streets and sanitation	1,802,746	866,015	-	-
Culture and recreation	395,089	11,499	-	-
Court	423,480	13,573	-	-
Fire and rescue	354,749	150,500	-	-
Planning and inspection	345,027	2,500	-	-
Interest on long-term debt	159,281	-	-	-
Total governmental activities	8,405,104	6,138,744	4,741	-
Business-type activities				
Water and sewer	3,656,350	6,971,563	-	7,945
Ambulance	343,079	153,004	-	-
Criminal Justice Center	2,104,517	2,395,388	-	-
Total business-type activities	6,103,946	9,519,955	-	7,945
Total primary government	14,509,050	15,658,699	4,741	7,945

General revenues:
Property taxes
Other taxes
Unrestricted investment earnings
Gain on sale of assets
Miscellaneous

Total general revenues

Change in net position

NET POSITION, beginning of year

NET POSITION, end of year

The Notes to Financial Statements are an integral part of this statement.

**Net (Expenses) Revenue and
Changes in Net Position**

Governmental Activities	Business- type Activities	Total
\$ 1,071,855	\$ -	\$ 1,071,855
(897,189)	-	(897,189)
(936,731)	-	(936,731)
(383,590)	-	(383,590)
(409,907)	-	(409,907)
(204,249)	-	(204,249)
(342,527)	-	(342,527)
(159,281)	-	(159,281)
<u>(2,261,619)</u>	<u>-</u>	<u>(2,261,619)</u>
-	3,323,158	3,323,158
-	(190,075)	(190,075)
-	290,871	290,871
<u>-</u>	<u>3,423,954</u>	<u>3,423,954</u>
<u>(2,261,619)</u>	<u>3,423,954</u>	<u>1,162,335</u>
1,058,838	-	1,058,838
4,522,208	-	4,522,208
17,035	13,566	30,601
283,891	-	283,891
473,181	-	473,181
<u>6,355,153</u>	<u>13,566</u>	<u>6,368,719</u>
4,093,534	3,437,520	7,531,054
<u>8,364,518</u>	<u>17,559,615</u>	<u>25,924,133</u>
<u>\$ 12,458,052</u>	<u>\$ 20,997,135</u>	<u>\$ 33,455,187</u>

**TOWN OF PECOS CITY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014**

	<u>General</u>	<u>Airport Service</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 15,672,296	\$ 652,202	\$ 8	\$ 16,324,506
Due from other funds	577,340	-	-	577,340
Accounts receivable, net				
Property taxes	273,441	-	60,077	333,518
Sales taxes	695,119	-	-	695,119
Other	659,300	60	-	659,360
Restricted assets				
Cash and equivalents	-	-	111,732	111,732
Total assets	<u><u>\$ 17,877,496</u></u>	<u><u>\$ 652,262</u></u>	<u><u>\$ 171,817</u></u>	<u><u>\$ 18,701,575</u></u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 818,020	\$ 880	\$ -	\$ 818,900
Accrued wages	116,837	-	-	116,837
Total liabilities	934,857	880	-	935,737
Deferred inflows of resources				
Unavailable Revenue - Property tax	251,833	-	57,549	309,382
Total deferred inflows of resources	251,833	-	57,549	309,382
Fund balances				
Restricted				
Airport	-	151,480	-	151,480
Police department	74,221	-	-	74,221
Donor stipulations	-	499,902	-	499,902
Debt service	-	-	114,268	114,268
Committed				
Main street	3,492,212	-	-	3,492,212
Unassigned	13,124,373	-	-	13,124,373
Total fund balances	<u><u>16,690,806</u></u>	<u><u>651,382</u></u>	<u><u>114,268</u></u>	<u><u>17,456,456</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 17,877,496</u></u>	<u><u>\$ 652,262</u></u>	<u><u>\$ 171,817</u></u>	<u><u>\$ 18,701,575</u></u>

The Notes to Financial Statements are an integral part of this statement.

**TOWN OF PECOS CITY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

Total fund balances - governmental funds	\$ 17,456,456
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.	3,871,960
Revenues earned but not available within 60 days of fiscal year-end are not recognized as revenue in the governmental funds financial statements.	309,382
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund financial statements.	<u>(9,179,746)</u>
Net position of governmental activities	<u><u>\$ 12,458,052</u></u>

**TOWN OF PECOS CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2014**

	<u>General</u>	<u>Airport Service</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 1,001,347	\$ -	\$ 95,836	\$ 1,097,183
Sales taxes	5,626,681	-	-	5,626,681
Licenses and permits	129,706	-	-	129,706
Charges for services	2,194,872	21,705	-	2,216,577
Fines	112,252	-	-	112,252
Franchise taxes	964,351	-	-	964,351
Intergovernmental revenues	150,500	-	-	150,500
Rent and royalties	1,215,057	-	-	1,215,057
Interest	16,715	53	267	17,035
Miscellaneous	446,735	4,741	-	451,476
Total revenues	11,858,216	26,499	96,103	11,980,818
EXPENDITURES				
Current				
General government	3,106,291	59,686	-	3,165,977
Public safety	1,572,059	-	16,849	1,588,908
Streets and sanitation	1,757,957	-	-	1,757,957
Culture and recreation	382,224	-	-	382,224
Court	411,426	-	-	411,426
Fire and rescue	347,983	-	-	347,983
Planning and inspection	336,445	-	-	336,445
Capital outlay	1,040,927	-	-	1,040,927
Debt service				
Principal retirement	182,169	-	95,000	277,169
Interest charges	147,081	-	12,200	159,281
Total expenditures	9,284,562	59,686	124,049	9,468,297
Excess (deficiency) of revenues over expenditures	2,573,654	(33,187)	(27,946)	2,512,521
Other financing sources (uses)				
Proceeds on sale of assets	283,891	-	-	283,891
Bond proceeds	7,838,581	-	-	7,838,581
Total other financing sources (uses)	8,122,472	-	-	8,122,472
Net change in fund balances	10,696,126	(33,187)	(27,946)	10,634,993
FUND BALANCES, beginning of year	5,994,680	684,569	142,214	6,821,463
FUND BALANCES, end of year	\$ 16,690,806	\$ 651,382	\$ 114,268	\$ 17,456,456

The Notes to Financial Statements are an integral part of this statement.

