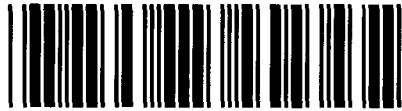


Control Number: 50122



Item Number: 1

Addendum StartPage: 0



50122

Application for Sale, Transfer, or Merger of a Retail Public Utility

Pursuant to Texas Water Code § 13.301 and 16 Texas Administrative Code § 24.109

APR 23 AM 9:01
PUBLIC UTILITY COMMISSION
FILING CLERK

Sale, Transfer, or Merger (STM) Application Instructions

- I. **COMPLETE:** In order for the Commission to find the application sufficient for filing, the Applicant should:
- Provide an answer to every question and submit any required attachment applicable to the STM request (i.e., agreements or contracts).
 - Use attachments or additional pages to answer questions as necessary. If you use attachments or additional pages, reference their inclusion in the form.
 - Provide all mapping information as detailed in Part G: Mapping & Affidavits.
- II. **FILE:** Seven (7) copies of the completed application with numbered attachments. One copy should be filed with no permanent binding, staples, tabs, or separators; and 7 copies of the portable electronic storage medium containing the digital mapping data.
- SEND TO:** Public Utility Commission of Texas, Attention: Filing Clerk, 1701 N. Congress Avenue, P.O. Box 13326, Austin, Texas 78711-3326 (**NOTE: Electronic documents may be sent in advance of the paper copy, however they will not be processed and added to the Commission's on-line Interchange until the paper copy is received and file-stamped in Central Records.**)
- III. The application will be assigned a docket number, and an administrative law judge (ALJ) will issue an order requiring Commission Staff to file a recommendation on whether the application is sufficient. The ALJ will issue an order after Staff's recommendation has been filed:
- DEFICIENT (Administratively Incomplete):** Applicants will be ordered to provide information to cure the deficiencies by a certain date, usually 30 days from ALJ's order. ***Application is not accepted for filing.***
 - SUFFICIENT (Administratively Complete):** Applicants will be ordered by the ALJ to give appropriate notice of the application using the notice prepared by Commission Staff. ***Application is accepted for filing.***
- IV. Once the Applicants issue notice, a copy of the actual notice sent and an affidavit attesting to notice should be filed in the docket assigned to the application. Recipients of notice may request a hearing on the merits.
- HEARING ON THE MERITS:** An affected party may request a hearing within 30 days of notice. In this event, the application may be referred to the State Office of Administrative Hearings (SOAH) to complete this request.
- V. **TRANSACTION TO PROCEED:** at any time following the provision of notice, or prior to 120 days from the last date that proper notice was given, Commission Staff will file a recommendation for the transaction to proceed as proposed or recommend that the STM be referred to SOAH for further investigation. The Applicants will be required to file an update in the docket to the ALJ every 30 days following the approval of the transaction. The transaction must be completed within six (6) months from the ALJ's order (Note: The Applicants may request an extension to the 6 month provision for good cause).
- VI. **FILE:** Seven (7) copies of completed transaction documents and documentation addressing the transfer or disposition of any outstanding deposits. After receiving all required documents from the Applicants, the application will be granted a procedural schedule for final processing. The Applicants are requested to consent in writing to the proposed maps and certificates, or tariff if applicable.
- VII. **FINAL ORDER:** The ALJ will issue a final order issuing or amending the applicable CCNs.

FAQ:

Who can use this form?

Any retail public utility that provides water or wastewater service in Texas.

Who is required to use this form?

A retail public utility that is an investor owned utility (IOU) or a water supply corporation (WSC) prior to any STM of a water or sewer system, or utility, or prior to the transfer of a portion of a certificated service area.

Terms

Transferor: Seller

Transferee: Purchaser

CCN: Certificate of Convenience and Necessity

STM: Sale, Transfer, or Merger

IOU: Investor Owned Utility

Application Summary

Transferor: MADERA VALLEY WSC

(selling entity)

CCN No.s: 10240

☐ Sale
 ☒ Transfer
 ☐ Merger
 ☐ Consolidation
 ☐ Lease/Rental

Transferee: TOWN OF PECOS CITY

(acquiring entity)

CCN No.s: 10945

☐ Water
 ☐ Sewer
 ☐ All CCN
 ☒ Portion CCN
 ☐ Facilities transfer

County(ies): REEVES

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Please mark the items included in this filing

