

**TOWN OF PECOS CITY, TEXAS**

**FINANCIAL REPORT**

**SEPTEMBER 30, 2015**

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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, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government 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 adverse audit opinion on the discretely presented component units and unmodified audit opinions on the governmental activities, business-type activities and each major fund.

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 \$3,503,874, liabilities of \$257,296, net position of \$3,246,578 revenues of \$999,596 and expenses of \$360,032.

### **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 City as of September 30, 2015 or the changes in financial position and cash flows thereof for the year then ended.

### **Unmodified Opinions on the Governmental Activities, Business-Type Activities, and Major Funds**

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 City as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 - 13, Schedule of Changes in Net Pension Asset and Related Ratios, Schedule of Contributions, and budgetary comparison information for the general fund and airport services fund on pages 60 - 64 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 assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the City Council  
Town of Pecos City, Texas

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2016, 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.

Midland, Texas  
April 14, 2016

## **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, 2015. 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 \$42,836,752, an increase of \$9,381,565 from previous year. Of this amount, \$27,656,804 (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 \$17,710,545, an increase of \$254,089 in comparison with the prior year. Approximately 67% of this total amount, \$11,856,179, 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 \$11,856,179, or 71% 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 City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and airport service fund, both of which are considered to be major funds, as well as the debt service fund, which is considered a non-major governmental fund.

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

**Proprietary Funds**

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

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

**Notes to the Financial Statements**

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

**Other Information**

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

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

**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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$42,836,752 at the close of the fiscal year.

The largest portion of the City's Net position, \$27,656,804, or 65%, reflects unrestricted net position.

**Town of Pecos City's Net Position**

	Governmental Activities		Business-Type Activities		Totals	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 19,765,280	\$ 18,701,575	\$ 12,665,805	\$ 9,676,587	\$ 32,431,085	\$ 28,378,162
Capital assets	9,893,222	3,871,960	29,328,244	25,126,849	39,221,466	28,998,809
Total assets	<u>29,658,502</u>	<u>22,573,535</u>	<u>41,994,049</u>	<u>34,803,436</u>	<u>71,652,551</u>	<u>57,376,971</u>
Deferred outflows of resources	258,751	-	351,993	299,005	610,744	299,005
Current liabilities	1,101,835	935,737	1,596,035	820,860	2,697,870	1,756,597
Other liabilities	8,684,957	9,179,746	18,014,145	13,284,446	26,699,102	22,464,192
Total liabilities	<u>9,786,792</u>	<u>10,115,483</u>	<u>19,610,180</u>	<u>14,105,306</u>	<u>29,396,972</u>	<u>24,220,789</u>
Deferred inflows of resources	21,587	-	7,984	-	29,571	-
Net investment in capital assets	2,734,789	(3,884,452)	11,380,097	12,893,942	14,114,886	9,009,490
Restricted	75,967	839,871	989,095	-	1,065,062	839,871
Unrestricted	17,298,118	15,502,633	10,358,686	8,103,193	27,656,804	23,605,826
Total net position	<u>\$ 20,108,874</u>	<u>\$ 12,458,052</u>	<u>\$ 22,727,878</u>	<u>\$ 20,997,135</u>	<u>\$ 42,836,752</u>	<u>\$ 33,455,187</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	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 3,930,665	\$ 5,077,741	\$ 9,519,743	\$ 9,519,955	\$ 13,450,408	\$ 14,597,696
Operating grants and contributions	-	4,741	-	-	-	4,741
Capital grants and contributions	-	-	-	7,945	-	7,945
General revenues:						
Property taxes	1,653,167	1,058,838	-	-	1,653,167	1,058,838
Other taxes	7,565,430	4,522,208	-	-	7,565,430	4,522,208
Rent and royalties	3,026,764	1,168,765	-	-	3,026,764	1,168,765
Other	825,255	666,345	14,963	13,566	840,218	679,911
Total revenues	<u>17,001,281</u>	<u>12,498,638</u>	<u>9,534,706</u>	<u>9,541,466</u>	<u>26,535,987</u>	<u>22,040,104</u>
Expenses:						
General government	4,344,919	3,282,466	-	-	4,344,919	3,282,466
Public safety	1,968,710	1,642,266	-	-	1,968,710	1,642,266
Streets and sanitation	2,071,994	1,802,746	-	-	2,071,994	1,802,746
Culture and recreation	559,495	395,089	-	-	559,495	395,089
Court	500,060	423,480	-	-	500,060	423,480
Fire and rescue	240,263	354,749	-	-	240,263	354,749
Planning and inspection	210,588	345,027	-	-	210,588	345,027
Interest on long-term debt	168,182	159,281	-	-	168,182	159,281
Water and sewer	-	-	5,614,068	3,656,350	5,614,068	3,656,350
Ambulance fund	-	-	395,035	343,079	395,035	343,079
Criminal justice fund	-	-	2,106,714	2,104,517	2,106,714	2,104,517
Total expenses	<u>10,064,211</u>	<u>8,405,104</u>	<u>8,115,817</u>	<u>6,103,946</u>	<u>18,180,028</u>	<u>14,509,050</u>
Excess of revenues over expense	6,937,070	4,093,534	1,418,889	3,437,520	8,355,959	7,531,054
Transfers	(34,940)	-	34,940	-	-	-
Change in net position	6,902,130	4,093,534	1,453,829	3,437,520	8,355,959	7,531,054
Net position, beginning as previously reported	12,458,052	8,364,518	20,997,135	17,559,615	33,455,187	25,924,133
Prior period adjustment - change in accounting principle	748,692	-	276,914	-	1,025,606	-
Net position, beginning as restated	<u>13,206,744</u>	<u>8,364,518</u>	<u>21,274,049</u>	<u>17,559,615</u>	<u>34,480,793</u>	<u>25,924,133</u>
Net position, ending	<u>\$ 20,108,874</u>	<u>\$ 12,458,052</u>	<u>\$ 22,727,878</u>	<u>\$ 20,997,135</u>	<u>\$ 42,836,752</u>	<u>\$ 33,455,187</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**

	2015	2014	Variance	Percent Variance
Property taxes, penalties and interest	\$ 1,653,167	\$ 1,058,838	\$ 594,329	56%
Other taxes	7,565,430	4,522,208	3,043,222	67%
Unrestricted investment income	28,240	17,035	11,205	66%
Gain on sale of assets	187,900	283,891	(95,991)	-34%
Rent and royalties	3,026,764	1,168,765	1,857,999	159%
Miscellaneous	609,115	365,419	243,696	67%
Transfers	(34,940)	-	(34,940)	-100%
Total general revenues and transfers	<u>\$ 13,035,676</u>	<u>\$ 7,416,156</u>	<u>\$ 5,619,520</u>	

The City's general revenues and transfers provided \$13,035,676 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 \$3,930,665 and was used to pay for expenses associated with governmental activities of \$10,064,211.

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

Net positions from business-type activities were \$22,727,878 at the close of the fiscal year and reflect a \$1,730,743 increase from the prior year. Program revenue (charges for services) of business-type activities contributed \$9,519,743 to the operations of the City. Expenses associated with these activities totaled \$8,115,817.

The major components of the revenue stream for business-type activities represent Water and Sewer revenues of \$7,007,885, Ambulance revenues of \$167,683 and Criminal Justice Center revenue of \$2,344,175.

**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, 2015, the City's governmental funds reported a combined ending fund balance of \$17,710,545, an increase of \$254,089 in comparison with the prior year. Approximately 67% of this total amount, \$11,856,179, 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, 2015, the unassigned fund balance of the general fund was \$11,856,179, while total fund balance was \$16,705,213. 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 75% of total general fund expenditures, while total fund balance represents 105% of that same amount. The fund balance of the City's General Fund increased by \$14,407 over prior year due to increases in sales taxes and charges for services.

