

# **Town of Pecos City, Texas**

Financial Report

September 30, 2016

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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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Pecos City, Texas (the City) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

To the City Council  
Town of Pecos City, Texas

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

***Opinions***

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2016, 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 4-11, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contributions, and budgetary comparison information for the general fund and airport services fund on pages 56-60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any 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 June 29, 2017, 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  
June 29, 2017

# **Town of Pecos City, Texas**

## **Management's Discussion and Analysis (Unaudited)**

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, 2016. 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 \$45,093,347, an increase of \$2,256,595 from previous year. Of this amount, \$19,261,172 (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 \$18,342,426, an increase of \$631,881 in comparison with the prior year. Approximately 60% of this total amount, \$11,071,848, 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 \$11,071,848, or 77% 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.

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).

# Town of Pecos City, Texas

## Management's Discussion and Analysis (Unaudited)

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.

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.



# Town of Pecos City, Texas

## Management's Discussion and Analysis (Unaudited)

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.

### Government-Wide Financial Analysis

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

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

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

	Governmental Activities		Business-Type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 19,819,850	\$ 19,765,280	\$ 9,512,349	\$ 12,665,805	\$ 29,332,199	\$ 32,431,085
Capital assets	11,302,314	9,893,222	36,464,014	29,328,244	47,766,328	39,221,466
Total assets	<u>31,122,164</u>	<u>29,658,502</u>	<u>45,976,363</u>	<u>41,994,049</u>	<u>77,098,527</u>	<u>71,652,551</u>
Deferred outflows of resources	898,915	258,751	547,756	351,993	1,446,671	610,744
Current liabilities	1,169,903	1,101,835	2,325,908	1,596,035	3,495,811	2,697,870
Other liabilities	8,409,775	8,684,957	21,529,090	18,014,145	29,938,865	26,699,102
Total liabilities	<u>9,579,678</u>	<u>9,786,792</u>	<u>23,854,998</u>	<u>19,610,180</u>	<u>33,434,676</u>	<u>29,396,972</u>
Deferred inflows of resources	12,537	21,587	4,638	7,984	17,175	29,571
Net investment in capital assets	4,732,480	2,734,789	18,653,484	11,380,097	23,385,964	14,114,886
Restricted	1,730,795	75,967	715,416	989,095	2,446,211	1,065,062
Unrestricted	<u>15,965,589</u>	<u>17,298,118</u>	<u>3,295,583</u>	<u>10,358,686</u>	<u>19,261,172</u>	<u>27,656,804</u>
Total net position	<u>\$ 22,428,864</u>	<u>\$ 20,108,874</u>	<u>\$ 22,664,483</u>	<u>\$ 22,727,878</u>	<u>\$ 45,093,347</u>	<u>\$ 42,836,752</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.

# Town of Pecos City, Texas

## Management's Discussion and Analysis (Unaudited)

### Town of Pecos City's Change in Net Position

	Governmental Activities		Proprietary Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 4,064,433	\$ 3,930,665	\$ 9,834,700	\$ 9,519,743	\$ 13,899,133	\$ 13,450,408
Operating grants and contributions	35,471	-	-	-	35,471	-
Capital grants and contributions	300,000	-	-	-	300,000	-
General revenues:						
Property taxes	1,533,084	1,653,167	-	-	1,533,084	1,653,167
Other taxes	6,498,678	7,565,430	-	-	6,498,678	7,565,430
Rent and royalties	808,373	3,026,764	-	-	808,373	3,026,764
Other	839,768	825,255	21,988	14,963	861,756	840,218
Total revenues	<u>14,079,807</u>	<u>17,001,281</u>	<u>9,856,688</u>	<u>9,534,706</u>	<u>23,936,495</u>	<u>26,535,987</u>
Expenses:						
General government	4,103,419	4,344,919	-	-	4,103,419	4,344,919
Public safety	2,082,545	1,968,710	-	-	2,082,545	1,968,710
Streets and sanitation	5,048,832	2,071,994	-	-	5,048,832	2,071,994
Culture and recreation	647,186	559,495	-	-	647,186	559,495
Court	649,555	500,060	-	-	649,555	500,060
Fire and rescue	396,748	240,263	-	-	396,748	240,263
Planning and inspection	188,775	210,588	-	-	188,775	210,588
Interest on long-term debt	168,856	168,182	-	-	168,856	168,182
Water and sewer	-	-	5,733,497	5,614,068	5,733,497	5,614,068
Ambulance fund	-	-	325,906	395,035	325,906	395,035
Criminal justice fund	-	-	2,334,582	2,106,714	2,334,582	2,106,714
Total expenses	<u>13,285,915</u>	<u>10,064,211</u>	<u>8,393,985</u>	<u>8,115,817</u>	<u>21,679,900</u>	<u>18,180,028</u>
Excess of revenues over expense	793,892	6,937,070	1,462,703	1,418,889	2,256,595	8,355,959
Transfers	1,526,098	(34,940)	(1,526,098)	34,940	-	-
Change in net position	2,319,990	6,902,130	(63,395)	1,453,829	2,256,595	8,355,959
Net position, beginning as previously reported	20,108,874	12,458,052	22,727,878	20,997,135	42,836,752	33,455,187
Prior period adjustment - change in accounting principle	-	748,692	-	276,914	-	1,025,606
Net position, beginning as restated	<u>20,108,874</u>	<u>13,206,744</u>	<u>22,727,878</u>	<u>21,274,049</u>	<u>42,836,752</u>	<u>34,480,793</u>
Net position, ending	<u>\$ 22,428,864</u>	<u>\$ 20,108,874</u>	<u>\$ 22,664,483</u>	<u>\$ 22,727,878</u>	<u>\$ 45,093,347</u>	<u>\$ 42,836,752</u>

# Town of Pecos City, Texas

## Management's Discussion and Analysis (Unaudited)

### Town of Pecos City's General Revenues and Transfers

	2016	2015	Variance	Percent Variance
Property taxes, penalties and interest	\$ 1,533,084	\$ 1,653,167	\$ (120,083)	-7%
Other taxes	6,498,678	7,565,430	(1,066,752)	-14%
Unrestricted investment income	30,859	28,240	2,619	9%
Gain on sale of assets	120,096	187,900	(67,804)	-36%
Rent and royalties	808,373	3,026,764	(2,218,391)	-73%
Miscellaneous	688,813	609,115	79,698	13%
Transfers	1,526,098	(34,940)	1,561,038	-100%
<b>Total general revenues and transfers</b>	<b>\$ 11,206,001</b>	<b>\$ 13,035,676</b>	<b>\$ (1,829,675)</b>	

The City's general revenues and transfers provided \$11,206,001 to fund the costs associated with those activities that are not self-supporting. It is anticipated that governmental activities will not be self-supporting and will be paid for through general revenue.

Program revenue (charges for services) for governmental activities was \$4,064,433 and was used to pay for expenses associated with governmental activities of \$13,285,915.

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

Net positions from business-type activities were \$22,664,483 at the close of the fiscal year and reflect a \$63,395 decrease from the prior year. Program revenue (charges for services) of business-type activities contributed \$9,834,700 to the operations of the City. Expenses associated with these activities totaled \$8,393,985.

The major components of the revenue stream for business-type activities represent Water and Sewer revenues of \$7,118,611, Ambulance revenues of \$323,740 and Criminal Justice Center revenue of \$2,392,349.

### 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.

# **Town of Pecos City, Texas**

## **Management's Discussion and Analysis (Unaudited)**

As of September 30, 2016, the City's governmental funds reported a combined ending fund balance of \$18,342,426, an increase of \$631,881 in comparison with the prior year. Approximately 60% of this total amount, \$11,071,848, 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, 2016, the unassigned fund balance of the general fund was \$11,071,848, while total fund balance was \$16,681,062. 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 77% of total general fund expenditures, while total fund balance represents 116% of that same amount. The fund balance of the City's General Fund decreased by \$24,151 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 \$23,584,277. The total change in net position was a decrease of \$119,127. The primary factor for this decrease is an increase in interest expense of \$298,987 from the previous year.

Net deficit of the ambulance fund at the end of the year totaled \$(1,198,007). The change in net deficit from the previous fiscal year was \$2,166 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 \$278,213. The change in net position was \$57,898 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.

