

# Town of Pecos City, Texas

Annual Financial Report  
September 30, 2017



PARK FOWLER & CO.

*Certified Public Accountants & Management Consultants  
A Professional Limited Liability Company*

# TOWN OF PECOS CITY, TEXAS

## Audited Financial Statements

September 30, 2017

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## PARK FOWLER & CO.

*Certified Public Accountants & Management Consultants  
A Professional Limited Liability Company*

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### **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and Members of the City Council  
Town of Pecos City, Texas

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Pecos City, Texas, (the "City") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this 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 Pecos Economic Development Corporation (the Corporation), which represent 100 percent, of the assets, liabilities, net position, revenues and expenditures of the governmental activities. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts 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.

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the Town of Pecos City, Texas, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net pension liability and related ratios – Texas Municipal Retirement System, the schedule of contributions on pages 3-9, 46, 47, respectively, 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2019, on our consideration of the Town of Pecos City, Texas internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Pecos City, Texas internal control over financial reporting and compliance.

Park Fowler & Co., PLLC

*Park Fowler & Co. PLLC*  
Corpus Christi, Texas  
April 15, 2019

**PECOS**  **S**™

★ T E X A S ★

TOWN OF PECOS CITY

**TOWN OF PECOS CITY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**September 30, 2017**

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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, 2017. The management's discussion and analysis should be read in conjunction with the basic financial statements, the accompanying notes to those financial statements and supplementary information.

**Financial Highlights**

- At fiscal year-end, net position totaled \$54,015,268, an increase of \$8,921,921 from previous year. Of this amount, \$28,877,082 (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 \$21,113,207, an increase of \$4,432,145 in comparison with the prior year. Approximately 73% of this total amount, \$15,507,895, is available for spending at the City's discretion.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$15,507,895, or 110% of total general fund expenditures in for the year ended 2017.

**Overview of the Financial Statements**

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

**Government-Wide Statements**

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

The statement of net position includes all of the City'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, royalties and accounts receivable).

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

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

**TOWN OF PECOS CITY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**September 30, 2017**

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**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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 City'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 City's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds 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 which is a major fund, as well as the airport service and debt service funds, which are considered non-major governmental funds.

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.

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

**Notes to the Financial Statements**

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

**Other Information**

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

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

**TOWN OF PECOS CITY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
September 30, 2017**

**Government-Wide Financial Analysis**

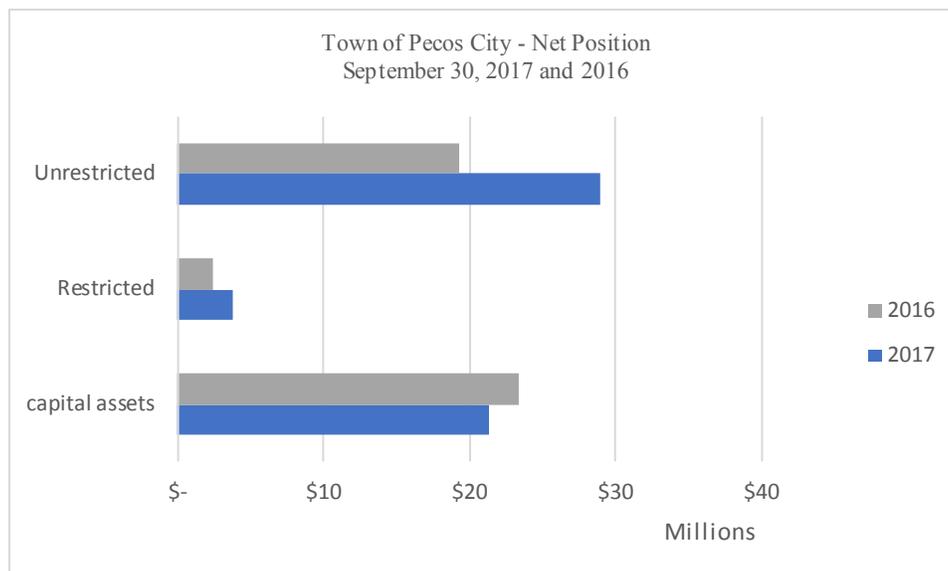
As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the fiscal year.

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

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

	Governmental Activities		Proprietary Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 25,234,292	\$ 19,819,850	\$ 8,164,373	\$ 9,512,349	\$ 33,398,665	\$ 29,332,199
Capital assets	11,665,214	11,302,314	37,076,428	36,464,014	48,741,642	47,766,328
Total assets	<u>36,899,506</u>	<u>31,122,164</u>	<u>45,240,801</u>	<u>45,976,363</u>	<u>82,140,307</u>	<u>77,098,527</u>
Deferred outflows	853,488	898,915	486,534	547,756	1,340,022	1,446,671
Current liabilities	1,729,962	1,169,903	3,728,740	2,325,908	5,458,702	3,495,811
Other liabilities	6,737,552	8,409,775	17,263,354	21,529,090	24,000,906	29,938,865
Total liabilities	<u>8,467,514</u>	<u>9,579,678</u>	<u>20,992,094</u>	<u>23,854,998</u>	<u>29,459,608</u>	<u>33,434,676</u>
Deferred inflows	3,981	12,537	1,472	4,638	5,453	17,175
Net investment in capital assets	3,714,614	4,732,480	17,610,372	18,653,484	21,324,986	23,385,964
Restricted	3,312,220	1,730,795	500,980	715,416	3,813,200	2,446,211
Unrestricted	<u>22,254,665</u>	<u>15,965,589</u>	<u>6,622,417</u>	<u>3,295,583</u>	<u>28,877,082</u>	<u>19,261,172</u>
Total net position	<u>\$ 29,281,499</u>	<u>\$ 22,428,864</u>	<u>\$ 24,733,769</u>	<u>\$ 22,664,483</u>	<u>\$ 54,015,268</u>	<u>\$ 45,093,347</u>

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



**TOWN OF PECOS CITY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
September 30, 2017**

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

	Governmental Activities		Proprietary Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues						
Charges for services	\$ 4,316,882	\$ 4,064,433	\$ 10,574,717	\$ 9,834,700	\$ 14,891,599	\$ 13,899,133
Operating grants and contributions	70,445	35,471	-	-	70,445	35,471
Capital grants and contributions	300,000	300,000	-	-	300,000	300,000
General revenues						
Property taxes	2,343,964	1,533,084	-	-	2,343,964	1,533,084
Other taxes	10,743,036	6,498,678	-	-	10,743,036	6,498,678
Rent and royalties	2,163,977	808,373	-	-	2,163,977	808,373
Other	649,705	839,768	61,033	21,988	710,738	861,756
Total revenues	20,588,009	14,079,807	10,635,750	9,856,688	31,223,759	23,936,495
Expenses:						
General government	5,577,234	4,103,418	-	-	5,577,234	4,103,418
Public safety	2,389,229	2,082,545	-	-	2,389,229	2,082,545
Streets and sanitation	3,704,020	5,048,832	-	-	3,704,020	5,048,832
Culture and recreation	721,077	647,186	-	-	721,077	647,186
Court	680,885	649,555	-	-	680,885	649,555
Fire and rescue	467,386	396,748	-	-	467,386	396,748
Planning and Inspection	247,407	188,775	-	-	247,407	188,775
Interest on long-term debt	145,030	168,856	-	-	145,030	168,856
Water and sewer	-	-	5,638,111	5,733,497	5,638,111	5,733,497
Ambulance Fund	-	-	442,848	325,906	442,848	325,906
Criminal Justice Fund	-	-	2,288,611	2,334,582	2,288,611	2,334,582
Total expenses	13,932,268	13,285,915	8,369,570	8,393,985	22,301,838	21,679,900
Excess of revenues over expenses	6,655,741	793,892	2,266,180	1,462,703	8,921,921	2,256,595
Transfers	196,894	1,526,098	(196,894)	(1,526,098)	-	-
Change in net position	6,852,635	2,319,990	2,069,286	(63,395)	8,921,921	2,256,595
Net position, beginning	22,428,864	20,108,874	22,664,483	22,727,878	45,093,347	42,836,752
Net position, ending	\$ 29,281,499	\$ 22,428,864	\$ 24,733,769	\$ 22,664,483	\$ 54,015,268	\$ 45,093,347

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

	2017	2016	Variance	Percent Variance
Property taxes, penalties, and interest	\$ 2,343,964	\$ 1,533,084	810,880	53%
Other taxes	10,743,036	6,498,678	4,244,358	65%
Unrestricted investment income	92,062	30,859	61,203	198%
Gain on sale of assets	103,800	120,096	(16,296)	-14%
Rent and royalties	2,163,977	808,373	1,355,604	168%
Miscellaneous	453,843	688,813	(234,970)	-34%
Transfers	196,894	1,526,098	(1,329,204)	-87%
Total revenues and transfers	\$ 16,097,576	\$ 11,206,001	\$ 4,891,575	

**TOWN OF PECOS CITY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**September 30, 2017**

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The City's general revenues and transfers provided \$16,097,576 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 \$4,316,882 and was used to pay for expenses associated with governmental activities of \$13,932,268.