**Proprietary Fund**

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

The net position of the Water and Sewer Fund at the end of the year amounted to \$23,703,404. The total change in net position was an increase of \$1,556,374. The primary factor for this increase is the change in operating income of \$1,481,822, despite operating income being \$1,940,129 lower in 2015 than it was in 2014. This decrease is due to an increase in expenses.

Net deficit of the ambulance fund at the end of the year totaled \$(1,195,841). The change in net deficit from the previous fiscal year was a \$227,352 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 \$220,315. The change in net position from the previous fiscal year was a \$401,721 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**

There were differences between original budget and final amended budget due to amendments made during the year to mirror operations.

**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, 2015 for its governmental activities amounted to \$9,893,222 and for its business-type activities amounted to \$29,328,244 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, infrastructure, equipment, and vehicles.

**Town of Pecos City's Capital Assets**

	Governmental Activities		Proprietary Activities		Totals	
	2015	2014	2015	2014	2015	2014
Land	\$ 159,689	\$ 309,689	\$ 766,635	\$ 766,635	\$ 926,324	\$ 1,076,324
Construction in progress	4,323,145	-	2,381,096	7,785,248	6,704,241	7,785,248
Buildings	1,284,171	315,154	2,317,292	2,289,473	3,601,463	2,604,627
Infrastructure	1,416,917	1,532,578	22,657,460	13,804,643	24,074,377	15,337,221
Equipment	1,478,562	1,349,209	903,830	269,601	2,382,392	1,618,810
Vehicles	1,230,738	365,330	301,931	211,249	1,532,669	576,579
Totals	<u>\$ 9,893,222</u>	<u>\$ 3,871,960</u>	<u>\$ 29,328,244</u>	<u>\$ 25,126,849</u>	<u>\$ 39,221,466</u>	<u>\$ 28,998,809</u>

**Long-Term Debt**

At the end of the current fiscal year, the City had total debt outstanding of \$24,481,723. Of this amount, general obligation bonds of \$6,535,000, and notes payables of \$623,433 are supported by governmental activities. Water and Sewer system revenues support \$14,518,290, and PMCJ center revenues support \$2,805,000 of business-type activity debt.

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

	Governmental Activities		Proprietary Activities		Totals	
	2015	2014	2015	2014	2015	2014
Certificates of Obligation	\$ -	\$ 100,000	\$ 9,140,000	\$ 3,640,000	\$ 9,140,000	\$ 3,740,000
Water and sewer bonds	-	-	5,225,000	5,500,000	5,225,000	5,500,000
General obligation refunding bonds	-	-	2,805,000	3,170,000	2,805,000	3,170,000
General obligation	6,535,000	6,840,000	-	-	6,535,000	6,840,000
Notes payable	122,928	158,503	153,290	197,199	276,218	355,702
Notes payable	500,505	657,909	-	-	500,505	657,909
Totals	<u>\$ 7,158,433</u>	<u>\$ 7,756,412</u>	<u>\$ 17,323,290</u>	<u>\$ 12,507,199</u>	<u>\$ 24,481,723</u>	<u>\$ 20,263,611</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 \$4,262,021 during the current fiscal year. Debt serviced by governmental-type activities decreased by \$597,979, while debt serviced by business-type activities increased by \$4,816,091. New debt in the amount of \$6,000,000 was issued in 2015 primarily to fund water and sewer projects.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

Cries are often heard, "Run the City like a business!/No more taxes!" but unlike a private business that can raise the price of a gallon of gasoline by 25 cents in one day or discontinue an unprofitable product line, the City Council is stuck with unprofitable ventures like Cemetery maintenance, Fire Departments, Police, and Parks maintenance, not to mention street maintenance. Freezing taxes or rates is akin to Exxon offering to freeze the price of a barrel of oil...Unlike a private business with one person in charge, that can move swiftly, in secret, with favored vendors or relationships... in government, everything is by committee, by sealed bid/RFP, in the open, often with those in a conflict of interest, in-fact seated at the table, as 'stakeholders'. In government: *"Hard to buy, harder to sell, hard to hire, even harder to fire"*.

A dollar directed at a certain project or program is a dollar directed away from something else. There is always a 'Natural Municipal Tendency' to collect extra employees, programs, and projects. These endeavors always carry a silent, unrelenting recurring cost, which will strangle the Town's ability to progress in the long-term. The lack of modern housing remains as the single greatest obstacle and threat to the economic progress of Pecos.

The City remains as the local taxing entity with the least capacity, by far, of all others. We are in no position to be a financial partner given the condition of our parks, black fire hydrants, aging fire fleet, and first responder wages at least 20% below market. Over 2200 acres have been annexed recently to help build the tax base and economy. Double-digit increases in utility rates have been necessary, repeatedly. We even placed an item on the ballot this May for the voters to decide if less money should be spent on PEDC and more funds spent on streets. *We have spent millions promoting a city that first needs a major makeover.*

Of course, the current economic environment also factors into the decision-making of budget priorities. Drilling continues in the area, but the energy sector has slowed and has cut back on drilling, in light of \$30/barrel oil. The slowdown in this sector has ripple effects into all sectors of West Texas' activities. Thus, we approach the current budget with extreme caution. "Outstanding City Management" will be mandatory!

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

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

Despite the recent Boom...we have been forced to issue more debt to make long-overdue infrastructure repairs, \$28.6M currently with at least \$5M more yet to come in public debt. The City will continue moving forward on key Public Works projects with tax-dedicated dollars and bond proceeds. These projects make good on the promise that the Town of Pecos City made to its residents: Change is coming on the City's aging infrastructure. It is indeed time for a comprehensive transformation. This work began in 2014-2015 and continues through the incoming budget year. 2016 will bring in the long-overdue sewer effluent line to solve our chronic effluent disposal problem, and provide some beneficial reuse of a valuable resource.

The proposed budget strikes a balance between a city moving forward on critical projects and one of fiscal restraint in managing public funds during a major economic slowdown. This proposed budget accomplishes both these aims.

**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, 2015**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 16,746,617	\$ 10,263,887	\$ 27,010,504
Investments	-	613,322	613,322
Internal balances	424,799	(424,799)	-
Accounts receivable (net of allowance for uncollectibles)	1,761,706	997,433	2,759,139
Restricted assets			
Cash and cash equivalents	218,772	989,095	1,207,867
Net pension asset	613,386	226,867	840,253
Capital assets (net of accumulated depreciation)			
Land	159,689	766,635	926,324
Construction in progress	4,323,145	2,381,096	6,704,241
Buildings	1,284,171	2,317,292	3,601,463
Infrastructure	1,416,917	22,657,460	24,074,377
Equipment	1,478,562	903,830	2,382,392
Vehicles	1,230,738	301,931	1,532,669
<b>Total assets</b>	<b>29,658,502</b>	<b>41,994,049</b>	<b>71,652,551</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflow of resources - net pension asset	258,751	95,703	354,454
Deferred charge on refunding	-	256,290	256,290
<b>Total deferred outflows of resources</b>	<b>258,751</b>	<b>351,993</b>	<b>610,744</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	1,101,835	1,596,035	2,697,870
Noncurrent liabilities			
Due within one year	593,598	1,675,438	2,269,036
Due in more than one year	8,091,359	16,338,707	24,430,066
<b>Total liabilities</b>	<b>9,786,792</b>	<b>19,610,180</b>	<b>29,396,972</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources - net pension asset	21,587	7,984	29,571
<b>Total deferred inflows of resources</b>	<b>21,587</b>	<b>7,984</b>	<b>29,571</b>
<b>NET POSITION</b>			
Net investment in capital assets	2,734,789	11,380,097	14,114,886
Restricted	75,967	989,095	1,065,062
Unrestricted	17,298,118	10,358,686	27,656,804
<b>Total net position</b>	<b>\$ 20,108,874</b>	<b>\$ 22,727,878</b>	<b>\$ 42,836,752</b>