<input checked="" type="checkbox"/> Contract, Lease, Purchase, or Sale Agreement	Part A: Question 1
<input type="checkbox"/> Tariff including Rate Schedule	Part B: Question 4
<input type="checkbox"/> List of Customer Deposits	Part B: Question 5
<input type="checkbox"/> Partnership Agreement	Part C: Question 7
<input type="checkbox"/> Articles of Incorporation and By-Laws (WSC)	Part C: Question 7
<input type="checkbox"/> Certificate of Account Status	Part C: Question 7
<input checked="" type="checkbox"/> Financial Audit	Part C: Question 10
<input type="checkbox"/> Application Attachment A & B	Part C: Question 10
<input type="checkbox"/> Disclosure of Affiliated Interests	Part C: Question 10
<input type="checkbox"/> Capital Improvement Plan	Part C: Question 10
<input type="checkbox"/> List of Assets to be Transferred	Part D: 11.B
<input type="checkbox"/> Developer Contribution Contracts or Agreements	Part D: 11.D
<input type="checkbox"/> Enforcement Action Correspondence	Part E: Question 18 (Part D: Q12)
<input type="checkbox"/> TCEQ Compliance Correspondence	Part F: Question 22
<input type="checkbox"/> TCEQ Engineering Approvals	Part F: Question 24
<input type="checkbox"/> Purchased Water Supply or Treatment Agreement	Part F: Question 26
<input checked="" type="checkbox"/> Detailed (large scale) Map	Part G: Question 29
<input checked="" type="checkbox"/> General Location (small scale) Map	Part G: Question 29
<input type="checkbox"/> Digital Mapping Data	Part G: Question 29
<input checked="" type="checkbox"/> Signed & Notarized Oath	Page 13-14

Part A: General Information

1. Describe the proposed transaction, including the effect on all CCNs involved, and provide details on the existing or expected land use in the area affected by the proposed transaction. Attach all supporting documentation, such as a contract, a lease, or proposed purchase agreements:

Madera Valley WSC (CCN 10240), is transferring commercial and residential properties around the Town of Pecos City (CCN 10945) outer limits to the North, West, and South, to allow for growth due to the City having a higher capacity to supply water in these areas. The proposed purchase agreement is attached.

2. The proposed transaction will require (check all applicable):

For Transferee (Purchaser) CCN:

- ☐ Obtaining a NEW CCN for Purchaser
☐ Transfer all CCN into Purchaser's CCN (Merger)
☒ Transfer Portion of CCN into Purchaser's CCN
☐ Transfer all CCN to Purchaser and retain Seller CCN
☐ Uncertificated area added to Purchaser's CCN

For Transferor (Seller) CCN:

- ☐ Cancellation of Seller's CCN
☒ Transfer of a Portion of Seller's CCN to Purchaser
☐ Only Transfer of Facilities, No CCN or Customers
☐ Only Transfer of Customers, No CCN or Facilities
☐ Only Transfer CCN Area, No Customers or Facilities

Part B: Transferor Information

Questions 3 through 5 apply only to the transferor (current service provider or seller)

3. A. Name: MADERA VALLEY WSC

(individual, corporation, or other legal entity)

☐ Individual ☐ Corporation ☒ WSC ☐ Other: _____

- B. Mailing Address: PO BOX 9009, VERHALEN TX 79772-9009

Phone: (432) 375-2556

Email: maderavalleywsc@yahoo.com

- C. Contact Person. Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney, accountant, or other title.

Name: Terry Gilcrest

Title: Manager

Mailing Address: PO BOX 9009, VERHALEN TX 79772-9009

Phone: (432) 375-2556

Email: maderavalleywsc@yahoo.com

4. If the utility to be transferred is an Investor Owned Utility (IOU), for the most recent rate change, attach a copy of the current tariff and complete A through B:

A. Effective date for most recent rates: _____

- B. Was notice of this increase provided to the Public Utility Commission of Texas (Commission) or a predecessor regulatory authority?

☐ No ☐ Yes Application or Docket Number: _____

If the transferor is a Water Supply or Sewer Service Corporation, provide a copy of the current tariff.

5. For the customers that will be transferred following the approval of the proposed transaction, check all that apply:

☐ There are no customers that will be transferred

☒ # of customers without deposits held by the transferor 66

☐ # of customers with deposits held by the transferor*

*Attach a list of all customers affected by the proposed transaction that have deposits held, and include a customer indicator (name or account number), date of each deposit, amount of each deposit, and any unpaid interest on each deposit.

Part C: Transferee Information

Questions 6 through 10 apply only to the *transferee* (purchaser or proposed service provider)

6. A. Name: TOWN OF PECOS CITY

(individual, corporation, or other legal entity)

☐ Individual ☐ Corporation ☐ WSC ☒ Other: MUNICIPALITY

B. Mailing Address: PO BOX 929, PECOS TX 79772-0929

Phone: (432) 445-2421

Email: ssorensen@pecostx.gov

C. Contact Person. Provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney, accountant, or other title.

Name: Seth Sorensen

Title: City Manager

Address: PO BOX 929, PECOS TX 79772-0929

Phone: (432) 445-2421

Email: ssorensen@pecostx.gov

D. If the transferee is someone other than a municipality, is the transferee current on the Regulatory Assessment Fees (RAF) with the Texas Commission on Environmental Quality (TCEQ)?