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

Net positions from business-type activities were \$24,733,769 at the close of the fiscal year and reflect a \$2,069,286 increase from the prior year. Program revenue (charges for services) of business-type activities contributed \$10,574,717 to the operations of the City. Expenses associated with these activities totaled \$8,369,570.

The major components of the revenue stream for business-type activities represent Water and Sewer revenues of \$7,902,248 Ambulance revenues of \$362,425 and Criminal Justice Center revenue of \$2,310,044.

### **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 City's net resources available for spending at the end of the fiscal year.

As of September 30, 2017, the City's governmental funds reported a combined ending fund balance of \$24,859,799, an increase of \$6,017,471 in comparison with the prior year. Approximately 62% of this total amount, \$15,507,895 constitutes unassigned fund balance, which is available for spending at the City'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, 2017, the unassigned fund balance of the general fund was \$15,507,895, while total fund balance was \$21,113,207. 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 110% of total general fund expenditures, while total fund balance represents 208% of that same amount. The fund balance of the City's General Fund increased by \$4,432,145 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 \$25,291,642. The total change in net position was an increase of \$1,707,365. The primary factor for this increase is an increase in charges for services of \$871,290 from the previous year.

Net deficit of the ambulance fund at the end of the year totaled \$(1,278,430). The change in net deficit from the previous fiscal year was \$(80,423) operating deficit

Net position of the criminal justice center fund at the end of the year totaled \$720,557. The change in net position was a \$442,344 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.

**TOWN OF PECOS CITY, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
September 30, 2017**

**Capital Asset and Debt Administration**

**Capital Assets**

The City's investment in capital assets as of September 30, 2017 for its governmental activities amounted to \$11,665,214 and for its business-type activities amounted to \$37,076,428 (net of accumulated depreciation). This investment in capital assets includes land, construction in process, buildings, infrastructure, equipment and vehicles.

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

	Governmental Activities		Proprietary Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 159,689	\$ 159,689	\$ 766,635	\$ 766,635	\$ 926,324	\$ 926,324
CIP	2,415,531	1,414,175	3,230,166	3,245,981	5,645,697	4,660,156
Buildings	1,452,258	1,490,212	2,314,013	2,386,550	3,766,271	3,876,762
Infrastructure	4,837,826	5,396,563	29,324,939	28,582,418	34,162,765	33,978,981
Equipment	1,363,864	1,645,072	893,344	1,053,133	2,257,208	2,698,205
Vehicles	1,436,046	1,196,603	547,331	429,297	1,983,377	1,625,900
Totals	<u>\$ 11,665,214</u>	<u>\$ 11,302,314</u>	<u>\$ 37,076,428</u>	<u>\$ 36,464,014</u>	<u>\$ 48,741,642</u>	<u>\$ 47,766,328</u>

**Long-Term Debt**

At the end of the current fiscal year, the City had total debt outstanding of \$24,920,908. Of this amount, general obligation bonds of \$5,735,000, and notes payable of \$280,908 are supported by governmental activities. Water and Sewer system revenues support \$16,905,623 and PMCJ center revenues support \$2,060,000 of business-type activity debt.

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

	Governmental Activities		Proprietary Activities		Totals	
	2017	2016	2017	2016	2017	2016
Certificates of obligation	\$ -	\$ -	\$ 12,170,000	\$ 13,390,000	\$ 12,170,000	\$ 13,390,000
Water and sewer bonds	-	-	4,675,000	4,950,000	4,675,000	4,950,000
General obligation refunding bonds	-	-	2,060,000	2,435,000	2,060,000	2,435,000
General Obligation	5,735,000	6,140,000	-	-	5,735,000	6,140,000
Note No. 1	171,558	338,518	-	-	171,558	338,518
Note No. 2	48,727	86,317	60,623	107,742	109,350	194,059
Totals	<u>\$ 5,955,285</u>	<u>\$ 6,564,835</u>	<u>\$ 18,965,623</u>	<u>\$ 20,882,742</u>	<u>\$ 24,920,908</u>	<u>\$ 27,447,577</u>

The City's total debt decreased \$2,526,669 during the current fiscal year. Debt serviced by governmental-type activities decreased by \$609,550, while debt serviced by business-type activities decreased by \$1,917,119. New leases in the amount of \$170,538 were issued in 2017 to purchase a new backhoe and ambulance cots.

**TOWN OF PECOS CITY, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**September 30, 2017**

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**Economic Environment and Expectations**

Pecos, Texas is in the heart of the Permian Basin, one of the top oil and gas production areas in the world. The City is currently experiencing a significant growth in population and wealth generation, which is based on the dramatic increase in energy related business activities. Strategic planning is currently underway to utilize the new income growth to work on projects that will benefit the Pecos community and make Pecos, Texas an even greater place to live and work.

The lack of adequate housing remains as the single greatest obstacle and threat to the economic progress and long-term economic stability of Pecos. Pecos will continue to implement measures and incentives to attract developers and to create a suitable stock of permanent housing. Retail and corporate entities have been attracted to Pecos because of its strong increase in economic activity, resulting in current plans to create new retail and lodging centers that will meet the strong growth in population.

The future of Pecos is very bright, and upcoming budgets will reflect the momentum and determination to bring Pecos, Texas to the quality of life levels 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 City'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, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Pecos Economic Development Corporation
<b>ASSETS</b>				
Cash and cash equivalents	\$19,975,465	\$ 6,027,488	\$26,002,953	\$ 1,550,107
Investments	-	622,359	622,359	-
Internal balances	424,799	(424,799)	-	-
Accounts receivable ( net of allowance for uncollectibles)	3,473,880	1,438,345	4,912,225	57,644
Assets held for sale	-	-	-	1,079,666
Restricted assets:				
Cash and cash equivalents	1,360,148	500,980	1,861,128	-
Capital assets (net of accumulated depreciation)				
Land	159,689	766,635	926,324	1,546,590
Construction in progress	2,415,531	3,230,166	5,645,697	-
Buildings	1,452,258	2,314,013	3,766,271	-
Infrastructure	4,837,826	29,324,939	34,162,765	-
Equipment	1,363,864	893,344	2,257,208	460,569
Vehicles	1,436,046	547,331	1,983,377	-
Total assets	<u>36,899,506</u>	<u>45,240,801</u>	<u>82,140,307</u>	<u>4,694,576</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources - related to pension activity	853,488	315,674	1,169,162	-
Deferred charge on refunding	-	170,860	170,860	-
Total deferred outflows of resources	<u>853,488</u>	<u>486,534</u>	<u>1,340,022</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	516,914	1,336,866	1,853,780	3,621
Due to others	-	-	-	6,274
Net pension liability	355,382	131,443	486,825	-
Compensated absences	232,267	57,729	289,996	5,635
Due within one year	625,399	2,202,702	2,828,101	-
Due in more than one year	6,737,552	17,263,354	24,000,906	-
Total liabilities	<u>8,467,514</u>	<u>20,992,094</u>	<u>29,459,608</u>	<u>15,530</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources- related to pension activity	3,981	1,472	5,453	-
Total deferred inflows of resources	<u>3,981</u>	<u>1,472</u>	<u>5,453</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	3,714,614	17,610,372	21,324,986	3,086,825
Restricted	3,312,220	500,980	3,813,200	-
Unrestricted	22,254,665	6,622,417	28,877,082	1,592,221
Total net position	<u>\$29,281,499</u>	<u>\$24,733,769</u>	<u>\$54,015,268</u>	<u>\$ 4,679,046</u>

