

# PECOS PROUD

ANNUAL REPORT  
SEPTEMBER 30, 2017



ECONOMIC DEVELOPMENT CORPORATION

P. O. BOX 1493 | PECOS, TEXAS 79772



**FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION**

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FOR THE YEAR ENDED SEPTEMBER 30, 2017

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Painter and Associates, P.C.  
Certified Public Accountants  
836 King George Lane  
Savannah, Texas 76227-7854

**INDEPENDENT AUDITOR’S REPORT**

Board of Directors  
Pecos Economic Development Corporation  
Pecos, Texas

We have audited the accompanying financial statements of the governmental activities, of the Pecos Economic Development Corporation (Corporation), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Corporation’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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 of the Pecos Economic Development Corporation, as of September 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 20 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.

## **Painter and Associates, P.C.**

Savannah, Texas  
January 5, 2018



## MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial Report, we, the managers of the Pecos Economic Development Corporation, discuss and analyze the Corporation's financial performance for the fiscal year ended September 30, 2017. Please read it in conjunction with, the independent auditors' report on pages 1 and 2, and the Corporation's Basic Financial Statements, which begin on page 9.

### FINANCIAL HIGHLIGHTS

The Corporation's net position increased by \$905,903 as a result of this year's operations, and as a result the net position of our governmental activities increased by over 24%.

During the year, the Corporation had expenses of \$457,663 that were \$137,788 less than the \$595,451 generated by the sales tax apportioned by the Town of Pecos City in the General Fund plus lease revenues.

The Corporation realized a gain of \$387,282 on the assets held for sale that were sold during the fiscal year. Cash flow was a positive amount which was driven by the purchase and construction of capital assets and the receipt of other sources of revenue. Depreciation expense for the year was \$16,880.

The General Fund ended the year with a fund balance of \$4,679,046 as compared to last year when the fund balance was \$3,779,610.

The budget for the Corporation revealed \$262,951 more revenues were received during the year that was budgeted while \$134,283 less expenses were incurred than were budgeted for the year. Other income and expenses revealed \$399,313 more revenue than was budgeted for. The net effect of the budget variance was a positive budget variance of \$827,982.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities (on page 9 & 10) provide information about the activities of the Corporation as a whole and present a longer-term view of the Corporation's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.



For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 12) provide narrative explanations or additional data needed for full disclosure in the government-wide statements and the fund financial statements.

## **Reporting the Corporation as a Whole**

### ***The Statement of Net Position and the Statement of Activities***

The analysis of the Corporation's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the Corporation is better off or worse off as a result of the year's activities. The Statement of Net Position and Governmental Funds Balance Sheet includes all the Corporation's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the Corporation's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Corporation's net position and the changes in it. The Corporation's net position (the difference between assets and liabilities) provide one measure of the Corporation's financial health. Over time, increases or decreases in the Corporation's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the Corporation, however, one should consider nonfinancial factors as well.

In the Statement of Net Position and Governmental Funds Balance Sheet and the Statement of Activities we present the Corporation as one kind of activity:

Governmental activities – The only funds reported by the Corporation here are general operations of the entity.

## **Reporting the Corporation's Most Significant Funds**

### ***Fund Financial Statements***

Laws and contracts require the Corporation to establish some funds by State law and bond covenants. The Corporation's administration establishes many other funds to help it control and manage money for particular purposes such as grants.

Governmental Funds – Only the Corporation's general operating funds are reported in governmental funds. These use modified accrual accounting which is a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the Corporation's activities.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The Corporation implemented GASB Statement No. 34 in a prior year. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the Corporation's governmental and business-type activities.