☐ No ☐ Yes ☒ N/A

E. If the transferee is an IOU, is the transferee current on the Annual Report filings with the Commission?

☐ No ☐ Yes ☒ N/A

7. The legal status of the transferee is:

☐ Individual or sole proprietorship

☐ Partnership or limited partnership (*attach* Partnership agreement)

☐ Corporation

Charter number (as recorded with the Texas Secretary of State):

☐ Non-profit, member-owned, member controlled Cooperative Corporation [Article 1434(a) Water Supply or Sewer Service Corporation, incorporated under TWC Chapter 67]

Charter number (as recorded with the Texas Secretary of State):

☐ Articles of Incorporation and By-Laws established (*attach*)

☒ Municipally-owned utility

☐ District (MUD, SUD, WCID, FWSD, etc.)

- ☐ County
- ☐ Affected County (a county to which Subchapter B, Chapter 232, Local Government Code, applies)
- ☐ Other (please explain): _____

8. If the transferee operates under any d/b/a, provide the name below:

Name: _____

9. If the transferee's legal status is anything other than an individual, provide the following information regarding the officers, members, or partners of the legal entity applying for the transfer:

Name: David Flores

Position: City Mayor

Ownership % (if applicable): 100.00%

Address: PO Box 929, Pecos TX 79772

Phone: (432) 445-2421

Email: _____

Name: _____

Position: _____

Ownership % (if applicable): 0.00%

Address: _____

Phone: _____

Email: _____

Name: _____

Position: _____

Ownership % (if applicable): 0.00%

Address: _____

Phone: _____

Email: _____

Name: _____

Position: _____

Ownership % (if applicable): 0.00%

Address: _____

Phone: _____

Email: _____

10. **Financial Information**

The transferee Applicant must provide accounting information typically included within a balance sheet, income statement, and statement of cash flows. If the Applicant is an existing retail public utility, this must include historical financial information and projected financial information. However, projected financial information is only required if the Applicant proposes new service connections and new investment in plant, or if requested by Staff. If the Applicant is a new market entrant and does not have its own historical balance sheet, income statement, and statement of cash flows information, then the Applicant should establish a five-year projection taking the historical information of the transferor Applicant into consideration when establishing the projections.

Historical Financial Information may be shown by providing any combination of the following that includes necessary information found in a balance sheet, income statement, and statement of cash flows:

1. Completed Appendix A;
2. Documentation that includes all of the information required in Appendix A in a concise format; or
3. Audited financial statements issued within 18 months of the application filing date. This may be provided electronically by providing a uniform resource locator (URL) or a link to a website portal.

Projected Financial Information may be shown by providing any of the following:

1. Completed Appendix B;
2. Documentation that includes all of the information required in Appendix B in a concise format;
3. A detailed budget or capital improvement plan, which indicates sources and uses of funds required, including improvements to the system being transferred; or
4. A recent budget and capital improvements plan that includes information needed for analysis of the operations test (16 Tex. Admin. Code § 24.11(e)(3)) for the system being transferred and any operations combined with the system. This may be provided electronically by providing a uniform resource locator (URL) or a link to a website portal.

Part D: Proposed Transaction Details

11. A. Proposed Purchase Price: \$ 968,348.00

If the transferee Applicant is an investor owned utility (IOU) provide answers to B through D.

B. Transferee has a copy of an inventory list of assets to be transferred (*attach*):

☐ No ☐ Yes ☒ N/A

Total Original Cost of Plant in Service: \$

Accumulated Depreciation: \$

Net Book Value: \$

C. **Customer contributions in aid of construction (CIAC):** Have the customers been billed for any surcharges approved by the Commission or TCEQ to fund any assets currently used and useful in providing utility service? Identify which assets were funded, or are being funded, by surcharges on the list of assets.

☐ No ☐ Yes

Total Customer CIAC: \$

Accumulated Amortization: \$

D. **Developer CIAC:** Did the transferor receive any developer contributions to pay for the assets proposed to be transferred in this application? If so, identify which assets were funded by developer contributions on the list of assets and provide any applicable developer agreements.

☐ No ☐ Yes

Total developer CIAC: \$

Accumulated Amortization: \$

12. A. Are any improvements or construction required to meet the minimum requirements of the TCEQ or Commission and to ensure continuous and adequate service to the requested area to be transferred plus any area currently certificated to the transferee Applicant? Attach supporting documentation and any necessary TCEQ approvals, if applicable.

☒ No ☐ Yes

B. If yes, describe the source and availability of funds and provide an estimated timeline for the construction of any planned or required improvements:

N/A

13. Provide any other information concerning the nature of the transaction you believe should be given consideration:

To ensure continuous and adequate service, Madera Valley WSC will continue to provide service to the areas being transferred until the Town of Pecos City completes the connections to the transferred lines.