### **Capital Asset and Debt Administration**

#### **Capital Assets**

The City's investment in capital assets as of September 30, 2016 for its governmental activities amounted to \$11,302,314 and for its business-type activities amounted to \$36,464,014 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, infrastructure, equipment, and vehicles.

# Town of Pecos City, Texas

## Management's Discussion and Analysis (Unaudited)

### Town of Pecos City's Capital Assets

	Governmental Activities		Proprietary Activities		Totals	
	2016	2015	2016	2015	2016	2015
Land	\$ 159,689	\$ 159,689	\$ 766,635	\$ 766,635	\$ 926,324	\$ 926,324
Construction in progress	1,414,175	4,323,145	3,245,981	2,381,096	4,660,156	6,704,241
Buildings	1,490,212	1,284,171	2,386,550	2,317,292	3,876,762	3,601,463
Infrastructure	5,396,563	1,416,917	28,582,418	22,657,460	33,978,981	24,074,377
Equipment	1,645,072	1,478,562	1,053,133	903,830	2,698,205	2,382,392
Vehicles	1,196,603	1,230,738	429,297	301,931	1,625,900	1,532,669
<b>Totals</b>	<b>\$ 11,302,314</b>	<b>\$ 9,893,222</b>	<b>\$ 36,464,014</b>	<b>\$ 29,328,244</b>	<b>\$ 47,766,328</b>	<b>\$ 39,221,466</b>

### Long-Term Debt

At the end of the current fiscal year, the City had total debt outstanding of \$27,447,577. Of this amount, general obligation bonds of \$6,140,000, and notes payables of \$429,835 are supported by governmental activities. Water and Sewer system revenues support \$18,447,742, and PMCJ center revenues support \$2,435,000 of business-type activity debt.

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

	Governmental Activities		Proprietary Activities		Totals	
	2016	2015	2016	2015	2016	2015
Certificates of Obligation	\$ -	\$ -	\$ 13,390,000	\$ 9,140,000	\$ 13,390,000	\$ 9,140,000
Water and sewer bonds	-	-	4,950,000	5,225,000	4,950,000	5,225,000
General obligation refunding bonds	-	-	2,435,000	2,805,000	2,435,000	2,805,000
General obligation	6,140,000	6,535,000	-	-	6,140,000	6,535,000
Notes payable	86,317	122,928	107,742	153,290	194,059	276,218
Notes payable	338,518	500,505	-	-	338,518	500,505
<b>Totals</b>	<b>\$ 6,564,835</b>	<b>\$ 7,158,433</b>	<b>\$ 20,882,742</b>	<b>\$ 17,323,290</b>	<b>\$ 27,447,577</b>	<b>\$ 24,481,723</b>

The City's total debt increased \$2,965,854 during the current fiscal year. Debt serviced by governmental-type activities decreased by \$593,598, while debt serviced by business-type activities increased by \$3,559,452. New debt in the amount of \$5,200,000 was issued in 2016 primarily to fund water and sewer projects.

# **Town of Pecos City, Texas**

## **Management's Discussion and Analysis (Unaudited)**

### **Economic Factors and Next Year's Budget and Rates**

Local government provides many services, which are deemed essential for the welfare of the public, and are typically not provided by private enterprises because they are not profit centers. Services such as parks, police, fire and streets help make Pecos the community that it is, but none of these services pay for themselves. Each of these services is also in direct competition with the other, as each dollar directed at a certain project or program is a dollar directed away from something else. Additionally, the City remains the local taxing entity with the least capacity to generate revenue, by far, of all others. Partnering with other taxing entities to achieve common goals will be essential to continue to provide services such as fire and ambulance. Sales and property tax pay for each of these services, which are available to citizens both within and without city limits. In order that *all* customers help pay for their "fair share", Pecos will continue to strategically annex and review tax rates to cover the costs of these services.

Pecos must take an honest look at the services it provides and avoid the 'Natural Municipal Tendency' to collect extra employees, programs, and projects. Pecos should strive to be a good steward of public monies by taking an honest look at what constitutes an "essential service" and taking measures to ensure that those needs are met first and that they are funded and staffed at an appropriate level.

Pecos, as the heart of the Permian Basin oil boom, is at risk of experiencing the "bust" that so often follows the "boom". Government, with its myriad of legal requirements for procurement, planning, approval and execution of projects, is often accused of being slow and non-responsive, and sometimes rightly so. For these reasons, it is essential that Pecos begin planning NOW, while times are relatively good, for an eventual "bust" in order to be able to endure lean economic times without causing our local citizens to suffer by reducing or eliminating essential City services.

The lack of modern housing remains as the single greatest obstacle and threat to the economic progress and long-term economic stability of Pecos. Pecos has, and will continue to implement measures and incentives to attract developers and to create a suitable stock of permanent housing. The City will have to create its own destiny in this process.

Despite investing over \$30 million in water and wastewater infrastructure since 2014 (mostly paid for with debt), there remains a long list of infrastructure needs. With the potential closing of the prison, the City will be losing a substantial amount of water and sewer revenue, and will need to seek other opportunities and users in order to offset this revenue loss. It will also be necessary that the City review its utility rates on an annual basis to be able to pay for regular maintenance, infrastructure replacement, and debt. Creation of utility master plans and continuous infrastructure investment will be necessary to ensure that the City is able to provide water and sewer services to its citizens far into the future.

Although the future of Pecos could be very bright, there is still much work to do to get us to stable financial and fiscal ground. Creating a balanced budget, with an eye to future years, will be the cornerstone of upcoming budgets. In short, we must plan the work, and work the plan in order for Pecos to become the City envisioned and desired by its citizens.

### **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, 2016**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Pecos Economic Development Corporation
<b>ASSETS</b>				
Cash and cash equivalents	\$ 17,364,655	\$ 7,813,328	\$ 25,177,983	\$ 486,874
Investments	-	616,146	616,146	-
Internal balances	424,810	(424,810)	-	-
Accounts receivable (net of allowance for uncollectibles)	1,834,088	792,269	2,626,357	28,948
Assets held for sale	-	-	-	1,444,022
Note receivable - current	-	-	-	30,115
Restricted assets				
Cash and cash equivalents	196,297	715,416	911,713	-
Note receivable - long-term	-	-	-	112,623
Capital assets (net of accumulated depreciation)				
Land	159,689	766,635	926,324	1,546,590
Construction in progress	1,414,175	3,245,981	4,660,156	-
Buildings	1,490,212	2,386,550	3,876,762	-
Infrastructure	5,396,563	28,582,418	33,978,981	-
Equipment	1,645,072	1,053,133	2,698,205	288,002
Vehicles	1,196,603	429,297	1,625,900	-
Total assets	<u>31,122,164</u>	<u>45,976,363</u>	<u>77,098,527</u>	<u>3,937,174</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources - net pension liability	898,915	334,181	1,233,096	-
Deferred charge on refunding	-	213,575	213,575	-
Total deferred outflows of resources	<u>898,915</u>	<u>547,756</u>	<u>1,446,671</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	1,169,903	2,325,908	3,495,811	2,826
Due to others	-	-	-	12,000
Net pension liability	241,493	88,543	330,036	-
Noncurrent liabilities				
Due within one year	609,380	2,001,003	2,610,383	30,115
Due in more than one year	7,558,902	19,439,544	26,998,446	112,623
Total liabilities	<u>9,579,678</u>	<u>23,854,998</u>	<u>33,434,676</u>	<u>157,564</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources - net pension liability	12,537	4,638	17,175	-
Total deferred inflows of resources	<u>12,537</u>	<u>4,638</u>	<u>17,175</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	4,732,480	18,653,484	23,385,964	3,135,876
Restricted	1,730,795	715,416	2,446,211	-
Unrestricted	15,965,589	3,295,583	19,261,172	643,734
Total net position	<u>\$ 22,428,864</u>	<u>\$ 22,664,483</u>	<u>\$ 45,093,347</u>	<u>\$ 3,779,610</u>

