

PECOS

★ T E X A S ★

ECONOMIC DEVELOPMENT CORPORATION

P. O. BOX 1493 | PECOS, TEXAS 79772



PECOS



**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

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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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of the Pecos Economic Development Corporation, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Pecos Economic Development 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2018, 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 and budgetary comparison information on pages 3-8 and 24 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 February 5, 2019, on our consideration of the Pecos Economic Development Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Pecos Economic Development Corporation's 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 Pecos Economic Development Corporation's internal control over financial reporting and compliance.

Painter and Associates, P. C.

Savannah, Texas
February 28, 2019



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, 2018. 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 \$2,027,691 as a result of this year's operations, and as a result the net position of our governmental activities increased by over 43%.

During the year, the Corporation had expenses of \$484,236 that were \$2,027,691 less than the \$885,385 generated by the sales tax apportioned by the Town of Pecos City plus \$88,080 in lease revenues, \$1,223,078 in the sale of assets, \$37,254 in interest income and \$278,130 in other income.

The Corporation realized a gain of \$1,089,016 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 \$14,911.

The General Fund ended the year with a fund balance of \$3,965,414 as compared to last year when the fund balance was \$2,677,522.

The budget for the Corporation revealed \$448,886 more operating revenues were received during the year that was budgeted while \$1,173,185 less expenses were incurred than were budgeted for the year. Other income and expenses revealed \$266,000 more revenue than was budgeted for. The net effect of the budget variance was a positive budget variance of \$1,888,071.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities, on pages 9 and 10 respectively, provide information about the activities of the Corporation as a whole and present a longer-term view of the Corporation's property 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, the Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, on pages 12 and 13 respectively, 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 the appropriations budget.

The notes to the financial statements, beginning on page 15, 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 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 net position. The Corporation's net position, the difference between assets and liabilities, provides 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 the Statement of Activities we present the Corporation as one kind of activity:

Governmental activities – The only funds reported by the Corporation here are the 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, if any.

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 and include the Governmental Funds Balance Sheet located on page 12 and the Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balance located on page 13.

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 | |
|---|----------------------------|----------------------------|-------------------------|---------------------|
| | 2018 | 2017 | \$ | % |
| Assets | | | | |
| Current and Other Assets | \$ 5,453,116 | \$ 4,234,007 | \$ 1,219,110 | 28.8% |
| Capital Assets (Net) | <u>1,278,160</u> | <u>460,569</u> | <u>817,591</u> | <u>177.5%</u> |
| Total Assets | <u>\$ 6,731,276</u> | <u>\$ 4,694,576</u> | <u>2,036,701</u> | <u>43.4%</u> |
| Liabilities | | | | |
| Short-Term Liabilities | \$ 18,863 | \$ 9,894 | 8,969 | 90.6% |
| Long-Term Liabilities | <u>5,677</u> | <u>5,636</u> | <u>41</u> | <u>0.7%</u> |
| Total Liabilities | <u>24,539</u> | <u>15,530</u> | <u>9,009</u> | <u>58.0%</u> |
| Net Position | | | | |
| Net Invested in Capital Assets | 2,747,000 | 2,007,159 | 739,841 | 36.9% |
| Unrestricted | <u>3,959,737</u> | <u>2,671,866</u> | <u>1,287,850</u> | <u>48.2%</u> |
| Total Net Position | <u>6,706,737</u> | <u>4,679,046</u> | <u>2,027,691</u> | <u>43.3%</u> |
| Total Liabilities and Net Position | <u>\$ 6,731,276</u> | <u>\$ 4,694,576</u> | <u>2,036,701</u> | <u>43.4%</u> |