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

**TOWN OF PECOS CITY, TEXAS**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Revenues	Capital Grants and Contributions
<b>Primary government:</b>				
Governmental activities:				
General government	\$ 5,577,234	\$ 1,349,752	\$ 70,445	\$ -
Public safety	2,389,229	36,435	-	-
Streets and sanitation	3,704,020	2,306,891	-	-
Culture and recreation	721,077	12,249	-	-
Court	680,885	117,538	-	-
Fire and rescue	467,386	150,500	-	300,000
Planning and inspection	247,407	343,517	-	-
Interest on long-term debt	145,030	-	-	-
Total governmental activities	13,932,268	4,316,882	70,445	300,000
<b>Business-type activities:</b>				
Water and Sewer	5,638,111	7,902,248	-	-
Ambulance	442,848	362,425	-	-
Criminal Justice Center	2,288,611	2,310,044	-	-
Total business-type activities	8,369,570	10,574,717	-	-
Total primary government	22,301,838	14,891,599	70,445	300,000
<b>Component Unit</b>				
Pecos Economic Development Corporation	457,663	-	-	-
Total component unit	\$ 457,663	\$ -	\$ -	\$ -

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

Net position--ending

Net (Expense) Revenue and Changes in Net Position			Component Unit Pecos Economic Development Corporation
Primary Government			
Governmental Activities	Business-type Activities	Total	
\$ (4,157,037)	\$ -	\$ (4,157,037)	
(2,352,794)	-	(2,352,794)	
(1,397,129)	-	(1,397,129)	
(708,828)	-	(708,828)	
(563,347)	-	(563,347)	
(16,886)	-	(16,886)	
96,110	-	96,110	
(145,030)	-	(145,030)	
(9,244,941)	-	(9,244,941)	
-	2,264,137	2,264,137	
-	(80,423)	(80,423)	
-	21,433	21,433	
-	2,205,147	2,205,147	
(9,244,941)	2,205,147	(7,039,794)	
			\$ 457,663
			457,663
2,343,964		2,343,964	
10,743,036		10,743,036	519,512
92,062	61,033	153,095	3,003
103,800	-	103,800	387,282
2,163,977	-	2,163,977	137,834
453,843	-	453,843	309,468
196,894	(196,894)	-	-
16,097,576	(135,861)	15,961,715	1,357,099
6,852,635	2,069,286	8,921,921	899,436
22,428,864	22,664,483	45,093,347	3,779,610
\$ 29,281,499	\$ 24,733,769	\$ 54,015,268	\$ 4,679,046

**TOWN OF PECOS CITY, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
September 30, 2017**

	General	Airport Service	Debt Service	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 18,485,089	\$ 1,490,376	\$ -	\$ 19,975,465
Due from other funds	424,799	-	-	424,799
Accounts receivable, net:				
Property taxes	230,063	-	129,050	359,113
Sales taxes	1,446,571	-	-	1,446,571
Other	1,272,716	395,480	-	1,668,196
Restricted assets - Cash and equivalents	-	-	1,360,148	1,360,148
Total assets	<u>\$ 21,859,238</u>	<u>\$ 1,885,856</u>	<u>\$ 1,489,198</u>	<u>\$ 25,234,292</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 367,490	\$ 1,140	\$ -	\$ 368,630
Accrued wages	148,284	-	-	148,284
Total liabilities	<u>515,774</u>	<u>1,140</u>	<u>-</u>	<u>516,914</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - property tax	230,257	-	127,224	357,481
Total deferred inflows of resources	<u>230,257</u>	<u>-</u>	<u>127,224</u>	<u>357,481</u>
<b>FUND BALANCES</b>				
Restricted				
Airport	-	1,884,716	-	1,884,716
Police Department	65,530	-	-	65,530
Donor stipulations	-	499,902	-	499,902
Debt service	-	-	1,361,974	1,361,974
Committed - Main Street	5,539,782	-	-	5,539,782
Unassigned	15,507,895	-	-	15,507,895
Total fund balances	<u>21,113,207</u>	<u>2,384,618</u>	<u>1,361,974</u>	<u>24,859,799</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 21,859,238</u>	<u>\$ 2,385,758</u>	<u>\$ 1,489,198</u>	<u>\$ 25,734,194</u>

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

**TOWN OF PECOS CITY, TEXAS**  
**RECONCILIATION OF GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**September 30, 2017**

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Total fund balances - governmental funds	\$ 24,359,897
Amounts reported for governmental activities in the statement of net position are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	11,665,214
Revenues earned but not available within 60 days of fiscal year-end are not recognized as revenue in the governmental funds financial statements.	357,481
Some assets, deferred outflows of resources, liabilities and deferred inflows of resources will not be recognized in the current period and therefore are not reported in the fund financial statements.	<u>(7,101,093)</u>
Net position of governmental activities	<u>\$ 29,281,499</u>

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

**TOWN OF PECOS CITY, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**For The Year Ended September 30, 2017**

	General	Airport Service	Debt Service	Total Governmental Funds
<b>REVENUES</b>				
Property Taxes	\$ 1,971,718	\$ -	\$ 322,286	\$ 2,294,004
Hotel Occupancy Tax	2,596,974	-	-	2,596,974
Other taxes	6,812,787	-	-	6,812,787
Franchise taxes	1,333,275	-	-	1,333,275
Permits and fees	345,492	-	-	345,492
Intergovernmental revenues	450,500	-	-	450,500
Fines and forfeitures	1,470,175	-	-	1,470,175
Court fees	62,098	-	-	62,098
Other revenues	4,134,092	-	-	4,134,092
Charges for services	-	68,525	-	68,525
Rent and royalties	-	388,580	-	388,580
Interest	86,588	5,474	-	92,062
Miscellaneous	355,998	29,687	-	385,685
Total revenues	<u>19,619,697</u>	<u>492,266</u>	<u>322,286</u>	<u>20,434,249</u>
<b>EXPENDITURES</b>				
Current				
General government	6,836,758	83,886	1,636	6,922,280
Streets and sanitation	3,321,976	-	-	3,321,976
Culture and recreation	631,191	-	-	631,191
Court	600,240	-	-	600,240
Fire and rescue	415,928	-	-	415,928
Planning and inspection	214,238	-	-	214,238
Capital outlay	1,848,528	-	-	1,848,528
Debt service:				
Principal retirement	204,550	-	405,000	609,550
Interest charges	9,935	-	143,606	153,541
Total expenditures	<u>14,083,344</u>	<u>83,886</u>	<u>550,242</u>	<u>14,717,472</u>
Excess (Deficiency) of revenues over expenditures	5,536,353	408,380	(227,956)	5,716,777
Other financing sources (uses):				
Proceeds on sale of assets	103,800	-	-	103,800
Transfers in	1,219,856	17,129	1,934,431	3,171,416
Transfers out	(2,427,864)	-	(546,658)	(2,974,522)
Total other financing sources (uses)	<u>(1,104,208)</u>	<u>17,129</u>	<u>1,387,773</u>	<u>300,694</u>
Net change in fund balances	4,432,145	425,509	1,159,817	6,017,471
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>16,681,062</u>	<u>1,459,207</u>	<u>202,157</u>	<u>18,342,426</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 21,113,207</u>	<u>\$ 1,884,716</u>	<u>\$ 1,361,974</u>	<u>\$ 24,359,897</u>

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

**TOWN OF PECOS CITY, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO**  
**THE STATEMENT OF ACTIVITIES**  
**For the year ended September 30, 2017**

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Net change in fund balances - total governmental funds \$ 6,017,471

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the capital assets recorded in the current period in excess of depreciation expense

Capital outlay	1,848,528
Depreciation expense	(1,485,628)

The repayment of the principal of long term debt consumes current financial resources of governmental funds	609,550
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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	(187,246)
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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	49,960
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Change in net position of governmental activities.	\$ 6,852,635
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The accompanying notes are an integral part of these financial statements.