**Table I - Summary of Net Position**

	Governmental Activities		Change	
	2017	2016	\$	%
<b>Assets</b>				
Current and Other Assets	\$ 2,687,417	\$ 2,102,582	\$ 584,835	27.8%
Capital Assets (Net)	<u>2,007,159</u>	<u>1,834,592</u>	<u>172,567</u>	<u>9.4%</u>
<b>Total Assets</b>	<b><u>\$ 4,694,576</u></b>	<b><u>\$ 3,937,174</u></b>	<b><u>757,402</u></b>	<b><u>19.2%</u></b>
<b>Liabilities</b>				
Short-Term Liabilities	\$ 9,894	\$ 44,941	(35,047)	-78.0%
Long-Term Liabilities	<u>5,636</u>	<u>112,623</u>	<u>(106,987)</u>	<u>-95.0%</u>
<b>Total Liabilities</b>	<b><u>15,530</u></b>	<b><u>157,564</u></b>	<b><u>(142,034)</u></b>	<b><u>-90.1%</u></b>
<b>Net Position</b>				
Invested in Capital Assets	3,086,825	3,135,876	49,051	-1.6%
Restricted	-	-	-	0.0%
Unrestricted	<u>1,592,221</u>	<u>643,734</u>	<u>(948,487)</u>	<u>147.3%</u>
<b>Total Net Position</b>	<b><u>4,679,046</u></b>	<b><u>3,779,610</u></b>	<b><u>899,436</u></b>	<b><u>23.8%</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 4,694,576</u></b>	<b><u>\$ 3,937,174</u></b>	<b><u>757,402</u></b>	<b><u>19.2%</u></b>

**Table II - Summary of Changes in Net Position**

	Governmental Activities		Change	
	2017	2016	\$	%
<b>Revenues</b>				
Sales Tax Revenues	\$ 519,512	\$ 602,741	\$ (83,229)	-13.8%
Other Revenues	<u>75,939</u>	<u>135,750</u>	<u>(59,811)</u>	<u>-44.1%</u>
<b>Total Revenues</b>	<b><u>595,451</u></b>	<b><u>738,491</u></b>	<b><u>(143,040)</u></b>	<b><u>-19.4%</u></b>
<b>Expenses</b>				
Personnel Expenses	158,525	176,416	(17,891)	-10.1%
Operating Expenses	<u>299,137</u>	<u>240,051</u>	<u>59,086</u>	<u>24.6%</u>
<b>Total Expenses</b>	<b><u>457,663</u></b>	<b><u>416,467</u></b>	<b><u>41,196</u></b>	<b><u>9.9%</u></b>
<b>Other Income (Expense)</b>				
Interest Income	3,003	8	2,995	37443.3%
Other Income	315,934	254,475	61,459	24.2%
Lantan Rent & Reimbursements	61,895	-	61,895	0.0%
Gain on Sale of Assets	639,094	178,134	460,960	258.8%
Cost of Assets Sold	<u>(251,812)</u>	<u>(277,364)</u>	<u>25,552</u>	<u>-9.2%</u>
<b>Total Other Income (Expense)</b>	<b><u>768,114</u></b>	<b><u>155,253</u></b>	<b><u>609,866</u></b>	<b><u>392.8%</u></b>
<b>Increase (Decrease) in Net Assets</b>	<b><u>905,903</u></b>	<b><u>477,277</u></b>	<b><u>425,630</u></b>	<b><u>89.2%</u></b>
<b>Net Position - Beginning of the Year</b>	3,779,610	3,302,333	477,277	14.5%
Adjustment to Net Position	<u>(6,467)</u>	-	<u>(6,467)</u>	-
<b>Net Position - End of the Year</b>	<b><u>\$ 4,679,046</u></b>	<b><u>\$ 3,779,610</u></b>	<b><u>\$ 896,440</u></b>	<b><u>23.7%</u></b>



## THE CORPORATION'S FUNDS

As the Corporation completed the year, its General Fund, as presented in the Statement of Net Position and Governmental Funds Balance Sheet on page 9, reported an unrestricted fund balance of \$1,592,221, which is more than last year's total of \$643,734.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

As of September 30, 2017, the Corporation had over \$1.8 million invested in land and office furniture and fixtures.