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

**TOWN OF PECOS CITY, TEXAS  
STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2015**

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental activities:				
General government	\$ 4,344,919	\$ 1,219,206	\$ -	\$ -
Public safety	1,968,710	993,243	-	-
Streets and sanitation	2,071,994	1,536,633	-	-
Culture and recreation	559,495	16,541	-	-
Court	500,060	10,792	-	-
Fire and rescue	240,263	150,500	-	-
Planning and inspection	210,588	3,750	-	-
Interest on long-term debt	168,182	-	-	-
<b>Total governmental activities</b>	<b>10,064,211</b>	<b>3,930,665</b>	<b>-</b>	<b>-</b>
Business-type activities				
Water and sewer	5,614,068	7,007,885	-	-
Ambulance	395,035	167,683	-	-
Criminal Justice Center	2,106,714	2,344,175	-	-
<b>Total business-type activities</b>	<b>8,115,817</b>	<b>9,519,743</b>	<b>-</b>	<b>-</b>
<b>Total primary government</b>	<b>18,180,028</b>	<b>13,450,408</b>	<b>-</b>	<b>-</b>
General revenues:				
Property taxes				
Other taxes				
Unrestricted investment earnings				
Gain on sale of assets				
Rent and royalties				
Miscellaneous				
Transfers				
<b>Total general revenues</b>				
Change in net position				
<b>NET POSITION, beginning of year</b>				
Prior period adjustment - change in accounting principle				
<b>NET POSITION, beginning of year, as restated</b>				
<b>NET POSITION, end of year</b>				

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

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

<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>
\$ (3,125,713)	\$ -	\$ (3,125,713)
(975,467)	-	(975,467)
(535,361)	-	(535,361)
(542,954)	-	(542,954)
(489,268)	-	(489,268)
(89,763)	-	(89,763)
(206,838)	-	(206,838)
(168,182)	-	(168,182)
<u>(6,133,546)</u>	<u>-</u>	<u>(6,133,546)</u>
-	1,393,817	1,393,817
-	(227,352)	(227,352)
-	237,461	237,461
<u>-</u>	<u>1,403,926</u>	<u>1,403,926</u>
<u>(6,133,546)</u>	<u>1,403,926</u>	<u>(4,729,620)</u>
1,653,167	-	1,653,167
7,565,430	-	7,565,430
28,240	14,963	43,203
187,900	-	187,900
3,026,764	-	3,026,764
609,115	-	609,115
(34,940)	34,940	-
<u>13,035,676</u>	<u>49,903</u>	<u>13,085,579</u>
6,902,130	1,453,829	8,355,959
12,458,052	20,997,135	33,455,187
748,692	276,914	1,025,606
13,206,744	21,274,049	34,480,793
<u>\$ 20,108,874</u>	<u>\$ 22,727,878</u>	<u>\$ 42,836,752</u>

**TOWN OF PECOS CITY, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2015**

	<u>General</u>	<u>Airport Service</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 15,966,388	\$ 780,221	\$ 8	\$ 16,746,617
Due from other funds	424,799	-	-	424,799
Accounts receivable, net				
Property taxes	260,770	-	99,963	360,733
Sales taxes	755,572	-	-	755,572
Other	640,441	4,960	-	645,401
Restricted assets				
Cash and equivalents	-	-	218,772	218,772
<b>Total assets</b>	<u>\$ 18,047,970</u>	<u>\$ 785,181</u>	<u>\$ 318,743</u>	<u>\$ 19,151,894</u>
<b>Liabilities</b>				
Accounts payable	983,686	7,367	-	991,053
Accrued wages	110,782	-	-	110,782
<b>Total liabilities</b>	<u>1,094,468</u>	<u>7,367</u>	<u>-</u>	<u>1,101,835</u>
<b>Deferred inflows of resources</b>				
Unavailable Revenue - Property tax	248,289	-	91,225	339,514
<b>Total deferred inflows of resources</b>	<u>248,289</u>	<u>-</u>	<u>91,225</u>	<u>339,514</u>
<b>Fund balances</b>				
Restricted				
Airport	-	277,912	-	277,912
Police department	75,967	-	-	75,967
Donor stipulations	-	499,902	-	499,902
Debt service	-	-	227,518	227,518
Committed				
Main street	4,773,067	-	-	4,773,067
Unassigned	11,856,179	-	-	11,856,179
<b>Total fund balances</b>	<u>16,705,213</u>	<u>777,814</u>	<u>227,518</u>	<u>17,710,545</u>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<u>\$ 18,047,970</u>	<u>\$ 785,181</u>	<u>\$ 318,743</u>	<u>\$ 19,151,894</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, 2015**

Total fund balances - governmental funds	\$ 17,710,545
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.	9,893,222
Revenues earned but not available within 60 days of fiscal year-end are not recognized as revenue in the governmental funds financial statements.	339,514
Some assets, deferred outflows of resources, liabilities and deferred inflows of resources will not be recognized in the current period and therefore are not reported in the fund financial statements.	<u>(7,834,407)</u>
Net position of governmental activities	<u><u>\$ 20,108,874</u></u>

**TOWN OF PECOS CITY, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED SEPTEMBER 30, 2015**

	<u>General</u>	<u>Airport Service</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ 947,636	\$ -	\$ 675,399	\$ 1,623,035
Sales taxes	6,423,094	-	-	6,423,094
Licenses and permits	209,794	-	-	209,794
Charges for services	3,102,483	27,500	-	3,129,983
Fines	121,983	-	-	121,983
Franchise taxes	1,142,936	-	-	1,142,936
Intergovernmental revenues	150,500	-	-	150,500
Rent and royalties	3,026,764	-	-	3,026,764
Interest	27,936	304	-	28,240
Miscellaneous	726,570	20,250	-	746,820
<b>Total revenues</b>	<b>15,879,696</b>	<b>48,054</b>	<b>675,399</b>	<b>16,603,149</b>
<b>EXPENDITURES</b>				
Current				
General government	3,901,761	219,718	-	4,121,479
Public safety	1,775,535	-	-	1,775,535
Streets and sanitation	1,877,452	-	-	1,877,452
Culture and recreation	510,312	-	-	510,312
Court	449,872	-	-	449,872
Fire and rescue	212,516	-	-	212,516
Planning and inspection	199,326	-	-	199,326
Capital outlay	6,769,467	-	-	6,769,467
Debt service				
Principal retirement	192,979	-	405,000	597,979
Interest charges	11,033	-	157,149	168,182
<b>Total expenditures</b>	<b>15,900,253</b>	<b>219,718</b>	<b>562,149</b>	<b>16,682,120</b>
Excess (deficiency) of revenues over expenditures	(20,557)	(171,664)	113,250	(78,971)
Other financing sources (uses)				
Proceeds on sale of assets	368,000	-	-	368,000
Bond proceeds	-	-	-	-
Transfers in	1,412,029	298,096	-	1,710,125
Transfers out	(1,745,065)	-	-	(1,745,065)
<b>Total other financing sources (uses)</b>	<b>34,964</b>	<b>298,096</b>	<b>-</b>	<b>333,060</b>
<b>Net change in fund balances</b>	<b>14,407</b>	<b>126,432</b>	<b>113,250</b>	<b>254,089</b>
<b>FUND BALANCES, beginning of year</b>	<b>16,690,806</b>	<b>651,382</b>	<b>114,268</b>	<b>17,456,456</b>
<b>FUND BALANCES, end of year</b>	<b>\$ 16,705,213</b>	<b>\$ 777,814</b>	<b>\$ 227,518</b>	<b>\$ 17,710,545</b>

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, 2015**

Net change in fund balances - total governmental funds \$ 254,089

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. 6,021,262

The repayment of the principal of long-term debt consumes current financial resources of governmental funds. 597,979

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. (1,332)