**TOWN OF PECOS CITY, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
September 30, 2017

	Business-type Activities Enterprise Funds			Total
	Water and Sewer Fund	PMCJ Center	Ambulance	
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalent	\$ 6,023,672	\$ 3,816	\$ -	\$ 6,027,488
Investments	622,359	-	-	622,359
Accounts receivable (net of allowances)	1,036,726	395,786	5,833	1,438,345
Due from other funds	494,906	-	-	494,906
Restricted cash	500,980	-	-	500,980
Total current assets	<u>8,678,643</u>	<u>399,602</u>	<u>5,833</u>	<u>9,084,078</u>
<b>NONCURRENT ASSETS</b>				
Capital assets:				
Land	724,094	42,541	-	766,635
Construction in progress	3,230,166	-	-	3,230,166
Buildings	114,127	3,174,544	-	3,288,671
Infrastructure	51,695,211	-	-	51,695,211
Equipment	2,399,034	64,311	110,041	2,573,386
Vehicles	818,899	152,043	965,550	1,936,492
Accumulated depreciation	(24,540,940)	(1,207,365)	(665,828)	(26,414,133)
Total noncurrent assets	<u>34,440,591</u>	<u>2,226,074</u>	<u>409,763</u>	<u>37,076,428</u>
<b>TOTAL ASSETS</b>	<u>43,119,234</u>	<u>2,625,676</u>	<u>415,596</u>	<u>46,160,506</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on refunding		170,860	-	170,860
Deferred outflows of resources - related to pension activity	128,608	187,066	-	315,674
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>128,608</u>	<u>357,926</u>	<u>-</u>	<u>486,534</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	518,792	80,527	737,547	1,336,866
Due to other funds	-	-	919,705	919,705
Current portion of capital leases	170,185	-	9,193	179,378
Current portion of notes payable	48,324	-	-	48,324
Current portion of bonds payable	1,590,000	385,000	-	1,975,000
Total current liabilities	<u>2,327,301</u>	<u>465,527</u>	<u>1,666,445</u>	<u>4,459,273</u>
<b>NONCURRENT LIABILITIES</b>				
Compensated absences	13,975	43,754	-	57,729
Net pension liability	53,551	77,892	-	131,443
Capital leases	293,474	-	27,581	321,055
Notes payable	12,299	-	-	12,299
Bonds payable	15,255,000	1,675,000	-	16,930,000
Total noncurrent liabilities	<u>15,628,299</u>	<u>1,796,646</u>	<u>27,581</u>	<u>17,452,526</u>
<b>TOTAL LIABILITIES</b>	<u>17,955,600</u>	<u>2,262,173</u>	<u>1,694,026</u>	<u>21,911,799</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred outflow of resources - related to pension activity	600	872	-	1,472
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>600</u>	<u>872</u>	<u>-</u>	<u>1,472</u>
<b>NET POSITION</b>				
Net investment in capital assets	17,071,309	166,074	372,989	17,610,372
Restricted	500,980	-	-	500,980
Unrestricted	7,719,353	554,483	(1,651,419)	6,622,417
<b>TOTAL NET POSITION</b>	<u>\$ 25,291,642</u>	<u>\$ 720,557</u>	<u>\$ (1,278,430)</u>	<u>\$ 24,733,769</u>

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

**TOWN OF PECOS CITY, TEXAS**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2017

	Business-type Activities			
	Enterprise Funds			
	Water and Sewer Fund	PMCJ Center	Ambulance	Total
<b>OPERATING REVENUES</b>				
Water service charges	\$ 4,559,383	\$ -	\$ -	\$ 4,559,383
Sewage service charges	2,984,547	-	-	2,984,547
Service charges	-	2,247,316	361,123	2,608,439
Other income	358,318	62,728	1,302	422,348
Total Operating Revenues	<u>7,902,248</u>	<u>2,310,044</u>	<u>362,425</u>	<u>10,574,717</u>
<b>OPERATING EXPENSES</b>				
Salaries, wages and benefits	1,608,178	1,285,433	4,000	2,897,611
Materials and supplies	182,107	236,401	-	418,508
Utilities	554,275	148,012	2,860	705,147
Repairs and maintenance	707,344	144,934	4,270	856,548
Travel	17,429	1,530	1,302	20,261
Depreciation and amortization	2,194,951	75,358	133,338	2,403,647
Miscellaneous	25,814	264,092	297,078	586,984
Total Operating Expenses	<u>5,290,098</u>	<u>2,155,760</u>	<u>442,848</u>	<u>7,888,706</u>
<b>OPERATING INCOME (DEFICIT)</b>	<u>2,612,150</u>	<u>154,284</u>	<u>(80,423)</u>	<u>2,686,011</u>
<b>NON OPERATING REVENUES (EXPENSES)</b>				
Amortization	-	(42,715)	-	(42,715)
Interest earned on investments	60,809	224	-	61,033
Interest expense	(348,013)	(90,136)	-	(438,149)
Total non operating revenues (expenses)	<u>(287,204)</u>	<u>(132,627)</u>	<u>-</u>	<u>(419,831)</u>
<b>Income (loss) before transfers</b>	2,324,946	21,657	(80,423)	2,266,180
<b>TRANSFERS</b>	<u>(617,581)</u>	<u>420,687</u>	<u>-</u>	<u>(196,894)</u>
<b>Change in net position</b>	<u>1,707,365</u>	<u>442,344</u>	<u>(80,423)</u>	<u>2,069,286</u>
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>23,584,277</u>	<u>278,213</u>	<u>(1,198,007)</u>	<u>22,664,483</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 25,291,642</u>	<u>\$ 720,557</u>	<u>\$ (1,278,430)</u>	<u>\$ 24,733,769</u>

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

**TOWN OF PECOS CITY, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2017

	Business-type Activities Enterprise Funds			Total
	Water and sewer Fund	PMCJ Center	Ambulance	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 7,266,912	\$ 2,305,126	\$ 356,591	\$ 9,928,629
Cash paid to employees	(1,585,249)	(1,512,182)	-	(3,097,431)
Cash paid to suppliers	(2,385,269)	(744,914)	(182,391)	(3,312,574)
Net cash provided by operating activities	3,296,394	48,030	174,200	3,518,624
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers from other funds	-	420,687	-	420,687
Transfers to other funds	(617,581)	-	-	(617,581)
Net cash provided (used) by noncapital financing activities	(617,581)	420,687	-	(196,894)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal paid on debt	(1,584,390)	(375,000)	-	(1,959,390)
Lease proceeds	-	-	36,774	36,774
Interest paid on debt	(348,013)	(90,136)	-	(438,149)
Acquisition on capital assets	(2,805,088)	-	(210,974)	(3,016,062)
Net cash used in capital and related financing activities	(4,737,491)	(465,136)	(174,200)	(5,376,827)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(6,213)	-	-	(6,213)
Interest on investments	60,809	224	-	61,033
Net cash provided (used) by investing activities	54,596	224	-	54,820
Net change in cash	(2,004,082)	3,805	-	(2,000,277)
Cash and cash equivalents - beginning of the year	8,528,733	11	-	8,528,744
Cash and cash equivalents - end of the year (Includes \$500,980 of restricted cash)	\$ 6,524,651	\$ 3,816	\$ -	\$ 6,528,467
<b>RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	2,612,150	154,284	(80,423)	2,686,011
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				-
Depreciation and amortization	2,194,951	75,358	133,338	2,403,647
Accounts receivable	(635,325)	(4,918)	(5,833)	(646,076)
Accounts payable	(898,300)	(217,860)	127,118	(989,042)
Due to/due from	(11)	-	-	(11)
Accrued employee benefit payable	22,929	41,166	-	64,095
Net cash provided by operating activities	\$ 3,296,394	\$ 48,030	\$ 174,200	\$ 3,518,624

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

## **NOTES TO THE FINANCIAL STATEMENTS**

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

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

**A. Reporting Entity**

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

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

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

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

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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.

