Pecos Economic Development Corporation

Annual Financial Report

For the Year Ended September 30, 2025

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For the Year Ended September 30, 2025

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Painter and Associates, P.C.
Certified Public Accountants
1208 West Lunday Drive
Pecos, Texas 79772

Independent Auditor's Report

Board of Directors and Management
Pecos Economic Development Corporation
Pecos, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Pecos Economic Development Corporation (the Corporation), a component unit of the Town of Pecos City, Texas, as of and for the year ended September 30, 2025, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Pecos Economic Development Corporation, as of September 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Subsequent Event

As discussed in Note 15 to the financial statements, subsequent to September 30, 2025, the Corporation entered into an agreement to sell, and on January 30, 2026, completed the sale of, the land known as the "Test Track" for total consideration of approximately $25.8 million. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 3–8 and 29–30, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Painter and Associates, P.C.

Painter and Associates, P.C.
Pecos, Texas
July 25, 2026

PECOS ECONOMIC DEVELOPMENT CORPORATION

Management's Discussion and Analysis

INTRODUCTION

In this section of the Annual Financial Report, we, the managers of the Pecos Economic Development Corporation (the Corporation), a component unit of the Town of Pecos City, Texas, discuss and analyze the Corporation's financial performance for the fiscal year ended September 30, 2025. Please read it in conjunction with the independent auditor's report on pages 1–2 and the Corporation's Basic Financial Statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

The Corporation's net position increased by $1,800,307 as a result of this year's operations, and the net position of our governmental activities increased by 16.23%.

During the year, the Corporation had expenses of $1,020,708 that were $1,800,307 less than the $2,821,015 in revenues generated by the sales tax apportioned by the Town of Pecos City of $765,474, operating grants and contributions of $630,845, lease revenues of $693,354 (including interest on lease receivables of $31,274), investment income of $334,261, royalty income of $61,423, other income of $105,000, and a net gain of $230,658 on the sale of land inventory.

The Corporation realized a gain of $230,658 on the land inventory that was sold during the fiscal year, compared to a net loss of $51,749 on land inventory sales during the prior fiscal year. Depreciation expense for the year was $10,299.

The General Fund ended the year with a fund balance of $11,355,703 as compared to last year when the fund balance was $9,534,592, an increase of $1,821,111.

The budget for the Corporation revealed revenues of $233,143 less than the final amended budget, driven primarily by land inventory sales not meeting expectations during the fiscal year, while expenditures were $954,389 less than the final amended budget. The net effect was a favorable variance in the change in fund balance of $721,246 as compared to the final amended budget.

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 11 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. Reconciliation schedules following each of the fund financial statements describe the differences between the governmental activities, as reported in the government-wide statements, and the governmental funds.

The notes to the financial statements, beginning on page 15, provide narrative explanations and 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 is presented below. 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 of the Corporation's assets, liabilities, and deferred inflows of resources 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 statements 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 considered regardless of when cash is received or paid. The Corporation's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report on the Corporation's net position and changes in net position. The Corporation's net position (the difference between assets, liabilities, and deferred inflows of resources) provides one measure of the Corporation's financial health, or financial position. 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 non-financial 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 – These activities represent the general operations of the Corporation and are supported primarily by sales tax, lease and royalty income, and investment earnings.

Reporting the Corporation's Major Fund

Fund Financial Statements

The fund financial statements provide detailed information about the most significant fund, not the Corporation as a whole. Some funds are required to be established by State law and by bond covenants. However, the Board of Directors may establish other funds to help it control and manage money for particular purposes.

Governmental Fund – The only governmental fund reported by the Corporation is the General Fund. This fund uses 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 reports 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 11 and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance located on page 13.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Corporation implemented GASB Statement No. 34 in previous years. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Corporation's governmental activities.

Table 1 - Statement of Net Position
Governmental Activities

	2025	2024	Dollar	Percent
Current Assets	$ 11,560,939	$ 9,853,770	$ 1,707,169	17.33%
Noncurrent Assets	2,253,900	2,318,548	(64,648)	-2.79%
Total Assets	13,814,839	12,172,318	1,642,521	13.49%
Current Liabilities	$ 48,790	$ 114,254	$ (65,464)	-57.30%
Long-Term Liabilities	17,438	12,999	4,439	34.15%
Total Liabilities	66,228	127,253	(61,025)	-47.96%

Deferred Inflows of Resources	$ 856,554	$ 953,315	$ (96,761)	-10.15%
Net Position:				
Net Investment in Capital Assets	$ 1,559,858	$ 1,570,157	$ (10,299)	-0.66%
Restricted for Economic Development	1,197,208	0	1,197,208	
Unrestricted	10,134,991	9,521,593	613,398	6.44%
Total Net Position	$ 12,892,057	$ 11,091,750	$ 1,800,307	16.23%

The 2024 amounts above have been reformatted to conform to the 2025 presentation, under which amounts previously reported as unearned revenue ($223,394) are presented within deferred inflows of resources. In addition, fiscal year 2025 is the first year for which the Corporation has presented a Restricted Net Position component; no comparable restriction was identified or presented in the fiscal year 2024 audited financial statements, which reported this amount within Unrestricted net position.

Restricted net position of $1,197,208 at September 30, 2025 represents sales and use tax proceeds held in segregated TexPool and demand deposit accounts (see Note 2) that are restricted under Texas Local Government Code Chapters 501 and 505 to the promotion and development of new and expanded business enterprises within the Town of Pecos City. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation or other legal requirements – increased by $613,398 to $10,134,991 at September 30, 2025. The increase in current and other assets was driven primarily by cash generated from operations, the gain on the sale of the Jackson Subdivision land inventory, and the net investment in additional land inventory during the year, including the 69-acre N Alamo tract and the capitalization of engineering and design costs for the Hidden Hero Housing Project site.

Table 2 - Statement of Changes in Net Position
Governmental Activities

	2025	2024	Dollar	Percent
Revenues:				
Operating grants and contributions	$ 630,845	$ -	630,845	100.00%
Sales tax	765,474	850,859	(85,385)	-10.04%
Investment income	334,261	361,137	(26,876)	-7.44%
Interest income - lease receivable	31,274	33,190	(1,916)	-5.77%
Lease income	662,080	88,729	573,351	646.18%
Royalty income (included in other income in 2024)	61,423	-	61,423	100.00%
Other income	105,000	572,719	(467,719)	-81.67%
Gain (loss) on sale of assets (net of cost of $255,173 in 2025 and $250,603 in 2024)	230,658	(51,749)	282,407	-545.73%
Total Revenues	2,821,015	1,854,885	966,130	52.09%
Expenses:				
Administrative	708,575	-		
Business development	298,633	-		
Scholarships	13,500	-		
General government (2024 single function)	-	660,302		
Total Expenses	1,020,708	660,302	360,406	54.58%
Change in net position	1,800,307	1,194,583	605,724	50.71%
Net position - Beginning	11,091,750	9,897,167	1,194,583	12.07%
Net position - Ending	$ 12,892,057	$ 11,091,750	$ 1,800,307	16.23%

The Corporation's 2025 Statement of Activities presents expenses by the Administrative, Business Development, and Scholarships functions; the 2024 statement presented a single General Government function. Royalty income of $61,423 is presented separately in 2025; comparable 2024 amounts were reported within other income.