**TOWN OF PECOS CITY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2014**

Net change in fund balances - total governmental funds \$ 10,634,993

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 amount of capital assets recorded in the current period in excess of depreciation expense. 1,087,681

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. (7,561,412)

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. (29,383)

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. (38,345)

Change in net position of governmental activities \$ 4,093,534

**TOWN OF PECOS CITY, TEXAS
STATEMENT NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2014**

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Totals</u>
	<u>Water and Sewer Fund</u>	<u>PMCJ Center</u>	<u>Ambulance</u>	
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalent	\$ 7,537,626	\$ 166,381	\$ -	\$ 7,704,007
Investments	612,722	-	-	612,722
Accounts receivable (net of allowance)	567,463	380,288	-	947,751
Due from other funds	494,906	-	-	494,906
Restricted cash	989,447	-	-	989,447
Total current assets	10,202,164	546,669	-	10,748,833
NONCURRENT ASSETS:				
Capital assets:				
Land	724,095	42,540	-	766,635
Construction in progress	7,785,248	-	-	7,785,248
Buildings	23,391	3,093,881	-	3,117,272
Infrastructure	31,236,822	-	-	31,236,822
Equipment	1,070,626	64,311	64,074	1,199,011
Vehicles	652,849	123,458	485,318	1,261,625
Accumulated depreciation	(18,819,682)	(974,447)	(445,635)	(20,239,764)
Total noncurrent assets	22,673,349	2,349,743	103,757	25,126,849
Total assets	32,875,513	2,896,412	103,757	35,875,682
LIABILITIES AND NET POSITION				
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on refunding	-	299,005	-	299,005
CURRENT LIABILITIES:				
Accounts payable and accrued liabilities	660,721	160,139	-	820,860
Due to other funds	-	-	1,072,246	1,072,246
Current portion of capital leases	90,833	-	-	90,833
Current portion of notes payable	44,260	-	-	44,260
Current portion of bonds payable	775,000	365,000	-	1,140,000
Total current liabilities	1,570,814	525,139	1,072,246	3,168,199
NONCURRENT LIABILITIES:				
Compensated absences	15,409	46,684	-	62,093
Capital leases	624,321	-	-	624,321
Notes payable	152,939	-	-	152,939
Bonds payable	8,365,000	2,805,000	-	11,170,000
Total liabilities	10,728,483	3,077,818	1,072,246	14,878,547
NET POSITION:				
Net investment in capital assets	13,610,442	(820,257)	103,757	12,893,942
Unrestricted	8,536,588	638,851	(1,072,246)	8,103,193
TOTAL NET POSITION	\$ 22,147,030	\$ (181,406)	\$ (968,489)	\$ 20,997,135

The Notes to Financial Statements are an integral part of this statement.

**TOWN OF PECOS CITY, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Totals</u>
	<u>Water and Sewer Fund</u>	<u>PMCJ Center</u>	<u>Ambulance</u>	
OPERATING REVENUES				
Water service charges	\$ 4,299,335	\$ -	\$ -	\$ 4,299,335
Sewage service charges	2,322,910	-	-	2,322,910
Service charges	-	2,306,366	151,493	2,457,859
Other income	357,263	89,022	1,511	447,796
Total operating revenue	6,979,508	2,395,388	153,004	9,527,900
OPERATING EXPENSES				
Salaries, wages and benefits	1,526,258	1,122,787	-	2,649,045
Materials and supplies	227,465	223,540	-	451,005
Utilities	397,542	113,073	2,518	513,133
Repairs and maintenance	418,115	137,808	-	555,923
Travel	19,767	1,666	-	21,433
Depreciation and amortization	824,231	74,108	32,331	930,670
Miscellaneous	144,179	273,474	308,230	725,883
Total operating expenses	3,557,557	1,946,456	343,079	5,847,092
OPERATING INCOME (LOSS)	3,421,951	448,932	(190,075)	3,680,808
NON-OPERATING REVENUES (EXPENSES)				
Amortization of loss on refunding	-	(42,715)	-	(42,715)
Interest earned on investments	13,375	191	-	13,566
Interest expense	(98,793)	(115,346)	-	(214,139)
Total non-operating expenses	(85,418)	(157,870)	-	(243,288)
CHANGE IN NET POSITION	3,336,533	291,062	(190,075)	3,437,520
NET POSITION, beginning of year	18,810,497	(472,468)	(778,414)	17,559,615
NET POSITION, end of year	\$ 22,147,030	\$ (181,406)	\$ (968,489)	\$ 20,997,135

The Notes to Financial Statements are an integral part of this statement.

**TOWN OF PECOS CITY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Totals</u>
	<u>Water and Sewer Fund</u>	<u>PMCJ Center</u>	<u>Ambulance</u>	
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 6,963,706	\$ 2,408,796	\$ 191,884	\$ 9,564,386
Cash paid to employees	(1,526,269)	(1,121,433)	-	(2,647,702)
Cash paid to suppliers	(1,405,037)	(1,174,709)	(191,884)	(2,771,630)
Net cash provided by operating activities	4,032,400	112,654	-	4,145,054
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on debt	(893,565)	(360,000)	-	(1,253,565)
Loan proceeds	230,412	-	-	230,412
Interest paid on debt	(98,793)	(115,346)	-	(214,139)
Acquisition of capital assets	(7,401,508)	-	-	(7,401,508)
Net cash used in capital and related financing activities	(8,163,454)	(475,346)	-	(8,638,800)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investment	5,460,896	-	-	5,460,896
Interest on investments	13,375	191	-	13,566
Net cash provided by investing activities	5,474,271	191	-	5,474,462
Net change in cash	1,343,217	(362,501)	-	980,716
CASH AND CASH EQUIVALENTS, beginning of the year	7,183,856	528,882	-	7,712,738
CASH AND CASH EQUIVALENTS, end of the year (includes \$989,447 of restricted cash)	\$ 8,527,073	\$ 166,381	\$ -	\$ 8,693,454
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 3,421,951	\$ 448,932	\$ (190,075)	\$ 3,680,808
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	824,231	74,108	32,331	930,670
Accounts receivable	(15,800)	13,408	38,880	36,488
Accounts payable	(197,971)	(425,148)	(33,677)	(656,796)
Due to / due from	-	-	152,541	152,541
Accrued employee benefit payable	(11)	1,354	-	1,343
Net cash provided by operating activities	\$ 4,032,400	\$ 112,654	\$ -	\$ 4,145,054