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.

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

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**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.

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

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

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

The following major funds are used by the City:

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**NOTES TO FINANCIAL STATEMENTS**

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**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.

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 several times throughout the month. The accounts receivable for water and sewer at September 30, 2017, represents the final unpaid billings issued prior to September 30, 2017, and includes an amount for unbilled September 2017 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.

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NOTES TO FINANCIAL STATEMENTS**

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**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.

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

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

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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 320 hours. Any unused personal time will be compensated at the employee's regular rate of pay at the time of termination. Total accumulated unused personal time at year-end was \$232,267 for governmental activities and \$57,729 for business-type activities.

**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, 2017.
- 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, 2017.
- 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.

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NOTES TO FINANCIAL STATEMENTS**

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**M. Revenue Recognition - Property Taxes**

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

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, 2017, was \$0.51111 per \$100 of assessed valuation.

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

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

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

**O. Use of Estimates**

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

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

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

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

**TOWN OF PECOS CITY, TEXAS**  
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The details of this \$(7,101,093) difference are as follows:

Deferred outflows of resources – related to pension activity	\$ 853,488
Deferred inflows of resources - related to pension activity	(3,981)
Net pension liability	(355,382)
General obligation	(5,735,000)
Notes payable	(220,285)
Landfill closure/post-closure	(1,407,666)
Compensated absences	<u>(232,267)</u>
Net adjustment to reduce fund balance – total government funds to arrive at net position - governmental activities	<u>\$ (7,101,093)</u>

Another element of that reconciliation states that "Revenues earned but not available within sixty days of fiscal year end are not recognized as revenue in the governmental funds financial statements." The difference of \$357,481 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 \$362,900 difference are as follows:

Capital outlay	\$ 1,848,528
Depreciation expense	<u>(1,485,628)</u>
Net adjustment to increase net change in fund balance - total governmental funds to arrive at change in net position of governmental activities	<u>\$ 362,900</u>

Another element of that reconciliation states that, "repayment of the principal of long-term debt consumes current financial resources of governmental funds." The difference of \$(609,550) is general obligation and notes payable principal payments.

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

The details of the \$(187,246) difference are as follows:

Landfill	\$ (24,890)
Net pension expense	(150,760)
Compensated absences	<u>(11,596)</u>
Net adjustment to increase net change in fund balance- total governmental funds to arrive at change in net position of governmental activities	<u>\$ (187,246)</u>

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

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**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 give within statutory limits, for 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, 2017, 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, 2017 of \$1,278,430. The deficit in the fund resulted from uncollectable receivables and amounts due to other funds.

**C. Excess of Expenditures over Appropriations**

For the year ended September 30, 2017, expenditures exceeded appropriations in the General Fund and Airport Fund are as follows:

**General Fund**

- General Government: Administration - Expenditures exceeded appropriations by \$1,039.
- General Government: General Government – Expenditures exceeded appropriations by \$84,560.
- General Government: Emergency Management – Expenditures exceeded appropriations by \$47,598.
- General Government: Benefit Plan - Expenditures exceeded appropriations by \$8,631.
- General Government: Other- Expenditures exceeded appropriations by \$167,431.
- Court: Municipal Building Department - Expenditures exceeded appropriations by \$23,248.
- Capital Outlay- Expenditures exceeded appropriations by \$1,369,169.
- Debt Service: Principal Retirement and Interest Charges- Expenditures exceeded these appropriations by \$106,310 and \$4,935, respectively.

**Airport Fund**

- General Government: Personnel - Expenditures exceeded appropriations by \$4,329.
- General Government: Supplies - Expenditures exceeded appropriations by \$9,909.

**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, 2017, 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, 2017. At year-end, the carrying amount of the City's deposits and bank balance was \$27,564,654. Of the total bank balance of \$27,564,654, 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 \$314,654 in excess of insured amounts.

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, 2017, 100% of the City's investments were in external investment pools.

The City's investments carried at fair value as of September 30, 2017, are:

	September 30, 2017	Percent of Total Investments	Weighted Average Maturity Days	Credit Rating (S&P)
Investments measured at amortized cost:				
TEXPOOL PRIME	\$ 622,359	100%	51	AAAm
Total Portfolio	<u>\$ 622,359</u>	<u>100%</u>		
Total Portfolio Weighted Average			<u>51</u>	

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

Credit Risk- In compliance with the City's investment policy, as of September 30, 2017, 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.

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

**NOTE 5 - RECEIVABLES**

Receivables as of September 30, 2017, for the City's individual major funds, and non-major and all other funds in the aggregate, including applicable allowances for uncollectible amounts, are as follows:

	General	Airport	Water and Sewer	PMJC	Nonmajor and other Funds	Total
Property Taxes	\$ 254,977	\$ -	\$ -	\$ -	\$ 129,050	\$ 384,027
Sales Taxes	1,446,571	-	-	-	-	1,446,571
Hotel Occupancy Tax	170,693	-	-	-	-	170,693
Accounts	314,258	-	1,506,369	395,786	5,833	2,222,246
Other	906,688	395,480	-	-	-	1,302,168
Gross Receivables	3,093,187	395,480	1,506,369	395,786	134,883	5,525,705
Less: allowance for uncollectible	(143,837)	-	(469,643)	-	-	(613,480)
Net Receivables	<u>\$ 2,949,350</u>	<u>\$ 395,480</u>	<u>\$ 1,036,726</u>	<u>\$ 395,786</u>	<u>\$ 134,883</u>	<u>\$ 4,912,225</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, 2017, deferred inflows in the amount of \$357,481 were reported.

**NOTE 6 - CAPITAL ASSETS**

Capital asset acquisition and disposals of the reporting entity was restricted to activities of the primary government only. Capital asset activity for the year ended September 30, 2017 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	1,414,175	1,001,356	-	2,415,531
Total capital assets, not being depreciated	1,573,864	1,001,356	-	2,575,220
Capital assets being depreciated				
Buildings	2,291,171	-	(14,433)	2,276,738
Infrastructure	17,278,169	-	(187,877)	17,090,292
Equipment	3,907,914	275,940	75,063	4,258,917
Vehicles	3,012,853	571,232	(61,815)	3,522,270
Total capital assets, being depreciated	26,490,107	847,172	(189,062)	27,148,217
Less accumulated depreciation for				
Buildings	800,959	37,954	(14,433)	824,480
Infrastructure	11,881,606	558,737	(187,877)	12,252,466
Equipment	2,262,842	557,148	75,063	2,895,053
Vehicles	1,816,250	331,789	(61,815)	2,086,224
Total accumulated depreciation	16,761,657	1,485,628	(189,062)	18,058,223
Total capital assets, being depreciated, net	9,728,450	(638,456)	-	9,089,994
Governmental activities capital assets, net	<u>\$ 11,302,314</u>	<u>\$ 362,900</u>	<u>\$ -</u>	<u>\$ 11,665,214</u>

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

	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	3,245,981	-	(15,814)	3,230,167
Total capital assets, not being depreciated	4,012,616	-	(15,814)	3,996,802
Capital assets being depreciated				
Buildings	3,288,671	-	-	3,288,671
Infrastructure	49,094,535	2,584,862	15,814	51,695,211
Equipment	2,428,742	144,644	-	2,573,386
Vehicles	1,649,935	286,556	-	1,936,491
Total capital assets, being depreciated	56,461,883	3,016,062	15,814	59,493,759
Less accumulated depreciation for				
Buildings	902,121	72,537	-	974,658
Infrastructure	20,512,117	1,858,155	-	22,370,272
Equipment	1,375,609	304,433	-	1,680,042
Vehicles	1,220,638	168,522	-	1,389,160
Total accumulated depreciation	24,010,485	2,403,647	-	26,414,132
Total capital assets, being depreciated, net	32,451,398	612,415	15,814	33,079,627
Business-type activities capital assets, net	<u>\$ 36,464,014</u>	<u>\$ 612,415</u>	<u>\$ -</u>	<u>\$ 37,076,429</u>