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



**Town of Pecos City, Texas**  
Statement of Activities  
Year Ended September 30, 2016

Function/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Revenues	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental activities:				
General government	\$ 4,103,419	\$ 1,310,470	\$ 35,471	\$ -
Public safety	2,082,545	1,006,232	-	300,000
Streets and sanitation	5,048,832	1,555,555	-	-
Culture and recreation	647,186	29,269	-	-
Court	649,555	11,407	-	-
Fire and rescue	396,748	150,500	-	-
Planning and inspection	188,775	1,000	-	-
Interest on long-term debt	168,856	-	-	-
Total governmental activities	13,285,915	4,064,433	35,471	300,000
Business-type activities:				
Water and sewer	5,733,497	7,118,611	-	-
Ambulance	325,906	323,740	-	-
Criminal Justice Center	2,334,582	2,392,349	-	-
Total business-type activities	8,393,985	9,834,700	-	-
Total primary government	<u>\$ 21,679,900</u>	<u>\$ 13,899,133</u>	<u>\$ 35,471</u>	<u>\$ 300,000</u>
<b>Component Unit:</b>				
Pecos Economic Development Corporation	\$ 416,467	\$ -	\$ -	\$ -
Total component unit	<u>\$ 416,467</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:  
Property taxes  
Other taxes  
Unrestricted investment earnings  
Gain (loss) on sale of assets  
Rent and royalties  
Miscellaneous  
Transfers  
Total general revenues  
Change in net position  
**NET POSITION, beginning of year**  
**NET POSITION, end of year**

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

Net (Expenses) Revenue and Changes in Net Position			Component Unit
Governmental Activities	Business- type	Total	Pecos Economic Development Corporation
\$ (2,757,478)	\$ -	\$ (2,757,478)	\$ -
(776,313)	-	(776,313)	-
(3,493,277)	-	(3,493,277)	-
(617,917)	-	(617,917)	-
(638,148)	-	(638,148)	-
(246,248)	-	(246,248)	-
(187,775)	-	(187,775)	-
(168,856)	-	(168,856)	-
(8,886,011)	-	(8,886,011)	-
-	1,385,114	1,385,114	-
-	(2,166)	(2,166)	-
-	57,767	57,767	-
-	1,440,715	1,440,715	-
(8,886,011)	1,440,715	(7,445,296)	-
-	-	-	(416,467)
-	-	-	(416,467)
1,533,084	-	1,533,084	-
6,498,678	-	6,498,678	602,741
30,859	21,988	52,847	8
120,096	-	120,096	(99,230)
808,373	-	808,373	135,750
688,813	-	688,813	254,475
1,526,098	(1,526,098)	-	-
11,206,001	(1,504,110)	9,701,891	893,744
2,319,990	(63,395)	2,256,595	477,277
20,108,874	22,727,878	42,836,752	3,302,333
\$ 22,428,864	\$ 22,664,483	\$ 45,093,347	\$ 3,779,610

**Town of Pecos City, Texas**  
 Balance Sheet  
 Governmental Funds  
 September 30, 2016

	<u>General</u>	<u>Airport Service</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 15,898,202	\$ 1,466,445	\$ 8	\$ 17,364,655
Due from other funds	424,810	-	-	424,810
Accounts receivable, net				
Property taxes	225,741	-	98,773	324,514
Sales taxes	873,382	-	-	873,382
Other	634,692	1,500	-	636,192
Restricted assets				
Cash and equivalents	-	-	196,297	196,297
Total assets	<u>\$ 18,056,827</u>	<u>\$ 1,467,945</u>	<u>\$ 295,078</u>	<u>\$ 19,819,850</u>
<b>Liabilities</b>				
Accounts payable	1,016,382	8,738	-	1,025,120
Accrued wages	144,783	-	-	144,783
Total liabilities	1,161,165	8,738	-	1,169,903
<b>Deferred inflows of resources</b>				
Unavailable revenue - property tax	214,600	-	92,921	307,521
Total deferred inflows of resources	214,600	-	92,921	307,521
<b>Fund balances</b>				
Restricted				
Airport	-	959,305	-	959,305
Police department	69,431	-	-	69,431
Donor stipulations	-	499,902	-	499,902
Debt service	-	-	202,157	202,157
Committed				
Main street	5,539,783	-	-	5,539,783
Unassigned	11,071,848	-	-	11,071,848
Total fund balances	<u>16,681,062</u>	<u>1,459,207</u>	<u>202,157</u>	<u>18,342,426</u>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<u>\$ 18,056,827</u>	<u>\$ 1,467,945</u>	<u>\$ 295,078</u>	<u>\$ 19,819,850</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, 2016

Total fund balances - governmental funds	\$ 18,342,426
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.</p>	11,302,314
<p>Revenues earned but not available within 60 days of fiscal year-end are not recognized as revenue in the governmental funds financial statements.</p>	307,521
<p>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.</p>	<u>(7,523,397)</u>
Net position of governmental activities	<u><u>\$ 22,428,864</u></u>

**Town of Pecos City, Texas**  
Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Governmental Funds  
Year Ended September 30, 2016

	General	Airport Service	Debt Service	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 1,043,001	\$ -	\$ 522,076	\$ 1,565,077
Sales taxes	5,323,126	-	-	5,323,126
Licenses and permits	165,061	-	-	165,061
Charges for services	3,322,333	40,135	-	3,362,468
Fines	118,536	-	-	118,536
Franchise taxes	1,175,552	-	-	1,175,552
Intergovernmental revenues	150,500	-	-	150,500
Rent and royalties	808,373	-	-	808,373
Interest	29,209	1,017	633	30,859
Miscellaneous	1,233,313	58,541	298	1,292,152
Total revenues	13,369,004	99,693	523,007	13,991,704
<b>EXPENDITURES</b>				
Current				
General government	3,138,206	128,407	-	3,266,613
Public safety	1,843,461	-	-	1,843,461
Streets and sanitation	4,807,497	-	-	4,807,497
Culture and recreation	586,575	-	-	586,575
Court	585,906	-	-	585,906
Fire and rescue	360,536	-	-	360,536
Planning and inspection	176,825	-	-	176,825
Capital outlay	2,616,150	-	-	2,616,150
Debt service				
Principal retirement	198,598	-	395,000	593,598
Interest charges	15,488	-	153,368	168,856
Total expenditures	14,329,242	128,407	548,368	15,006,017
Deficiency of revenues over expenditures	(960,238)	(28,714)	(25,361)	(1,014,313)
Other financing sources (uses)				
Proceeds on sale of assets	120,096	-	-	120,096
Transfers in	2,065,042	710,107	-	2,775,149
Transfers out	(1,249,051)	-	-	(1,249,051)
Total other financing sources (uses)	936,087	710,107	-	1,646,194
Net change in fund balances	(24,151)	681,393	(25,361)	631,881
<b>FUND BALANCES, beginning of year</b>	16,705,213	777,814	227,518	17,710,545
<b>FUND BALANCES, end of year</b>	\$ 16,681,062	\$ 1,459,207	\$ 202,157	\$ 18,342,426

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, 2016

Net change in fund balances - total governmental funds	\$ 631,881
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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.</p>	1,409,092
<p>The repayment of the principal of long-term debt consumes current financial resources of governmental funds.</p>	593,598
<p>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.</p>	(282,588)
<p>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.</p>	<u>(31,993)</u>
Change in net position of governmental activities	<u><u>\$ 2,319,990</u></u>