**Table III - Capital Assets**

	Governmental Activities		Change	
	2017	2016	\$	%
<b>Property Plant &amp; Equipment</b>				
Land	\$ 1,546,590	\$ 1,546,590	\$ -	0.0%
Leasehold Improvements	279,741	279,741	-	0.0%
Furniture and Fixtures	51,495	51,495	-	0.0%
Infrastructure	201,897	-	201,897	-
<b>Total Property Plant &amp; Equipment</b>	<b>2,079,723</b>	<b>1,877,826</b>	<b>201,897</b>	<b>10.8%</b>
Accumulated Depreciation	(72,563)	(43,234)	(29,329)	67.8%
<b>Property Plant &amp; Equipment, net</b>	<b>\$ 2,007,160</b>	<b>\$ 1,834,592</b>	<b>\$ 172,568</b>	<b>9.4%</b>

### DEBT

A note outstanding at the previous year-end for the corporation had a balance of \$142,738 at September 30, 2016. The note has subsequently been paid off in full during the current fiscal year.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In October 2007, the PEDC Board of Director's, along with the Pecos City Council, initiated an election to abolish the 4A PEDC and create a new Pecos 4B Economic Development Corporation. This transition would change the focus of the programs to a much broader mix of business creation, retention, expansion, and recruitment strategies. These strategies would include working to attract new commercial activities and investments to contribute to enhancing the quality of life of the City and region.

The transition has resulted in the identification of available land for industrial, commercial/retail and residential development. The PEDC and the Town of Pecos City have partnered in the strategic investment in infrastructure projects to support new development by the private sector laying the foundation for increases in property values, sales tax revenues and Hotel Occupancy Tax (HOT) revenues.



Over the past several years The Permian Basin has seen a revival of its oil and gas industry. The City of Pecos is strategically located on the western flank of the Permian Basin in what is known as the Delaware Basin. The PEDC will focus on industrial sites for oilfield support companies, housing for workers and their families, and facilitating companies to locate in the City of Pecos and Reeves County.

The PEDC will continue to focus on programs that market the City of Pecos and serve the existing business community, attract investment that expand and diversify the economic base and build upon the City of Pecos as the center of commerce, trade and tourism for the TransPecos region.

**Sale and Purchase of Assets Held for Sale**

<b>Description</b>	<b>Amount</b>
<b>Assets Held For Sale - Sales</b>	
Dominos Pizza	\$ 139,408
PHA acreage corner lot	125,117
3 acres Block 7, RWAA	123,853
3.07 acres to Mistry	67,500
Deposit	49,000
207 South Oak	43,890
Multiple Properties	27,000
Multiple Properties	21,512
Lots 1, 2, 3 Blk 2 Meadowbrook	21,000
NE/4 Blk 110 Orig Town of Pecos	10,000
3.07 acres (down payment)	7,500
75' Lots 2 & 3 next to 207 S Oak	4,139
Pedro Orona - Lot 6 Blk 9, Meadowbrook	3,000
W 49.98 ft of 14th Street	2,676
2317 Country Club - bought house to move	1,500
refund - sale of structure 2317 Country Club (per agreement)	(1,000)
reversal of sale - Lot 8, Blk 6, Meadowbrook	(7,000)
<b>Total Assets Held For Sale - Sales</b>	<b>\$ 639,094</b>
<b>Assets Held for Sale - Purchases</b>	
1.67 Acres 1-20 & Toliver	\$ 11,499
<b>Total Assets Held for Sale - Purchases</b>	<b>\$ 11,499</b>



## **Other Sources of Revenue**

Other sources of revenue were derived from leases, surveys and right-of-way easements.

<b>Description</b>	<b>Amount</b>
Patriot Resources	\$ 108,741
Land Track Survey Reimbursement	116,318
Colgate	24,800
Hutton	17,424
Oxy	12,480
Sul Ross Rent	5,750
Reeves County Groundwater Conservation District Rent	5,400
Shaw Interests	2,328
Miscellaneous	<u>22,693</u>
<b>Total Other Sources of Revenue</b>	<b><u>\$ 315,934</u></b>

## **CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Corporation's business office, at the Pecos Economic Development Corporation, P.O. Box 1493, Pecos, Texas 79772.