Table II - Summary of Changes in Net Position

| | Governmental Activities | | Change | |
|---|----------------------------|----------------------------|----------------------------|----------------------|
| | 2018 | 2017 | \$ | % |
| Revenues | | | | |
| Sales Tax Revenues | \$ 885,385 | \$ 519,512 | \$ 365,873 | 70.4% |
| PTTC Lease | <u>88,080</u> | <u>75,939</u> | <u>12,141</u> | <u>16.0%</u> |
| Total Revenues | <u>973,465</u> | <u>595,451</u> | <u>378,013</u> | <u>63.5%</u> |
| Expenses | | | | |
| Personnel Expenses | 139,587.32 | 148,140.89 | (8,554) | -5.8% |
| Operating Expenses | <u>210,586</u> | <u>309,522</u> | <u>(98,936)</u> | <u>-32.0%</u> |
| Total Expenses | <u>350,174</u> | <u>457,663</u> | <u>(107,489)</u> | <u>-23.5%</u> |
| Other Income (Expense) | | | | |
| Interest Income | 37,254 | 3,003 | 34,251 | 1140.4% |
| Other Income | 97,218 | 315,934 | (218,716) | -69.2% |
| Reimbursements for Special Projects | 92,773 | - | 92,773 | - |
| Lantana Rent & Reimbursements | 88,139 | 61,895 | 26,244 | 42.4% |
| Sale of Assets | 1,223,078 | 639,094 | 583,984 | 91.4% |
| Cost of Assets Sold | <u>(134,062)</u> | <u>(251,812)</u> | <u>117,751</u> | <u>-46.8%</u> |
| Total Other Income (Expense) | <u>1,404,400</u> | <u>768,114</u> | <u>602,035</u> | <u>78.4%</u> |
| Increase (Decrease) in Net Assets | <u>2,027,691</u> | <u>905,903</u> | <u>1,087,538</u> | <u>120.1%</u> |
| Net Position - Beginning of the Year | 4,679,046 | 3,779,610 | 899,436 | 23.8% |
| Adjustment to Net Position | - | (6,467) | 6,467 | -100.0% |
| Net Position - End of the Year | <u>\$ 6,706,737</u> | <u>\$ 4,679,046</u> | <u>\$ 1,993,440</u> | <u>42.6%</u> |



THE CORPORATION'S FUNDS

As the Corporation completed the year, its General Fund, as presented in the Governmental Funds Balance Sheet reported an unassigned fund balance of \$2,898,330, which is more than last year's total of \$1,597,857.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2018, the Corporation had over \$2 million invested in land, leasehold improvements, office furniture and fixtures and infrastructure.

Table III - Capital Assets

| | Governmental Activities | | Change | |
|---|-------------------------|---------------------|--------------------|--------------|
| | 2018 | 2017 | \$ | % |
| Property Plant & Equipment | | | | |
| Land | \$ 1,468,840 | \$ 1,546,590 | \$ (77,750) | -5.0% |
| Leasehold Improvements | 279,741 | 279,741 | - | 0.0% |
| Furniture and Fixtures | 51,495 | 51,495 | - | 0.0% |
| Infrastructure | 201,897 | 201,897 | - | 0.0% |
| Total Property Plant & Equipment | 2,001,973 | 2,079,723 | (77,750) | -3.7% |
| Accumulated Depreciation | (87,474) | (72,563) | (14,911) | 20.5% |
| Property, Plant & Equipment, net | \$ 1,914,499 | \$ 2,007,160 | \$ (92,661) | -4.6% |

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 the 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 Pecos Economic Development Corporation 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 OF ASSETS HELD FOR SALE DURING THE FISCAL YEAR

| Description | Amount |
|---|---------------------|
| 1.32 acres - Toliver & I-20 | \$ 78,618 |
| 2.63 acres - Block 5 Airport | 314,323 |
| 3.80 acres - S-16, Block 5, H | 146,619 |
| Meadowbrook Block 6 - Lots 11, 12, 13 | 21,000 |
| Meadowbrook Block 6, Lot 14 | 7,000 |
| Lot 3 & 4, Block 4 West Airport Addition | 426,691 |
| 1307 Iowa | 14,000 |
| Lots 1, 2, 3, Block 31 - North Pecos | 12,000 |
| Lot 5 & 6, Block 4, West Park Addition | 13,000 |
| 5 lots Block 21 - North Pecos | 2,500 |
| .14 Grid & 20' W/2 - Sec13 | 11,621 |
| .14 acre in Block 65 West Park Addition | 2,500 |
| 6.22 acres behind Colt Chevrolet | 173,206 |
| Total Assets Held For Sale - Sales | \$ 1,223,078 |