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. 30,132

Change in net position of governmental activities \$ 6,902,130

**TOWN OF PECOS CITY, TEXAS  
STATEMENT NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2015**

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water and Sewer Fund</u>	<u>PMCJ Center</u>	<u>Ambulance</u>	<u>Totals</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalent	\$ 10,181,667	\$ 82,220	\$ -	\$ 10,263,887
Investments	613,322	-	-	613,322
Accounts receivable (net of allowance)	618,511	378,922	-	997,433
Due from other funds	494,906	-	-	494,906
Restricted cash	989,095	-	-	989,095
<b>Total current assets</b>	<u>12,897,501</u>	<u>461,142</u>	<u>-</u>	<u>13,358,643</u>
<b>NONCURRENT ASSETS:</b>				
Net pension asset	92,427	134,440	-	226,867
Capital assets:				
Land	724,094	42,541	-	766,635
Construction in progress	2,381,096	-	-	2,381,096
Buildings	101,134	3,107,857	-	3,208,991
Infrastructure	41,384,113	-	-	41,384,113
Equipment	1,942,476	64,311	64,074	2,070,861
Vehicles	678,849	152,043	638,343	1,469,235
Accumulated depreciation	(20,389,844)	(1,037,383)	(525,460)	(21,952,687)
<b>Total noncurrent assets</b>	<u>26,914,345</u>	<u>2,463,809</u>	<u>176,957</u>	<u>29,555,111</u>
<b>Total assets</b>	<u>39,811,846</u>	<u>2,924,951</u>	<u>176,957</u>	<u>42,913,754</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on refunding	-	256,290	-	256,290
Deferred outflows of resources - net pension asset	38,990	56,713	-	95,703
<b>Total deferred outflows of resources</b>	<u>38,990</u>	<u>313,003</u>	<u>-</u>	<u>351,993</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts payable and accrued liabilities	984,554	158,388	453,093	1,596,035
Due to other funds	-	-	919,705	919,705
Current portion of capital leases	94,890	-	-	94,890
Current portion of notes payable	45,548	-	-	45,548
Current portion of bonds payable	1,165,000	370,000	-	1,535,000
<b>Total current liabilities</b>	<u>2,289,992</u>	<u>528,388</u>	<u>1,372,798</u>	<u>4,191,178</u>
<b>NONCURRENT LIABILITIES:</b>				
Compensated absences	16,477	49,520	-	65,997
Capital leases	529,968	-	-	529,968
Notes payable	107,391	-	-	107,391
Bonds payable	13,200,351	2,435,000	-	15,635,351
<b>Total noncurrent liabilities</b>	<u>13,854,187</u>	<u>2,484,520</u>	<u>-</u>	<u>16,338,707</u>
<b>Total liabilities</b>	<u>16,144,179</u>	<u>3,012,908</u>	<u>1,372,798</u>	<u>20,529,885</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred outflow of resources - net pension asset	3,253	4,731	-	7,984
<b>Total deferred inflows of resources</b>	<u>3,253</u>	<u>4,731</u>	<u>-</u>	<u>7,984</u>
<b>NET POSITION:</b>				
Net investment in capital assets	11,678,771	(475,631)	176,957	11,380,097
Restricted	989,095	-	-	989,095
Unrestricted	11,035,538	695,946	(1,372,798)	10,358,686
<b>Total net position</b>	<u>\$ 23,703,404</u>	<u>\$ 220,315</u>	<u>\$ (1,195,841)</u>	<u>\$ 22,727,878</u>

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, 2015**

	<b>Business-Type Activities - Enterprise Funds</b>			<b>Totals</b>
	<b>Water and Sewer Fund</b>	<b>PMCJ Center</b>	<b>Ambulance</b>	
<b>OPERATING REVENUES</b>				
Water service charges	\$ 4,368,530	\$ -	\$ -	\$ 4,368,530
Sewage service charges	2,571,414	-	-	2,571,414
Service charges	-	2,275,228	151,992	2,427,220
Other income	67,941	68,947	15,691	152,579
<b>Total operating revenue</b>	<u>7,007,885</u>	<u>2,344,175</u>	<u>167,683</u>	<u>9,519,743</u>
<b>OPERATING EXPENSES</b>				
Salaries, wages and benefits	1,850,880	1,128,688	-	2,979,568
Materials and supplies	229,320	235,956	-	465,276
Utilities	642,414	136,660	2,622	781,696
Repairs and maintenance	733,892	140,756	2,586	877,234
Travel	13,851	554	-	14,405
Depreciation and amortization	1,570,162	62,936	79,825	1,712,923
Miscellaneous	485,544	256,934	310,002	1,052,480
<b>Total operating expenses</b>	<u>5,526,063</u>	<u>1,962,484</u>	<u>395,035</u>	<u>7,883,582</u>
<b>OPERATING INCOME (LOSS)</b>	1,481,822	381,691	(227,352)	1,636,161
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Amortization of loss on refunding	-	(42,715)	-	(42,715)
Interest earned on investments	14,800	163	-	14,963
Interest expense	(88,005)	(101,515)	-	(189,520)
<b>Total non-operating revenues (expenses)</b>	<u>(73,205)</u>	<u>(144,067)</u>	<u>-</u>	<u>(217,272)</u>
<b>Income (loss) before transfers</b>	1,408,617	237,624	(227,352)	1,418,889
<b>TRANSFERS</b>	34,940	-	-	34,940
<b>CHANGE IN NET POSITION</b>	<u>1,443,557</u>	<u>237,624</u>	<u>(227,352)</u>	<u>1,453,829</u>
<b>NET POSITION, beginning of year</b>	<u>22,147,030</u>	<u>(181,406)</u>	<u>(968,489)</u>	<u>20,997,135</u>
Prior period adjustment - change in accounting principle	112,817	164,097	-	276,914
<b>NET POSITION, beginning of year, as restated</b>	<u>22,259,847</u>	<u>(17,309)</u>	<u>(968,489)</u>	<u>21,274,049</u>
<b>NET POSITION, end of year</b>	<u>\$ 23,703,404</u>	<u>\$ 220,315</u>	<u>\$ (1,195,841)</u>	<u>\$ 22,727,878</u>

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, 2015**

	Business-Type Activities - Enterprise Funds			Totals
	Water and Sewer Fund	PMCJ Center	Ambulance	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 6,956,835	\$ 2,345,541	\$ 167,683	\$ 9,470,059
Cash paid to employees	(1,849,812)	(1,125,852)	-	(2,975,664)
Cash paid to suppliers	(1,781,188)	(772,611)	(14,658)	(2,568,457)
<b>Net cash provided by operating activities</b>	<b>3,325,835</b>	<b>447,078</b>	<b>153,025</b>	<b>3,925,938</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal paid on debt	(909,205)	(365,000)	-	(1,274,205)
Bond proceeds	6,000,000	-	-	6,000,000
Interest paid on debt	(88,005)	(103,890)	-	(191,895)
Acquisition of capital assets	(5,699,136)	(62,512)	(153,025)	(5,914,673)
<b>Net cash used in capital and related financing activities</b>	<b>(696,346)</b>	<b>(531,402)</b>	<b>(153,025)</b>	<b>(1,380,773)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(600)	-	-	(600)
Interest on investments	14,800	163	-	14,963
<b>Net cash provided by investing activities</b>	<b>14,200</b>	<b>163</b>	<b>-</b>	<b>14,363</b>
<b>Net change in cash</b>	<b>2,643,689</b>	<b>(84,161)</b>	<b>-</b>	<b>2,559,528</b>
<b>CASH AND CASH EQUIVALENTS, beginning of the year</b>	<b>8,527,073</b>	<b>166,381</b>	<b>-</b>	<b>8,693,454</b>
<b>CASH AND CASH EQUIVALENTS, end of the year (includes \$989,095 of restricted cash)</b>	<b>\$ 11,170,762</b>	<b>\$ 82,220</b>	<b>\$ -</b>	<b>\$ 11,252,982</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 1,481,822	\$ 381,691	\$ (227,352)	\$ 1,636,161
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	1,570,162	62,936	79,825	1,712,923
Accounts receivable	(51,048)	1,366	-	(49,682)
Accounts payable	323,831	(1,751)	453,093	775,173
Due to / due from	-	-	(152,541)	(152,541)
Accrued employee benefit payable	1,068	2,836	-	3,904
<b>Net cash provided by operating activities</b>	<b>\$ 3,325,835</b>	<b>\$ 447,078</b>	<b>\$ 153,025</b>	<b>\$ 3,925,938</b>

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, Airport Service Fund 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, 2015, 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 deferred outflows of resources and liabilities and deferred inflows of resources are presented in relative order of liquidity with liabilities which have an average maturity of more than one year separated into the amount due within one year and the amount due in more than one year.