**Town of Pecos City, Texas**  
**Statement Net Position**  
**Proprietary Funds**  
**September 30, 2016**

	<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	\$ 7,813,328	\$ -	\$ -	\$ 7,813,328
Investments	616,146	-	-	616,146
Accounts receivable (net of allowance)	401,401	390,868	-	792,269
Due from other funds	494,895	-	-	494,895
Restricted cash	715,405	11	-	715,416
Total current assets	10,041,175	390,879	-	10,432,054
<b>NONCURRENT ASSETS</b>				
Capital assets:				
Land	724,094	42,541	-	766,635
Construction in progress	3,245,981	-	-	3,245,981
Buildings	114,127	3,174,544	-	3,288,671
Infrastructure	49,094,535	-	-	49,094,535
Equipment	2,300,357	64,311	64,074	2,428,742
Vehicles	697,349	152,043	800,543	1,649,935
Accumulated depreciation	(22,345,988)	(1,132,007)	(532,490)	(24,010,485)
Total noncurrent assets	33,830,455	2,301,432	332,127	36,464,014
Total assets	43,871,630	2,692,311	332,127	46,896,068
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on refunding	-	213,575	-	213,575
Deferred outflows of resources - net pension liability	136,147	198,034	-	334,181
Total deferred outflows of resources	136,147	411,609	-	547,756
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	1,417,092	298,387	610,429	2,325,908
Due to other funds	-	-	919,705	919,705
Current portion of capital leases	99,128	-	-	99,128
Current portion of notes payable	46,875	-	-	46,875
Current portion of bonds payable	1,480,000	375,000	-	1,855,000
Total current liabilities	3,043,095	673,387	1,530,134	5,246,616
<b>NONCURRENT LIABILITIES</b>				
Compensated absences	15,110	36,765	-	51,875
Capital leases	406,802	-	-	406,802
Net pension liability	35,737	52,806	-	88,543
Notes payable	60,516	-	-	60,516
Bonds payable	16,860,351	2,060,000	-	18,920,351
Total noncurrent liabilities	17,378,516	2,149,571	-	19,528,087
Total liabilities	20,421,611	2,822,958	1,530,134	24,774,703
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred outflow of resources - net pension liability	1,889	2,749	-	4,638
Total deferred inflows of resources	1,889	2,749	-	4,638
<b>NET POSITION</b>				
Net investment in capital assets	18,454,925	(133,568)	332,127	18,653,484
Restricted	715,405	11	-	715,416
Unrestricted	4,413,947	411,770	(1,530,134)	3,295,583
Total net position	\$ 23,584,277	\$ 278,213	\$ (1,198,007)	\$ 22,664,483

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, 2016

	<b>Business-Type Activities - Enterprise Funds</b>			<b>Totals</b>
	<b>Water and Sewer Fund</b>	<b>PM CJ Center</b>	<b>Ambulance</b>	
<b>OPERATING REVENUES</b>				
Water service charges	\$ 3,977,810	\$ -	\$ -	\$ 3,977,810
Sewage service charges	2,694,830	-	-	2,694,830
Service charges	-	2,327,560	151,992	2,479,552
Other income	445,971	64,789	171,748	682,508
Total operating revenue	7,118,611	2,392,349	323,740	9,834,700
<b>OPERATING EXPENSES</b>				
Salaries, wages and benefits	1,974,855	1,297,583	3,911	3,276,349
Materials and supplies	173,190	251,461	-	424,651
Utilities	591,324	135,634	1,933	728,891
Repairs and maintenance	599,516	128,501	8	728,025
Travel	20,987	1,763	-	22,750
Depreciation and amortization	1,956,144	94,624	7,030	2,057,798
Miscellaneous	30,489	285,812	313,024	629,325
Total operating expenses	5,346,505	2,195,378	325,906	7,867,789
<b>OPERATING INCOME</b>	1,772,106	196,971	(2,166)	1,966,911
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Amortization of loss on refunding	-	(54,764)	-	(54,764)
Interest earned on investments	21,857	131	-	21,988
Interest expense	(386,992)	(84,440)	-	(471,432)
Total non-operating expenses	(365,135)	(139,073)	-	(504,208)
Income before transfers	1,406,971	57,898	(2,166)	1,462,703
<b>TRANSFERS</b>	(1,526,098)	-	-	(1,526,098)
<b>CHANGE IN NET POSITION</b>	(119,127)	57,898	(2,166)	(63,395)
<b>NET POSITION, beginning of year</b>	23,703,404	220,315	(1,195,841)	22,727,878
<b>NET POSITION, end of year</b>	<u>\$ 23,584,277</u>	<u>\$ 278,213</u>	<u>\$ (1,198,007)</u>	<u>\$ 22,664,483</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, 2016

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Totals</u>
	<u>Water and Sewer Fund</u>	<u>PMCJ Center</u>	<u>Ambulance</u>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 5,935,244	\$ 2,412,297	\$ 323,740	\$ 8,671,281
Cash paid to employees	(1,976,222)	(1,310,338)	(3,911)	(3,290,471)
Cash paid to suppliers	(1,477,863)	(663,172)	(157,629)	(2,298,664)
Net cash provided by operating activities	2,481,159	438,787	162,200	3,082,146
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal paid on debt	(1,389,476)	(370,000)	-	(1,759,476)
Bond proceeds	5,200,000	-	-	5,200,000
Interest paid on debt	(386,992)	(84,440)	-	(471,432)
Acquisition of capital assets	(8,565,753)	(66,687)	(162,200)	(8,794,640)
Net cash used in capital and related financing activities	(5,142,221)	(521,127)	(162,200)	(5,825,548)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(2,824)	-	-	(2,824)
Interest on investments	21,857	131	-	21,988
Net cash provided by investing activities	19,033	131	-	19,164
Net change in cash	(2,642,029)	(82,209)	-	(2,724,238)
<b>CASH AND CASH EQUIVALENTS, beginning of the year</b>	11,170,762	82,220	-	11,252,982
<b>CASH AND CASH EQUIVALENTS, end of the year (includes \$715,416 of restricted cash)</b>	<u>\$ 8,528,733</u>	<u>\$ 11</u>	<u>\$ -</u>	<u>\$ 8,528,744</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 1,772,106	\$ 196,971	\$ (2,166)	\$ 1,966,911
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	1,956,144	94,624	7,030	2,057,798
Accounts receivable	(277,796)	(11,946)	-	(289,742)
Accounts payable	(473,033)	171,893	157,336	(143,804)
Due to / due from	(494,895)	-	-	(494,895)
Accrued employee benefit payable	(1,367)	(12,755)	-	(14,122)
Net cash provided by operating activities	<u>\$ 2,481,159</u>	<u>\$ 438,787</u>	<u>\$ 162,200</u>	<u>\$ 3,082,146</u>

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.

#### 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.

# Town of Pecos City, Texas

## Notes to Financial Statements

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.

Individual Component Unit Disclosures:

Discretely Presented Component Unit:

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

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

### **B. Government-Wide and Fund Financial Statements**

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

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

# Town of Pecos City, Texas

## Notes to Financial Statements

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

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

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

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

### **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

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

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 "unrestricted investment earnings" account on the statement of activities.

# Town of Pecos City, Texas

## Notes to Financial Statements

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.

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

### **E. Receivables, Payables and Interfund Transactions**

The City's Water and Sewer Enterprise Fund operates on a monthly billing cycle, issuing billings continuously throughout the month. The accounts receivable for water and sewer at September 30, 2016, represents the final unpaid billings issued prior to September 30, 2016, and includes an amount for unbilled September 2016 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.

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

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



# Town of Pecos City, Texas

## Notes to Financial Statements

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

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

### H. Pensions

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

### I. 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 liability which are reported in the government-wide and proprietary fund Statement of Net Position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred resource outflow related to net pension liability results from differences in projected and actual earnings on plan investments and contributions made subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of 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 the deferred inflow of resources related to the net pension liability resulting from differences in expected and actual experience.

### J. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused personal time not to exceed 30 days or 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 \$220,671 for governmental activities and \$51,875 for business-type activities.

# Town of Pecos City, Texas

## Notes to Financial Statements

### K. Long-term Obligations

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

### L. Fund Equity

#### Fund Balance

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

- 1) Nonspendable fund balance includes amounts that cannot be spent because they are either in non-spendable form, or, for legal contractual reasons, must be kept intact. The City had no nonspendable fund balance at September 30, 2016.
- 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, 2016.
- 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

### **M. 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, 2016, was \$0.3548 per \$100 of assessed valuation, therefore leaving a tax margin of \$1.6452 per \$100 which represented approximate property tax revenue of \$7,408,121.

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

### **N. Federal and State Grants and Entitlements**

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

### **O. Use of Estimates**

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

# 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 fund financial statements.” The details of this \$(7,523,397) difference are as follows:

Deferred outflows of resources - net pension liability	\$	898,915
Deferred inflows of resources - net pension liability		(12,537)
Net pension liability		(241,493)
General obligation		(6,140,000)
Notes payable		(424,835)
Landfill closure/post-closure		(1,382,776)
Compensated absences		(220,671)
		(7,523,397)
Net adjustment to reduce fund balance - total government funds to arrive at net position - governmental activities	\$	(7,523,397)

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 \$307,521 is unavailable property taxes revenue.