14. Complete the following proposed entries (listed below) as shown in the books of the Transferee (purchaser) after the acquisition. Debits (positive numbers) should equal credits (negative numbers) so that all line items added together equal zero. Additional entries may be made; the following are suggested only, and not intended to pose descriptive limitations:

Utility Plant in Service:	\$	868,348.00
Accumulated Depreciation of Plant:	\$	0.00
Cash:	\$	-968,348.00
Notes Payable:	\$	0.00
Mortgage Payable:	\$	0.00
(Proposed) Acquisition Adjustment*:	\$	100,000.00
*Acquisition Adjustments will be subject to review under 16 TAC § 24.31(d) and (e)		
Other (NARUC account name & No.):	N/A	
Other (NARUC account name & No.):	N/A	

15. A. Explain any proposed billing change (NOTE: If the acquiring entity is an IOU, the IOU may not change the rates charged to the customers through this STM application. Rates can only be changed through the approval of a rate change application.)

Customers in the transferred area will be subject to the rates and fariff of the Town of Pecos City once their meters are replaced by the Town of Pecos City.

B. If transferee is an IOU, state whether or not the transferee intends to file with the Commission, or an applicable municipal regulatory authority, an application to change rates for some or all of its customers as a result of the transaction within the next twelve months. If so, provide details below:

N/A

Part E: CCN Obtain or Amend Criteria Considerations

16. Describe, in detail, the anticipated impact or changes in the quality of retail public utility service in the requested area as a result of the proposed transaction:

The Town of Pecos City has more capacity to service residential and commercial growth in these areas.

17. Describe the transferee's experience and qualifications in providing continuous and adequate service. This should include, but is not limited to: other CCN numbers, water and wastewater systems details, and any corresponding compliance history for all operations.

The Town of Pecos City is the largest municipal utility in Reeves County, and has been in continuous operation for decades.

18. Has the transferee been under an enforcement action by the Commission, TCEQ, Texas Department of Health (TDH), the Office of the Attorney General (OAG), or the Environmental Protection Agency (EPA) in the past five (5) years for non-compliance with rules, orders, or state statutes? Attach copies of any correspondence with the applicable regulatory agency(ies)

☒ No ☐ Yes

19. Explain how the environmental integrity or the land will be impacted or disrupted as a result of the proposed transaction:

No expected impact. Any improvements will be contained in existing easements and Rights of Way.

20. How will the proposed transaction serve the public interest?

Madera Valley WSC is able to supply the necessary quantities of water to the current customers in the area, but the area around the Town of Pecos City is receiving a large number of new connection requests. The transaction will support the proposed growth around the City that the Madera Valley WSC is unable to provide for, as well as allow Madera Valley WSC to redirect the water currently supplied to these areas to support growth in rural Reeves County.

21. List all neighboring water or sewer utilities, cities, districts (including ground water conservation districts), counties, or other political subdivisions (including river authorities) providing the same service within two (2) miles from the outer boundary of the requested area affected by the proposed transaction:

The Madera Valley WSC, the Town of Pecos City, Reeves County, and the edge of Ward County to the East are within two (2) miles from the outer boundary of the requested area.

Part F: TCEQ Public Water System or Sewer (Wastewater) Information

Complete Part F for EACH Public Water or Sewer system to be transferred subject to approval of the transaction.
Attach a separate sheet with this information if you need more space for additional systems being transferred.

22. A. For Public Water System (PWS):TCEQ PWS Identification Number: 1950006 (7 digit ID)Name of PWS: MADERA VALLEY WSCDate of last TCEQ compliance inspection: February 3, 2016 (attach TCEQ letter)

Subdivisions served: _____

B. For Sewer service:TCEQ Water Quality (WQ) Discharge Permit Number: WQ - (8 digit ID)

Name of Wastewater Facility: _____

Name of Permittee: _____

Date of last TCEQ compliance inspection: _____ (attach TCEQ letter)

Subdivisions served: _____

Date of application to transfer permit submitted to TCEQ: _____**23. List the number of existing connections, by meter/connection type, to be affected by the proposed transaction:**

Water				Sewer	
	Non-metered		2"		Residential
66	5/8" or 3/4"		3"		Commercial
	1"		4"		Industrial
	1 1/2"		Other		Other
Total Water Connections:			66	Total Sewer Connections:	

24. A. Are any improvements required to meet TCEQ or Commission standards?☒ No ☐ Yes**B. Provide details on each required major capital improvement necessary to correct deficiencies to meet the TCEQ or Commission standards (attach any engineering reports or TCEQ approval letters):**

Description of the Capital Improvement:	Estimated Completion Date:	Estimated Cost:

C. Is there a moratorium on new connections?☒ No ☐ Yes:**25. Does the system being transferred operate within the corporate boundaries of a municipality?**☒ No ☐ Yes: _____ (name of municipality)

If yes, indicate the number of customers within the municipal boundary.