Total revenues increased by $966,130, or 52.09%, from the prior fiscal year. Sales tax revenues decreased $85,385, or 10.04%, reflecting lower taxable sales activity within the Town of Pecos City. Operating grants and contributions of $630,845 were recognized during the year, consisting primarily of $300,000 received from Reeves County and $330,845 of contributions supporting the Corporation's land acquisition activity. Lease income increased primarily as a result of surface use and easement agreements, including recognition of $85,587 of previously deferred Plains/Oryx surface-use consideration upon expiration of the initial easement term (see Note 7), a $231,087 easement arrangement with Kinetik, and $17,781 of deferred revenue recognized under the ETC Pipeline easement agreement, together with the recognition of lease revenue under the Corporation's GASB Statement No. 87 leases. Other income of $105,000 includes a $100,000 non-refundable exclusivity payment received in June 2025 from the company that subsequently purchased the Test Track property (see Note 15).

Total expenses increased by $360,406 over the prior fiscal year, driven primarily by increased professional services (including legal, engineering, and grant writing services), the first $107,667 installment of the Dollar Tree economic development incentive, which became payable when the store opened in September 2025, increased advertising and promotion, and increased wages and benefits, which included a performance bonus authorized by the Board.

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 $7,238,500; together with the newly presented restricted classification described below, the comparable combined balance of $8,435,708 exceeds last year's unassigned fund balance of $7,573,057. An additional $2,919,995 of fund balance is classified as non-spendable because it is represented by land inventory held for sale, and $1,197,208 is classified as restricted for economic development, representing sales and use tax proceeds held in segregated TexPool and demand deposit accounts that are restricted under Texas Local Government Code Chapters 501 and 505 (see Note 2). Fiscal year 2025 is the first year for which this restricted classification has been presented; the comparable amount was reported within unassigned fund balance in the fiscal year 2024 audited financial statements. Total fund balance at September 30, 2025 was $11,355,703.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2025, the Corporation had approximately $1.6 million invested in land, leasehold improvements, and furniture and equipment, net of accumulated depreciation. During the year, fully depreciated office equipment with an original cost of $26,041 was retired. The land reported as a capital asset consists of the approximately 5,812-acre Test Track property, which was under lease to PRTC at September 30, 2025 and was sold subsequent to year-end (see Note 15). The Corporation had no long-term debt outstanding at September 30, 2025. More detailed information about the Corporation's capital assets is presented in Note 5 to the financial statements.

Table 3 - Capital Assets at Year End
Net of Accumulated Depreciation

	2025	2024	Dollar	Percent
Land	$ 1,340,191	$ 1,340,191	$ 0	0.00%
Leasehold improvements	212,379	220,582	(8,203)	-3.72%
Furniture and equipment	7,288	9,384	(2,096)	-22.34%
Total capital assets, net	$ 1,559,858	$ 1,570,157	$ (10,299)	-0.66%

SALES OF LAND INVENTORY DURING THE FISCAL YEAR

During the fiscal year, the Corporation sold 12 lots comprising the Jackson Subdivision on May 1, 2025:

Description	Amount
12 Lots, Jackson Subdivision - gross sales price	$ 510,000
Basis in land inventory sold	(255,173)
Expenses of sale	(24,169)
Gain on sale of land inventory	$ 230,658

LAND INVENTORY AT FISCAL YEAR-END

During the fiscal year the Corporation added to its land inventory the 69-acre N Alamo tract ($733,288), the 2.3875-acre tract at W. 2nd Street and Oleander Street ($110,000), additional acquisition costs on the Hwy 285 acreage ($5,801), and $364,544 of engineering and design costs capitalized in connection with the Hidden Hero Housing Project on the Corporation's 3.06-acre West Airport site (see Note 10). Land inventory at September 30, 2025 consists of the following:

Description	Amount
120.23 Acres	$ 344,508
Hwy 285 Acreage - 108.87 Acres	150,855
Hwy 285 Acreage - 68.09 Acres	107,733
3.6 Acre Tract, S-16 Block 5, land west of Tractor Supply	3,924
7.47 Acre Tract, Block 5	50,374
8.19 Acre Tract, Block 5, remaining acreage of Troy Vines area	148,216
67.25 Acres, NW/4 Section 14, Block 5	144,414
2.3875 Acres, W. 2nd Street and Oleander Street	110,000
69-acre N Alamo Tract (acquired fiscal 2025)	733,288
Hidden Hero Housing Project - Engineering and Design (West Airport Site)	364,544
Building and Park - Old Bank, Corner of 3rd and Cypress	4,154
Corners in Meadowbrook Addition	15,067
E 30' Lots 22, 23, 24, Block 32, Corner of 3rd and Cypress	1,984
Lots in Block 21, North Pecos	2,817
N 70', Lot 2, Block 25, Original Town of Pecos	1,627
Renz Property, .52 Acres, triangle CR 116 & CR 118	23,929
West Airport Addition: Lot 1, Block 4	4,410
West Airport Addition: Lot 5, Block 4	2,539
West Airport Addition: Lot 6, Block 4	12,753
West Airport Addition: Lot 7, Block 4	3,252
West Airport Addition: Lot 3, Block 6	1,168
Lots 1-6, Block 34, Original Town of Pecos	151,654
Lots 7-12, Block 34, Original Town of Pecos	201,699
1.67 Acre Tract - GSA Property	335,086
Total Land Inventory	$ 2,919,995

OTHER SOURCES OF REVENUE

Other sources of revenue were derived from easements and oil and gas royalties. Royalty income for the fiscal year consisted of the following:

Description	Amount
Chevron	$ 34,913
Permian Resources	26,510
Total Royalty Income	$ 61,423

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In October 2007, the Corporation's Board of Directors, along with the Town of Pecos City (the City) Council, initiated an election to abolish the 4A PEDC and create a new Pecos 4B Economic Development Corporation. This transition changed the focus of the programs to a much broader mix of business creation, retention, expansion, and recruitment strategies. These strategies 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 Corporation and the 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. During fiscal year 2025, the Corporation, together with the City, Reeves County, and the Reeves County Hospital District, entered into a memorandum of understanding to develop the Hidden Hero Housing Project, a 27-unit workforce housing development on a corporation-owned site (see Note 10).

Over the past several years, the Permian Basin has seen a revival of its oil and gas industry. The City is strategically located on the western flank of the Permian Basin in what is known as the Delaware Basin. The Corporation will continue to focus on commercial sites for retail and industrial sites for oilfield support companies, housing for residents of Pecos along with the influx of oilfield support workers and their families and facilitating companies to locate in the City and Reeves County. The production volume and price of crude oil and natural gas cannot be accurately predicted; these factors weigh upon the Corporation's sales tax, royalty, and surface use revenues.

Subsequent to year-end, the Corporation completed the sale of the Test Track property for total consideration of approximately $25.8 million, closing on January 30, 2026. The transaction is expected to have a material impact on the Corporation's financial position in the fiscal year ending September 30, 2026, and the Board will consider the deployment of the sale proceeds in future budgets. See Note 15 to the financial statements.

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

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 any additional information, contact the Corporation's business office at the Pecos Economic Development Corporation, 119 South Cedar, Pecos, Texas 79772.