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

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

The details of this \$1,363,655 difference are as follows:

Capital outlay	\$	2,616,150
Depreciation expense		(1,207,058)
		1,409,092
Net adjustment to increase net change in fund balance - total governmental funds to arrive at change in net position of governmental activities	\$	1,409,092

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 \$(593,598) is general obligation and notes payable payments.

# Town of Pecos City, Texas

## Notes to Financial Statements

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 \$(282,588) difference are as follows:

Landfill	\$ (73,328)
Net pension expense	(205,665)
Compensated absences	(3,595)
	_____
Net adjustment to increase net change in fund balance - total governmental funds to arrive at change in net position of governmental activities	\$ (282,588)

### 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, 2016, 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, 2016 of \$1,198,007. The deficit in the fund resulted from uncollectable receivables and amounts due to other funds.

# Town of Pecos City, Texas

## Notes to Financial Statements

### C. Excess of Expenditures over Appropriations

For the year ended September 30, 2016, expenditures exceeded appropriations in the General Fund and Airport Fund for the following reasons:

#### **General Fund**

General Government: General Government – Expenditures exceeded appropriations by \$278,569 due to increased costs related to annexations and general operations.

General Government: Benefit Plan – Expenditures exceeded appropriations by \$270,935 due to increase in healthcare premiums.

General Government: Fire Pension – Expenditures exceeded appropriations by \$3,276 due to increase in discretionary contribution rate.

General Government: Other – Expenditures exceeded appropriations by \$33,686 due to increase in police forfeitures.

Culture and recreation: Pools Department – Expenditures exceeded appropriations by \$3,327 due to increase in operating costs.

Court: Municipal Building Department – Expenditures exceeded appropriations by \$52,171 due to increase in electrical expenses.

Capital Outlay – Expenditures exceeded appropriations by \$1,369,169 due to timing of several capital projects.

Debt Service: Principal Retirement and Interest Charges – Expenditures exceeded these appropriations by \$214,086 due to the City not budgeting for these types of expenditures.

#### **Airport Fund**

General Government: Personnel – Expenditures exceeded appropriations by \$4,329 due to increase in insurance premiums.

General Government: Supplies – Expenditures exceeded appropriations by \$9,909 due to increase in goods used in operations.

# 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, 2016, 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, 2016. At year-end, the carrying amount of the City’s deposits and bank balance was \$26,084,696. Of the total bank balance of \$26,137,068, the Federal Depository Insurance Corporation (FDIC) and the Securities Investor Protection Corporation covered \$250,000 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 \$1,112,932.

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.

At September 30, 2016, 100% of the City’s investments were in external investment pools.

The City’s investments carried at fair value as of September 30, 2016, are:

	September 30, 2016	Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
Investments Measured at Amortized Cost:				
TEXPOOL PRIME	\$ 616,146	100%	48	AAAm
Total Portfolio	<u>\$ 616,146</u>	<u>100%</u>		
Total Portfolio Weighted Average			<u>48</u>	

# Town of Pecos City, Texas

## Notes to Financial Statements

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, 2016, 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, 2016, 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	\$ 265,578	\$ -	\$ -	\$ -	\$ 116,204	\$ 381,782
Sales taxes	873,382	-	-	-	-	873,382
Accounts	-	-	821,072	390,868	-	1,211,940
Other	717,689	1,500	-	-	-	719,189
Gross receivables	1,856,649	1,500	821,072	390,868	116,204	3,186,293
Less: allowance for Uncollectible	(122,834)	-	(419,671)	-	(17,431)	(559,936)
Net total receivables	<u>\$ 1,733,815</u>	<u>\$ 1,500</u>	<u>\$ 401,401</u>	<u>\$ 390,868</u>	<u>\$ 98,773</u>	<u>\$ 2,626,357</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, 2016, deferred inflows in the amount of \$307,521 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, 2016, was as follows:

	Beginning Balance	Additions / Completions	Retirements / Adjustments	Ending Balance
<b>Government Activities:</b>				
Capital assets, not being depreciated				
Land	\$ 159,689	\$ -	\$ -	\$ 159,689
Construction in progress	4,323,145	1,414,175	(4,323,145)	1,414,175
Total capital assets, not being depreciated	4,482,834	1,414,175	(4,323,145)	1,573,864
Capital assets, being depreciated				
Buildings	2,048,983	242,188	-	2,291,171
Infrastructure	12,739,785	215,239	4,323,145	17,278,169
Equipment	3,221,777	715,337	(29,200)	3,907,914
Vehicles	2,983,642	29,211	-	3,012,853
Total capital assets, being depreciated	20,994,187	1,201,975	(29,200)	26,490,107
Less accumulated depreciation for				
Buildings	764,812	36,147	-	800,959
Infrastructure	11,322,868	558,738	-	11,881,606
Equipment	1,743,215	548,827	(29,200)	2,262,842
Vehicles	1,752,904	63,346	-	1,816,250
Total accumulated depreciation	15,583,799	1,207,058	(29,200)	16,761,657
Total capital assets, being depreciated, net	5,410,388	(5,083)	-	9,728,450
Governmental activities capital assets, net	<u>\$ 9,893,222</u>	<u>\$ 1,409,092</u>	<u>\$ (4,323,145)</u>	<u>\$ 11,302,314</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	2,381,096	3,245,981	(2,381,096)	3,245,981
Total capital assets, not being depreciated	3,147,731	3,245,981	(2,381,096)	4,012,616
Capital assets, being depreciated				
Buildings	3,208,991	79,680	-	3,288,671
Infrastructure	41,384,113	5,329,326	2,381,096	49,094,535
Equipment	2,070,861	357,881	-	2,428,742
Vehicles	1,469,235	180,700	-	1,649,935
Total capital assets, being depreciated	48,133,200	5,947,587	2,381,096	56,461,883
Less accumulated depreciation for				
Buildings	891,699	10,422	-	902,121
Infrastructure	18,726,653	1,785,464	-	20,512,117
Equipment	1,167,031	208,578	-	1,375,609
Vehicles	1,167,304	53,334	-	1,220,638
Total accumulated depreciation	21,952,687	2,057,798	-	24,010,485
Total capital assets, being depreciated, net	26,180,513	3,889,789	2,381,096	32,451,398
Business-type activities capital assets, net	<u>\$ 29,328,244</u>	<u>\$ 7,135,770</u>	<u>\$ -</u>	<u>\$ 36,464,014</u>

## Town of Pecos City, Texas

### Notes to Financial Statements

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

Government Activities	
General government	\$ 543,176
Public safety	241,412
Street and sanitation	241,412
Planning and inspection	24,141
Fire and rescue	36,212
Court	60,353
Culture and recreation	60,353
	1,207,058
Total depreciation expense - governmental activities	\$ 1,207,058
Business-type Activities	
Water and sewer	1,956,144
Ambulance	94,624
Criminal justice center	7,030
	2,057,798
Total depreciation expense - business-type activities	\$ 2,057,798

#### 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 \$170,299 at September 30, 2016. The amount is included in accounts payable and accrued liabilities in the general fund and the governmental activities.

#### Note 8. Interfund Transactions

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

## Town of Pecos City, Texas

### Notes to Financial Statements

Interfund balances as of September 30, 2016, are as follows:

	Interfund	
	Receivables	Payables
Governmental funds		
General fund	\$ 424,810	\$ -
Enterprise funds		
Water and sewer fund	494,895	-
Ambulance fund	-	919,705
	<u>\$ 919,705</u>	<u>\$ 919,705</u>

Interfund activity for the year ended September 30, 2016, are as follows:

	Interfund	
	Transfer In	Transfer Out
Governmental funds		
General fund	\$ 815,991	\$ -
Airport fund	710,107	-
Water and sewer fund	-	1,526,098
	<u>\$ 1,526,098</u>	<u>\$ 1,526,098</u>

### 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, 2016:

	Balance, September 30, 2015	Additions	Reductions	Balance, September 30, 2016	Due Within One Year
General obligation	\$ 6,535,000	\$ -	\$ 395,000	\$ 6,140,000	\$ 405,000
Notes payable	500,505	-	161,987	338,518	166,704
Notes payable	122,928	-	36,611	86,317	37,676
Landfill closure/post-closure	1,309,448	73,328	-	1,382,776	-
Other liabilities					
Compensated absences	217,076	3,595	-	220,671	-
	<u>\$ 8,684,957</u>	<u>\$ 76,923</u>	<u>\$ 593,598</u>	<u>\$ 8,168,282</u>	<u>\$ 609,380</u>