ASSETS HELD FOR SALE AT FISCAL YEAR-END

| Description | Amount |
|--|---------------------|
| 140.30 Acres NW/4 Sec 14, Block 5 | \$ 268,680 |
| 145.23 Acres | 415,805 |
| 187.04 Acres, Hwy 285 South | 191,299 |
| Buildings and Park - Old Bank, Corner of 3rd and Cypress | 3,836 |
| E 30' Lots, 22 23 24, Block 32, Corner of 3rd and Cypress | 1,666 |
| Lot 9, Block 2, Country Club Estates, | 10,727 |
| West Airport Addition, Acreage 1-20 Frontage Road | 22,168 |
| 5.583 ac W/2 of NE/4 Sec 9, Jackson Street Subdivision | 97,384 |
| Lot 6, Block 2, Gibson Addn, west end of 3rd Street | 550 |
| Lots in Block 21, North Pecos | 2,499 |
| Renz Property .52 Acres, triangle CR 116 & CR 118 | 23,611 |
| 413 S Mulberry | 7,619 |
| 5.05 Acre Tract, S-16 Block 5, land west of Tractor Supply | 3,884 |
| 7.47 Acre Tract, Block 5, remaining acreage of Troy Vines area | 7,036 |
| S/2 Lot 2 and all Lot 3, Block 105, 700 block of Oak St | 10,319 |
| Total Assets Held for Sale at Fiscal Year-end | \$ 1,067,084 |



OTHER SOURCES OF REVENUE

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

| Description | Amount |
|---------------------------------------|------------------|
| Easement Income | \$ 43,448 |
| Centennial Resources | 26,399 |
| PRI Operating | 15,203 |
| Reeves County Groundwater District | 7,200 |
| International Youth Foundation | 4,025 |
| Shaw Interests, Inc. | 944 |
| Total Other Sources of Revenue | \$ 97,218 |

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

September 30,

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|----------------------------|----------------------------|
| Assets | | |
| Cash and Cash Equivalents | \$ 2,744,108 | \$ 1,550,107 |
| Total Cash | <u>2,744,108</u> | <u>1,550,107</u> |
| Accounts Receivable | 171,834 | 57,644 |
| Other Assets | 1,250 | - |
| Assets Held for Sale | 1,067,084 | 1,079,665 |
| Work in Progress | 832,502 | - |
| Land | 1,468,840 | 1,546,590 |
| Property, Plant and Equipment, net | <u>445,659</u> | <u>460,569</u> |
| Total Assets | <u>6,731,276</u> | <u>4,694,576</u> |
| Liabilities | | |
| Accounts Payable | 13,486 | 3,621 |
| Payroll Liabilities | <u>5,376</u> | <u>6,274</u> |
| Total Current Liabilities | <u>18,863</u> | <u>9,894</u> |
| Compensated Absences | <u>5,677</u> | <u>5,636</u> |
| Total Long-term Liabilities | <u>5,677</u> | <u>5,636</u> |
| Net Position | | |
| Net Invested in Capital Assets | 2,747,000 | 2,007,159 |
| Unrestricted | <u>3,959,737</u> | <u>2,671,886</u> |
| Total Net Position | <u>\$ 6,706,737</u> | <u>\$ 4,679,046</u> |

The accompanying notes are an integral part of this statement.