Pecos Economic Development Corporation
Statement of Net Position
September 30, 2025

	Governmental Activities
Assets	
Current Assets	
Cash and Cash Equivalents - Unrestricted	$ 7,271,691
Cash and Cash Equivalents - Restricted	1,197,208
Receivables, net	117,695
Lease Receivable - Current	54,350
Land Inventory	2,919,995
Total Current Assets	11,560,939
Noncurrent Assets	
Lease Receivable - Noncurrent	694,042
Capital Assets	
Land	1,340,191
Capital Assets, net	219,667
Total Noncurrent Assets	2,253,900
Total Assets	**$ 13,814,839**
Liabilities	
Current Liabilities	
Accounts Payable	$ 9,688
Payroll Liabilities	4,536
Refunds Payable	28,500
Accrued Compensated Absences - Current	6,066
Noncurrent Liabilities	
Accrued Compensated Absences - Noncurrent	17,438
Total Liabilities	**66,228**
Deferred Inflows of Resources	
Deferred Inflows - leases	660,687
Deferred Inflows - deferred revenues	195,867
Total Deferred Inflows of Resources	**856,554**
Net Position	
Net Investment in Capital Assets	1,559,858
Restricted for Economic Development	1,197,208
Unrestricted	10,134,991
Total Net Position	**$ 12,892,057**
Total Liabilities, Deferred Inflows of Resources and Net Position	**$ 13,814,839**

The notes to the financial statements are an integral part of this statement

Pecos Economic Development Corporation
Statement of Activities
For the Year Ended September 30, 2025

Primary Government:	Expenses	Program Revenues: Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Change in Net Position: Governmental Activities
Governmental Activities:					
Administrative	$ 708,575	$ -	$ 630,845	$ -	$ (77,730)
Business Development	298,633	-	-	-	(298,633)
Scholarships	13,500	-	-	-	(13,500)
Total Expenses	**$ 1,020,708**	**$ -**	**$ 630,845**	**$ -**	**(389,863)**

General Revenues:	
Sales Tax	765,474
Investment Income	334,261
Interest Income - Lease Receivable	31,274
Lease Income	662,080
Royalty Income	61,423
Other Income	105,000
Gain on Sale of Assets	230,658
Total General Revenues	2,190,170
Change in Net Position	1,800,307
Beginning Net Position	11,091,750
Ending Net Position	$ 12,892,057

The notes to the financial statements are an integral part of this statement

Pecos Economic Development Corporation
Governmental Funds Balance Sheet
September 30, 2025

	General Fund
Assets	
Cash and Cash Equivalents - Unrestricted	$ 7,271,691
Cash and Cash Equivalents - Restricted	1,197,208
Receivables, net	866,087
Land Inventory	2,919,995
Total Assets	**$ 12,254,981**
Liabilities	
Current Liabilities	
Accounts Payable	$ 9,688
Refunds Payable	28,500
Payroll Liabilities	4,536
Total Liabilities	**42,724**
Deferred Inflows of Resources	
Deferred Inflows - leases	660,687
Deferred Inflows - deferred revenues	195,867
Total Deferred Inflows of Resources	**856,554**
Fund Balance	
Non-spendable	2,919,995
Restricted for Economic Development	1,197,208
Unassigned	7,238,500
Total Fund Balance	**11,355,703**
Total Liabilities, Deferred Inflows of Resources and Fund Balance	**$ 12,254,981**

The notes to the financial statements are an integral part of this statement

Pecos Economic Development Corporation
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2025

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

Total Fund Balances - Governmental Funds	$ 11,355,703
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	1,559,858
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.	(23,504)
Total Net Position - Governmental Activities	$ 12,892,057

The notes to the financial statements are an integral part of this statement

Pecos Economic Development Corporation
Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended September 30, 2025

	General Fund
Revenues	
Operating Grants and Contributions	$ 630,845
Sales Tax	765,474
Investment Income	334,261
Interest Income - Lease Receivable	31,274
Lease Income	662,080
Royalty Income	61,423
Other Income	105,000
Sale of Land Inventory	510,000
Total Revenues	**3,100,357**
Expenditures	
Advertising	129,627
Board Meeting Expenses	10,319
Business Attraction and Development	169,006
Dues and Subscriptions	1,405
Wages and Benefits	244,295
Meals and Entertainment	3,068
Office Space and Supplies	37,102
Professional Services	361,982
PRTC Expenses, net of reimbursements	(2,484)
Travel Expenses	12,768
Miscellaneous Expenses	32,816
Basis in Inventory Assets	279,342
Total Expenditures	**1,279,246**
Net Change in Fund Balance	**1,821,111**
Beginning Fund Balance	9,534,592
Ending Fund Balance	**$ 11,355,703**

The notes to the financial statements are an integral part of this statement

Pecos Economic Development Corporation
Reconciliation of Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balance to the Statement of Activities
For the Year Ended September 30, 2025

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

Change in Fund Balances - Governmental Funds	$ 1,821,111
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(10,299)
Certain long-term liabilities, such as compensated absences, are not due and payable in the current period and, therefore, are not reported as expenditures in governmental funds.	(10,505)
Change in Net Position - Governmental Activities	$ 1,800,307

The notes to the financial statements are an integral part of this statement

PECOS ECONOMIC DEVELOPMENT CORPORATION
Notes to the Financial Statements
For the Year Ended September 30, 2025

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pecos Economic Development Corporation (the Corporation) complies with accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units. The more significant accounting policies of the Corporation are described below:

A. The Reporting Entity

The Corporation was created on November 23, 1998 under the laws of the State of Texas. The Corporation was created under the Development Corporation Act of 1979, with the approval of the governing body of the Town of Pecos City (the City). The Corporation was organized exclusively for the purpose of benefiting and accomplishing public purposes of the City by promoting, assisting, and enhancing economic development activities for the City under the Development Corporation Act, as amended (now codified in the Texas Local Government Code).

In October 2007, the Corporation's Board of Directors, along with the City Council, initiated an election that abolished the 4A corporation and created a new Type B (formerly 4B) corporation. The election was successful and the board was restructured and now includes seven members appointed by the City Council from the community and City officials.

The Corporation is a discretely presented component unit of the Town of Pecos City, Texas, as defined by GASB Statement No. 14, The Financial Reporting Entity, as amended by GASB Statements No. 39 and No. 61, because the City Council appoints the Corporation's governing board and is able to impose its will on the Corporation. These financial statements present only the financial position and results of operations of the Corporation and are not intended to present the financial position or results of operations of the Town of Pecos City as a whole. The Corporation itself has no component units.

B. Basis of Presentation

Government-wide Financial Statements: The Statement of Net Position and the Statement of Activities include the financial activities of the overall government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. The Statement of Net Position is presented in a classified format, distinguishing between current and noncurrent assets and liabilities; see Note 3 for the classification of the Corporation's receivables.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Corporation's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Corporation's fund. The emphasis of fund financial statements is on the major governmental fund. There were no other funds to be aggregated and reported as non-major funds.

The Corporation reports the following major governmental fund: the General Fund is the Corporation's only fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. In non-exchange transactions, the Corporation gives (or receives) value without directly receiving (or giving) equal value in exchange. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

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

The legal level of budgetary control – the level at which expenditures may not legally exceed appropriations without further action by the Board of Directors – is total expenditures of the General Fund. The budget is adopted and monitored in detail by line item for management and planning purposes; however, individual line-item variances do not constitute a violation of budgetary authority provided that total General Fund expenditures do not exceed the total amount appropriated, as amended. As reflected in the Budgetary Comparison Schedule, total General Fund expenditures for the year ended September 30, 2025 did not exceed the final amended budget at this legal level of control, notwithstanding that certain individual line items did (see the notes to that schedule).