The Notes to Financial Statements are an integral part of this statement.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

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**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 specific 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 judgment 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.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A. Reporting Entity – Continued

Individual Component Unit Disclosures:

Discretely Presented Component Unit:

1. Pecos Economic Development Corporation – (Economic Development) is a non-profit corporation created pursuant to the Development Corporation Act of 1979, as amended, to promote and develop manufacturing and commercial enterprises by issuing Industrial Development Revenue Bonds. A majority of the Economic Development's board is appointed by the City Council and the Council can impose its will. As of and for the year ended September 30, 2014, the Economic Development Corporation's financial information is not included in the City's basic financial statements. This omission is not in accordance with GAAP.

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 Corporation 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 liabilities 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.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Government-Wide and Fund Financial Statements – Continued

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 are 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 a 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 instead 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. The fund level statements for proprietary funds also contain combined totals for all internal service funds. This information is presented in a separate column immediately to the right of the total column for all enterprise fund activity.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Measurement Focus and Basis of Accounting

The government-wide statements and proprietary fund statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The agency funds have no measurement focus. Exchange and exchange-like transactions, transactions in which the City gives or receives value and receives or gives equal value, that create revenues, expenses, gains, losses, assets or liabilities 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, expenses, gains, losses, assets or liabilities 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 judgments are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, 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.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Measurement Focus and Basis of Accounting – Continued

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 such 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 total assets view of increases (revenues) and decreases (expenses) in the fund.

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

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

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

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Measurement Focus and Basis of Accounting – Continued

The following major funds are used by the City:

GOVERNMENTAL FUNDS

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

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

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

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

PROPRIETARY FUNDS

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

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

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

Criminal Justice Center Fund – The Criminal Justice Center Fund is used to account for the provision of the criminal justice center to the citizens 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 "investment earnings" account on the statement of activities.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Cash and Investments – Continued

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 prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

Mutual funds – Mutual funds are a type of professionally-managed collective investment that pools money from many investors to purchase securities. Mutual funds are registered with the Securities and Exchange Commission, overseen by a board of directors or board of trustees and managed by a registered investment advisor.

E. Receivables, Payables and Interfund Transactions

The City's Water and Sewer Enterprise Fund operates on a monthly billing cycle, issuing billings continuously throughout the month. The accounts receivable for water and sewer at September 30, 2014, represents the final unpaid billings issued prior to September 30, 2014, and includes an amount for unbilled September 2014 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 or 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 Water and Sewer debt as required by applicable bond covenants.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

G. Capital Assets

Capital Assets are defined as a 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 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 is 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. Accrued Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned, but unused sick leave. Vacation time must be taken within the twelve month period of the calendar year. Any unused vacation time will be compensated at their regular rate of pay at year-end. It is the City's policy that unused sick leave shall not exceed 90 days or 720 hours for regular employees. Total accumulated unused sick leave at year-end was \$181,954 for governmental activity and \$62,093 for business-type activity.

I. 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, Certificates of Participation, 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.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

J. 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 non in spendable form, or, for legal contractual reasons, must be kept intact. The City had no nonspendable fund balance at September 30, 2014
- 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 at September 30, 2014.
- 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 position invested in capital assets, net of related debt 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.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

K. Revenue Recognition – Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on the following October 1 and are due and payable at that time, becoming delinquent at the following January 31. 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.

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, 2014, was \$.3863 per \$100 of assessed valuation, therefore leaving a tax margin of \$1.6136 per \$100 which represented approximate potential property tax revenue of \$4,017,487.

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.

L. 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.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

The governmental fund balance sheet includes reconciliation between fund balance – total government funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds financial statements.” The details of this \$(9,179,746) difference are as follows:

Certificate of obligations	\$ (100,000)
General obligation	(6,840,000)
Notes payable	(816,412)
Landfill closure/post-closure	(1,241,380)
Compensated absences	<u>(181,954)</u>
Net adjustment to reduce fund balance - total government funds to arrive at net position - governmental activities	<u><u>\$ (9,179,746)</u></u>

Another element of that reconciliation states that “Revenues earned but not available within sixty days of fiscal year-end are not recognized as revenue in the governmental funds financial statements.” The difference of \$309,382 is deferred property taxes revenue.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

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

- 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 \$1,087,681 difference are as follows:

Capital outlay	\$ 1,040,927
Donation of land	272,274
Depreciation expense	<u>(225,520)</u>
Net adjustment to increase net change in fund balance - total governmental funds to arrive at change in net position of governmental activities	<u>\$ 1,087,681</u>

Another element of that reconciliation states that the, “issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.” The difference of \$(7,561,412) is general obligation and notes payable proceeds.

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 \$(29,383) difference are as follows:

Landfill	\$ (17,139)
Compensated absences	<u>(12,244)</u>
Net adjustment to increase net change in fund balance - total governmental funds to arrive at change in net position of governmental activities	<u>\$ (29,383)</u>

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

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 addition, more detailed line item budgets are included for administrative control. The level of control is at the functional level.
- 2) Public hearings are conducted with public notice being given within statutory limits, for the purpose of obtaining taxpayer 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 Debt Service Fund. The Capital Projects Funds are budgeted over the life of the respective projects. As of and for the year ended September 30, 2014, there are no capital projects funds.
- 6) Budgets for the General Fund, Special Revenue Funds, and Debt Service Fund are legally adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Proprietary Funds are included in the annual budget adopted as a financial plan only.
- 7) All annual appropriations lapse at the end of each fiscal year.