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

<b>Government Activities:</b>	
General government	\$ 668,533
Public safety	297,125
Street and sanitation	297,125
Planning and inspection	29,713
Fire and rescue	44,570
Court	74,281
Culture and recreation	74,281
Total depreciation expense	<u>\$ 1,485,628</u>
<b>Business-type Activities:</b>	
Water and sewer	\$ 2,194,950
Ambulance	133,338
Criminal justice center	75,359
Total depreciation expense	<u>\$ 2,403,647</u>

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

**NOTE 7 - INSURANCE**

Health Insurance

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

Workers Compensation

The City's worker's compensation plan is administered by the Texas Municipal League Intergovernmental Risk Pool (TML). TML reviews and processes all workers compensation claims. The City has acquired stop loss coverage, which limits the City's possible loss to \$25,000 per occurrence. Estimated liability for worker's compensation claims was \$185,255 at September 30, 2017. The amount is included in accounts payable and accrued liabilities in the general fund and the governmental activities.

**NOTE 8 - INTERFUND TRANSACTIONS**

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

Interfund balances as of September 30, 2017, are as follows:

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

Interfund activity for the year ended September 30, 2017, is as follows:

	Interfund	
	Transfer In	Transfer Out
Governmental Funds		
General Fund	\$ 1,219,856	\$ 2,427,864
Airport Service	17,129	-
Debt Service	1,934,431	546,658
Enterprise Funds		
Airport Fund	420,687	-
Water and Sewer Fund	-	617,581
	\$ 3,592,103	\$ 3,592,103

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

**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, 2017:

	Balance September 30,			Balance	Due	Due
	2016	Additions	Reductions	September 30, 2017	Within One Year	After One Year
General Obligation Bond 2014	\$ 6,140,000	\$ -	\$ 405,000	\$ 5,735,000	\$ 415,000	\$ 5,320,000
Note Payable No. 1	338,518	-	166,960	171,558	171,558	-
Note Payable No. 2	86,317	-	37,590	48,727	38,841	9,886
Landfill Closure and Post Closure Liability	1,382,776	24,890	-	1,407,666	-	1,407,666
Net Pension Liability	241,496	113,886	-	355,382	-	355,382
Compensated Absences	220,671	11,596	-	232,267	-	232,267
	<u>\$ 8,409,778</u>	<u>\$ 150,372</u>	<u>\$ 609,550</u>	<u>\$ 7,950,600</u>	<u>\$ 625,399</u>	<u>\$ 7,325,201</u>

General Obligation Bond 2014

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

Future payments on this obligation are as follows:

Year Ending September 30,	General Obligation Bond 2014		
	Principal	Interest	Total
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	460,000	91,476	551,476
2023-2027	2,475,000	282,718	2,757,718
2027-2030	1,075,000	26,076	1,101,076
Total	<u>\$ 5,735,000</u>	<u>\$ 873,321</u>	<u>\$ 6,608,321</u>
2018	\$ 415,000	\$ 133,766	\$ 548,766
Later	5,320,000	739,555	6,059,555
Total	<u>\$ 5,735,000</u>	<u>\$ 873,321</u>	<u>\$ 6,608,321</u>

Notes Payable

Note Payable No. 1

On December 6, 2013, the City received a note payable in the amount of \$813,382 from a financial institution for the purchase of equipment for the general fund. The note matures September 30, 2018 and bears an interest rate of 2.88%. Principal and interest are payable in monthly installments of \$43,664. The note is secured by ad valorem taxes.

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

Future payments on this obligation are as follows:

Year Ending September 30,	Note Payable No. 1		
	Principal	Interest	Total
2018	\$ 171,558	\$ 3,100	\$ 174,658
Total	\$ 171,558	\$ 3,100	\$ 174,658

Note Payable No. 2

On February 14, 2014, the City received a note payable in the amount of \$415,611 from a financial institution for the purchase of equipment for the general fund and vehicle for the business fund. The note matures December 30, 2018 and bears an interest rate of 2.88%. Principal and interest are payable in monthly installments of \$22,305. The note is secured by ad valorem taxes. 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.

Future payments on this obligation are as follows:

Year Ending September 30,	Note Payable No. 2		
	Principal	Interest	Total
2018	\$ 38,841	\$ 986	\$ 39,827
2019	9,886	71	9,957
Total	\$ 48,727	\$ 1,057	\$ 49,784

**Business-type Activities:**

	Balance September 30, 2016	Additions	Reductions	Balance September 30, 2017	Due Within One Year	Due After One Year
Certificates of Obligation	13,390,000	-	1,220,000	12,170,000	1,315,000	10,855,000
Revenue Bonds	4,950,000	-	275,000	4,675,000	275,000	4,400,000
Capital Leases	505,930	170,548	176,045	500,433	179,378	321,055
General Obligation Bond	2,435,000	-	375,000	2,060,000	385,000	1,675,000
Notes Payable	107,742	-	47,119	60,623	48,324	12,299
Net Pension Liability	88,543	42,900	-	131,443	-	131,443
Compensated Absences	51,875	5,854	-	57,729	-	57,729
Total	21,529,090	219,302	2,093,164	19,655,228	2,202,702	17,452,526

Certificates of Obligation

Series 2000A

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

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

The Town of Pecos issued \$8,315,000 (original issue was \$60,000 less than previously stated and the las payment was reduced by \$60,000). Series 200A Certificates of Obligation for the purpose of improving and extending the waterworks system.

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.

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

	Principal	Interest	Total
2018	\$ 595,000	\$ 17,500	\$ 612,500
2019	605,000	11,550	616,550
2020	550,000	5,500	555,500
Total	\$ 1,750,000	\$ 34,550	\$ 1,784,550

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.

The schedule of future payments on the Series 2000B Certificates of Obligation is as follows:

	Principal	Interest	Total
2018	\$ 35,000	\$ 5,800	\$ 40,800
2019	30,000	3,788	33,788
2020	35,000	2,048	37,048
Total	\$ 100,000	\$ 11,636	\$ 111,636

Series 2015

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

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

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

	Principal	Interest	Total
2018	\$ 355,000	\$ 129,418	\$ 484,418
2019	365,000	120,454	485,454
2020	375,000	111,241	486,241
2021	380,000	101,841	481,841
2022	390,000	92,255	482,255
2023-2027	2,110,000	308,511	2,418,511
2028-2032	1,400,000	52,912	1,452,912
Total	<u>\$ 5,375,000</u>	<u>\$ 916,632</u>	<u>\$ 6,291,632</u>

Series 2016

During 2016, the City issued \$5,200,000 of Series 2016 Certificate of Obligation bonds. The proceeds from which will be used for water and sewer improvements and to pay for the cost of contractual obligations for professional services in connection therewith. The bonds are payable in annual installments of principal due and payable 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.