The Budgetary Comparison Schedule – General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary and actual results.

E. Cash and Equivalents

For purposes of the Statement of Net Position and the Governmental Funds Balance Sheet, highly liquid investments are considered to be cash equivalents if they have an original maturity of three months or less when purchased.

F. Receivables

The Corporation receives a portion of the sales tax collected by the City to fund its operations pursuant to a proposition passed by an election held in March 2016. Taxes receivable consist of sales tax revenues earned at year-end and not yet received. Under Texas Local Government Code Chapters 501 and 505, sales and use tax proceeds are restricted by state law to the promotion and development of new and expanded business enterprises within the City; the Corporation maintains segregated investment accounts for sales tax and non-sales tax related resources (see Note 2). Lease receivable represents the present value of future lease payments due to the Corporation under its leases as lessor (see Note 6). Management considers all receivables to be fully collectible; accordingly, no allowance for doubtful accounts is recorded.

G. Land Inventory

Land inventory consists of parcels of land held at year-end by the Corporation which are available for sale to prospective individuals and companies in furtherance of the Corporation's economic development purpose. Land inventory is carried at historical cost. Because these parcels are held for resale rather than for the Corporation's own use, they are classified as a current asset on the Statement of Net Position and reported as an asset of the General Fund, with the related fund balance classified as non-spendable.

H. Capital Assets

The Corporation capitalizes assets with an individual cost of $5,000 or more and an estimated useful life greater than one year. Capital assets purchased or constructed are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Estimated historical cost was used to value the majority of the assets acquired prior to September 30, 2007.

Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows: leasehold improvements, 10-39 years; furniture and equipment, 5-7 years. Land is not depreciated.

I. Accrued Compensated Absences

The Corporation follows a policy whereby employees are paid lump sum payments for unused vacation if they leave Corporation employment. Upon termination, up to 320 hours of accumulated vacation at full pay will be paid if the employee meets the prescribed conditions. Employees are not compensated for unused sick leave. The liability for compensated absences is measured in accordance with GASB Statement No. 101, Compensated Absences, for leave that has been earned, accumulates, and is more likely than not to be used for time off or otherwise paid or settled, including applicable salary-related payments.

J. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Corporation has no deferred outflows of resources at September 30, 2025.

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position or fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Corporation reports deferred inflows of resources related to its leases as lessor under GASB Statement No. 87 and for amounts received in advance under surface use agreements (see Note 7).

K. Fund Balance and Net Position

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Corporation is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

> <u>Non-spendable</u>: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Non-spendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year. The Corporation's land inventory of $2,919,995 is classified as non-spendable.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. At September 30, 2025, the Corporation classified $1,197,208 of fund balance as restricted, representing sales and use tax proceeds held in segregated TexPool and demand deposit accounts that are restricted under Texas Local Government Code Chapters 501 and 505 (the Development Corporation Act of 1979) to the promotion and development of new and expanded business enterprises within the Town of Pecos City (see Note 2). Because this restriction is directly traceable to specific segregated cash accounts, and no liabilities are payable specifically from those accounts, the same $1,197,208 is also separately displayed as Cash and Cash Equivalents – Restricted on the face of the Governmental Funds Balance Sheet.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by board resolution of the Board of Directors, the Corporation's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed.

Assigned: This classification includes amounts that are constrained by the Corporation's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors.

Unassigned: This classification includes the residual fund balance for the General Fund.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly unassigned fund balance.

Net position represents the difference between assets, liabilities, and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the Corporation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At September 30, 2025, the Corporation reported $1,197,208 of net position as restricted for economic development, for the same reason and on the same basis described above for restricted fund balance, and the same amount is separately displayed as Cash and Cash Equivalents – Restricted on the face of the Statement of Net Position. In circumstances where an expense is to be made for a purpose for which amounts are available in multiple net position classifications, restricted net position will be fully utilized first, followed by unrestricted as necessary.

L. Use of Estimates

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

M. Implementation of New Standards

In the current fiscal year, the Corporation implemented GASB Statement No. 101, Compensated Absences. This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means, generally measured using an employee's pay rate as of the date of the financial statements. The implementation of this Statement did not have a material effect on the Corporation's previously reported compensated absences liability, and no restatement of beginning balances was required.

N. Subscription-Based Information Technology Arrangements

The Corporation has evaluated its contracts under GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITAs), which requires a government to recognize a right-to-use subscription asset and a corresponding liability for qualifying multi-year software subscription arrangements. The Corporation had no subscription-based information technology arrangements meeting the criteria for recognition at September 30, 2025.

NOTE 2. CASH AND EQUIVALENTS

Cash and equivalents reported on the Statement of Net Position and the Governmental Funds Balance Sheet represent the Corporation's reconciled carrying amount at September 30, 2025. For purposes of the deposit and investment risk disclosures required by GASB Statement No. 40, Deposit and Investment Risk Disclosures, the table below instead presents the Corporation's cash and investment balances as confirmed directly by the depository institutions at September 30, 2025 (the bank/pool-confirmed balance), which is the basis GASB Statement No. 40, paragraph 8, requires for evaluating custodial credit risk. The bank/pool-confirmed balance differs from the carrying amount reported in the financial statements by the amount of deposits in transit, outstanding checks, and other reconciling items that had not cleared the Corporation's depository accounts as of the confirmation date; that reconciling difference is presented below to tie the confirmed balances to the amounts reported in the basic financial statements.

	Amount	Maturity	Rating
TexPool – Sales Tax	$ 1,074,796	< 60 days	AAAm
TexPool – Non-Sales Tax	7,114,002	< 60 days	AAAm
Total at TexPool	**8,188,798**		
Demand Deposit – Sales Tax	$ 159,259		
Demand Deposit – Non-Sales Tax	157,689		
Total Cash in Bank at Fiscal Year End	**316,948**		
Less: FDIC Insurance	(250,000)		
Total Uncollateralized Cash in Bank	**66,948**		
Total Cash Per Bank/Pool Confirmation at Fiscal Year End	**$ 8,505,746**		
Less: Outstanding items (reconciling difference)	(36,847)		
Cash and Cash Equivalents per Statement of Net Position	**$ 8,468,899**		

The Corporation maintains segregated accounts – one TexPool investment account and one West Texas National Bank demand deposit account – in order to hold sales and use tax proceeds separately from all other Corporation resources; a corresponding pair of accounts holds the Corporation's non-sales-tax resources. Under Texas Local Government Code Chapters 501 and 505 (the Development Corporation Act of 1979), sales and use tax revenue collected on behalf of the Corporation is dedicated to, and may be used only for, the promotion and development of new and expanded business enterprises within the Town of Pecos City and may not be used for other purposes. The Corporation maintains this segregation as a matter of internal control and legal compliance; all accounts are invested and reported under the same custodial and risk terms described below. The combined carrying amount of the sales-tax-designated TexPool account ($1,074,796) and the sales-tax-designated demand deposit account ($122,412), totaling $1,197,208 at September 30, 2025, is the basis for the Restricted fund balance and Restricted net position classifications presented on the Governmental Funds Balance Sheet and the Statement of Net Position, respectively (see

Note 1.K), and is separately displayed as Cash and Cash Equivalents – Restricted on the face of both statements; the remaining $7,271,691 is displayed as Cash and Cash Equivalents – Unrestricted. The carrying amount of the sales-tax-designated demand deposit account ($122,412) differs from the bank-confirmed balance of that account presented in the table above ($159,259) by outstanding checks of $36,847 that had not cleared the depository as of September 30, 2025, consistent with the total reconciling difference presented in the table above.