## Town of Pecos City, Texas

### Notes to Financial Statements

The following is a schedule of the future payments on general obligation:

Year Ending September 30,	General Obligation		
	Principal	Interest	Total
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	450,000	102,487	552,487
2022-2026	2,415,000	341,887	2,756,887
2027-2029	1,595,000	58,379	1,653,379
	<u>\$ 6,140,000</u>	<u>\$ 1,017,005</u>	<u>\$ 7,157,005</u>

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

Year Ending September 30,	Notes Payable		
	Principal	Interest	Total
2017	\$ 166,704	\$ 7,953	\$ 174,657
2018	171,814	3,100	174,914
	<u>\$ 338,518</u>	<u>\$ 11,053</u>	<u>\$ 349,571</u>

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

Year Ending September 30,	Principal	Interest	Total
2017	\$ 37,676	\$ 2,081	\$ 39,757
2018	38,773	985	39,758
2019	9,868	71	9,939
	<u>\$ 86,317</u>	<u>\$ 3,137</u>	<u>\$ 89,454</u>

#### 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.

# Town of Pecos City, Texas

## Notes to Financial Statements

### 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 valorem 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 valorem 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, 2015	Additions	Reductions	Balance, September 30, 2016	Due Within One Year
Certificates of obligation	\$ 9,140,000	\$ 5,200,000	\$ 950,000	\$ 13,390,000	\$ 1,205,000
Revenue bonds	5,225,000	-	275,000	4,950,000	275,000
General obligation refunding bonds	2,805,000	-	370,000	2,435,000	375,000
Notes payable	153,290	-	45,548	107,742	46,875
Capital leases	624,858	-	118,928	505,930	99,128
Compensated absences	65,997	-	14,122	51,875	-
	<u>\$ 18,014,145</u>	<u>\$ 5,200,000</u>	<u>\$ 1,773,598</u>	<u>\$ 21,440,547</u>	<u>\$ 2,001,003</u>

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
2017	\$ 1,205,000	\$ 324,100	\$ 1,529,100
2018	1,270,000	263,338	1,533,338
2019	1,295,000	239,208	1,534,208
2020	1,320,000	211,857	1,531,857
2021	705,000	194,035	899,035
2022-2026	3,795,000	699,984	4,494,984
2027-2030	3,800,000	212,277	4,012,277
	<u>\$ 13,390,000</u>	<u>\$ 2,144,799</u>	<u>\$ 15,534,799</u>

## Town of Pecos City, Texas

### Notes to Financial Statements

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
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	425,000	38,512	463,512
2022	445,000	20,024	465,024
	<u>\$ 2,435,000</u>	<u>\$ 354,258</u>	<u>\$ 2,789,258</u>

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

Year Ending September 30,	Revenue Bonds		
	Principal	Interest	Total
2017	\$ 275,000	\$ -	\$ 275,000
2018	275,000	-	275,000
2019	275,000	-	275,000
2020	275,000	-	275,000
2021	275,000	-	275,000
2022-2026	1,375,000	-	1,375,000
2026-2030	1,375,000	-	1,375,000
2031-2033	825,000	-	825,000
	<u>\$ 4,950,000</u>	<u>\$ -</u>	<u>\$ 4,950,000</u>

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

Year Ending September 30,	Notes Payable		
	Principal	Interest	Total
2017	\$ 46,875	\$ 2,590	\$ 49,465
2018	48,239	1,225	49,464
2019	12,628	88	12,716
	<u>\$ 107,742</u>	<u>\$ 3,903</u>	<u>\$ 111,645</u>

# Town of Pecos City, Texas

## Notes to Financial Statements

### Certificates of Obligation

#### Series 2000A

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

The 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.

#### Series 2016

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

# Town of Pecos City, Texas

## Notes to Financial Statements

### 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, 2016 are as follows:

Year Ending September 30,	Principal	Interest	Total
2017	\$ 99,128	\$ 13,100	\$ 112,228
2018	262,486	6,229	268,715
2019	144,316	453	144,769
	\$ 505,930	\$ 19,782	\$ 525,712

### **Note 11. Landfill Closure and Post-Closure Care Cost**

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

The City's first landfill site reached its operating capacity during the 2000 fiscal year. The site received approval to enter the post-closure care period during that fiscal year. During the year ended September 30, 2016, \$0 was expended for the post-closure care costs for the landfill, and \$13,807 was increased to the liability to reflect inflated estimated costs. The City's post-closure liability as of September 30, 2016 was \$260,362. 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, 2016, the City does not operate this landfill.



# Town of Pecos City, Texas

## Notes to Financial Statements

The City's second landfill site's operating capacity is at 80 percent and estimated remaining landfill life is 25.5 years at the end of 2016. During the year ended September 30, 2016, \$0 was expended for the current cost of closure, \$0 was expended for post-closure care costs for the landfill, and \$59,522 was increased to the liability to reflect inflated estimated costs. The City's current closure cost liability as of September 30, 2016 was \$1,382,776. 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, 2016, the City is operating this landfill.

The City has not met the financial and public notice component sections of the Local Financial Test and Government Guarantee, but is otherwise in compliance with the state and federal laws and regulations governing landfill closure and post-closure care at September 30, 2016.

### **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.

# Town of Pecos City, Texas

## Notes to Financial Statements

### Note 14. Employee Retirement Benefits

#### 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.tmr.com](http://www.tmr.com).

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

#### B. Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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 benefits as of September 30, 2016 include:

Inactive employees or beneficiaries currently receiving benefits	55
Inactive employees entitled to but not yet receiving benefits	102
Active employees	124
Total	281

#### 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.

# Town of Pecos City, Texas

## Notes to Financial Statements

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 5.34% and 5.43% in calendar years 2015 and 2016, respectively. The city's contributions to TMRS for the year ended September 30, 2016 were \$370,019, and were equal to the required contributions.

### **D. Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, 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, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	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, 2015, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2007 through December 31, 2010, first used in the December 31, 2011 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2010 through 2012, and dated December 31, 2014. These assumptions were first used in the December 31, 2014 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 2015 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.

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.

# Town of Pecos City, Texas

## Notes to Financial Statements

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%	5.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	<u><u>100.00%</u></u>	

### *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) Liability (a) - (b)
Balance at 12/31/2014	\$ 11,800,431	\$ 12,640,684	\$ (840,253)
Changes for the year:			
Service cost	595,834	-	595,834
Interest	828,210	-	828,210
Change of benefit terms	-	-	-
Difference between expected and actual experience	54,545	-	54,545
Changes of assumptions	281,527	-	281,527
Contributions - employer	-	301,131	(301,131)
Contributions - employee	-	281,965	(281,965)
Net investment income	-	18,653	(18,653)
Benefit payments, including refunds of employee contributions	(533,543)	(533,543)	-
Administrative expense	-	(11,361)	11,361
Other changes	-	(561)	561
Net changes	<u>1,226,573</u>	<u>56,284</u>	<u>1,170,289</u>
Balance at 12/31/2015	<u>\$ 13,027,004</u>	<u>\$ 12,696,968</u>	<u>\$ 330,036</u>

# Town of Pecos City, Texas

## Notes to Financial Statements

### *Sensitivity of the net pension liability to changes in the discount rate*

The following presents the net pension liability of the City, calculated using the discount rate of 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)	\$ 2,100,745	\$ 330,036	\$ (1,124,190)

### *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, 2016 the city recognized pension expense of \$567,763. At September 30, 2016, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 37,174	\$ 17,175
Changes in actuarial assumptions	191,869	-
Difference between projected and actual investment earnings	786,877	-
Contributions subsequent to the measurement date	217,176	-
Total	\$ 1,233,096	\$ 17,175

\$217,176 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31		
2016	\$	298,610
2017		306,229
2018		218,962
2019		174,944
Total	\$	998,745

# Town of Pecos City, Texas

## Notes to Financial Statements

### Note 15. Discrete Component Unit – Pecos Economic Development Corporation

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

#### A. Significant Accounting Policies

##### 1. Definition and Nature of Entity

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

##### 2. Financial Reporting Entity

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

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

##### 3. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities display information for the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

# Town of Pecos City, Texas

## Notes to Financial Statements

### 4. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

On the Governmental Funds Balance Sheet and the Governmental Fund Revenues, Expenditures and Changes in Fund Balance transactions are presented using the economic resources measurement focus as defined below.