B. Deficit Fund Equity

The ambulance and criminal justice center funds had a deficit fund balance at September 30, 2014 of \$968,469 and \$181,406, respectively. The deficit in the ambulance fund resulted from uncollectable receivables and due to other funds. The deficit in the criminal justice fund is caused by bonds payable exceeding depreciable assets.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4. DEPOSITS AND INVESTMENTS

In order to facilitate cash management and increase income through combined investment activities, the operating cash of certain funds is pooled into one account in a local bank. At September 30, 2014, 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, except one, were fully insured or collateralized as required by the state statutes at September 30, 2014. At year-end, the carrying amount of the City’s deposits was \$25,129,692, and the respective bank balances totaled \$25,587,721. Of the total bank balance, the Federal Depository Insurance Corporation (FDIC) and the Securities Investor Protection Corporation covered \$3,651,248 and \$18,500,000 was covered by collateral held by the pledging bank’s agent for the City in the City’s name, resulting in an under pledged amount of \$3,436,474.

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 states, 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.

The City’s investments carried at fair value as of September 30, 2014, are:

	<u>Fair Value</u>	<u>Effective Duration or Weighted Average Maturity</u>	<u>Credit Risk</u>
TEXPOOL	\$ 612,722	48 Days	AAAm - S&P

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4. DEPOSITS AND INVESTMENTS – CONTINUED

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 of September 30, 2014, 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 & Poor’s, 2) pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business, and 3) diversifying the investment portfolio so that potential losses on individual securities were minimized.

NOTE 5. RECEIVABLES

Receivables as of September 30, 2014, 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	PMCJ Center	Nonmajor and Other Funds	Total
Receivables:						
Property taxes	\$ 321,695	\$ -	\$ -	\$ -	\$ 70,679	\$ 392,374
Sales taxes	695,119	-	-	-	-	695,119
Accounts	-	-	821,529	380,288	-	1,201,817
Other	712,325	60	-	-	-	712,385
Gross receivables	1,729,139	60	821,529	380,288	70,679	3,001,695
Less: allowance for Uncollectible	(101,279)	-	(254,066)	-	(10,602)	(365,947)
Net total receivables	<u>\$ 1,627,860</u>	<u>\$ 60</u>	<u>\$ 567,463</u>	<u>\$ 380,288</u>	<u>\$ 60,077</u>	<u>\$ 2,635,748</u>

The City reports, in its governmental funds, deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At September 30, 2014, deferred inflows in the amount of \$309,382 were reported.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6. CAPITAL ASSETS

Capital asset acquisition and disposal of the reporting entity was restricted to activities of the primary government only. Capital asset activity for the year ended September 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions / Completions</u>	<u>Retirements / Adjustments</u>	<u>Ending Balance</u>
Government Activities:				
Capital assets, not being depreciated				
Land	\$ 37,415	\$ 272,274	\$ -	\$ 309,689
Total capital assets, not being depreciated	37,415	272,274	-	309,689
Capital assets, being depreciated				
Buildings	1,045,918	-	-	1,045,918
Infrastructure	12,625,128	114,657	-	12,739,785
Equipment	1,764,838	901,679	-	2,666,517
Vehicles	1,768,601	24,591	24,235	1,768,957
Total capital assets, being depreciated	17,204,485	1,040,927	24,235	18,221,177
Less accumulated depreciation for				
Buildings	716,777	13,987	-	730,764
Infrastructure	11,091,546	115,661	-	11,207,207
Equipment	1,306,931	10,377	-	1,317,308
Vehicles	1,342,367	85,495	24,235	1,403,627
Total accumulated depreciation	14,457,621	225,520	24,235	14,658,906
Total capital assets, being depreciated, net	2,746,864	815,407	-	3,562,271
Governmental activities capital assets, net	<u>\$ 2,784,279</u>	<u>\$ 1,087,681</u>	<u>\$ -</u>	<u>\$ 3,871,960</u>
	<u>Beginning Balance</u>	<u>Additions / Completions</u>	<u>Retirements / Adjustments</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets, not being depreciated				
Land	\$ 731,790	\$ 34,845	\$ -	\$ 766,635
Construction in progress	2,207,134	5,578,114	-	7,785,248
Total capital assets, not being depreciated	2,938,924	5,612,959	-	8,551,883
Capital assets, being depreciated				
Buildings	3,117,272	-	-	3,117,272
Infrastructure	29,678,685	1,558,137	-	31,236,822
Equipment	968,599	230,412	-	1,199,011
Vehicles	1,261,625	-	-	1,261,625
Total capital assets, being depreciated	35,026,181	1,788,549	-	36,814,730
Less accumulated depreciation for				
Buildings	765,454	62,345	-	827,799
Infrastructure	16,721,008	711,171	-	17,432,179
Equipment	847,662	81,748	-	929,410
Vehicles	974,970	75,406	-	1,050,376
Total accumulated depreciation	19,309,094	930,670	-	20,239,764
Total capital assets, being depreciated, net	15,717,087	857,879	-	16,574,966
Business-type activities capital assets, net	<u>\$ 18,656,011</u>	<u>\$ 6,470,838</u>	<u>\$ -</u>	<u>\$ 25,126,849</u>

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6. CAPITAL ASSETS – CONTINUED

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

Government Activities	
General government	\$ 101,484
Public safety	45,104
Street and sanitation	45,104
Planning and inspection	4,510
Fire and rescue	6,766
Court	11,276
Culture and recreation	11,276
	11,276
Total depreciation expense - governmental activities	\$ 225,520
Business-type Activities	
Water and sewer	824,231
Ambulance	74,108
Criminal justice center	32,331
	32,331
Total depreciation expense - business-type activities	\$ 930,670