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

**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**

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.

**C. Measurement Focus and Basis of Accounting**

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

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

**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**

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.

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 position 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.

**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, 2015, represents the final unpaid billings issued prior to September 30, 2015, and includes an amount for unbilled September 2015 consumption.

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

**F. Restricted Assets**

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

**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.

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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**G. Capital Assets – Continued**

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 earned but unused personal time not to exceed 30 days or 240 hours. Any unused personal time will be compensated at the employee's regular rate of pay at the time of termination. Total accumulated unused personal time at year-end was \$217,076 for governmental activity and \$65,997 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, 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 in non-spendable form, or, for legal contractual reasons, must be kept intact. The City had no nonspendable fund balance at September 30, 2015
- 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, 2015.
- 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 investment in capital assets, consists of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction, or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use, either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**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<sup>st</sup>. Taxes are levied on the following October 1<sup>st</sup> and are due and payable at that time, becoming delinquent at the following January 31<sup>st</sup>. Tax liens are automatic on January 31<sup>st</sup> each year. The tax lien is part of a lawsuit for property that can be filed any time after taxes become delinquent (February 1<sup>st</sup>). The City usually waits until after July 1<sup>st</sup> to file suits on real estate property. As of July 1<sup>st</sup>, 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, 2015, was \$0.4924 per \$100 of assessed valuation, therefore leaving a tax margin of \$1.5076 per \$100 which represented approximate potential property tax revenue of \$4,804,843.

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.

**N. Pensions**

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

**O. Deferred Outflows/Inflows of Resources**

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

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

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

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

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

The governmental fund balance sheet includes reconciliation between fund balance – total government funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that “some assets, deferred inflows of resources, liabilities and deferred outflows of resources will not be recognized in the current period and therefore are not reported in the funds financial statements.” The details of this \$(7,834,407) difference are as follows:

Net pension asset	\$ 613,386
Deferred outflows of resources - net pension asset	258,751
Deferred inflows of resources - net pension asset	(21,587)
General obligation	(6,535,000)
Notes payable	(623,433)
Landfill closure/post-closure	(1,309,448)
Compensated absences	<u>(217,076)</u>
 Net adjustment to reduce fund balance - total government funds to arrive at net position - governmental activities	 <u><u>\$ (7,834,407)</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 \$339,514 is unavailable property taxes revenue.

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

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

**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. – Continued

The details of this \$6,021,262 difference are as follows:

Capital outlay	\$ 6,946,155
Depreciation expense	<u>(924,893)</u>
Net adjustment to increase net change in fund balance - total governmental funds to arrive at change in net position of governmental activities	<u><u>\$ 6,021,262</u></u>

Another element of that reconciliation states that, “repayment of the principal of long-term debt consumes current financial resources of governmental funds.” The difference of \$(597,979) 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 \$(1,332) difference are as follows:

Landfill	\$ (68,068)
Net pension expense	101,858
Compensated absences	<u>(35,122)</u>
Net adjustment to increase net change in fund balance - total governmental funds to arrive at change in net position of governmental activities	<u><u>\$ (1,332)</u></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, 2015, there are no capital projects funds.
- 6) Budgets for the General Fund, Special Revenue Funds, and Debt Service Fund are legally adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Proprietary Funds are included in the annual budget adopted as a financial plan only.
- 7) All annual appropriations lapse at the end of each fiscal year.

B. Deficit Fund Equity

The Ambulance fund had a deficit fund balance at September 30, 2015 of \$1,195,841. The deficit in the fund resulted from uncollectable receivables and amounts due to other funds.

**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, 2015, 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, 2015. At year-end, the carrying amount of the City’s deposits was \$28,218,371, and the respective bank balances totaled \$28,193,675. Of the total bank balance, the Federal Depository Insurance Corporation (FDIC) and the Securities Investor Protection Corporation covered \$3,361,724 and \$27,000,000 was covered by collateral held by the pledging bank’s agent for the City in the City’s name, resulting in excess pledged amount of \$2,168,049.

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, 2015, are:

	Fair Value	Effective Duration or Weighted Average Maturity	Credit Risk
TEXPOOL	\$ 613,322	32 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, 2015, 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, 2015, 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	\$ 306,788	\$ -	\$ -	\$ -	\$ 117,603	\$ 424,391
Sales taxes	755,572	-	-	-	-	755,572
Accounts	-	-	991,905	378,922	-	1,370,827
Other	715,641	4,960	-	-	-	720,601
Gross receivables	1,778,001	4,960	991,905	378,922	117,603	3,271,391
Less: allowance for Uncollectible	(121,218)	-	(373,394)	-	(17,640)	(512,252)
Net total receivables	<u>\$ 1,656,783</u>	<u>\$ 4,960</u>	<u>\$ 618,511</u>	<u>\$ 378,922</u>	<u>\$ 99,963</u>	<u>\$ 2,759,139</u>

The City reports, in its governmental funds, deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At September 30, 2015, deferred inflows in the amount of \$339,514 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, 2015, was as follows:

	Beginning Balance	Additions / Completions	Retirements / Adjustments	Ending Balance
<b>Government Activities:</b>				
Capital assets, not being depreciated				
Land	\$ 309,689	\$ -	\$ 150,000	\$ 159,689
Construction in progress	-	4,323,145	-	4,323,145
Total capital assets, not being depreciated	309,689	4,323,145	150,000	4,482,834
Capital assets, being depreciated				
Buildings	1,045,918	1,003,065	-	2,048,983
Infrastructure	12,739,785	-	-	12,739,785
Equipment	2,666,517	585,360	30,100	3,221,777
Vehicles	1,768,957	1,214,685	-	2,983,642
Total capital assets, being depreciated	18,221,177	2,803,110	30,100	20,994,187
Less accumulated depreciation for				
Buildings	730,764	34,048	-	764,812
Infrastructure	11,207,207	115,661	-	11,322,868
Equipment	1,317,308	425,907	-	1,743,215
Vehicles	1,403,627	349,277	-	1,752,904
Total accumulated depreciation	14,658,906	924,893	-	15,583,799
Total capital assets, being depreciated, net	3,562,271	1,878,217	30,100	5,410,388
Governmental activities capital assets, net	<u>\$ 3,871,960</u>	<u>\$ 6,201,362</u>	<u>\$ 180,100</u>	<u>\$ 9,893,222</u>
	Beginning Balance	Additions / Completions	Retirements / Adjustments	Ending Balance
<b>Business-type Activities:</b>				
Capital assets, not being depreciated				
Land	\$ 766,635	\$ -	\$ -	\$ 766,635
Construction in progress	7,785,248	1,181,364	6,585,516	2,381,096
Total capital assets, not being depreciated	8,551,883	1,181,364	-	3,147,731
Capital assets, being depreciated				
Buildings	3,117,272	91,719	-	3,208,991
Infrastructure	31,236,822	10,147,291	-	41,384,113
Equipment	1,199,011	871,850	-	2,070,861
Vehicles	1,261,625	207,610	-	1,469,235
Total capital assets, being depreciated	36,814,730	11,318,470	-	48,133,200
Less accumulated depreciation for				
Buildings	827,799	63,900	-	891,699
Infrastructure	17,432,179	1,294,474	-	18,726,653
Equipment	929,410	237,621	-	1,167,031
Vehicles	1,050,376	116,928	-	1,167,304
Total accumulated depreciation	20,239,764	1,712,923	-	21,952,687
Total capital assets, being depreciated, net	16,574,966	9,605,547	-	26,180,513
Business-type activities capital assets, net	<u>\$ 25,126,849</u>	<u>\$ 10,786,911</u>	<u>\$ -</u>	<u>\$ 29,328,244</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	\$ 416,202
Public safety	184,978
Street and sanitation	184,978
Planning and inspection	18,498
Fire and rescue	27,747
Court	46,245
Culture and recreation	46,245
	46,245
Total depreciation expense - governmental activities	\$ 924,893
Business-type Activities	
Water and sewer	1,570,162
Ambulance	62,936
Criminal justice center	79,825
	79,825
Total depreciation expense - business-type activities	\$ 1,712,923