A. Interest Rate Risk

The Corporation manages its exposure to interest rate risk by investing in shorter-term government investment pools. As of September 30, 2025, the Corporation's investments in TexPool totaled $8,188,798 with a weighted average maturity of less than 60 days, and the Corporation held no securities highly sensitive to interest rate fluctuation.

B. Credit Risk

The minimum rating required by the Public Funds Investment Act and the Corporation's investment policy, where applicable, is AAA. TexPool was rated AAAm as of September 30, 2025.

C. Concentration of Credit Risk

The Corporation's investment policy contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2025, other than external investment pools, the Corporation did not have 5% or more of its investments with one issuer.

D. Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Corporation will not be able to recover its deposits. In accordance with GASB Statement No. 40, this disclosure is based on the bank balance rather than the carrying amount. At September 30, 2025, the Corporation's bank-confirmed demand deposit balance at West Texas National Bank was $316,948, of which $250,000 was covered by FDIC insurance, leaving $66,948 in excess of FDIC coverage. The Public Funds Investment Act and the Public Funds Collateral Act require that a financial institution secure public deposits in excess of FDIC insurance by pledging securities, a surety bond, or a letter of credit. At September 30, 2025, the Corporation's $66,948 excess balance was not covered by pledged collateral, a depository bond, or a letter of credit, and was therefore exposed to custodial credit risk. This matter was reported in writing to those charged with governance (the Corporation's Board of Directors) as a significant deficiency in internal control in connection with the audit of these financial statements. Management has represented that it will implement monthly monitoring of depository balances against available FDIC coverage and confirm collateral adequacy directly with the depository institution on a going-forward basis.

E. Investment in State Investment Pools

The Corporation is a voluntary participant in the TexPool external investment pool, which is overseen by the State Comptroller of Public Accounts and operates in a manner consistent with GASB Statement No. 79. TexPool uses amortized cost rather than fair value to compute share prices; accordingly, the fair value of the Corporation's position in TexPool equals the value of its TexPool shares.

NOTE 3. RECEIVABLES

Receivables at September 30, 2025 consist of the following:

Description	Amount
Sales tax receivable	$ 112,067
Lease receivable - PRTC Lease	721,044
Lease receivable - Office Lease	27,348
Other receivables	5,628
Total receivables, net	**$ 866,087**

Consistent with the classified presentation used in the prior fiscal year, and in accordance with GASB Statement No. 34, the Corporation presents its lease receivable on the Statement of Net Position as a current portion (expected to be collected within twelve months) and a noncurrent portion (expected to be collected thereafter); see Note 6 for the future lease payment schedule supporting this classification. Receivables at September 30, 2025 are classified as follows:

Description	Amount
Current:	
Sales tax and other receivables, current	$ 117,695
Lease receivable, current portion	54,350
Total current receivables	172,045
Noncurrent:	
Lease receivable, noncurrent portion	694,042
Total receivables, net (classified)	**$ 866,087**

The combined lease receivable of $748,392 ($54,350 current and $694,042 noncurrent) differs by $1 from the total principal of $748,391 in the amortization schedule presented in Note 6 due to rounding; the difference is immaterial. This current/noncurrent classification applies to the government-wide Statement of Net Position only; the Governmental Funds Balance Sheet reports the combined receivable balance without a current/noncurrent breakout, consistent with the current financial resources measurement focus used for fund reporting.

NOTE 4. LAND INVENTORY

Land inventory is carried at historical cost. Activity for the year ended September 30, 2025 was as follows:

Balance, October 1, 2024	$ 1,961,535
Additions	1,213,633
Disposals (12 Lots, Jackson Subdivision)	(255,173)
Balance, September 30, 2025	**$ 2,919,995**

Additions during the year consisted of the 69-acre N Alamo tract ($733,288), the 2.3875-acre tract at W. 2nd Street and Oleander Street ($110,000), additional acquisition costs on the Hwy 285 acreage ($5,801), and $364,544 of engineering and design costs capitalized in connection with the Hidden Hero Housing Project on the Corporation's 3.06-acre West Airport site (see Note 10). Legal title of the 2.3875-acre tract at W. 2nd Street and Oleander Street is held of record in the name of the Town of Pecos City (the City) rather than the Corporation. The State of Texas offered the tract for sale and, consistent with statute, first extended bidding rights to the City; the City did not exercise those rights itself, and the Corporation instead submitted a bid for the property. The Corporation's bid was accepted, and the property was awarded to the Corporation, with payment made directly from the Corporation's own bank account. Based on facts obtained to date, management believes the resulting deed was most likely issued in the City's name in error during the State's transfer process, given that the City initially held the applicable bidding rights, rather than as a result of any dispute over entitlement to the property. The Corporation has held, used, and controlled the property as its own since acquisition for its economic development purposes, and management is not aware of any dispute by the City as to the Corporation's ownership; the parties intend for title to be corrected to reflect the Corporation as owner, and as of the date these financial statements were available to be issued, that correction had not been completed. Because the Corporation funded and was awarded the acquisition and has exercised control over the property since that date, management has concluded it is appropriate to report the tract as an asset of the Corporation notwithstanding the recorded title, consistent with the substance-over-form principle underlying generally accepted accounting principles.

Land inventory as of September 30, 2025 consists of the following:

Description	Amount
120.23 Acres	$ 344,508
Hwy 285 Acreage - 108.87 Acres	150,855
Hwy 285 Acreage - 68.09 Acres	107,733
3.6 Acre Tract, S-16 Block 5, land west of Tractor Supply	3,924
7.47 Acre Tract, Block 5	50,374
8.19 Acre Tract, Block 5, remaining acreage of Troy Vines area	148,216
67.25 Acres, NW/4 Section 14, Block 5	144,414
2.3875 Acres, W. 2nd Street and Oleander Street	110,000
69-acre N Alamo Tract (acquired fiscal 2025)	733,288
Hidden Hero Housing Project - Engineering and Design (West Airport Site)	364,544
Building and Park - Old Bank, Corner of 3rd and Cypress	4,154
Corners in Meadowbrook Addition	15,067
E 30' Lots 22, 23, 24, Block 32, Corner of 3rd and Cypress	1,984
Lots in Block 21, North Pecos	2,817
N 70', Lot 2, Block 25, Original Town of Pecos	1,627
Renz Property, .52 Acres, triangle CR 116 & CR 118	23,929
West Airport Addition: Lot 1, Block 4	4,410
West Airport Addition: Lot 5, Block 4	2,539
West Airport Addition: Lot 6, Block 4	12,753
West Airport Addition: Lot 7, Block 4	3,252
West Airport Addition: Lot 3, Block 6	1,168
Lots 1-6, Block 34, Original Town of Pecos	151,654
Lots 7-12, Block 34, Original Town of Pecos	201,699
1.67 Acre Tract - GSA Property	335,086
Total Land Inventory	$ 2,919,995