All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheet. Their operating statements present sources and uses of available spendable financial resources during a given period. The funds use fund balance as their measure of available spendable financial resources at the end of the period.

### 5. Basis of Accounting

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

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

## **B. Type of Accounts**

### 1. Assets

For the purpose of the Statement of Net Position and Governmental Fund Balance Sheet, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the Corporation.

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

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. Interest expenses are not capitalized with fixed assets.

# Town of Pecos City, Texas

## Notes to Financial Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to September 30, 2007. Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives for furniture and equipment and leasehold improvements, the Corporation's only type of fixed asset other than land, is between three to seven years.

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

### 2. Equity

Equity is classified as net position and displayed in three components:

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

### C. Revenues, Expenditures, and Expenses

#### 1. Operating Revenues and Expenses

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

#### 2. Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities. In the fund financial statements, governmental funds report expenditures of financial resources.



# Town of Pecos City, Texas

## Notes to Financial Statements

### D. Cash and Investments

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

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

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

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

At year-end the Corporation's cash and investments totaled \$486,874. \$250,000 of the deposits were considered collateralized as Category 1 credit risks. The remaining \$236,874 was considered uninsured.

### E. Capital Assets

Capital assets for the year ended September 30, 2016, were as follows:

	Balance at 10/1/15	Additions	Disposals / Reclass	Balance at 9/30/16
Land	\$ 1,546,590	\$ -	\$ -	\$ 1,546,590
Leasehold improvements	218,193	61,548	-	279,741
Furniture and equipment	92,471	8,986	(49,962)	51,495
Totals at Historical Cost	<u>1,857,254</u>	<u>70,534</u>	<u>(49,962)</u>	<u>1,877,826</u>
Accumulated depreciation	<u>(64,758)</u>	<u>(18,776)</u>	<u>40,300</u>	<u>(43,234)</u>
Capital assets, net	<u>\$ 1,792,496</u>	<u>\$ 51,758</u>	<u>\$ (9,662)</u>	<u>\$ 1,834,592</u>

Depreciation expense for the year was \$18,776.

Assets held for sale as of September 30, 2016 are \$1,444,022, which amount to assets that can be sold at the bequest of the Corporation's management.

### F. Note Payable

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Payable Amounts Outstanding 10/1/15	Issued	Retired	Outstanding 9/30/16
Texas Economic Development Bank	3.25%	\$ 462,000	\$ 6,879	\$ 217,297	\$ -	\$ 74,559	\$ 142,738

# Town of Pecos City, Texas

## Notes to Financial Statements

On August 10, 2010 the Corporation entered into an agreement with the Texas Economic Development Bank to borrow \$462,000. Terms of the variable interest note vary from 3.25% to 3.299% with monthly payments of \$2,857.87 to be paid off August 1, 2024. In September 2016 a large principal payment of \$50,000 was made that rolled back the payoff date to November 1, 2020.

Year Ending	Principal & Interest	Payment
2017	\$ 34,295	\$ 34,295
2018	34,294	34,294
2019	34,294	34,294
2020	34,294	34,294
2021	5,561	5,561
	\$ 142,738	\$ 142,738

### G. Tax Revenue

The Corporation receives a portion of the sales tax collected by the Town of Pecos City to fund its operations. The Corporation received one quarter of the City's one and half percent sales tax for the first three quarters of the Corporations fiscal year. During the last quarter of the fiscal year the Corporation received one eighth of the City's one half percent sales tax due to a proposition passed by an election held in March of 2016.

### H. Restatements

In order for net position and specific fund balances to roll forward year over year various restatements were made in the course of the fiscal year and as a result of the audit that resulted in a net prior period adjustment of \$59,666 from fiscal year 2016 governmental fund balances to the fiscal year 2015 governmental fund balances.

### I. Contingencies

In the normal course of providing services to the public the Corporation from time to time is subjected to litigation claims. The Corporation defends itself against such claims based on internal assessment of liability and risk. Litigation expenses and damages are recorded as expense in the period when services are rendered. No liabilities have been accrued in the financial statements relative to litigation in process for the year ended September 30, 2016.

### J. Risk Management

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

# Town of Pecos City, Texas

## Notes to Financial Statements

### K. Related Party Transactions

From time to time the Corporation may enter into transactions with related parties through the normal course of business. If a member of the Board of Directors has a conflict of interest, proper documentation is completed and he/she is required to abstain from any discussion or voting regarding the matter. Management is not aware of any material related party transactions that occurred for the year ended September 30, 2016.

### L. Subsequent Events

In preparing the financial statements the management of the Pecos Economic Development Corporation has evaluated events and transactions for potential recognition or disclosure through December 15, 2016, the date the financial statements were issued. No events, including instances of noncompliance, have occurred subsequent to the statement of financial position date that would require adjustment to or further disclosure in the financial statements.

### Note 16. New Pronouncements

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

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

Statement No. 82, *Pension Issues* – an amendment of GASB No. 67, No. 68 and No. 73 – This statement applies to employer accounting for pensions by government and to pension plan reporting – addresses issues raised with regard to previous GASB statements. The requirements of this statement are effective for reporting periods beginning after June 15, 2016.

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

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

The City's management is reviewing the implementation process of these standards by gathering required information.

# **Required Supplementary Information**

(Unaudited)

**Town of Pecos City, Texas**  
Schedule of Changes in Net Pension Liability and Related Ratios  
Texas Municipal Retirement System  
Year Ended September 30, 2016

<b>A. Total pension liability</b>	2016	2015
1. Service cost	\$ 595,834	\$ 425,498
2. Interest (on the Total Pension Liability)	828,210	778,271
3. Changes of benefit terms	-	-
4. Difference between expected and actual experience	54,545	(41,969)
5. Changes of assumptions	281,527	-
6. Benefit payments, including refunds or employee contributions	(533,543)	(533,545)
7. Net change in Total Pension Liability	1,226,573	628,255
8. Total Pension Liability - beginning	11,800,431	11,172,176
9. Total Pension Liability - ending	\$ 13,027,004	\$ 11,800,431
 <b>B. Plan fiduciary net position</b>		
1. Contributions - employer	\$ 301,131	\$ 242,457
2. Contributions - employee	281,965	240,874
3. Net investment income	18,653	687,114
4. Benefit payments, including refunds of employee contributions	(533,543)	(533,545)
5. Administrative expenses	(11,361)	(7,174)
6. Other	(561)	(590)
7. Net change in plan fiduciary net position	56,284	629,136
8. Plan fiduciary net position - beginning	12,640,684	12,011,548
9. Plan fiduciary net position - ending	\$ 12,696,968	\$ 12,640,684
<b>C. Net pension liability (asset) [A9-B9]</b>	\$ 330,036	\$ (840,253)
<b>D. Plan fiduciary net position as a percentage of the total pension asset [B9/A9]</b>	97.47%	107.12%
<b>E. Covered-employee payroll</b>	\$ 5,631,706	\$ 4,817,471
<b>F. Net pension liability as a percentage of covered employee payroll [C/E]</b>	5.86%	-17.44%

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

GASB Statement No. 68 requires 10 year of data; however, two years of data is presented as the data for years prior to 2015 is not available. Additionally, GASB Statement No. 68 requires that information on this schedule correspond with the period covered as of the years ended December 31, 2014 and 2015, the current measurement dates.

**Town of Pecos City, Texas**  
 Schedule of Contributions  
 Texas Municipal Retirement System  
 Year Ended September 30, 2016

	2016	2015
Actuarially Determined Contribution	\$ 296,434	\$ 287,723
Contributions in relation to the actuarially determined contribution	296,434	287,723
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 5,631,706	\$ 5,226,785
Contributions as a percentage of covered employee payroll	5.26%	5.50%

**Notes to Schedule of Contributions**

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GASB Statement No. 68 requires 10 year of data; however, two years of data is presented as the data for years prior to 2015 is not available. Additionally, GASB Statement No. 68 requires that information on this schedule correspond with the period covered as of the years ended December 31, 2014 and 2015, the current measurement dates.