Water: _____ Sewer: _____

26. A. Does the system being transferred purchase water or sewer treatment capacity from another source?

☒ No ☐ Yes: If yes, attach a copy of purchase agreement or contract.

Capacity is purchased from: _____

Water: _____

Sewer: _____

B. Is the PWS required to purchase water to meet capacity requirements or drinking water standards?

☒ No ☐ Yes

C. What is the amount of water supply or sewer treatment purchased, per the agreement or contract? What is the percent of overall demand supplied by purchased water or sewer treatment (if any)?

	Amount in Gallons	Percent of demand
Water:		0.00%
Sewer:		0.00%

D. Will the purchase agreement or contract be transferred to the Transferee?

☒ No ☐ Yes:

27. Does the PWS or sewer treatment plant have adequate capacity to meet the current and projected demands in the requested area?

☐ No ☒ Yes:

28. List the name, class, and TCEQ license number of the operator that will be responsible for the operations of the water or sewer utility service:

Name (as it appears on license)	Class	License No.	Water or Sewer
GARY E RUMBAUGH, JR	C	WD0014041	WATER

Part G: Mapping & Affidavits

ALL applications require mapping information to be filed in conjunction with the STM application.

Read question 29 A and B to determine what information is required for your application.

29. A. For applications requesting to transfer an entire CCN, without a CCN boundary adjustment, provide the following mapping information with each of the seven (7) copies of the application:

1. A general location (small scale) map identifying the requested area in reference to the nearest county boundary, city, or town. The following guidance should be adhered to:
 - i. If the application requests to transfer certificated service areas for both water and sewer, separate maps must be provided for each.
 - ii. A hand drawn map, graphic, or diagram of the requested area is not considered an acceptable mapping document.

- iii. To maintain the integrity of the scale and quality of the map, copies must be exact duplicates of the original map. Therefore, copies of maps cannot be reduced or enlarged from the original map, or in black and white if the original map is in color.

- 2. A detailed (large scale) map identifying the requested area in reference to verifiable man-made and natural landmarks such as roads, rivers, and railroads. The Applicant should adhere to the following guidance:
 - i. The map must be clearly labeled and the outer boundary of the requested area should be marked in reference to the verifiable man-made or natural landmarks. These verifiable man-made or natural landmarks must be labeled and marked on the map as well.
 - ii. If the application requests an amendment for both water and sewer certificated service area, separate maps need to be provided for each.
 - iii. To maintain the integrity of the scale and quality of the map, copies must be exact duplicates of the original map. Therefore, copies of maps cannot be reduced or enlarged from the original map, or in black and white if the original map is in color.
 - iv. The outer boundary of the requested area should not be covered by any labels, roads, city limits or extraterritorial jurisdiction (ETJ) boundaries.

B. For applications that are requesting to include area not currently within a CCN, or for applications that require a CCN amendment (any change in a CCN boundary), such as the transfer of only a portion of a certificated service area, provide the following mapping information with each of the seven (7) copies of the application:

- 1. A general location (small scale) map identifying the requested area with enough detail to locate the requested area in reference to the nearest county boundary, city, or town. Please refer to the mapping guidance in part A 1 (above).
- 2. A detailed (large scale) map identifying the requested area with enough detail to accurately locate the requested area in reference to verifiable man-made or natural landmarks such as roads, rivers, or railroads. Please refer to the mapping guidance in part A 2 (above).
- 3. One of the following identifying the requested area:
 - i. A metes and bounds survey sealed or embossed by either a licensed state land surveyor or a registered professional land surveyor. Please refer to the mapping guidance in part A 2 (above);
 - ii. A recorded plat. If the plat does not provide sufficient detail, Staff may request additional mapping information. Please refer to the mapping guidance in part A 2 (above); or
 - iii. Digital mapping data in a shapefile (SHP) format georeferenced in either NAD 83 Texas State Plane Coordinate System (US Feet) or in NAD 83 Texas Statewide Mapping System (Meters). The digital mapping data shall include a single, continuous polygon record. The following guidance should be adhered to:
 - a. The digital mapping data must correspond to the same requested area as shown on the general location and detailed maps. The requested area must be clearly labeled as either the water or sewer requested area.
 - b. A shapefile should include six files (.dbf, .shp, .shx, .sbx, .sbn, and the projection (.prj) file).
 - c. The digital mapping data shall be filed on a data disk (CD or USB drive), clearly labeled, and filed with Central Records. Seven (7) copies of the digital mapping data is also required.

Part H: Notice Information

The following information will be used to generate the proposed notice for the application.

DO NOT provide notice of the application until it is found sufficient and the Applicants are ordered to provide notice.