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2025, is as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,340,191	$ -	$ -	$ 1,340,191
Total assets not being depreciated	1,340,191	-	-	1,340,191
Capital assets, being depreciated:				
Leasehold improvements	294,949	-	-	294,949
Furniture and equipment	68,841	-	(26,041)	42,800
Total capital assets being depreciated	363,790	-	(26,041)	337,749
Accumulated depreciation:				
Leasehold improvements	74,367	8,203	-	82,570
Furniture and equipment	59,457	2,096	(26,041)	35,512
Total accumulated depreciation	133,824	10,299	(26,041)	118,082
Total capital assets being depreciated, net	229,966	(10,299)	-	219,667
Governmental activities capital assets, net	**$ 1,570,157**	**$ (10,299)**	**$ -**	**$ 1,559,858**

Depreciation expense for the year was $10,299 and was charged to the administrative function. During the year, fully depreciated office equipment with an original cost of $26,041 was retired; no gain or loss resulted from the retirement. The land reported above consists of the approximately 5,812-acre Test Track property in Reeves County, Texas, which is leased to PRTC (see Note 6) and which was sold subsequent to year-end (see Note 15).

NOTE 6. LEASE INCOME

In December 2016, the Corporation entered into a lease agreement with a private company (PRTC Lease) with an initial five-year term and one five-year renewal term. In December 2020, the lease was amended to include three five-year renewal terms, and the lessee exercised the first of those terms effective January 1, 2022. The lease permits the lessee to terminate the lease without cause upon 180 days' prior written notice. The lessee has performed continuously under the lease since 2017, has satisfied substantial contractually required annual improvement commitments to the premises, has never delivered a notice of termination, and exercised its renewal option; accordingly, as of September 30, 2025, and prior to the subsequent events described in Note 15, the Corporation was reasonably certain that the lessee would not exercise its termination option and would renew the lease for all remaining renewal terms, extending the maximum lease term through December 2036. The lease receivable and related deferred inflow of resources are measured on that basis. The leased land is owned by the Corporation and has a cost of $1,340,191 as of September 30, 2025. In accordance with the provisions of GASB Statement No. 87, the lease was measured with an interest rate of 4.00%, the Corporation's incremental borrowing rate. As described in Note 15, the underlying land was sold, and the lease was terminated subsequent to year-end; the termination will be accounted for in the fiscal year ending September 30, 2026.

The PRTC Lease provides for a base rent of $5,000 per month for the term January 1, 2017 through December 31, 2021, increasing 3% per annum beginning January 1, 2022. Lease income in the amount of $55,807 and interest revenue of $29,664 were recognized under this lease for the year ended September 30, 2025. At September 30, 2025, the lease receivable under the PRTC Lease was $721,044 and the related deferred inflow of resources was $630,478.

In January 2023, the Corporation entered into a non-cancelable lease agreement with a governmental entity (Office Lease) for a term of five years. The contract is contingent upon the lessee's annual budget; however, the Corporation is reasonably certain that the lease will be approved annually. The leased office space is owned by the Corporation. In accordance with the provisions of GASB Statement No. 87, the lease was measured as of the commencement date with an interest rate of 4.00%, the Corporation's incremental borrowing rate.

The Office Lease provides for rent of $14,500 per year from January 1, 2023 through December 31, 2027. Lease income in the amount of $13,427 and interest revenue of $1,610 were recognized under this lease for the year ended September 30, 2025. At September 30, 2025, the lease receivable under the Office Lease was $27,348 and the related deferred inflow of resources was $30,209.

Future payments due to the Corporation under the leases, consisting of principal and interest, are as follows; the fiscal year 2026 principal reflected below is the basis for the current portion of the lease receivable classified in Note 3:

Year Ending September 30	Principal	Interest
2026	$ 54,350	$ 29,198
2027	58,662	26,956
2028	48,714	24,537
2029	52,942	22,511
2030-2034	336,871	75,758
2035-2037	196,852	9,414
Total	$ 748,391	$ 188,374

In addition, the PRTC Lease provides for certain additional payments for lessee revenues reaching measured thresholds, rental fees for use of the track, and reimbursement of utilities. Lease income reported in the Statement of Activities also includes rental and surface use arrangements that do not meet the criteria for recognition as leases under GASB Statement No. 87, including a $231,087 surface use easement arrangement, $17,781 of deferred revenue recognized under the ETC Pipeline easement agreement (see Note 7), and other short-term and regulated arrangements. See Note 15 regarding the termination of both GASB Statement No. 87 leases subsequent to year-end.

NOTE 7. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources at September 30, 2025 consist of the following:

Description	Amount
Deferred inflows - leases:	
PRTC Lease	$ 630,478
Office Lease	30,209
Total deferred inflows - leases	660,687
Deferred inflows - deferred revenues:	
ETC Pipeline easement agreement	120,026
Plains / Oryx easement agreement	75,841
Total deferred inflows - deferred revenues	195,867
Total deferred inflows of resources	$ 856,554

Deferred inflows of resources related to leases are recognized as lease income over the terms of the related leases (see Note 6). The Corporation has received upfront consideration under certain pipeline right-of-way and surface use agreements; these amounts are recorded as deferred revenue and recognized as revenue on a straight-line basis over the initial term of the related agreement, consistent with the pattern in which the Corporation is obligated to forgo other uses of the underlying property.

The Corporation is party to a Pipeline, Road Use and Surface Site Right-of-Way and Easement Agreement with ETC Texas Pipeline, Ltd., effective in 2022, with an initial term of ten years. Consideration under the agreement was received upfront and is being recognized as revenue on a straight-line basis over the ten-year initial term, or $17,781 annually. During the year ended September 30, 2025, the Corporation recognized $17,781 of previously deferred revenue under this agreement within lease and surface use revenue, consistent with the amount recognized in the prior fiscal year. The remaining deferred balance of $120,026 at September 30, 2025 will be recognized over the remaining term of the agreement.

The Corporation is party to a pipeline right-of-way and surface use easement originally granted in 2015 to Oryx Southern Delaware Oil Gathering and Transport, LLC (Plains Oryx Permian Basin, LLC, as successor), with a ten-year initial term that expired in September 2025 and two successive ten-year renewal options requiring separately negotiated consideration. The related deferred revenue balance of $85,587, established in the prior fiscal year, was recognized in full as revenue during the year ended September 30, 2025 upon expiration of the initial easement term. In August 2025, the Corporation received renewal consideration of $75,841 for the first ten-year option term commencing September 2025; this amount has been deferred and will be recognized as revenue on a straight-line basis over the ten-year option term, or approximately $7,584 annually, beginning in fiscal year 2026.

Deferred revenue (non-lease) activity for the year ended September 30, 2025 was as follows:

	ETC Pipeline	Plains / Oryx	Total
Balance, October 1, 2024	$ 137,807	85,587	223,394
Additions	-	75,841	75,841
Revenue recognized	(17,781)	(85,587)	(103,368)
Balance, September 30, 2025	**120,026**	**75,841**	**195,867**

NOTE 8. LONG-TERM LIABILITIES

Long-term liability activity for the year ended September 30, 2025 consisted of the accrual for compensated absences, as follows:

Balance, October 1, 2024	$ 12,999
Net increase in accrual	10,505
Balance, September 30, 2025	$ 23,504
Amount due within one year	$ 6,066
Amount due in more than one year	17,438

Of the $23,504 compensated absences liability, $6,066 is estimated to be due within one year and $17,438 in more than one year, based on historical leave-usage patterns. The liability includes employer salary-related payments (Social Security and Medicare taxes) of $1,670, measured in accordance with GASB Statement No. 101; contributions to defined benefit pension plans are excluded from that measurement as provided by that Statement. The compensated absences liability is liquidated by (paid from) the General Fund. The Corporation had no bonds, notes, capital leases, or other long-term debt outstanding at September 30, 2025.