**STATEMENT OF NET POSITION &  
GOVERNMENTAL FUNDS BALANCE SHEET**

	<u>9/30/2017</u>	<u>9/30/2016</u>
<b>Assets</b>		
Cash	\$ 1,550,107	\$ 486,874
Accounts Receivable, net	57,644	28,948
Assets Held for Sale	1,079,665	1,444,022
Notes Receivable - Current	-	30,115
<b>Total Current Assets</b>	<u>2,687,417</u>	<u>1,989,958</u>
Note Receivable - Long Term	-	112,623
Land	1,546,590	1,546,590
Capital Assets, net	460,569	288,002
<b>Total Long-term Assets</b>	<u>2,007,159</u>	<u>1,947,216</u>
<b>Total Assets</b>	<u><b>\$ 4,694,576</b></u>	<u><b>\$ 3,937,174</b></u>
<b>Liabilities</b>		
Accounts Payable	\$ 3,621	\$ 2,826
Payroll Liabilities	6,274	-
Notes Payable - Current	-	30,115
Due to Others	-	12,000
<b>Total Current Liabilities</b>	<u>9,894</u>	<u>44,941</u>
Compensated Absences	5,636	-
Notes Payable - Long Term	-	112,623
<b>Total Long-term Liabilities</b>	<u>5,636</u>	<u>112,623</u>
<b>Total Liabilities</b>	<u><b>15,530</b></u>	<u><b>157,564</b></u>
<b>Net Position</b>		
Invested in Capital Assets, net of related debt	3,086,825	3,135,876
Restricted	-	-
Unrestricted	1,592,221	643,734
<b>Total Net Position</b>	<u><b>4,679,046</b></u>	<u><b>3,779,610</b></u>
<b>Total Liabilities and Net Position</b>	<u><b>\$ 4,694,576</b></u>	<u><b>\$ 3,937,174</b></u>

See Accompanying Notes to the Basic Financial Statements



**STATEMENT OF ACTIVITIES & STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE**

	<b>Year Ended 9/30/2017</b>	<b>Year Ended 9/30/2016</b>
<b>Revenue</b>		
Sales Tax Revenues	\$ 519,512	\$ 602,741
PRTC Lease	<u>75,939</u>	<u>135,750</u>
<b>Total Revenue</b>	<b><u>595,451</u></b>	<b><u>738,491</u></b>
<b>Expenditures</b>		
Wages	121,535	147,156
Benefits	26,606	18,660
Lease Space Expense	39,280	28,322
Advertising	8,753	35,375
Bank Service Charges	332	322
Business Development	1,802	1,283
Business Attraction	4,843	6,879
Auto Allowance	10,384	10,600
Dues and Subscriptions	1,250	2,788
Office Supplies	7,367	23,001
Postage	427	523
Bad Debt	142,738	37,033
Telephone	4,828	4,971
Travel and Training	98	3,893
Professional Services	62,115	41,125
Board Meeting Expenses	1,147	3,067
Maintenance and Utilities - Other Buildings	170	1,021
Miscellaneous	<u>23,988</u>	<u>50,448</u>
<b>Total Expenditures</b>	<b><u>457,663</u></b>	<b><u>416,467</u></b>
<b>Other Income (Expenditures)</b>		
Interest Income	3,003	8
Other Income	315,934	254,475
Lantana Rent & Reimbursements	61,895	-
Sale of Assets	639,094	178,134
Cost of Assets Sold	<u>(251,812)</u>	<u>(277,364)</u>
<b>Total Other Income (Expenditures)</b>	<b><u>768,114</u></b>	<b><u>155,253</u></b>
<b>Change in Net Position/Fund Balance</b>	<b><u>905,903</u></b>	<b><u>477,277</u></b>
<b>Net Position/Fund Balance - Beginning of the Year</b>	<b>3,779,610</b>	<b>3,302,333</b>
Adjustments to Net Position	<u>(6,467)</u>	<u>-</u>
<b>Net Position/Fund Balance - End of Year</b>	<b><u>\$4,679,046</u></b>	<b><u>\$ 3,779,610</u></b>