30. Complete the following using verifiable man-made or natural landmarks such as roads, rivers, or railroads to describe the requested area (to be stated in the notice documents). Measurements should be approximated from the outermost boundary of the requested area:

The total acreage of the requested area is approximately: 11,112.79

Number of customer connections in the requested area: 66

Affected subdivision : None

The closest city or town: TOWN OF PECOS CITY

Approximate mileage to closest city or town center: 5

Direction to closest city or town: EAST

The requested area is generally bounded on the North by: Block 4, H & GN RR Co, Section 39, Reeves County

on the East by: FM 1216

on the South by: CR 206

on the West by: FM 869

31. A copy of the proposed map will be available at: Town of Pecos City and Madera Valley WSC

32. What effect will the proposed transaction have on an average bill to be charged to the affected customers? Take into consideration the average consumption of the requested area, as well as any other factors that would increase or decrease a customer's monthly bill.

☐ All of the customers will be charged the same rates they were charged before the transaction.

☒ All of the customers will be charged different rates than they were charged before the transaction.

☐ higher monthly bill ☒ lower monthly bill

☐ Some customers will be charged different rates than they were charged before
(i.e. inside city limit customers)

☐ higher monthly bill ☐ lower monthly bill

Contract, Lease, Purchase, or Sale Agreement

Part A: Question 1

RESOLUTION #19-07-03(a)R

A Resolution Approving the Agreement to Amend the Boundaries of the Certificate of Convenience and Necessity held by Madera Valley Water Supply Corporation and convey the amount of \$968,348 in consideration of same

WHEREAS, the Town of Pecos City has experienced rapid growth in water demand and has planned for future annexation; and

WHEREAS, the Madera Valley Water Supply Corporation currently holds retail water Certificate of Convenience and Necessity (CNN) #10240 that provides to areas adjacent to the Pecos CNN and subject to future annexation; and

WHEREAS, the Town of Pecos City has reached agreement with Madera Valley Water Supply Corporation to amend the existing boundaries of the Certificate of Convenience and Necessity serving the annexation areas adjacent to Pecos for \$986,348; and

WHEREAS, the FY2018-19 Adopted Budget includes \$1,000,000 in the Water/Sewer Fund for the securing of the Madera Valley Certificate of Convenience and Necessity;

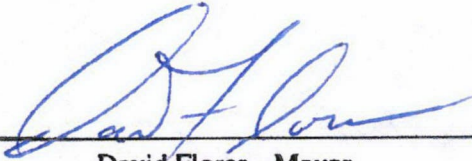
NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE TOWN OF PECOS CITY, TEXAS:

Section 1. That the agreement to convey to the Madera Valley Water Supply Corporation \$968,348 in consideration of amending the boundaries of the Certificate of Convenience and Necessity is approved,

Section 3. That the City Manager or his designee is hereby authorized and directed to execute the aforementioned agreement,

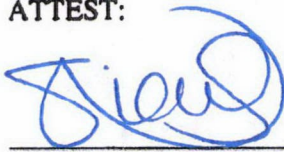
Section 5. That this resolution shall become effective from and after its passage.

PASSED AND APPROVED by the City Council of the Town of Pecos City on this the 5th day of August, 2019.



David Flores - Mayor

ATTEST:



Syra Nichols – City Secretary



**TEXAS WATER CODE SECTION 13.248
RETAIL WATER CERTIFICATE OF CONVENIENCE AND NECESSITY
SERVICE AREA TRANSFER AGREEMENT**

This **TEXAS WATER CODE SECTION 13.248 – RETAIL WATER CERTIFICATE OF CONVENIENCE AND NECESSITY SERVICE AREA TRANSFER AGREEMENT** is entered into this ____ day of _____, 20__ (this “Agreement”), by and between **TOWN OF PECOS CITY, TEXAS (“Pecos”)**, a home rule municipality organized and existing under the laws of the State of Texas, and **MADERA VALLEY WATER SUPPLY CORPORATION (“Madera”)**, a nonprofit rural water supply corporation organized under Texas Water Code, Chapter 67 for the purposes stated in Water Code § 67.002 (collectively, the “Parties”), in connection with the boundary lines of the Certificates of Convenience and Necessity (“CCNs”) held by Pecos and Madera for the provision of water services to users pursuant to the Texas Water Code.

RECITALS

WHEREAS, Pecos is the holder of retail water Certificate of Convenience and Necessity Number 10945 (“Pecos CCN”), authorizing Pecos to provide retail water service to certain areas in Reeves County; and

WHEREAS, Madera is the holder of retail water CCN Number 10240 (“Madera CCN”), authorizing Madera to provide retail water service to certain areas in most of Reeves County and parts of Jeff Davis County; and

WHEREAS, the boundaries of the Pecos CCN and the Madera CCN are adjacent to one another; and

WHEREAS, Pecos has prepared future annexation plans that would incorporate portions of the Madera CCN that are adjacent to the current city limits of Pecos; and