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

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

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Actuarial Cost Method	Enty Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	10 Year smoothed market, 15% sort corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experienced-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

**Other Information:**

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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, 2016

	<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>				
Property taxes	\$ 1,568,000	\$ 1,568,000	\$ 1,043,001	\$ (524,999)
Sales taxes	8,729,702	8,729,702	5,323,126	(3,406,576)
Licenses and permits	105,700	105,700	165,061	59,361
Charges for services	2,536,920	2,536,920	3,322,333	785,413
Fines	89,000	89,000	118,536	29,536
Franchise taxes	760,000	760,000	1,175,552	415,552
Intergovernmental revenues	150,500	150,500	150,500	-
Rent and royalties	515,000	515,000	808,373	293,373
Interest	11,200	11,200	29,209	18,009
Miscellaneous	(168,500)	131,500	1,233,313	1,101,813
Total revenues	14,297,522	14,597,522	13,369,004	(1,228,518)
<b>Expenditures</b>				
General government:				
General government	387,800	387,800	666,369	(278,569)
City shop department	268,930	268,930	129,907	139,023
Administration department	23,300	23,300	19,828	3,472
Office department	630,930	640,930	588,726	52,204
Health department	127,450	127,450	102,069	25,381
Emergency management department	-	76,615	-	76,615
Benefit plan	941,800	941,800	1,212,735	(270,935)
Fire pension	19,440	19,440	22,716	(3,276)
Main street	5,305,070	5,305,070	361,170	4,943,900
Other	1,000	1,000	34,686	(33,686)
Total general government	7,705,720	7,792,335	3,138,206	4,654,129
Public safety:				
Police department	2,042,755	2,042,755	1,843,461	199,294
Street and sanitation:				
Street department	3,716,500	5,166,500	3,822,794	1,343,706
Sanitation department	1,052,300	1,052,300	984,703	67,597
Total street and sanitation	4,768,800	6,218,800	4,807,497	1,411,303
Culture and recreation:				
Pools department	33,850	33,850	37,177	(3,327)
Parks department	682,260	682,260	549,398	132,862
Total culture and recreation	716,110	716,110	586,575	129,535

**Town of Pecos City, Texas**  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget (GAAP Basis) and Actual – Continued  
General Fund  
Year Ended September 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amount</u>	<u>Variance with Final Budget Over / (Under)</u>
	<u>Original</u>	<u>Final</u>		
Court:				
Municipal building department	396,790	396,790	448,961	(52,171)
Municipal court department	142,850	140,450	136,945	3,505
Total court	539,640	537,240	585,906	(48,666)
Fire and rescue:				
Fire department	366,500	366,500	170,070	196,430
Fire marshal department	208,700	208,700	190,466	18,234
Total fire and rescue	575,200	575,200	360,536	214,664
Planning and inspection:				
Inspection department	281,150	281,150	176,825	104,325
Capital outlay	1,338,856	1,246,981	2,616,150	(1,369,169)
Debt service				
Principal retirement	-	-	198,598	(198,598)
Interest charges	-	-	15,488	(15,488)
Total debt service	-	-	214,086	(214,086)
Total expenditures	17,968,231	19,410,571	14,329,242	5,081,329
Excess (deficiency) of revenues over expenditures	(3,670,709)	(4,813,049)	(960,238)	3,852,811
<b>Other financing sources (uses)</b>				
Proceeds on sale of assets	1,000	1,000	120,096	119,096
Bond proceeds	2,400,000	2,400,000	-	(2,400,000)
Operating transfers in	1,789,519	3,246,134	2,065,042	(1,181,092)
Operating transfers out	(1,010,208)	(1,010,208)	(1,249,051)	(238,843)
Total other financing sources (uses)	3,180,311	4,636,926	936,087	(3,700,839)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(490,398)	(176,123)	(24,151)	151,972
<b>FUND BALANCE, beginning of year</b>	16,705,213	16,705,213	16,705,213	-
<b>FUND BALANCE, end of year</b>	<u>\$ 16,214,815</u>	<u>\$ 16,529,090</u>	<u>\$ 16,681,062</u>	<u>\$ 151,972</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, 2016

	Budgeted Amounts		Actual Amount	Variance with Final Budget Over / (Under)
	Original	Final		
<b>Revenues</b>				
Charges for services	\$ 41,485	\$ 41,485	\$ 40,135	\$ (1,350)
Interest	15	15	1,017	1,002
Miscellaneous	34,500	34,500	58,541	24,041
Total revenues	76,000	76,000	99,693	23,693
<b>Expenditures</b>				
General government:				
Personnel	13,500	13,500	17,829	(4,329)
Supplies	19,000	19,000	28,909	(9,909)
General disbursements	236,500	236,500	81,669	154,831
Total expenditures	269,000	269,000	128,407	140,593
Deficiency of revenues over expenditures	(193,000)	(193,000)	(28,714)	(164,286)
<b>Other financing sources (uses)</b>				
Operating transfers in	173,000	173,000	710,107	(537,107)
Total other financing sources (uses)	173,000	173,000	710,107	(537,107)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(20,000)	(20,000)	681,393	(701,393)
<b>FUND BALANCE, beginning of year</b>	777,814	777,814	777,814	-
<b>FUND BALANCE, end of year</b>	\$ 757,814	\$ 757,814	\$ 1,459,207	\$ (701,393)



**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, the discretely presented component unit, and each major fund of the Town of Pecos City, Texas (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 29, 2017. Our report includes reference to other auditors who audited the financial statements of Pecos Economic Development Corporation.

***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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 2016-01, 2016-02 and 2016-03).

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 2016-04, and 2016-05 described in the accompany schedule of findings and responses to be a significant deficiencies.

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, Texas' Response to Findings**

The City's responses to the findings identified in our audit are 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  
June 29, 2017

**Town of Pecos City, Texas**  
Schedule of Findings and Responses  
Year Ended September 30, 2016

**Financial Statement Findings**

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

**Finding – 2016 – 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 prior year 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** – Heather Ramirez, Finance Director, is responsible for the corrective action and plans to implement controls surrounding the journal entries during the 2017 fiscal year.

**Finding – 2016 – 02**

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

**Condition** – Bond principal payments and capital lease 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** – Heather Ramirez, Finance Director, is responsible for the corrective action and plans to improve these development processes during the 2017 fiscal year to facilitate improved proprietary fund accounting using the accrual basis.

**Town of Pecos City, Texas**  
Schedule of Findings and Responses (Continued)  
Year Ended September 30, 2016

**Finding – 2016 – 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. Acquisitions should be properly classified as capital outlay. Capital assets should be depreciated based on City policy.

**Condition** – Although the City has a capital asset listing and 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** – Management does not have controls in place to identify transactions that involve items of a capital nature. Management does not have controls in place to ensure additions are recorded in the capital asset register and depreciated.

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

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

**City’s Response** – Heather Ramirez, Finance Director, is responsible for the corrective action and plans to improve these development processes during the 2017 fiscal year to facilitate improved capital asset reporting.

**Town of Pecos City, Texas**  
Schedule of Findings and Responses (Continued)  
Year Ended September 30, 2016

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

**Finding – 2016 – 04**

**Criteria** – The City should develop and maintain a formal operational I.T. 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** – Heather Ramirez, Finance Director, is responsible for the corrective action and plans to improve these development processes during the 2017 fiscal year to facilitate improved general computer controls and a formal security policy. The city has developed a user policy, which addresses the use of the network but does not stipulate how the I.T. department will ensure the operational capabilities of the network.

**Town of Pecos City, Texas**  
Schedule of Findings and Responses (Continued)  
Year Ended September 30, 2016

**Finding – 2016 – 05**

**Criteria** – The City’s bulk water sales need to be accounted for based on correctly identified meter readings.

**Condition** – The City failed to account for bulk water sales billed.

**Cause** – Management does not have sufficient means to calculate how many liters of water it sales to citizens of the City. Management recorded billed sales based on average sales due to the malfunction of water meters in the City

**Effect** – In the absence of a sufficient means to calculate accurate bulk water sales, the City could be misstating revenues.

**Recommendation** – A proper and sufficient means to calculate bulk water sales needs to be put into place. A contingency plan should also be developed in order to mitigate malfunction of the water meters.

**City’s Response** – Heather Ramirez, Finance Director, is responsible for the corrective action and plans to improve this process during the 2017 fiscal year in order to facilitate an improvement plan.