STATEMENT OF ACTIVITIES

For the Year Ended September 30,

| | <u>2018</u> | <u>2017</u> |
|--|----------------------------|----------------------------|
| Revenues | | |
| Sales Tax Revenues | 885,385 | 519,512 |
| PRTC Lease | <u>88,080</u> | <u>75,939</u> |
| Total Operating Revenues | <u>973,465</u> | <u>595,451</u> |
| Expenses | | |
| Wages | \$ 113,910 | \$ 121,535 |
| Benefits | 25,678 | 26,606 |
| Lease Space Expense | 16,598 | 16,438 |
| Advertising | 15,745 | 8,753 |
| Bank Service Charges | 252 | 332 |
| Business Development | 1,998 | 1,802 |
| Business Attraction | - | 4,843 |
| Conferences and Webinars | 500 | - |
| Auto Allowance | 10,000 | 10,384 |
| Dues and Subscriptions | 1,275 | 1,250 |
| Office Supplies | 8,922 | 7,367 |
| Postage | 363 | 427 |
| Bad Debt | - | 142,738 |
| Telephone | 3,282 | 4,828 |
| Travel and Training | 687 | 98 |
| Professional Services | 83,701 | 62,115 |
| Board Meeting Expenses | 1,761 | 1,147 |
| Maintenance and Utilities - Other Buildings | - | 170 |
| Repairs and Maintenance | 240 | 5,962 |
| Depreciation | 14,911 | 16,880 |
| Miscellaneous | <u>50,352</u> | <u>23,988</u> |
| Total Expenses | <u>350,174</u> | <u>457,663</u> |
| Operating Income (Loss) | <u>623,291</u> | <u>137,789</u> |
| Non-Operating Revenues (Expenses) | | |
| Interest Income | 37,254 | 3,003 |
| Other Income | 97,218 | 315,934 |
| Reimbursements for Special Projects | 92,773 | - |
| Lantana Rent & Reimbursements | 88,139 | 61,895 |
| Sale of Assets | 1,223,078 | 639,094 |
| Cost of Assets Sold | <u>(134,062)</u> | <u>(251,812)</u> |
| Total Non-Operating Revenues (Expenses) | <u>1,404,400</u> | <u>768,114</u> |
| Change in Net Position | 2,027,691 | 905,903 |
| Net Position | | |
| Beginning of the Year | 4,679,046 | 3,779,610 |
| Adjustments | <u>-</u> | <u>(6,467)</u> |
| End of Year | <u>\$ 6,706,737</u> | <u>\$ 4,679,046</u> |

The accompanying notes are an integral part of this statement.



STATEMENT OF CASH FLOWS

For the Year Ended September 30,

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities | | |
| Sales Tax Proceeds | \$ 750,135 | \$ 489,300 |
| Other Income | 273,437 | 778,702 |
| Payments to Employees | (113,910) | (164,161) |
| Payments to Suppliers | <u>(143,491)</u> | <u>(208,702)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>766,171</u> | <u>895,138</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Acquisition and Construction of Assets | (832,502) | (6,331) |
| Principal Paid on Debt | - | (142,738) |
| Proceeds from the Sale of Capital Assets | <u>1,223,078</u> | <u>314,160</u> |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>390,576</u> | <u>165,092</u> |
| Cash Flows from Investing Activities | | |
| Interest Received | <u>37,254</u> | <u>3,003</u> |
| Net Cash Provided (Used) by Investing Activities | <u>37,254</u> | <u>3,003</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,194,001 | 1,063,233 |
| Cash, Beginning of the Year | <u>1,550,107</u> | <u>486,874</u> |
| Cash, End of the Year | <u>\$ 2,744,108</u> | <u>\$ 1,550,107</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | |
| Operating Income | \$ 2,027,691 | \$ 905,903 |
| Depreciation | 14,911 | 29,330 |
| (Increase) Decrease in Accounts Receivable and Other Assets | (1,285,440) | 1,419 |
| Increase (Decrease) in Accounts Payable and Other Liabilities | 9,009 | (35,047) |
| Adjustment to Fund Balance / Net Position | <u>-</u> | <u>(6,467)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 766,171</u> | <u>\$ 895,138</u> |

The accompanying notes are an integral part of this statement.



GOVERNMENTAL FUNDS - BALANCE SHEET

September 30,

| | <u>2018</u> | <u>2017</u> |
|--|----------------------------|----------------------------|
| Assets | | |
| Cash and Cash Equivalents | \$ 2,744,108 | \$ 1,550,107 |
| Total Cash | <u>2,744,108</u> | <u>1,550,107</u> |
| Accounts Receivable | 171,834 | 57,644 |
| Other Assets | 1,250 | - |
| Assets Held for Sale | <u>1,067,084</u> | <u>1,079,665</u> |
| Total Assets | <u>3,984,276</u> | <u>2,687,417</u> |
| Liabilities | | |
| Accounts Payable | 13,486 | 3,621 |
| Payroll Liabilities | <u>5,376</u> | <u>6,274</u> |
| Current Liabilities | <u>18,863</u> | <u>9,894</u> |
| Fund Balance | | |
| Non-spendable | | |
| Assets Held for Sale | 1,067,084 | 1,079,665 |
| Unassigned | <u>2,898,330</u> | <u>1,597,857</u> |
| Total Fund Balance | <u>3,965,414</u> | <u>2,677,522</u> |
| Reconciliation of Governmental Funds - Balance Sheet to Statement of Net Position | | |
| Fund balances reported for governmental activities in the Statement of Net Position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds: | | |
| Historical Cost of Assets | 2,834,475 | 2,079,723 |
| Accumulated Depreciation | <u>(87,474)</u> | <u>(72,563)</u> |
| Compensated Absences | <u>(5,677)</u> | <u>(5,636)</u> |
| Total Net Position | <u>\$ 6,706,737</u> | <u>\$ 4,679,046</u> |

The accompanying notes are an integral part of this statement.



GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended September 30,

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Revenues | | |
| Sales Tax Revenues | 885,385 | 519,512 |
| PRTC Lease | 88,080 | 75,939 |
| Total Operating Revenues | 973,465 | 595,451 |
| Expenditures | | |
| Wages | \$ 113,910 | \$ 121,535 |
| Benefits | 25,678 | 26,606 |
| Lease Space Expense | 16,598 | 16,438 |
| Advertising | 15,745 | 8,753 |
| Bank Service Charges | 252 | 332 |
| Business Development | 834,500 | 1,802 |
| Business Attraction | - | 4,843 |
| Conferences and Webinars | 500 | - |
| Auto Allowance | 10,000 | 10,384 |
| Dues and Subscriptions | 1,275 | 1,250 |
| Office Supplies | 8,922 | 7,367 |
| Postage | 363 | 427 |
| Bad Debt | - | 142,738 |
| Telephone | 3,282 | 4,828 |
| Travel and Training | 687 | 98 |
| Professional Services | 83,701 | 62,115 |
| Board Meeting Expenses | 1,761 | 1,147 |
| Maintenance and Utilities - Other Buildings | - | 170 |
| Repairs and Maintenance | 240 | 5,962 |
| Miscellaneous | 50,352 | 23,988 |
| Total Expenditures | 1,167,764 | 440,783 |
| Operating Income (Loss) | (194,300) | 154,668 |
| Non-Operating Revenues (Expenditures) | | |
| Interest Income | 37,254 | 3,003 |
| Other Income | 97,218 | 315,934 |
| Reimbursements for Special Projects | 92,773 | - |
| Lantana Rent & Reimbursements | 88,139 | 61,895 |
| Sale of Assets | 1,223,078 | 639,094 |
| Cost of Assets Sold | (134,062) | (251,812) |
| Total Non-Operating Revenues (Expenditures) | 1,404,400 | 768,114 |
| Excess (Deficiency) of Revenues over Expenditures | 1,210,100 | 922,782 |
| Fund Balance | | |
| Beginning of the Year | 2,755,313 | 1,761,207 |
| Adjustments | - | (6,467) |
| End of Year | \$ 3,965,414 | \$ 2,677,522 |

The accompanying notes are an integral part of this statement.



**GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE**

For the Year Ended September 30,

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|-------------------|
| Reconciliation of Governmental Funds -Statement or Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities | | |
| Net Change in Fund Balances - Governmental Funds | \$ 1,210,100 | \$ 922,782 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Government funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the useful life of the assets | | |
| Capital Assets Capitalized | 832,502 | - |
| Depreciation Expense | <u>(14,911)</u> | <u>(16,880)</u> |
| Change in Net Position - Governmental Activities | <u>\$ 2,027,691</u> | <u>\$ 905,903</u> |





NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2018

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. Governmental activities are financed through taxes, intergovernmental revenues, and other nonexchange revenues.



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 balance, revenues, and expenditures. 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.

Budgetary Control

In accordance with state law, during August, the Executive Director must submit to the Board of Directors a budget to cover all proposed expenditures of the Corporation for the succeeding year. The budget includes proposed expenditures and the means of financing them for the upcoming year, along with the original and revised estimates for the current year and the actual data for the preceding year.

The Corporation's Board of Directors shall hold a public hearing on the proposed budget. The hearing date shall be set after the 15th day of the month following in which the budget was prepared.

On final approval of the budget by the Board of Directors, the Corporation shall file the budget with the City Secretary. The budgets differ from generally accepted accounting principles in that appropriation lapse at year-end. No encumbrances are recorded. Budgeted amounts are as originally adopted or as amended by the Board of Directors.

The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

C. Measurement Focus and Basis of Accounting

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the "economic resources" measurement focus as defined in item "1" below.