WHEREAS, Madera wants to assist Pecos in the orderly development of the land adjacent to and inside the Pecos Extraterritorial Jurisdiction (“ETJ”) for the economic benefit of the residents of Reeves County; and

WHEREAS, Madera has water distribution lines and water distribution appurtenances currently serving customers in portions of the Madera CCN that are generally adjacent to the north and west of areas of the Pecos CCN; and

WHEREAS, Madera has prepared a metes and bound description and map of the Madera CCN areas adjacent to the Pecos CCN that are, or may be, included in future annexation plans of Pecos (“Pecos Adjacent CCN Property”) encompassing approximately 11,079.79 Acres, and are attached hereto as Exhibit “A” and Exhibit “B”; and

WHEREAS, Pecos and Madera agree that it would be best to have the “Pecos Adjacent CCN Property” located exclusively within the CCN service area of the Pecos CCN; and

WHEREAS, Pecos and Madera are amenable to amending the boundaries of their respective CCNs by transferring certain property contained within the boundaries of the "Pecos Adjacent CCN Property" to Pecos.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereby agree as follows:

AGREEMENTS

Recitals – The recitals hereinabove set forth are incorporated herein for all purposes and are found to be true and correct.

Exclusive Agreement - This Agreement is an exclusive, one-time Agreement between Madera, and Pecos to address a situation in which Madera possesses the certificate of convenience and necessity for water service to the property at issue.

Transfer of Madera CCN Property - In accordance with Section 13.248 of the Texas Water Code, but at all times subject to the approval of the Public Utility Commission of Texas (the "PUC") and the United States Department of Agriculture (the "USDA"), **Madera hereby agrees to the modification of the boundaries of the Madera CCN to exclude the "Pecos Adjacent CCN Property"**, such area to be transferred from the Madera CCN to the area to be encompassed within the Pecos CCN.

Madera is currently indebted to the USDA-Rural Development on promissory notes used to finance improvements to Madera's water utility system pursuant to 7 U.S.C. § 1926. USDA-Rural Development hold security interests in the Madera CCN pursuant to real estate deeds of trust executed in connection with the aforementioned promissory notes. Final consummation of this CCN service area transfer is contingent on approval of the release of the "Pecos Adjacent CCN Property" from the Madera CCN which is held as a security interest by USDA-Rural Development.

Within 10 business of the receipt of all agreed upon payments, Madera shall file appropriate documentation with the USDA requesting release of their security interests in Madera's water utility CCN for the area to be transferred to Pecos. Upon receipt by Madera of written confirmation from USDA of such releases, Madera will inform Pecos of such receipt.

As soon as practicable upon receipt of confirmation of the releases from USDA Madera shall be responsible for preparing and filing the appropriate application to obtain the PUC's approval of the "Pecos Adjacent CCN Property" transfer from the Madera CCN to the Pecos CCN. Madera shall also be responsible for the preparation of the hard copy maps with supporting electronic metadata for the "Pecos Adjacent CCN Property" that satisfies the PUC rules.

Upon PUC approval of the transfer of the "Pecos Adjacent CCN Property" to the Pecos CCN, Pecos shall immediately begin efforts to connect infrastructure, and provide operations and maintenance needed to supply retail water service to the transferred "Pecos Adjacent CCN Property."

Payment for Loss of Water Service Revenues – Within 10 days of the effective date of this agreement Pecos agrees to pay Madera a lump sum for the amount of retail water service revenues generated from the provision of retail water service associated with the “Pecos Adjacent CCN Property” over five (5) years. The payment by Pecos to Madera is based on five (5) years of monthly billing of the 5/8” meter base rate plus 2,000 gallons of usage for the 66 connections that are in existence at the time of this agreement. The amount of this lump sum payment is agreed to be **\$183,348.00.**

Payment for Existing Water Distribution Infrastructure and Water Line Easements – Within 10 days of the effective date of this agreement Pecos agrees to pay Madera a lump sum amount for existing water distribution infrastructure and water line easements associated with the Madera CCN Property. The payment by Pecos to Madera is based on the transfer of approximately 92,950 liner feet of water lines of various sizes, appurtenances and the associated easements. The amount of this lump sum payment is agreed to be **\$300,000.00.**

Payment for Retirement of USDA Indebtedness - Within 10 days of the effective date of this agreement Pecos agrees to pay Madera a lump sum for the amount for the retirement of the indebtedness Madera owes USDA, plus any fees associated with the retirement of said debt. The amount of this lump sum payment is agreed to be **\$385,000.00.**

Payment for Professional Services Related to Transfer - Within 10 days of the effective date of this agreement Pecos agrees to pay Madera a lump sum amount for professional services related to the transfer of the CCN Property. The payment by Pecos to Madera is based on legal, engineering, and surveying costs associated with the transfer, including, but not limited to the boundary survey, system mapping, distribution system evaluation, and filings with the Public Utility Commission. The amount of this lump sum payment is agreed to be **\$100,000.00.**

Total of Lump Sum Payments – The total of the lump sum payments from Pecos to Madera contained in this agreement is **\$968,348.00.**

No Continuing Obligation to Serve - Pecos and Madera both agree that, upon approval of the revisions to their CCN boundaries by the PUC, Madera shall have no further obligation to provide retail water service to the property transferred out of the Madera CCN, and that each Party shall be solely responsible for the provision of retail water service to the owners and occupants of the properties contained in their own amended CCNs under such terms and condition as are allowed under the CCN and any applicable governmental statutes and regulations.