NOTE 9. RETIREMENT PLAN

The Corporation's eligible employees participate in the Texas Municipal Retirement System (TMRS) through the Town of Pecos City's plan, rather than through a separate plan maintained directly by the Corporation. The Corporation reimburses the City monthly for its employees' applicable TMRS contributions, which are recognized as expense/expenditure when due; contributions of $7,731 were made for the year ended September 30, 2025. Because the City, not the Corporation, is the TMRS participating employer of record, the Corporation is not directly a participating employer in a defined benefit pension plan for which a net pension liability, deferred outflows and inflows of resources, or pension expense would be required to be reported under GASB Statement No. 68. No other postemployment benefits (OPEB) are provided to retirees; accordingly, no liability under GASB Statement No. 75 is recorded.

NOTE 10. COMMITMENTS AND 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 expenses 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, 2025.

Economic Development Incentive – Dollar Tree Project

By commitment letter dated September 30, 2024, reflecting Board approval on August 19, 2024, the Corporation committed $323,000 to JEMCO Holding, Inc. for the Dollar Tree development at 113 Lincoln Street, Pecos, Texas, payable in three approximately equal installments totaling $323,000 (approximately $107,667 each), triggered respectively by the store's opening day and the first and second anniversaries of the opening. This arrangement is a voluntary nonexchange transaction under GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, under which a liability and corresponding expense/expenditure are recognized only when all applicable eligibility requirements have been met; the eligibility requirement applicable to each installment under this commitment is a time requirement – that the store remain open and operating through the specified anniversary date.

The store opened on or about September 1, 2025, satisfying the time requirement for the first installment; that $107,667 installment was accordingly recognized as a business development expense/expenditure in the fiscal year ended September 30, 2025. The remaining two installments, summarized below, had not met their respective time requirements as of September 30, 2025 and accordingly no liability has been recognized for these amounts; they are disclosed here as a commitment that will be recognized in the fiscal year in which each time requirement is met, contingent on the store remaining open through each anniversary date. The anniversary dates below are approximate, based on the opening date noted above.

Installment	Amount	Approx. Anniversary Date
First anniversary of opening	$ 107,666	On or about 9/1/2026
Second anniversary of opening	107,667	On or about 9/1/2027
Total remaining commitment	**$ 215,333**	

Hidden Hero Housing Project

During the fiscal year, the Corporation entered into a memorandum of understanding with the Town of Pecos City, Reeves County, and the Reeves County Hospital District to develop a 27-unit workforce housing project on a 3.06-acre site owned by, and titled in the name of, the Corporation. The memorandum is expressly non-binding, contemplates that definitive agreements will follow, and creates no financial obligation for the Corporation; it provides for the Town of Pecos City, Reeves County, and the Reeves County Hospital District to each contribute approximately $3.5 million toward the project, with the Corporation's contribution consisting of engineering and design costs, currently estimated at approximately $350,000. Engineering and design costs of $364,544 incurred by the Corporation in connection with the project during the year have been capitalized within land inventory (see Note 4). See Note 15 for a subsequent event related to this project.

NOTE 11. RISK MANAGEMENT

The 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. The Corporation is not self-insured in any aspect of its operations. There have been no significant changes in insurance coverage compared to the prior year, and settlements have not exceeded coverage in each of the past three fiscal years.

NOTE 12. RELATED PARTY TRANSACTIONS – TOWN OF PECOS CITY

The Corporation is a discretely presented component unit of the Town of Pecos City (see Note 1). The City collects and remits to the Corporation the economic development sales and use tax that funds the Corporation's operations; sales tax revenues of $765,474 were recognized during the year and $112,067 was receivable at September 30, 2025. Legal title to the 2.3875-acre tract at W. 2nd Street and Oleander

Street acquired during the year is held of record in the City's name (see Note 4). The Corporation and the City are also parties, together with Reeves County and the Reeves County Hospital District, to the Hidden Hero Housing Project MOU described in Note 10. Subsequent to year-end, in connection with the sale of the Test Track property, the Town of Pecos City authorized the conveyance of certain water rights associated with the property to the Corporation (see Note 15).

NOTE 13. CONCENTRATIONS AND ECONOMIC DEPENDENCE

The Corporation's revenues are substantially dependent upon economic activity within the Town of Pecos City and the surrounding Delaware Basin region, including sales tax collections, oil and gas royalty income, and surface use and easement arrangements with energy-related companies. The production volume and price of crude oil and natural gas cannot be accurately predicted and may significantly affect these revenue sources in future periods.

NOTE 14. GOVERNMENTAL FUNCTIONS

The Statement of Activities presents the direct expenses of the Corporation's governmental activities in three functions: Administrative, Business Development, and Scholarships. Direct expenses are those clearly identifiable with a particular function. In the prior fiscal year, the Corporation reported its governmental activities within a single General Government function; the expanded functional presentation adopted for the year ended September 30, 2025 provides readers with greater insight into the nature of the Corporation's activities. The nature of each function is described below.

Administrative. The Administrative function comprises the general operations and overhead that support the Corporation as a whole, including personnel and employee benefits, office facilities and utilities, board governance and travel, general professional services, and depreciation of the Corporation's capital assets.

Business Development. The Business Development function comprises the Corporation's business attraction, retention, and expansion activities and its related marketing and promotional efforts, which represent the Corporation's core statutory purpose of promoting and developing new and expanded business enterprises within the Town of Pecos City under Chapters 501 and 505 of the Texas Local Government Code. Business development expense for the year consisted principally of commercial incentives and local business grants awarded to attract and retain employers, together with marketing and advertising of the community and its available development sites. Business development expense includes the first $107,667 installment of the Corporation's economic development incentive for the Dollar Tree project, which became payable when the store opened during the fiscal year; the remaining two installments, totaling $215,333, are conditioned on the store's continued operation and are disclosed as a commitment in Note 10.

Scholarships. During the fiscal year ended September 30, 2025, the Corporation awarded scholarships totaling $13,500 to area students pursuing post-secondary education, in support of developing and retaining a skilled local workforce within the Town of Pecos City and the surrounding region. The awards consisted of twelve disbursements to eleven students, in individual amounts ranging from $500 to $2,000, and were paid directly to the accredited colleges and universities in which the students were enrolled rather than to the students individually; scholarship awards during the prior fiscal year totaled $1,500. The scholarship awards were authorized by the Board of Directors and were funded from the Corporation's unrestricted resources. Sales and use tax proceeds that are restricted under Chapters 501 and 505 of the Texas Local Government Code to the promotion and development of new and expanded business enterprises within the Town of Pecos City (see Note 2) were not used for these awards.