NOTE 7. RETIREMENT COMMITMENTS

Texas Municipal Retirement System

Plan Description:

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7. RETIREMENT COMMITMENTS – CONTINUED

Texas Municipal Retirement System – Continued

Plan Description: - Continued

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City are as follows:

	Plan Year 2013	Plan Year 2014
Employee deposit rate	5.0%	5.0%
Matching ration (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Undated service credit	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	30% of CPI repeating	30% of CPI repeating

Contributions:

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member’s projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation / (asset) are as follows:

Annual required contribution (ARC)	\$ 247,823
Interest on net pension obligation	-
Adjustment to the ARC	-
Annual pension cost (APC)	<u>247,823</u>
Contributions made	<u>(247,823)</u>
Increase in net pension obligation	-
Net pension obligation / (asset), beginning of year	-
Net pension obligation / (asset), end of year	<u><u>\$ -</u></u>

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7. RETIREMENT COMMITMENTS – CONTINUED

Texas Municipal Retirement System – Continued

Contributions: – Continued

Annual TMRS pension cost, net pension obligation (NPO) and related information for the last three years ended September 30, are as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Annual pension cost	\$ 228,275	\$ 230,347	\$ 247,823
Actual contributions made	<u>(228,275)</u>	<u>(230,347)</u>	<u>(247,823)</u>
Net pension obligation increase	<u>-</u>	<u>-</u>	<u>-</u>
Net pension obligation balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The City contributed 100% of the annual pension cost for 2014, 2013, and 2012. The required contribution rates were determined as part of the actuarial valuations. Additional information as of the last three actuarial valuations is as follows:

Valuation date	12/31/2011	12/31/2012	12/31/2013
Actuarial cost method	projected unit credit	projected unit credit	Entry age normal
Amortization method	level % of payroll	level % of payroll	level % of payroll
GASB 25 equivalent single Amortization period	25.0 years; closed period	25.0 years; closed period	25.0 years; closed period
Amortization period for new Gains / losses	25 years	25 years	25 years
Asset valuation method	10-yr smoothed mkt.	10-yr smoothed mkt.	10-yr smoothed mkt.
Actuarial assumptions:			
Investment rate of return *	7.0%	7.0%	7.0%
Projected salary increases *	varies by age and service	varies by age and service	varies by age and service
* Includes inflation at Cost-of-living adjustments	3% .9%	3% .9%	3% .9%

Actuarial valuations involved estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7. RETIREMENT COMMITMENTS – CONTINUED

Texas Municipal Retirement System – Continued

Contributions: – Continued

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets. The schedule of funding progress shown above, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability of benefits.

NOTE 8. 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 \$333,672 at September 30, 2014. The amount is included in accounts payable and accrued liabilities in the general fund and the governmental activities.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9. 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, 2014, are as follows:

	Interfund	
	Receivables	Payables
Governmental funds		
General fund	\$ 577,340	\$ -
Enterprise funds		
Water and sewer fund	494,906	-
Ambulance fund	-	1,072,246
	<u>\$ 1,072,246</u>	<u>\$ 1,072,246</u>

NOTE 10. 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, 2014:

	Balance, September 30, 2013	Additions	Reductions	Balance, September 30, 2014	Due Within One Year
Certificates of obligation	\$ 195,000	\$ -	\$ 95,000	\$ 100,000	\$ 100,000
General obligation	-	6,840,000	-	6,840,000	305,000
Notes payable		813,382	155,473	657,909	157,404
Notes payable		185,199	26,696	158,503	35,575
Landfill closure/post-closure	1,224,241	17,139	-	1,241,380	-
Other liabilities					
Compensated absences	169,710	12,244	-	181,954	-
	<u>\$ 1,588,951</u>	<u>\$ 7,867,964</u>	<u>\$ 277,169</u>	<u>\$ 9,179,746</u>	<u>\$ 597,979</u>

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 10. LONG-TERM DEBT – CONTINUED

Governmental Activities: – Continued

The following is a schedule of the future payments on certificates of obligation for the next year:

<u>Year Ending September 30,</u>	<u>Certificate of Obligation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 100,000	\$ 6,000	\$ 106,000
	<u>\$ 100,000</u>	<u>\$ 6,000</u>	<u>\$ 106,000</u>

The following is a schedule of the future payments on general obligation for each of the next fifteen years:

<u>Year Ending September 30,</u>	<u>General Obligation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 305,000	\$ 150,802	\$ 455,802
2016	395,000	153,368	548,368
2017	405,000	143,688	548,688
2018	415,000	133,766	548,766
2019	425,000	123,602	548,602
2020-2024	2,300,000	456,050	2,756,050
2025-2029	2,595,000	159,899	2,754,899
	<u>\$ 6,840,000</u>	<u>\$ 1,321,175</u>	<u>\$ 8,161,175</u>

The following is a schedule of the future payments notes payable for each of the next four years:

<u>Year Ending September 30,</u>	<u>Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 157,404	\$ 17,253	\$ 174,657
2016	161,987	12,670	174,657
2017	166,704	7,953	174,657
2018	171,814	3,100	174,914
	<u>\$ 657,909</u>	<u>\$ 40,976</u>	<u>\$ 698,885</u>

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 10. LONG-TERM DEBT – CONTINUED

Governmental Activities: – Continued

The following is a schedule of the future payments notes payable for each of the next five years:

<u>Year Ending September 30,</u>	<u>Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 35,575	\$ 4,183	\$ 39,758
2016	36,611	3,147	39,758
2017	37,676	2,081	39,757
2018	38,773	985	39,758
2019	9,868	71	9,939
	<u>\$ 158,503</u>	<u>\$ 10,467</u>	<u>\$ 168,970</u>

Certificates of Obligation

Series 1995

Town of Pecos City issued \$1,200,000 Series 1995 Certificate of Obligation for the purpose of constructing, improving and equipping the existing City's landfill site, and for paying legal, fiscal and engineering fees in connection with this project.