**NOTE 7. INSURANCE**

Health Insurance

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

Workers Compensation

The City's worker's compensation plan is administered by the Texas Municipal League Intergovernmental Risk Pool (TML). TML reviews and processes all workers compensation claims. The City has acquired stop loss coverage, which limits the City's possible loss to \$25,000 per occurrence. Estimated liability for worker's compensation claims was \$379,437 at September 30, 2015. 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 8. INTERFUND TRANSACTIONS**

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

Interfund balances as of September 30, 2015, are as follows:

	Interfund	
	Receivables	Payables
Governmental funds		
General fund	\$ 424,799	\$ -
Enterprise funds		
Water and sewer fund	494,906	-
Ambulance fund	-	919,705
	\$ 919,705	\$ 919,705

**NOTE 9. LONG-TERM DEBT**

Governmental Activities:

The following is a summary of debt transactions for governmental activities of the City for the year ended September 30, 2015:

	Balance, September 30, 2014	Additions	Reductions	Balance, September 30, 2015	Due Within One Year
Certificates of obligation	\$ 100,000	\$ -	\$ 100,000	\$ -	\$ -
General obligation	6,840,000	-	305,000	6,535,000	395,000
Notes payable	657,909	-	157,404	500,505	161,987
Notes payable	158,503	-	35,575	122,928	36,611
Landfill closure/post-closure	1,241,380	68,068	-	1,309,448	-
Other liabilities					
Compensated absences	181,954	35,122	-	217,076	-
	\$ 9,179,746	\$ 103,190	\$ 597,979	\$ 8,684,957	\$ 593,598

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

**NOTE 9. LONG-TERM DEBT – CONTINUED**

Governmental Activities: – Continued

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>
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	435,000	113,196	548,196
2021-2025	2,360,000	399,664	2,759,664
2026-2029	2,100,000	103,089	2,203,089
	<u>\$ 6,535,000</u>	<u>\$ 1,170,373</u>	<u>\$ 7,705,373</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>
2016	\$ 161,987	\$ 12,670	\$ 174,657
2017	166,704	7,953	174,657
2018	171,814	3,100	174,914
	<u>\$ 500,505</u>	<u>\$ 23,723</u>	<u>\$ 524,228</u>

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>
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>\$ 122,928</u>	<u>\$ 6,284</u>	<u>\$ 129,212</u>

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

**NOTE 9. LONG-TERM DEBT – CONTINUED**

Governmental Activities: – Continued

General Obligation

Series 2014

Town of Pecos City issued \$6,840,000 series 2014 general obligation bonds for the purpose of constructing and acquiring street and side work improvement. The initial general obligation was authorized to be issued, sold and delivered in denominations of \$5,000 dated September 14, 2014, with interest at the rate of 2.42% per annum, payable in annual 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, 2014	Additions	Reductions	Balance, September 30, 2015	Due Within One Year
Certificates of obligation	\$ 3,640,000	\$ 6,000,000	\$ 500,000	\$ 9,140,000	\$ 890,000
Revenue bonds	5,500,000	-	275,000	5,225,000	275,000
General obligation refunding bonds	3,170,000	-	365,000	2,805,000	370,000
Notes payable	197,199	-	43,909	153,290	45,548
Capital leases	715,154	-	90,296	624,858	94,890
Compensated absences	62,093	3,904	-	65,997	-
	<u>\$ 13,284,446</u>	<u>\$ 6,003,904</u>	<u>\$ 1,274,205</u>	<u>\$ 18,014,145</u>	<u>\$ 1,675,438</u>

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

**NOTE 9. 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
2016	\$ 890,000	\$ 239,850	\$ 1,129,850
2017	965,000	165,238	1,130,238
2018	985,000	148,737	1,133,737
2019	1,000,000	131,897	1,131,897
2020	1,020,000	112,015	1,132,015
2021-2025	2,000,000	410,850	2,410,850
2026-2030	2,280,000	144,669	2,424,669
	<u>\$ 9,140,000</u>	<u>\$ 1,353,256</u>	<u>\$ 10,493,256</u>

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

Year Ending September 30,	General Obligation Refunding Bonds		
	Principal	Interest	Total
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	410,000	54,912	464,912
2021-2022	870,000	58,536	928,536
	<u>\$ 2,805,000</u>	<u>\$ 451,248</u>	<u>\$ 3,256,248</u>

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

**NOTE 9. 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
2016	\$ 275,000	\$ -	\$ 275,000
2017	275,000	-	275,000
2018	275,000	-	275,000
2019	275,000	-	275,000
2020	275,000	-	275,000
2021-2025	1,375,000	-	1,375,000
2026-2030	1,375,000	-	1,375,000
2031-2033	1,100,000	-	1,100,000
	<u>\$ 5,225,000</u>	<u>\$ -</u>	<u>\$ 5,225,000</u>

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

Year Ending September 30,	Notes Payable		
	Principal	Interest	Total
2016	\$ 45,548	\$ 9,120	\$ 54,668
2017	46,875	2,590	49,465
2018	48,239	1,225	49,464
2019	12,628	88	12,716
	<u>\$ 153,290</u>	<u>\$ 13,023</u>	<u>\$ 166,313</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 9. 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

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

The initial 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.

Series 2015

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

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

**NOTE 9. 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 10. 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
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	113,011	6,989	120,000
2021	106,094	15,362	121,456
	\$ 624,858	\$ 96,598	\$ 721,456

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

**NOTE 11. LANDFILL CLOSURE AND POST-CLOSURE CARE COST**

State and federal laws and regulations require the City to place a final cover on its 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, 2015, \$0 was expended for the post-closure care costs for the landfill, and \$1,807 was increased to the liability to reflect inflated estimated costs. The City's post-closure liability as of September 30, 2015 was \$246,555. 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, 2015, the City does not operate this landfill.

The City's second landfill site's operating capacity is at 80 percent and estimated remaining landfill life is 26.5 years at the end of 2015. 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 \$55,261 was increased to the liability to reflect inflated estimated costs. The City's current closure cost liability as of September 30, 2015 was \$1,062,893. 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, 2015, the City is operating this 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, 2015.

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

**NOTE 12. COMMITMENTS**

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

**NOTE 13. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors, and omissions, injuries to employees, and natural disasters. During fiscal year 2007-2008, the City obtained general liability coverage at a cost that is 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.

**NOTE 14. DEFINED BENEFIT PENSION PLANS**

**A. Plan Description**

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tMrs.com](http://www.tMrs.com).

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

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

**NOTE 14. DEFINED BENEFIT PENSION PLANS – CONTINUED**

**B. Benefits Provided**

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

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

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

***Employees covered by benefit terms.***

At the December 31, 2014, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	55
Inactive employees entitled to but not yet receiving benefits	94
Active employees	107
	107
Total	256

**C. Contributions**

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 5.02% and 5.34% in calendar years 2014 and 2015, respectively. The city’s contributions to TMRS for the year ended September 30, 2015 were \$274,406, and were equal to the required contributions.