NOTE 15. SUBSEQUENT EVENTS

Sale of the Test Track Property and Termination of the PRTC Lease

During the year ended September 30, 2025, the Corporation received a non-binding letter of intent from a third party regarding the potential sale of a parcel of land known as the "Test Track," with a carrying value of $1,340,191, and received and recognized in other income a $100,000 non-refundable exclusivity fee from the prospective purchaser. No binding agreement existed as of September 30, 2025, and the parcel accordingly remained recorded at its historical cost of $1,340,191 within Land on the Statement of Net Position as of that date.

Subsequent to September 30, 2025, on November 17, 2025, the Corporation entered into an Asset Purchase Agreement with Permian Power LLC, a Texas limited liability company, for the sale of the Test Track property, consisting of approximately 5,812.34 acres and an additional 0.13-acre tract in Reeves County, Texas. The sale closed on January 30, 2026, for total consideration of $25,792,466, consisting of a sales price of $17,280,000, an incentive payment of $1,700,000, a contingent payment of $5,812,466 (received in full at closing), and a community engagement payment of $1,000,000. After selling costs of approximately $43,000 and application of the $100,000 exclusivity fee previously received, net proceeds to the Corporation were approximately $25,649,000. The Corporation expects to recognize a gain on the sale of approximately $24.4 million in the fiscal year ending September 30, 2026. Because the agreement was executed and the sale closed after September 30, 2025, no gain or receivable is reflected in these financial statements. In connection with the transaction, the Town of Pecos City authorized the conveyance of certain water rights associated with the property to the Corporation.

The sale resulted in termination of the PRTC Lease (see Note 6) prior to its scheduled term; PRTC, the lessee, is not the purchaser and is not affiliated with the purchaser. Management evaluated the PRTC lease receivable, the related deferred inflow of resources, and the underlying land for impairment as of September 30, 2025 and concluded that no impairment was required as of that date. The Corporation will account for the sale and the associated lease termination in its financial statements for the fiscal year ending September 30, 2026.

Hidden Hero Housing Project – Procurement Ratification

Subsequent to September 30, 2025, on January 22, 2026, the Town of Pecos City Council adopted a resolution recognizing and ratifying that the Corporation took the lead role in the procurement process for the Hidden Hero Housing Project, Phase III (see Note 10), and confirming the intent that project procurement for that phase be conducted through the Corporation. This action does not change the non-binding nature of the memorandum of understanding described in Note 10 or create any financial obligation for the Corporation.

Termination of the Office Lease

Subsequent to September 30, 2025, the lessee under the Office Lease (see Note 6) notified the Corporation that it has purchased its own office building and will vacate the office space leased from the Corporation no later than August 2026, approximately 16 months before the lease's scheduled expiration in December 2027. As of September 30, 2025, the Corporation had no indication that the lessee intended to terminate the lease early, and the lease receivable and deferred inflow of resources related to this lease are presented in these financial statements on the basis of the lease terms in effect at that date, with no impairment recognized. Upon termination, the Corporation will derecognize the remaining lease receivable and deferred inflow of resources for this lease and recognize any difference between them as a gain or loss in the period of termination, in accordance with GASB Statement No. 87.

Management has evaluated subsequent events through July 25, 2026, the date the financial statements were available to be issued. Other than the matters described above, no events have occurred subsequent to the statement of net position date that would require adjustment to, or disclosure in, the financial statements.

Pecos Economic Development Corporation
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund
For the Year Ended September 30, 2025

	Budgeted Amounts			Variance
	Original Budget	**Final Budget**	**2025 Actual**	**Final Budget Positive (Negative)**
Revenues				
Operating Grants and Contributions	$ 300,000	$ 300,000	$ 630,845	$ 330,845
Sales Tax	750,000	750,000	765,474	15,474
Investment Income	225,000	250,000	334,261	84,261
Interest Income - Lease Receivable	-	-	31,274	31,274
Lease Income	86,098	90,500	662,080	571,580
Royalty Income	90,000	55,000	61,423	6,423
Other Income	-	-	105,000	105,000
Sale of Land Inventory	1,888,000	1,888,000	510,000	(1,378,000)
Total Revenues	**3,339,098**	**3,333,500**	**3,100,357**	**(233,143)**
Expenditures				
Advertising	132,800	137,750	129,627	8,123
Board Meeting Expenses	19,200	18,500	10,319	8,181
Business Attraction and Development	926,200	601,200	169,006	432,194
Dues and Subscriptions	1,750	1,200	1,405	(205)
Wages and Benefits	222,356	217,411	244,295	(26,884)
Meals and Entertainment	2,200	3,400	3,068	332
Office Space and Supplies	74,720	71,300	37,102	34,198
Professional Services	446,500	753,000	361,982	391,018
PRTC Expenses, net of reimbursements	1,500	15,000	(2,484)	17,484
Travel Expenses	14,137	14,250	12,768	1,482
Miscellaneous Expenses	15,930	26,680	32,816	(6,136)
Basis in Inventory Assets	373,944	373,944	279,342	94,602
Total Expenditures	**2,231,237**	**2,233,635**	**1,279,246**	**954,389**
Net Change in Fund Balance	**1,107,861**	**1,099,865**	**1,821,111**	**721,246**
Beginning Fund Balance	-	-	9,534,592	-
Ending Fund Balance	-	-	**$ 11,355,703**	-

PECOS ECONOMIC DEVELOPMENT CORPORATION
Notes to the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund
For the Year Ended September 30, 2025

A. Basis of Budgetary Presentation

The budgetary comparison schedule presents the original and final amended budgets adopted by the Board of Directors and the actual results of the General Fund for the year ended September 30, 2025. The schedule is prepared on the same basis of accounting used to prepare the General Fund financial statements, as described in Note 1.D. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America; appropriations lapse at year-end, and no encumbrances are recorded.

B. Legal Level of Budgetary Control and Line-Item Variances

The Corporation's legal level of budgetary control – the level at which expenditures may not legally exceed appropriations without further action by the Board of Directors – is total General Fund expenditures (see Note 1.D). Total expenditures of $1,279,246 for the year remained within the final amended budget of $2,233,635; accordingly, the Corporation did not exceed its budgetary authority. Three individual expenditure line items exceeded their respective final budgeted amounts: Wages and Benefits, due to an unbudgeted performance bonus authorized by the Board; Miscellaneous Expenses, due to unbudgeted scholarships (see Note 14) and higher ad valorem taxes on Corporation-owned minerals; and Dues and Subscriptions, by a de minimis $205. Because the legal level of budgetary control is total General Fund expenditures, these individual line-item overages do not constitute a violation of budgetary authority.

C. Presentation of Land Inventory Transactions

Sales of Land Inventory and Basis in Inventory Assets are presented gross in this schedule, consistent with the budget adopted by the Board of Directors and with Note 1.D. The unfavorable variance in Sale of Land Inventory reflects land sales that did not meet budgeted expectations during the year, and the offsetting favorable variance in Basis in Inventory Assets reflects the lower cost basis relinquished on the parcels actually sold. See the Management's Discussion and Analysis and Note 4 for the components of the $230,658 net gain on the sale of land inventory.

D. Reconciliation of the Original Adopted Budget

The Original Budget column is presented in whole dollars from the budget adopted by the Board of Directors on July 29, 2024, which provided for total expenditures of $2,231,237.09 against budgeted revenues and other sources of $3,339,098.00, for a budgeted net change in fund balance of $1,107,860.91. Travel Expenses, adopted at $14,137.50, is presented as $14,137 so that the whole-dollar line-item detail foots to the adopted totals.