In the governmental fund financial statements, the “current financial resources” measurement is used.

1. The government-wide financial statements utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Governmental fund equity is classified as net position.

2. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These 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”, 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.

Assets Held for Sale

In the government-wide statements, assets held for sale consists of parcels of land held at year-end by the Corporation which are available for sale to prospective individuals and companies.



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.

Government-wide statements

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 asset's estimated useful lives using the straight-line method of depreciation. The range of estimated useful lived by type of asset is as follows:

| | |
|--------------------------|-------------|
| Buildings & Improvements | 15-39 years |
| Furniture & Equipment | 5-7 years |
| Infrastructure | 50 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

Equity in the Statement of Net Position is classified as net position and displayed in three components:

1. *Net Invested in Capital Assets* - 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.
2. *Restricted net position* - Consists of net assets with constraints placed on their use either by:
 - a. external groups such as creditors, grantors, contributors or laws or regulations of other governments; or,
 - b. law through constitutional provisions or enabling legislation.
3. *Unrestricted net position* - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

1. *Non-spendable fund balance* - Amounts are not in spendable form or are legally or contractually required to be maintained intact, such as inventories and assets held for sale.



2. *Restricted fund balance* – Amounts are restricted to specific purposes by their providers, (grantors, bondholders, higher levels of government, etc...) or through constitutional provisions or enabling legislation.

3. *Committed fund balance* – Amounts are restricted for purposes which the Board of Directors, the Corporation’s highest level of decision-making authority, has designated for their use. Committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking formal Board action.

4. *Assigned fund balance* – Amounts that are constrained by the Corporation’s intent to be used for specific purposes, but are neither restricted nor committed.

5. *Unassigned fund balance* – Amounts that are available for any purpose that have not been restricted, committed or assigned for specific purposes.

Unless otherwise provided by the Board or their designee, restricted funds are considered to be spent first when the expenditure is incurred for purposes for which both restricted and unrestricted net position can be used. In addition, when an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances can be used, the Corporation considers amounts to have been spent first out of committed amounts, followed by assigned amounts and then unassigned amounts, unless the Board or their designee has provided otherwise.

E. Revenues, Expenditures, and Expenses

Operating Revenues

Operating revenues for the General Fund are those that occur from the allocation of sales tax proceeds from the Town of Pecos City. It also includes all revenue 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 the governmental 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 \$2,750,713.01. All of the deposits were considered collateralized as Category 1 credit risks.

G. Assets Held for Sale

Assets held for sale for the year ended September 30, 2018 were as follows:

| Description | Amount |
|--|---------------------|
| 140.30 Acres NW/4 Sec 14, Block 5 | \$ 268,680 |
| 145.23 Acres | 415,805 |
| 187.04 Acres, Hwy 285 South | 191,299 |
| Buildings and Park - Old Bank, Corner of 3rd and Cypress | 3,836 |
| E 30' Lots, 22 23 24, Block 32, Corner of 3rd and Cypress | 1,666 |
| Lot 9, Block 2, Country Club Estates, | 10,727 |
| West Airport Addition, Acreage 1-20 Frontage Road | 22,168 |
| 5.583 ac W/2 of NE/4 Sec 9, Jackson Street Subdivision | 97,384 |
| Lot 6, Block 2, Gibson Addn, west end of 3rd Street | 550 |
| Lots in Block 21, North Pecos | 2,499 |
| Renz Property .52 Acres, triangle CR 116 & CR 118 | 23,611 |
| 413 S Mulberry | 7,619 |
| 5.05 Acre Tract, S-16 Block 5, land west of Tractor Supply | 3,884 |
| 7.47 Acre Tract, Block 5, remaining acreage of Troy Vines area | 7,036 |
| S/2 Lot 2 and all Lot 3, Block 105, 700 block of Oak St | 10,319 |
| Total Assets Held for Sale at Fiscal Year-end | \$ 1,067,084 |