The initial Certificates of Obligation was authorized to be issued, sold and delivered as a single fully registered Certificate of Obligation, without interest coupons, dated August 15, 1995 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 5.1% and 7% 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 City was in compliance with all significant limitations and restrictions.

General Obligation

Series 2014

Town of Pecos City issued \$6,840,000 series 2014 General Obligation for the purpose of constructing and acquiring street and side work improvement.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 10. LONG-TERM DEBT – CONTINUED

General Obligation – Continued

Series 2014 – Continued

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 installments on March 1 in each of the years outstanding.

Notes Payable

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 on ad Valoren taxes.

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 on ad Valoren taxes. Of the amount received \$185,199 was used to purchase equipment for the general fund and the remaining amount of \$230,412 was used to purchase a vehicle for the business fund.

Business-type Activities:

	Balance, September 30, 2013	Additions	Reductions	Balance, September 30, 2014	Due Within One Year
Certificates of obligation	\$ 4,135,000	\$ -	\$ 495,000	\$ 3,640,000	\$ 500,000
Certificates of participation	-	-	-	-	-
Revenue bonds	5,775,000	-	275,000	5,500,000	275,000
General obligation refunding bonds	3,530,000	-	360,000	3,170,000	365,000
Notes payable	-	230,412	33,213	197,199	44,260
Capital leases	801,621	-	86,467	715,154	90,833
Compensated absences	60,750	1,343	-	62,093	-
	<u>\$ 14,302,371</u>	<u>\$ 231,755</u>	<u>\$ 1,249,680</u>	<u>\$ 13,284,446</u>	<u>\$ 1,275,093</u>

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 10. LONG-TERM DEBT – CONTINUED

Business-type Activities: – Continued

The following is a schedule of the future payments on certificates of obligation are as follows:

Year Ending September 30,	Certificates of Obligation		
	Principal	Interest	Total
2015	\$ 500,000	\$ 45,400	\$ 545,400
2016	610,000	39,363	649,363
2017	620,000	31,345	651,345
2018	630,000	27,018	657,018
2019	635,000	20,800	655,800
Thereafter	645,000	-	645,000
	<u>\$ 3,640,000</u>	<u>\$ 163,926</u>	<u>\$ 3,803,926</u>

The following is a schedule of future payments on certificates of participation are as follows:

Year Ending September 30,	Certificates of Participation		
	Principal	Interest	Total
2015	365,000	\$ 101,516	\$ 466,516
2016	370,000	96,990	466,990
2017	375,000	90,996	465,996
2018	385,000	80,682	465,682
2019	395,000	69,132	464,132
2020-2022	1,280,000	113,448	1,393,448
	<u>\$ 3,170,000</u>	<u>\$ 552,764</u>	<u>\$ 3,722,764</u>

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 10. LONG-TERM DEBT – CONTINUED

Business-type Activities: – Continued

The following is a schedule of future payments on revenue bonds are as follows:

Year Ending September 30,	Revenue Bonds		
	Principal	Interest	Total
2015	\$ 275,000	\$ -	\$ 275,000
2016	275,000	-	275,000
2017	275,000	-	275,000
2018	275,000	-	275,000
2019	275,000	-	275,000
2020-2024	1,375,000	-	1,375,000
2025-2029	1,375,000	-	1,375,000
2030-2033	1,375,000	-	1,375,000
	<u>\$ 5,500,000</u>	<u>\$ -</u>	<u>\$ 5,500,000</u>

The following is a schedule of future payments on notes payable are as follows:

Year Ending September 30,	Notes Payable		
	Principal	Interest	Total
2015	\$ 44,260	\$ 5,204	\$ 49,464
2016	45,548	3,916	49,464
2017	46,875	2,590	49,465
2018	48,239	1,225	49,464
2019	12,277	88	12,365
	<u>\$ 197,199</u>	<u>\$ 13,023</u>	<u>\$ 210,222</u>

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.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 10. LONG-TERM DEBT – CONTINUED

Certificates of Obligation – Continued

Series 2000A – Continued

The initial Certificates 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.

Series 2000B

Town of Pecos 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 Certificates 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 while this Certificate of Obligation or any portion hereof is outstanding and unpaid.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 10. LONG-TERM DEBT – CONTINUED

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.

General Obligation Refunded Bond

Series 2013

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

NOTE 11. CAPITAL LEASE OBLIGATIONS

The City is obligated under various capital leases for equipment which cost \$2,528,898 is included in business-type activities.

Future minimum lease payments in business-type activities as of September 30, 2014 are as follows:

Year Ending September 30,	Principal	Interest	Total
2015	\$ 90,833	\$ 29,167	\$ 120,000
2016	94,890	25,110	120,000
2017	99,128	20,872	120,000
2018	103,555	16,445	120,000
2019	108,180	11,820	120,000
2020-2022	218,568	22,350	240,918
	\$ 715,154	\$ 125,764	\$ 840,918

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 12. LANDFILL CLOSURE AND POST-CLOSURE CARE COST

State and federal laws and regulations require the City to place a final cover on its Pecos 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, 2014, \$0 was expended for the post-closure care costs for the landfill, and \$13,915 was increased to the liability to reflect inflated estimated costs. The City's post-closure liability as of September 30, 2014 was \$233,569. 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 costs 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, 2014, the City does not operate the landfill.

The City's second landfill site's operating capacity is at 80 percent and estimated remaining landfill life is 26.5 years at the end of 2014. During the year ended September 30, 2014, \$0 was expended for the current cost of closure, \$0 was expended for post-closure care costs for the landfill, and \$3,224 was increased to the liability to reflect inflated estimated costs. The City's current closure cost liability as of September 30, 2014 was \$1,007,811. 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 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, 2014, the City is operating the landfill.

The City has met the financial and public notice component sections of the Local Financial Test and Government Guarantee, and is in compliance with the state and federal laws and regulations governing landfill closure and post-closure care at September 30, 2014.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 13. 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 14. CONTINGENCY

The City has discovered federal tax law issues relating to the federal contract and the tax exempt status of the 2001, tax-exempt certificates of participation (COPs). The City has contacted the Internal Revenue Service (the IRS) through its voluntary compliance agreement program (VCAP) to conclusively resolve these issues. On September 17, 2012 the City made a material event disclosure regarding this matter with the Municipal Securities Rulemaking Board via its Electronic Municipal Market Access system.