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

	Principal	Interest	Total
2018	\$ 300,000	\$ 114,601	\$ 414,601
2019	310,000	107,311	417,311
2020	315,000	99,842	414,842
2021	325,000	92,194	417,194
2022	330,000	84,367	414,367
2023-2027	1,785,000	297,495	2,082,495
2028-2032	1,580,000	76,720	1,656,720
Total	<u>\$ 4,945,000</u>	<u>\$ 872,530</u>	<u>\$ 5,817,530</u>

Revenue Bonds Series 2008

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

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

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

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

	Principal	Interest	Total
2018	\$ 275,000	\$ -	\$ 275,000
2019	275,000	-	275,000
2020	275,000	-	275,000
2021	275,000	-	275,000
2022	275,000	-	275,000
2023-2027	1,375,000	-	1,375,000
2028-2032	1,375,000	-	1,375,000
2033-2034	550,000	-	550,000
Total	<u>\$ 4,675,000</u>	<u>\$ -</u>	<u>\$ 4,675,000</u>

**General Obligation Refunded Bond Series 2013**

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

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

	Principal	Interest	Total
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	20,026	465,026
Total	<u>\$ 2,060,000</u>	<u>\$ 263,264</u>	<u>\$ 2,323,264</u>

**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, 2017 are as follows:

	Total		
	Principal	Interest	Total
2018	\$ 179,378	\$ 16,853	\$ 196,231
2019	186,783	9,447	196,230
2020	67,155	3,097	70,252
2021	26,201	2,060	28,261
2022	40,916	1,454	42,370
Total	<u>\$ 500,433</u>	<u>\$ 32,911</u>	<u>\$ 533,344</u>

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

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**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, 2017, \$0 was expended for the post-closure care costs for the landfill, and \$4,687 was increased to the liability to reflect inflated estimated costs. The City's post-closure liability as of September 30, 2017 was \$265,049. The post-closure care costs are based on prior estimates and have been adjusted for inflation. Actual costs may vary due to changes in inflation, changes in technology or changes in regulations. Although closure and post-closure care 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, 2017, the City does not operate this landfill.

The City's second landfill site's operating capacity is at 80 percent and estimated remaining landfill life is 25.5 years at the end of 2017. During the year ended September 30, 2017, \$0 was expended for the current cost of closure, \$0 was expended for post-closure care costs for the landfill, and \$20,202 was increased to the liability to reflect inflated estimated costs. The City's current closure cost liability as of September 30, 2017 was \$1,142,617. The current closure costs are based on prior estimates and have been adjusted for inflation. Actual costs may vary due to changes in inflation, changes in technology or changes in regulations. Although closure and post-closure care costs will be paid only near 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, 2017, 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, 2017.

**NOTE 12 - COMMITMENTS**

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

**NOTE 13 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors, and omissions, injuries to employees, and natural disasters. During fiscal year 2007-2008, the City obtained general liability coverage at a cost that is economically justifiable by joining together with other governmental entities in the state as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance 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**

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**NOTE 14 - EMPLOYEE RETIREMENT BENEFITS**

**A. Plan Description**

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and 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	63
Inactive employees entitled to but not yet receiving benefits	104
Active employees	<u>119</u>
Total	<u><u>286</u></u>

**C. Contributions**

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

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 5.43% and 6.07% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$312,916 and were equal to the required contributions.

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

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**D. Net Pension liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, 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	3.5 to 10.5% including inflation
Investment Rate of Return	6.75%

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

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. 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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

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

The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

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

**Discount Rate**

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

Changes in the Net Pension (Asset) Liability:

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension (Asset) Liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
Balance at 12/31/2015	\$ 13,027,004	\$ 12,696,968	\$ 330,036
Charges for the year:			
Service cost	604,343	-	604,343
Interest	880,177	-	880,177
Change of benefit terms	-	-	-
Difference between expected and actual experience	83,221	-	83,221
Change of assumptions	-	-	-
Contributions - employer	-	286,308	(286,308)
Contributions - employee	-	276,968	(276,968)
Net investment income	-	857,889	(857,889)
Benefit payments, including refunds of employee contributions	(579,046)	(579,046)	-
Administrative expense	-	(9,691)	9,691
Other charges	-	(522)	522
Net changes	<u>988,695</u>	<u>831,906</u>	<u>156,789</u>
Balance at 12/31/2016	<u>\$ 14,015,699</u>	<u>\$ 13,528,874</u>	<u>\$ 486,825</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 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1 - percentage-point higher (7.75%) than the current rate:

	<u>1% Decrease in Discount Rate (5.75%)</u>	<u>Discount Rate (6.75%)</u>	<u>1% Increase in Discount Rate (7.75%)</u>
City's net pension liability (asset)	\$ 2,385,823	\$ 486,825	\$ (1,072,602)

**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.tmrs.com](http://www.tmrs.com).

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

For the year ended September 30, 2017, the City recognized pension expense of \$210,024. At September 30, 2017, the City reported deferred outflows of resources and determined inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 58,379	\$ (4,778)
Changes in actual assumptions	102,212	-
Difference between projected and actual investment earnings	581,193	-
Contributions subsequent to the measurement date	<u>427,377</u>	<u>(675)</u>
	<u>\$ 1,169,161</u>	<u>\$ (5,453)</u>

For the year ended September 30, 2017, \$427,377 was reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended December 31,</u>		
2017	\$	330,902
2018		243,635
2019		181,765
2020		<u>(168)</u>
Total	\$	<u>756,134</u>

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

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**NOTE 15 - DISCRETE COMPONENT UNIT- PECOS ECONOMIC DEVELOPMENT CORPORATION**

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

**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.

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.

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

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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.

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.

1. 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."

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

**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.

**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 \$1,550,107. \$250,000 of the deposits were considered collateralized as Category 1 credit risks.

**E. Capital Assets**

Capital assets for the year ended September 30, 2017, were as follows:

	Balance at 9/30/2016	Additions	Disposals	Balance at 9/30/2017
Land	\$ 1,546,590	\$ -	\$ -	\$ 1,546,590
Leasehold Improvements	279,741	-	-	279,741
Furniture and Equipment	51,495	201,897	-	253,392
Totals at Historical Cost	1,877,826	201,897	-	2,079,723
Accumulated Depreciation	(43,234)	(29,329)	-	(72,563)
Capital Assets - Net	<u>\$ 1,921,060</u>	<u>\$ 231,226</u>	<u>\$ -</u>	<u>\$ 2,152,286</u>

Depreciation expense for the year was \$29,329.

Assets held for sale as of September 30, 2017 are \$1,444,022 which amount to assets that can be sold at the bequest of the Corporation's management.

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

**F. Note Payable**

	<u>Balance at 9/30/2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at 9/30/2017</u>
Texas Economic Development Bank	<u>\$ 142,738</u>	<u>\$ -</u>	<u>\$ 142,738</u>	<u>\$ -</u>
Interest Rate	<u>3.25%</u>			
Original Issue Amount	<u>\$ 462,000</u>			
Interest Current Year	<u>\$ 4,842</u>			

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. On May 30, 2017 the loan was paid off in full.

**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 Corporation's 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. During the entire fiscal year 2017 the Corporation received one eighth of the City's one-half percent sales tax.

**H. Restatements**

In order for net position to roll forward year over year various restatements were made during the fiscal year and as a result of the audit that resulted in a net prior period adjustment of \$6,467 from fiscal year 2017 governmental fund balances to the fiscal year 2016 governmental fund balances. The result of these restatements was an over accrual in the amount of \$16.45 for the September 2016 sales tax received from the Town of Pecos City during fiscal year 2016. Also, back rent on the test track leased from TX Lantana was received of which \$6,000 was associated with the prior fiscal year. \$12,450 of prior year's depreciation expense was also recognized resulting from the reclassification of the west airport addition infrastructure that was classified as an asset held for sale prior to the reclassification in fiscal year 2017 to a capital asset.

**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, 2017.

**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.

**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, 2017.

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

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**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 April 15, 2019, the date the financial statements were issued. No events including instances of noncompliance, have occurred subsequent to the statement of financial position date that would require adjustment to or further disclosure in the financial statements.

**NOTE 16 - NEW PRONOUNCEMENTS**

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

Future GASB Statement Implementations:

*GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of GASB Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. This statement is effective for fiscal years beginning after June 15, 2017. The City has not fully determined the effects that implementation of this statement will have on the City's financial statements.

*Statement No. 77, Tax Abatement Disclosures*- This statement requires governments that enter into tax abatement 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 Requirement for Certain Component Units - an amendment of GASB No. 14* - This statement applies to component units organized as not-for-profit organizations in which the primary government is the sole corporate member. The requirements of this statement are effective for reporting periods beginning after June 15, 2016.