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

**NOTE 14. DEFINED BENEFIT PENSION PLANS – CONTINUED**

**D. Net Pension Asset**

The City's Net Pension Asset (NPA) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

***Actuarial assumptions:***

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

**NOTE 14. DEFINED BENEFIT PENSION PLANS – CONTINUED**

**D. Net Pension Asset – Continued**

***Actuarial assumptions – Continued:***

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	<u>100.00%</u>	

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

**NOTE 14. DEFINED BENEFIT PENSION PLANS – CONTINUED**

**D. Net Pension Asset – Continued**

***Discount Rate***

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Asset	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balance at 12/31/2013	\$ 11,172,176	\$ 12,011,548	\$ (839,372)
Changes for the year:			
Service cost	425,498	-	425,498
Interest	778,271	-	778,271
Change of benefit terms	-	-	-
Difference between expected and actual experience	(41,969)	-	(41,969)
Changes of assumptions	-	-	-
Contributions - employer	-	242,457	(242,457)
Contributions - employee	-	240,874	(240,874)
Net investment income	-	687,114	(687,114)
Benefit payments, including refunds of employee contributions	(533,545)	(533,545)	-
Administrative expense	-	(7,174)	7,174
Other changes	-	(590)	590
Net changes	<u>628,255</u>	<u>629,136</u>	<u>(881)</u>
Balance at 12/31/2014	<u>\$ 11,800,431</u>	<u>\$ 12,640,684</u>	<u>\$ (840,253)</u>

***Sensitivity of the net pension asset to changes in the discount rate***

The following presents the net pension asset of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease in Discount Rate (6.0%)	Discount Rate (7.0%)	1% Increase in Discount Rate (8.0%)
City's net pension liability (asset)	\$ 711,432	\$ (840,253)	\$ (2,120,152)

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

**NOTE 14. DEFINED BENEFIT PENSION PLANS – CONTINUED**

**D. Net Pension Asset – Continued**

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan’s Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmr.com](http://www.tmr.com).

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

For the year ended September 30, 2015 the city recognized pension expense of \$148,193.

At September 30, 2015, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 29,571
Changes in actuarial assumptions	-	-
Difference between projected and actual investment earnings	122,954	-
Contributions subsequent to the measurement date	<u>231,500</u>	<u>-</u>
Total	<u>\$ 354,454</u>	<u>\$ 29,571</u>

\$231,500 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31</u>	
2016	\$ 18,342
2017	18,342
2018	25,961
2019	30,738
2020	-
Thereafter	<u>-</u>
Total	<u>\$ 93,383</u>

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

**NOTE 15. RESTATEMENT OF BEGINNING NET POSITION**

The City adopted GASB 68 and 71 during 2015, which requires a restatement of net position by retroactively recognizing the City's net pension asset as of October 1, 2014. This resulted in an increase in beginning net position of \$1,025,606.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, amends the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to governmental employers that account for pensions that are provided through trusts, or equivalent arrangements. Employers are required to report the difference between the actuarial total pension liability and the pension plan's fiduciary net position as the net pension asset on the statement of net position. Previously, a liability or asset was recognized only to the extent that contributions made to the plan were exceeded by the actuarially calculated contributions.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68*. 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 following table provides a reconciliation of net position at September 30, 2014, as previously reported to net position as October 1, 2014, as restated.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net position, September 30, 2014 as originally reported	\$ 12,458,052	\$ 20,997,135	\$ 33,455,187
Change in accounting principle	<u>748,692</u>	<u>276,914</u>	<u>1,025,606</u>
Net position, October 1, 2014 as restated	<u>\$ 13,206,744</u>	<u>\$ 21,274,049</u>	<u>\$ 34,480,793</u>

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

**NOTE 16. NEW PRONOUNCEMENTS**

During February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. The primary objective of this statement is to enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on the government's financial position. This statement is effective for fiscal years beginning after June 15, 2015. The City is evaluating the impact of this statement.

During June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*. The primary objective of this statement is to enhance the accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. The statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for fiscal years beginning after June 15, 2017. The City is evaluating the impact of this statement.

During June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The primary objective of this statement is to identify the hierarchy of generally accepted accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement is effective for fiscal years beginning after June 15, 2015. The City is evaluating the impact of this statement.

During August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The primary objective of this statement is to improve disclosure information regarding the nature and magnitude of tax abatements. As a result, these transactions will be more transparent to financial statement users. This statement is effective for fiscal years beginning after December 15, 2015. The City is evaluating the impact of this statement.

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

**NOTE 16. NEW PRONOUNCEMENTS – CONTINUED**

During December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement will enhance comparability of financial statements among governments by establishing criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. This statement is in effect for reporting periods beginning after June 15, 2014, except for certain provisions on portfolio quality, custodial risk and shadow pricing. Those provisions are effective for reporting period beginning after December 15, 2015. The City is evaluating the impact of this statement.

During December 2015, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement is effective for fiscal years beginning after June 15, 2016. The City is evaluating the impact of this statement.

**NOTE 17. SUBSEQUENT EVENTS**

On April 14, 2016, the City Council authorized the issuance of \$5.2 million in combination tax and revenue certificates of obligation, series 2016. The proceeds from this issuance will be used for the payment of contractual obligations to be incurred in connection with the design, planning, acquisition, repair, renovation, and/or rehabilitation of the City's water and sewer system.

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF PECOS CITY, TEXAS  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
YEAR ENDED SEPTEMBER 30, 2015**

**A. Total pension liability**

1. Service cost	\$	425,498
2. Interest (on the Total Pension Liability)		778,271
3. Changes of benefit terms		-
4. Difference between expected and actual experience		(41,969)
5. Changes of assumptions		-
6. Benefit payments, including refunds or employee contributions		<u>(533,545)</u>
7. Net change in Total Pension Liability		628,255
8. Total Pension Liability - beginning		<u>11,172,176</u>
9. Total Pension Liability - ending	\$	<u><u>11,800,431</u></u>

**B. Plan fiduciary net position**

1. Contributions - employer	\$	242,457
2. Contributions - employee		240,874
3. Net investment income		687,114
4. Benefit payments, including refunds of employee contributions		(533,545)
5. Administrative expenses		(7,174)
6. Other		<u>(590)</u>
7. Net change in plan fiduciary net position		629,136
8. Plan fiduciary net position - beginning		<u>12,011,548</u>
9. Plan fiduciary net position - ending	\$	<u><u>12,640,684</u></u>

**C. Net pension liability (asset) [A9-B9]**

\$ (840,253)

**D. Plan fiduciary net position as a percentage of the total pension asset [B9/A9]**

107.12%

**E. Covered-employee payroll**

\$ 4,817,471

**F. Net pension liability as a percentage of covered employee payroll [C/E]**

-17.44%

**Notes to Schedule of Changes in the City's Net Pension Liability and Related Ratios**

Only one year of data is presented in accordance with GASB Statement No. 68 as the data for the years other than 2015 is not available. Additionally, GASB Statement No. 68 requires that the information on this schedule correspond with the period covered as of the year ended December 31, 2014, the current measurement date.

**TOWN OF PECOS CITY, TEXAS  
SCHEDULE OF CONTRIBUTIONS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
YEAR ENDED SEPTEMBER 30, 2015**

Actuarially Determined Contribution	\$ 287,723
Contributions in relation to the actuarially determined contribution	<u>287,723</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 5,226,785
Contributions as a percentage of covered employee payroll	5.50%

**Notes to Schedule of Contributions**

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Only one year of data is presented in accordance with GASB Statement No. 68 as the data for the years other than 2015 is not available. Additionally, GASB Statement No. 68 requires that the information on this schedule correspond with the period covered as of the year ended September 30, 2015.

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

**Methods and Assumptions Used to Determine Contribution Rates:**

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Actuarial Cost Method	Enty Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 years
Asset Valuation Method	10 Year smoothed market, 15% sort corridor
Inflation	3.00%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experienced-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

**Other Information:**

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There were no benefit changes during the year.