The City successfully held an election on May 11, 2013, wherein the voters of the City authorized the issuance of the City's General Obligation Refunding Bonds, Taxable Series 2013 to obtain the funds necessary to redeem the COPs on September 1, 2013.

An IRS VCAP settlement estimate of \$420,000 was recorded as a liability in the September 30, 2012 financial statements of the PMCJ Center Fund and the Business-type Activities and was paid on December 31, 2013.

NOTE 15. 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 considered to be economically justifiable by joining together with other governmental entities in the state as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of 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 coverage in any of the past three years.

**TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 16. NEW PRONOUNCEMENTS

GASB issued Statement No. 69 *Government Combinations and Disposals of Government Operations* intended to improve accounting and financial reporting for U.S. state and local governments' combinations and disposals of government operations, by providing guidance for accounting situations encountered in government environments. This statement is effective for financial statements for periods beginning after December 15, 2013.

GASB issued Statement No. 68 *Accounting and Financial Reporting for Pension* – an amendment of GASB Statement No 27 to address new accounting and financial reporting standards for the activities of certain pension plans that are administered through trusts. In particular, it established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement is effective for financial statements for periods beginning after June 15, 2014.

The GASB has issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date* – an amendment to GASB Statement No. 68 (GASB 71), which will be effective in fiscal year 2015. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The Town of Pecos City's management is reviewing the implementation process of this standard by gathering required information.

REQUIRED SUPPLEMENTARY INFORMATION

**TOWN OF PECOS CITY, TEXAS
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
IN TEXAS MUNICIPAL RETIREMENT SYSTEM
YEAR ENDED SEPTEMBER 30, 2014**

Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	Unfunded AAL Funded (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL Actuarial as a % of Covered Payroll
12/31/13	\$11,304,198	\$ 11,172,176	\$ 132,022	101.2%	\$ 4,299,326	(3.1)%
12/31/12	10,550,306	9,757,507	792,799	108.1%	4,023,318	(19.7)%
12/31/11	9,951,163	9,525,725	425,438	104.5%	4,085,430	(10.4)%
12/31/10	9,356,422	9,078,444	277,978	103.1%	4,029,026	(6.9)%
12/31/09	4,580,866	5,230,340	(649,474)	87.6%	3,980,939	16.3%

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, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amount</u>	<u>Variance with Final Budget Over / (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 1,100,000	\$ 1,100,000	\$ 1,001,347	\$ (98,653)
Sales taxes	4,263,500	4,413,500	5,626,681	1,213,181
Licenses and permits	68,300	68,300	129,706	61,406
Charges for services	2,049,398	2,049,398	2,194,872	145,474
Fines	75,100	75,100	112,252	37,152
Franchise taxes	730,000	730,000	964,351	234,351
Intergovernmental revenues	150,500	150,500	150,500	-
Rent and royalties	555,100	555,100	1,215,057	659,957
Interest	10,250	10,250	16,715	6,465
Miscellaneous	400,000	400,000	446,735	46,735
Total revenues	9,402,148	9,552,148	11,858,216	2,306,068
Expenditures				
General government:				
General government	944,608	944,608	466,680	477,928
City shop department	109,721	109,721	116,567	(6,846)
Administration department	17,800	17,800	18,214	(414)
Office department	428,165	428,166	436,449	(8,283)
Health department	118,182	118,182	91,420	26,762
Emergency management department	30,000	30,000	30,000	-
Benefit plan	825,500	825,500	916,471	(90,971)
Fire pension	59,500	59,500	278,047	(218,547)
Main street	1,172,542	1,172,542	741,652	430,890
Other	1,000	1,000	10,791	(9,791)
Total general government	3,707,018	3,707,019	3,106,291	600,728
Public safety:				
Police department	1,596,561	1,596,561	1,572,059	24,502
Street and sanitation:				
Street department	568,726	628,725	746,465	(117,740)
Sanitation department	1,037,310	1,127,310	1,011,492	115,818
Total street and sanitation	1,606,036	1,756,035	1,757,957	(1,922)
Culture and recreation:				
Pools department	37,794	37,793	33,644	4,149
Parks department	364,080	364,080	348,580	15,500
Total culture and recreation	401,874	401,873	382,224	19,649

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, 2014
(CONTINUED)

	<u>Budgeted Amounts</u>		<u>Actual Amount</u>	<u>Variance with Final Budget Over / (Under)</u>
	<u>Original</u>	<u>Final</u>		
Court:				
Municipal building department	324,100	324,100	289,549	34,551
Municipal court department	143,842	143,842	121,877	21,965
Total court	<u>467,942</u>	<u>467,942</u>	<u>411,426</u>	<u>56,516</u>
Fire and rescue:				
Fire department	213,413	213,413	283,808	(70,395)
Fire marshal department	68,893	68,893	64,175	4,718
Total fire and rescue	<u>282,306</u>	<u>282,306</u>	<u>347,983</u>	<u>(65,677)</u>
Planning and inspection:				
Inspection department	482,024	482,024	336,445	145,579
Capital outlay	<u>488,681</u>	<u>638,681</u>	<u>1,040,927</u>	<u>(402,246)</u>
Debt service				
Principal retirement	178,284	178,284	182,169	(3,885)
Interest charges	147,081	147,081	147,081	-
Total debt service	<u>325,365</u>	<u>325,365</u>	<u>329,250</u>	<u>(3,885)</u>
Total expenditures	<u>9,357,807</u>	<u>9,657,806</u>	<u>9,284,562</u>	<u>373,244</u>
Excess (deficiency) of revenues over expenditures	44,341	(105,658)	2,573,654	2,679,312
Other financing sources (uses)				
Proceeds on sale of assets	1,000	1,000	283,891	282,891
Bond proceeds	-	-	7,838,581	7,838,581
Total other financing sources (uses)	<u>1,000</u>	<u>1,000</u>	<u>8,122,472</u>	<u>8,121,472</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	45,341	(104,658)	10,696,126	10,800,784
FUND BALANCE, beginning of year	<u>5,994,680</u>	<u>5,994,680</u>	<u>5,994,680</u>	<u>-</u>
FUND BALANCE, end of year	<u>\$ 6,040,021</u>	<u>\$ 5,890,022</u>	<u>\$ 16,690,806</u>	<u>\$ 10,800,784</u>