*Statement No. 82, Pension Issues - an amendment of GASB No. 67, 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.

**NOTE 17 - DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the City has evaluated events and transactions for potential recognition or disclosure through April 15, 2019, the date that the financial statements were available to be issued.

**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, 2017**

	2017	2016	2015
<b>A. Total pension liability</b>			
1. Service cost	\$ 604,343	\$ 595,834	\$ 425,498
2. Interest on the Total Pension Liability	880,177	828,210	778,271
3. Changes on benefit terms	-	-	-
4. Difference between expected and actual experience	83,221	54,545	(41,969)
5. Changes in assumptions	-	281,527	-
6. Benefit payments, including refunds or employee contributions	(579,046)	(533,543)	(533,545)
7. Net change in Total Pension Liability	988,695	1,226,573	628,255
8. Total Pension Liability - beginning	13,027,004	11,800,431	11,172,176
9. Total Pension Liability - ending	<u>14,015,699</u>	<u>13,027,004</u>	<u>11,800,431</u>
<b>B. Plan fiduciary net position</b>			
1. Contributions - employer	286,308	301,131	242,457
2. Contributions - employee	276,968	281,965	240,874
3. Net investment income	857,889	18,653	687,114
4. Benefit payments, including refunds of employee contributions	(579,046)	(533,543)	(533,545)
5. Administrative expenses	(9,691)	(11,361)	(7,174)
6. Other	(522)	(561)	(590)
7. Net change in plan fiduciary net position	831,906	56,284	629,136
8. Plan fiduciary net position - beginning	12,696,968	12,640,684	12,011,548
9. Plan fiduciary net position - ending	<u>\$13,528,874</u>	<u>\$12,696,968</u>	<u>\$12,640,684</u>
<b>C. Net pension liability (asset) (A9-B9)</b>	<u>\$ 486,825</u>	<u>\$ 330,036</u>	<u>\$ (840,253)</u>
<b>D. Plan fiduciary net position as a percentage of the total pension asset (B9/A9)</b>	96.53%	97.47%	107.12%
<b>E. Covered - employee payroll</b>	\$ 5,631,706	\$ 5,631,706	\$ 4,817,471
<b>F. Net pension liability as a percentage of covered employee payroll (C/E)</b>	8.64%	5.86%	-17.44%

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

GASB Statement No. 68 requires 10 year of data; however, 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 at the years ended December 31, 2015 and 2016, the current measurement dates.

**TOWN OF PECOS CITY, TEXAS  
SCHEDULE OF CONTRIBUTIONS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
Year Ended September 30, 2017**

	2017	2016	2015
Actuarially Determined Contribution	\$ 286,308	\$ 296,434	\$ 287,723
Contributions in relation to the actuarially determined contribution	<u>286,308</u>	<u>296,434</u>	<u>287,723</u>
Contribution deficiency (excess)	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Covered employee payroll	5,539,351	5,631,706	5,226,785
Contributions as a percentage of covered employee payroll	5.17%	5.26%	5.50%

**Notes to Schedule of contributions**

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 2016, the current measurement dates.

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

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

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market, 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experienced-based table of rates that are specific to the City's plan of benefits Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

**Other Information**

There were no benefit changes during the year

**TOWN OF PECOS CITY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET (GAAP BASIS) AND ACTUAL**  
**GENERAL FUND**  
**Year Ended September 30, 2017**

	Budget Amounts		Actual Amount	Variance with Final Budget Over/(Under)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$ 1,930,000	\$ 1,942,000	\$ 1,971,718	\$ 29,718
Hotel Occupancy Tax	1,000,000	1,000,000	2,596,974	1,596,974
Other taxes	3,364,000	5,178,890	6,812,787	1,633,897
Franchise taxes	545,000	1,214,000	1,333,275	119,275
Permits and fees	145,250	289,250	345,492	56,242
Intergovernmental revenues	150,500	450,500	450,500	-
Fines and forfeitures	1,477,900	1,477,900	1,470,175	(7,725)
Court fees	40,500	40,500	62,098	21,598
Other revenues	2,129,250	2,688,250	4,134,092	1,445,842
Interest	9,900	9,900	86,588	76,688
Miscellaneous	257,100	314,600	355,998	41,398
<b>Total revenues</b>	<b>11,049,400</b>	<b>14,605,790</b>	<b>19,619,697</b>	<b>5,013,907</b>
<b>Expenditures</b>				
General government	10,805,156	10,946,906	6,836,758	4,110,148
Streets and sanitation	2,926,180	3,996,619	3,321,976	674,643
Culture and recreation	589,510	639,510	631,191	8,319
Court	580,610	580,610	600,240	(19,630)
Fire and rescue	623,400	653,400	415,928	237,472
Planning and inspection	266,650	266,650	214,238	52,412
Capital outlay	992,915	3,095,415	1,848,528	1,246,887
Debt service:				
Principal retirement	98,240	98,240	204,550	(106,310)
Interest charges	5,000	5,000	9,935	(4,935)
<b>Total general government</b>	<b>16,887,661</b>	<b>20,282,350</b>	<b>14,083,344</b>	<b>6,199,006</b>
<b>Excess (Deficiency) of revenues over expenditures</b>	<b>5,536,353</b>	<b>(5,676,560)</b>	<b>5,536,353</b>	<b>11,212,913</b>
<b>Other financing sources (uses):</b>				
Proceeds on sale of assets	1,000	1,000	103,800	102,800
Transfers in	3,521,146	4,271,146	1,219,856	(3,051,290)
Transfers out	(1,890,711)	(1,890,711)	(2,427,864)	(537,153)
<b>Total other financing sources (uses)</b>	<b>1,631,435</b>	<b>2,381,435</b>	<b>(1,104,208)</b>	<b>(3,485,643)</b>
<b>Net change in fund balances</b>	<b>7,167,788</b>	<b>(3,295,125)</b>	<b>4,432,145</b>	<b>7,727,270</b>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<b>16,681,062</b>	<b>16,681,062</b>	<b>16,681,062</b>	<b>-</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 23,848,850</b>	<b>\$ 13,385,937</b>	<b>\$ 21,113,207</b>	<b>\$ 7,727,270</b>

**TOWN OF PECOS CITY, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURE AND CHANGE IN FUND BALANCE**  
**BUDGET (GAAP BASIS) AND ACTUAL**  
**AIRPORT SERVICE FUND**  
**Year Ended September 30, 2017**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Charges for services	\$ 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 disbursement	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



## PARK FOWLER & CO.

*Certified Public Accountants & Management Consultants  
A Professional Limited Liability Company*

MANAGING PARTNER:  
Ronald H. Park, CPA

Associates:  
Clara A. Moreno, CPA  
P. Andrew Hall, CPA  
Marc D. Kennedy, CPA

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

To the Honorable Mayor and Members of the City Council  
Town of Pecos City, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each 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, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 15, 2019.

#### **Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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 response to the finding identified in our audit are described in the accompanying schedule of findings and responses. The City's response was not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

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

Park Fowler & Co., PLLC

*Park Fowler & Co. PLLC*  
Corpus Christi, Texas  
April 15, 2019

**TOWN OF PECOS CITY, TEXAS  
SCHEUDLE OF FINDINGS AND RESPONSES  
Year Ended December 31, 2017**

**Criteria:** The Governmental Accounting Standards Boards identifies timeliness a critical component of financial reporting. Typically, within 180 days of fiscal year end.

**Condition:** The September 30, 2017 was not issued timely.

**Cause:** The combination of previously reported accounting and control issues and serious illness of key personnel delayed the availability of financial information.

**Effect:** Issuance of the annual financial report was delayed.

**Recommendations:** We recommend that the City take steps to ensure sound policies and procedures, internal controls and cross training be developed to increase the reliability of the financial information.

**Corrective Action:** The City is fully aware of the findings and has hired additional staff and retained the services of various financial reporting consultants to assist in correcting these issues.