See Accompanying Notes to the Basic Financial Statements



## STATEMENT OF CASH FLOWS

	<b>Year Ended 9/30/2017</b>	<b>Year Ended 9/30/2016</b>
<b>Cash Flows from Operating Activities</b>		
Sales Tax Proceeds	\$ 489,300	\$ 634,960
Other Income	778,702	390,225
Payments to Employees	(164,161)	(176,416)
Payments to Suppliers	<u>(208,702)</u>	<u>(232,424)</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>895,138</u></b>	<b><u>616,345</u></b>
<b>Cash Flows from Financing Activities</b>		
Acquisition and Construction of Assets	(6,331)	(651,414)
Principal Paid on Debt	(142,738)	(74,559)
Proceeds from the Sale of Capital Assets	<u>314,160</u>	<u>178,134</u>
<b>Net Cash Provided (Used) by Financing Activities</b>	<b><u>165,092</u></b>	<b><u>(547,839)</u></b>
<b>Cash Flows from Investing Activities</b>		
Interest Received	<u>3,003</u>	<u>8</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<b><u>3,003</u></b>	<b><u>8</u></b>
Net Increase (Decrease) in Cash and Cash Equivalents	1,063,233	68,516
Cash & Cash Equivalents at the Beginning of the Year	<u>486,874</u>	<u>418,358</u>
<b>Cash &amp; Cash Equivalents at the End of the Year</b>	<b><u>\$ 1,550,107</u></b>	<b><u>\$ 486,874</u></b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>		
Operating Income (Loss)	\$ 905,903	\$ 477,277
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	29,330	18,776
(Increase) Decrease in Accounts Receivable and Other Assets	1,419	83,118
Increase (Decrease) in Accounts Payable and Other Liabilities	(35,047)	37,174
Adjustment to Retained Earnings	<u>(6,467)</u>	<u>-</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>\$ 895,138</u></b>	<b><u>\$ 616,345</u></b>

See Accompanying Notes to the Basic Financial Statements





## NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2017

### 1. Summary of Significant Accounting Policies

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

#### A. Financial Reporting Entity

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

#### B. Basis of Presentation

##### Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information for the reporting entity as a whole. They include all 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**

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. A fund is considered major if it is the primary operating fund of the Corporation or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total of all funds of that category or type; and
- b. Total assets, liabilities, revenues, expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total of all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

### **Governmental Funds**

The General Fund is reported in the governmental fund section and is the Corporation's only fund.

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

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.

- a. 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.

### **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.

## **D. Assets, Liabilities, and Equity**

### **Cash and investments**

For the purpose of the Statement of Net Position and Governmental Funds Balance Sheet, “cash, including time deposits” includes all demand, savings accounts, and certificates of deposits of the Corporation

### **Receivables**

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

### **Fixed Assets**

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.

### **Government-wide statements**

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to September 30, 2007.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. The range of estimated useful lived by type of asset is as follows:

Furniture & Equipment	3-7 years
Leasehold Improvements	39 years

### **Fund Financial Statements**

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



## Equity Classifications

### Government-wide Statements

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.”

## E. Revenues, Expenditures, and Expenses

### 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.

### 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.

## F. Cash and Investments

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

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

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

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

At year-end the Corporation’s cash and investments totaled \$1,550,107. \$250,000 of the deposits were considered collateralized as Category 1 credit risks.



## G. Capital Assets

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

	Balance at 9/30/16	Additions	Disposals	Balance at 09/30/17
Land	\$1,546,590	-	-	\$1,546,590
Leasehold Improvements	279,741	-	-	279,741
Furniture and Equipment	51,495	-	-	51,495
Furniture and Equipment	-	201,897	-	201,897
<b>Totals at Historical Cost</b>	<b>1,877,826</b>	<b>201,897</b>	<b>-</b>	<b>2,079,723</b>
Accumulated Depreciation	(43,234)	(29,329)	-	(72,563)
<b>Total Accumulated Depreciation</b>	<b>(43,234)</b>	<b>(29,329)</b>	<b>-</b>	<b>(72,563)</b>
<b>Capital Assets, Net</b>	<b>\$1,834,592</b>	<b>\$172,568</b>	<b>-</b>	<b>\$2,007,159</b>

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

## H. Note Payable

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Payable Amounts Outstanding 9/30/16	Issued	Retired	Outstanding 9/30/17
Texas Economic Development Bank	3.25%	\$462,000	\$4,842	\$142,738	\$0	\$0	\$0

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.