TOWN OF PECOS CITY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
AIRPORT SERVICE FUND
YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual Amount	Variance with Final Budget Over / (Under)
	Original	Final		
Revenues				
Charges for services	\$ 20,000	\$ 20,000	\$ 21,705	\$ 1,705
Interest	-	-	53	53
Miscellaneous	-	-	4,741	4,741
Total revenues	20,000	20,000	26,499	6,499
Expenditures				
General government:				
Personnel	1,500	1,500	13,488	(11,988)
Supplies	-	-	16,072	(16,072)
Contract services	50,500	50,500	-	50,500
Repairs and maintenance	1,500	1,500	-	1,500
General disbursements	10,000	20,000	30,126	(10,126)
Total expenditures	63,500	73,500	59,686	13,814
Deficiency of revenues over expenditures	(43,500)	(53,500)	(33,187)	(20,313)
Other financing sources (uses)				
Operating transfers in	69,000	69,000	-	69,000
Total other financing sources (uses)	69,000	69,000	-	69,000
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	25,500	15,500	(33,187)	48,687
FUND BALANCE, beginning of year	684,569	684,569	684,569	-
FUND BALANCE, end of year	\$ 710,069	\$ 700,069	\$ 651,382	\$ 48,687

Variance and Excess of Expenditures over Appropriations

Total expenditures exceeded appropriation by \$33,187 due to unexpected ground maintenance cost.



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 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 major fund, and the remaining fund information of the Town of Pecos City, Texas (the City), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 28, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (Items 2014-01, 2014-02 and 2014-03).

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. We consider item 2014-04 described in the accompany schedule of findings and responses to be a significant deficiency.

To the City Council
Town of Pecos City, Texas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Pecos City, Texas' 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not 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's Response to Findings

The Town of Pecos City, Texas' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Odessa, Texas
May 28, 2015

**TOWN OF PECOS CITY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2014**

FINANCIAL STATEMENT FINDINGS

Material Weakness in Internal Control over Financial Reporting

FINDING – 2014 - 01

CRITERIA – The City’s governmental fund records should be maintained on a modified accrual basis and should agree with audited fund financial statements.

CONDITION – There were significant adjusting journal entries that were not made by the City such as taxes receivables, hotel occupancy tax, sales tax, franchise tax, oil and gas revenue, accounts payable, compensated absences, IBNR, worker’s compensation liability and payroll accruals at year-end.

CAUSE – The City attempted to record some of the accruals but did not reverse prior year accruals.

EFFECT – The City’s general ledger system (i.e., fund balance) does not agree with the audit report.

RECOMMENDATION – City records should be adjusted to a modified accrual basis and should agree with audited fund financial statements.

CITY’S RESPONSE – The City has been notified by our auditors on the proper way to record these items and will work to correct for our next audit.

**TOWN OF PECOS CITY, TEXAS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2014
(CONTINUED)**

FINANCIAL STATEMENT FINDINGS – CONTINUED

Material Weakness in Internal Control over Financial Reporting – Continued

FINDING – 2014 - 02

CRITERIA – The City should maintain an accrual accounting system for proprietary funds.

CONDITION – Bond principal payments were expensed in proprietary funds instead of being recorded against the liability account.

CAUSE – The City has historically recorded principal payments as expense and relies on outside auditors to make year-end adjustments.

EFFECT – The City’s liability and expense accounts are overstated until such adjustments are made.

RECOMMENDATION – The City should maintain a full accrual accounting system and should record principal payments against liabilities when payment is made.

CITY’S RESPONSE – The City has been notified by our auditors on the proper way to record these items and will work to correct for our next audit.

FINDING – 2014 - 03

CRITERIA – Capital assets listings and detail depreciation schedules should be updated, maintained and agreed to the general ledger on a regular basis by the City.

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

CAUSE – Capital assets were not updated or agreed to the general ledger on a regular basis by the City.

EFFECT – The City is unable to accumulate detail fixed asset depreciation.

RECOMMENDATION – Detailed capital asset listings and detailed depreciation schedules should be updated, maintained and agreed to the general ledger by the City in order to properly report capital assets in the financial statements.

CITY’S RESPONSE – The City will work diligently over the next few months to have this issue corrected by utilizing our Fixed Asset module.

**TOWN OF PECOS CITY, TEXAS
STATUS OF PRIOR YEAR FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2014
(CONTINUED)**

FINANCIAL STATEMENT FINDINGS – CONTINUED

Significant Deficiency in Internal Control over Financial Reporting

FINDING – 2014 - 04

CRITERIA – The City should develop and maintain a formal policy for general computer controls to ensure financial data is secure.

CONDITION – The City does not maintain a formal policy for general computer controls. Identified ineffective controls include:

- Administrative monitors and security
- Requesting and granting access
- Periodic testing and assessment
- Incidents, problems and error analysis
- Audit trail and tracing incidents
- Unauthorized activity timely investigation
- Handling data and reporting outputs
- Storage, encryption, and authentication
- Reconstruction processes

CAUSE – No formal IT security policy has been developed by the City.

EFFECT – Financial reporting information is subject to loss of current data, exposure to viruses and other malicious programs through their terminals, as well as unauthorized access and manipulation of data.

RECOMMENDATION – A formal security policy should be developed and implemented related to IT for the City.

CITY'S RESPONSE – The City currently has a computer use policy, but it does not go into much detail so we will try to update for our next audit.