**TOWN OF PECOS CITY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET (GAAP BASIS) AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED SEPTEMBER 30, 2015**

	<b>Budgeted Amounts</b>		<b>Actual Amount</b>	<b>Variance with Final Budget Over / (Under)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Property taxes	\$ 1,615,802	\$ 1,615,802	\$ 947,636	\$ (668,166)
Sales taxes	5,325,272	5,325,272	6,423,094	1,097,822
Licenses and permits	82,000	88,500	209,794	121,294
Charges for services	2,087,200	2,087,200	3,102,483	1,015,283
Fines	114,000	114,000	121,983	7,983
Franchise taxes	817,000	817,000	1,142,936	325,936
Intergovernmental revenues	150,500	150,500	150,500	-
Rent and royalties	699,000	883,232	3,026,764	2,143,532
Interest	11,550	11,550	27,936	16,386
Miscellaneous	3,678,693	1,003,693	726,570	(277,123)
<b>Total revenues</b>	<b>14,581,017</b>	<b>12,096,749</b>	<b>15,879,696</b>	<b>3,782,947</b>
<b>Expenditures</b>				
General government:				
General government	423,402	581,233	761,280	(180,047)
City shop department	200,657	200,657	186,515	14,142
Administration department	20,800	20,800	19,100	1,700
Office department	558,984	558,984	556,531	2,453
Health department	137,455	137,455	118,240	19,215
Emergency management department	40,000	40,000	32	39,968
Benefit plan	934,600	934,600	1,073,331	(138,731)
Fire pension	19,440	19,440	12,619	6,821
Main street	2,944,411	2,944,411	1,147,016	1,797,395
Other	-	-	27,097	(27,097)
<b>Total general government</b>	<b>5,279,749</b>	<b>5,437,580</b>	<b>3,901,761</b>	<b>1,535,819</b>
Public safety:				
Police department	1,907,323	1,907,323	1,775,535	131,788
Street and sanitation:				
Street department	1,069,551	1,069,551	892,897	176,654
Sanitation department	1,615,928	1,615,928	984,555	631,373
<b>Total street and sanitation</b>	<b>2,685,479</b>	<b>2,685,479</b>	<b>1,877,452</b>	<b>808,027</b>
Culture and recreation:				
Pools department	34,293	34,293	34,366	(73)
Parks department	443,210	468,210	475,946	(7,736)
<b>Total culture and recreation</b>	<b>477,503</b>	<b>502,503</b>	<b>510,312</b>	<b>(7,809)</b>

**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, 2015**  
**(CONTINUED)**

	<b>Budgeted Amounts</b>		<b>Actual Amount</b>	<b>Variance with Final Budget Over / (Under)</b>
	<b>Original</b>	<b>Final</b>		
Court:				
Municipal building department	324,397	324,397	331,929	(7,532)
Municipal court department	155,570	155,570	117,943	37,627
Total court	<u>479,967</u>	<u>479,967</u>	449,872	30,095
Fire and rescue:				
Fire department	196,248	196,248	144,133	52,115
Fire marshal department	72,385	72,385	68,383	4,002
Total fire and rescue	<u>268,633</u>	<u>268,633</u>	212,516	56,117
Planning and inspection:				
Inspection department	509,793	509,793	199,326	310,467
Capital outlay	<u>9,636,329</u>	<u>10,856,270</u>	6,769,467	4,086,803
Debt service				
Principal retirement	-	-	192,979	(192,979)
Interest charges	-	-	11,033	(11,033)
Total debt service	<u>-</u>	<u>-</u>	204,012	(204,012)
<b>Total expenditures</b>	<u>21,244,776</u>	<u>22,647,548</u>	15,900,253	6,747,295
Excess (deficiency) of revenues over expenditures	(6,663,759)	(10,550,799)	(20,557)	10,530,242
<b>Other financing sources (uses)</b>				
Proceeds on sale of assets	100	187,140	368,000	180,860
Bond proceeds	6,840,000	6,840,000	-	(6,840,000)
Operating transfers in	154,546	3,884,546	1,412,029	(2,472,517)
Operating transfers out	<u>(314,615)</u>	<u>(314,615)</u>	<u>(1,745,065)</u>	<u>(1,430,450)</u>
<b>Total other financing sources (uses)</b>	<u>6,680,031</u>	<u>10,597,071</u>	34,964	(10,562,107)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	16,272	46,272	14,407	(31,865)
<b>FUND BALANCE, beginning of year</b>	<u>16,690,806</u>	<u>16,690,806</u>	16,690,806	-
<b>FUND BALANCE, end of year</b>	<u>\$ 16,707,078</u>	<u>\$ 16,737,078</u>	<u>\$ 16,705,213</u>	<u>(\$ 31,865)</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, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amount</u>	<u>Variance with Final Budget Over / (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Charges for services	\$ 18,500	\$ 18,500	\$ 27,500	\$ 9,000
Interest	15	15	304	289
Miscellaneous	4,000	4,000	20,250	16,250
<b>Total revenues</b>	<b>22,515</b>	<b>22,515</b>	<b>48,054</b>	<b>25,539</b>
<b>Expenditures</b>				
General government:				
Personnel	13,500	13,500	13,560	(60)
Supplies	21,500	21,500	18,585	2,915
General disbursements	124,500	124,500	187,573	(63,073)
<b>Total expenditures</b>	<b>159,500</b>	<b>159,500</b>	<b>219,718</b>	<b>(60,218)</b>
Deficiency of revenues over expenditures	(136,985)	(136,985)	(171,664)	34,679
<b>Other financing sources (uses)</b>				
Operating transfers in	136,985	136,985	298,096	(161,111)
<b>Total other financing sources (uses)</b>	<b>136,985</b>	<b>136,985</b>	<b>298,096</b>	<b>(161,111)</b>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	-	-	126,432	(126,432)
<b>FUND BALANCE, beginning of year</b>	<b>651,382</b>	<b>651,382</b>	<b>651,382</b>	<b>-</b>
<b>FUND BALANCE, end of year</b>	<b>\$ 651,382</b>	<b>\$ 651,382</b>	<b>\$ 777,814</b>	<b>\$ (126,432)</b>



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, and each major fund of the Town of Pecos City, Texas (the City), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 14, 2016. Our report has been modified to include an adverse opinion for omission of a discretely presented component unit.

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 2015-01, 2015-02 and 2015-03).

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 items 2015-04 and 2015-05 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 City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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 City's 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.

Midland, Texas  
April 14, 2016

**TOWN OF PECOS CITY, TEXAS  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2015**

**FINANCIAL STATEMENT FINDINGS**

**Material Weakness in Internal Control over Financial Reporting**

**FINDING – 2015 - 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, 2015  
(CONTINUED)**

**FINANCIAL STATEMENT FINDINGS – CONTINUED**

**Material Weakness in Internal Control over Financial Reporting – Continued**

**FINDING – 2015 - 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 – 2015 - 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  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2015  
(CONTINUED)**

**FINANCIAL STATEMENT FINDINGS – CONTINUED**

**Significant Deficiency in Internal Control over Financial Reporting**

**FINDING – 2015 - 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.

**TOWN OF PECOS CITY, TEXAS  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED SEPTEMBER 30, 2015  
(CONTINUED)**

**FINANCIAL STATEMENT FINDINGS – CONTINUED**

**Significant Deficiency in Internal Control over Financial Reporting**

**FINDING – 2015 - 05**

**CRITERIA** – The City’s designated investment officer shall prepare and submit, not less than quarterly, to the governing body a written report of investment transactions covered under Texas Government Code Chapter 2256 *Public Funds Investment*.

**CONDITION** – The City’s designee did not prepare and submit quarterly investment reports to the governing body.

**CAUSE** – Due to turnover of key management within the business department the reports were not prepared timely.

**EFFECT** – The City is out of compliance with Texas Government Code Chapter 2256 *Public Funds Investment* and the City’s investment policy.

**RECOMMENDATION** – A reporting calendar should be developed and monitored to ensure that investment reports are submitted timely.

**CITY’S RESPONSE** – The City will develop a reporting calendar to ensure that investment reports are prepared and approved at least quarterly.