## I. 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.

## J. Restatements

In order for net position to roll forward year over year various restatements were made in the course of the fiscal year and as a result of the audit that resulted in a net prior period adjustment of \$6,467 from fiscal year 2017 governmental fund balances to the fiscal year 2016 governmental fund balances. The result of these restatements were 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.

## **K. Contingencies**

### *Litigation*

In the normal course of providing services to the public the Corporation from time to time is subjected to litigation claims. The Corporation defends itself against such claims based on internal assessment of liability and risk. Litigation expenses and damages are recorded as expense in the period when services are rendered. No liabilities have been accrued in the financial statements relative to litigation in process for the year ended September 30, 2017.

## **L. 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.

## **M. 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.

## **N. 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 January 5, 2018, 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.



Painter and Associates, P.C.  
Certified Public Accountants  
836 King George Lane  
Savannah, Texas 76227-7854

**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**

Board of Directors  
Pecos Economic Development Corporation  
Pecos, Texas

I 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 of the Pecos Economic Development Corporation, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued my report thereon dated January 5, 2018.

**Internal Control Over Financial Reporting**

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

My 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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 Corporation's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

## **Painter and Associates, P.C.**

Savannah, Texas  
January 5, 2018

**REQUIRED SUPPLEMENTARY INFORMATION**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Revenue	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Sales Tax Revenues	\$ 332,500	\$ 332,500	\$ 519,512	\$ 187,012
PRTC Lease	-	-	75,939	75,939
<b>Total Revenue</b>	<b>332,500</b>	<b>332,500</b>	<b>595,451</b>	<b>262,951</b>
<b>Expenses</b>				
Wages	111,300	111,300	121,535	10,235
Benefits	25,800	25,800	26,606	806
Lease Space Expense	40,710	40,710	39,280	(1,430)
Advertising	8,475	8,475	8,753	278
Bank Service Charges	300	300	332	32
Business Development	1,200	1,200	1,802	602
Business Attraction	4,308	4,308	4,843	535
Auto Allowance	10,000	10,000	10,384	384
Dues and Subscription	1,858	1,858	1,250	(608)
Office Supplies	7,200	7,200	7,367	167
Postage	564	564	427	(137)
Bad Debit	-	-	142,738	142,738
Telephone	3,600	3,600	4,828	1,228
Travel and Training	3,985	3,985	98	(3,887)
Professional Services	52,200	52,200	62,115	9,915
Board Meeting Expenses	2,400	2,400	1,147	(1,253)
Maintenance and Utilities				
- Other Buildings	1,200	1,200	170	(1,030)
Miscellaneous	48,280	48,280	23,988	(24,292)
<b>Total Expenses</b>	<b>323,380</b>	<b>323,380</b>	<b>457,663</b>	<b>134,283</b>
<b>Excess (Deficiency)</b>	<b>9,120</b>	<b>9,120</b>	<b>137,789</b>	<b>128,669</b>
<b>Other Income (Expenses)</b>				
Interest Income	6	6	3,003	2,997
Income from Land Sales	6,900	6,900	315,934	309,034
Lantan Rent & Reimbursements	-	-	61,895	-
Sale of Assets	-	-	639,094	639,094
Cost of Assets Sold	-	-	(251,812)	(251,812)
<b>Total Other Income (Expenses)</b>	<b>6,906</b>	<b>6,906</b>	<b>768,114</b>	<b>699,313</b>
<b>Net Income</b>	<b>\$ 16,026</b>	<b>\$ 16,026</b>	<b>\$ 905,903</b>	<b>\$ 827,982</b>
<b>Fund Balance - Beginning of the Year</b>			<b>3,779,610</b>	
Adjustment to Fund Balance			(6,467)	
<b>Fund Balance - End of the Year</b>			<b>\$ 4,679,046</b>	