H. Capital Assets

Capital assets for the year ended September 30, 2018, were as follows:

| | Balance at 9/30/17 | Additions | Disposals | Balance at 09/30/18 |
|---------------------------------------|-------------------------------|--------------------|--------------------|--------------------------------|
| Land | \$ 1,546,590 | \$ - | \$ (77,750) | \$ 1,468,840 |
| Leasehold Improvements | 279,741 | - | - | 279,741 |
| Furniture and Equipment | 51,495 | - | - | 51,495 |
| Infrastructure | 201,897 | - | - | 201,897 |
| Totals at Historical Cost | 2,079,723 | - | (77,750) | 2,001,973 |
| Accumulated Depreciation | (72,563) | (14,911) | - | (87,474) |
| Total Accumulated Depreciation | (72,563) | (14,911) | - | (87,474) |
| Capital Assets, Net | \$ 2,007,160 | \$ (14,911) | \$ (77,750) | \$ 1,914,498 |

Depreciation expense for the year was \$14,911.

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 receives one eighth of the City's one half percent sales tax due to a proposition passed by an election held in March of 2016.



J. 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, 2018.

K. RISK MANAGEMENT

The 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.

L. 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 fiscal years ended September 30, 2017 and September 30, 2018.

M. 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 February 28, 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.



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, 2018, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued my report thereon dated February 28, 2019.

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.

Savannah, Texas
February 28, 2019

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 For the Year Ended September 30, 2018

| Revenue | Budgeted Amounts | | Actual | Variance with Final Budget |
|---|------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Prior Year Fund Balance | \$ - | \$ 989,481 | | |
| Sales Tax Revenues | 489,579 | 524,579 | \$ 885,385 | \$ 360,806 |
| PRTC Lease | - | - | 88,080 | 88,080 |
| Total Revenue | 489,579 | 524,579 | 973,465 | 448,886 |
| Expenses | | | | |
| Wages | 113,820 | 113,820 | 113,910 | 90 |
| Benefits | 21,759 | 25,759 | 25,678 | (81) |
| Lease Space Expense | 35,070 | 35,070 | 16,598 | (18,472) |
| Advertising | 7,400 | 7,400 | 15,745 | 8,345 |
| Bank Service Charges | 300 | 300 | 252 | (48) |
| Business Development | 271,800 | 2,071,800 | 834,500 | (1,237,300) |
| Business Attraction | - | - | - | - |
| Conferences and Webinars | 1,200 | 1,200 | 500 | (700) |
| Auto Allowance | 10,000 | 10,000 | 10,000 | (0) |
| Dues and Subscription | 1,858 | 1,858 | 1,275 | (583) |
| Office Supplies | 7,200 | 7,200 | 8,922 | 1,722 |
| Postage | 564 | 564 | 363 | (201) |
| Bad Debit | - | - | - | - |
| Telephone | 5,400 | 5,400 | 3,282 | (2,118) |
| Travel and Training | 788 | 788 | 687 | (101) |
| Professional Services | 52,200 | 52,200 | 83,701 | 31,501 |
| Board Meeting Expenses | 2,400 | 2,400 | 1,761 | (639) |
| Maintenance and Utilities | | | | |
| - Other Buildings | - | - | - | - |
| Repairs and Maintenance | 3,000 | 3,000 | 240 | (2,760) |
| Miscellaneous | 2,190 | 2,190 | 50,352 | 48,162 |
| Total Expenses | 536,949 | 2,340,949 | 1,167,764 | (1,173,185) |
| Excess (Deficiency) | (47,370) | (1,816,370) | (194,300) | 1,622,071 |
| Other Income (Expenses) | | | | |
| Interest Income | 1,200 | 1,200 | 37,254 | 36,054 |
| Income from Land Sales | 7,200 | 7,200 | 97,218 | 90,018 |
| Reimbursements | | | | |
| for Special Projects | - | - | 92,773 | 92,773 |
| Lantana Rent | | | | |
| & Reimbursements | 60,000 | 60,000 | 88,139 | 28,139 |
| Sale of Assets | - | 1,070,000 | 1,223,078 | 153,078 |
| Cost of Assets Sold | - | - | (134,062) | (134,062) |
| Total Other Income (Expenses) | 68,400 | 1,138,400 | 1,404,400 | 266,000 |
| Net Income | \$ 21,030 | \$ (677,970) | 1,210,100 | \$ 1,888,071 |
| Fund Balance - Beginning of the Year | | | 2,755,313 | |
| Fund Balance - End of the Year | | | \$ 3,965,414 | |

The accompanying notes are an integral part of this statement.