Interim Service – Pecos and Madera both recognize that the connection of the transferred portions of the Madera water distribution system to the Pecos water distribution system will take time. For a period not to exceed one year from the effective date of this agreement, both parties agree that Madera will continue to provide water service, and collect all revenues for providing said water service, in areas currently receiving service until the connections to the Pecos water system have been completed. Madera additionally agrees to suspend the granting of new water services in the areas to be transferred without the written consent of Pecos.

Existing Water Line Easements – The Madera system relies upon water distribution and water transmission lines in portions of the transferred CCN area to continue to provide water service to areas not included in this agreement.

Madera shall retain full control and rights to the easement for the water line between the Lindsey and Duvall Pump Stations. This line generally runs along Highway 17, Cotton Street, Industrial Blvd, Interstate Highway 20, Western Avenue and FM 2119.

Pecos and Madera agree that Madera shall retain full rights to jointly use the easements within the “Pecos Adjacent CCN Property” that are necessary to provide water service to customers and areas that are being retained by Madera, and that all other right of way easements within the “Pecos Adjacent CCN Area” shall be transferred to Pecos.

Customer Water Meters – At their cost, Pecos agrees to install new water meters in the existing meter loops at transferred customers and return removed and salvaged meters to Madera.

System Interconnections – The Pecos and Madera water systems shall only be interconnected at points which provide positive separation of the systems and facilities for metering the transfers of water between the two systems. Pecos and Madera further agree to negotiate in good faith to design and install system interconnects near the intersection of Cotton St and Industrial Blvd, the intersection of Hog Rd and FM 2119, and other locations Pecos and Madera may find advantageous.

NOTICES

Notice. Any notice to be given hereunder by any party to the other parties shall be in writing and may be effected by certified mail, return-receipt requested.

Notice to Madera shall be addressed to: Madera Valley Water Supply Corporation, PO Box 9009, Verhalen, Texas 79772-9009.

Notice to Pecos shall be addressed to: Town of Pecos City, PO Box 929, Pecos, Texas 79772-0929

Each party may change the address for notice to it by giving notice of such change at the last address designated in accordance with this paragraph.

GENERAL PROVISIONS

Governing Law. This agreement shall be governed, construed, and interpreted in accordance with the laws of the state of Texas. All acts required or permitted to be performed hereunder are performable in Reeves County, Texas, and it is agreed that any civil action brought to enforce or construe the terms or provisions hereof or to enjoin or require the performance of any act in connection herewith, shall be brought in a court of competent jurisdiction sitting in Reeves County, Texas. It is agreed that any administrative law action brought to enforce or construe the terms or provisions hereof or to enjoin or require the performance of any act in connection herewith, shall be brought at the PUC or its successor agency.

Severability. In the event one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

Unintended Omission. If any punctuation, word, clause, sentence, or provision necessary to give meaning, validity or effect to any other word, clause, sentence, or provision appearing in this Agreement shall be omitted here from, then it is hereby declared that such omission was unintentional and that the omitted punctuation, word, clause, sentence, or provision shall be supplied by inference.

Amendment. This Agreement shall not be amended or terminated except by an instrument signed by all parties to this Agreement.

Entire Agreement. This Agreement reflects the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings of the parties in connection herewith.

Multiple Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, and all of which together shall be construed as one and the same instrument.

Assignment. This Agreement may not be assigned by any party, except by the prior written consent of the other entities.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

TOWN OF PECOS CITY, TEXAS,
a Texas home rule municipality

By: 
David Flores Mayor

MADERA VALLEY WATER
SUPPLY CORPORATION,
a Texas nonprofit rural water supply corporation

By: _____
Meg Timmerman, President

ACKNOWLEDGMENTS

STATE OF TEXAS §
 §
COUNTY OF REEVES §

This instrument was acknowledged before me on this ____ day of _____, 201 , by Venetta Seals, Mayor of the Town of Pecos City, a home rule municipality, on behalf of said municipality.

Notary Public, State of Texas

STATE OF TEXAS §
 §
COUNTY OF REEVES §

This instrument was acknowledged before me on this ____ day of _____, 201 , by Meg Timmerman, President of the Board of Directors of the Madera Valley Water Supply Corporation, a Texas nonprofit corporation, on behalf of said corporation.

Notary Public, State of Texas

EXHIBITS

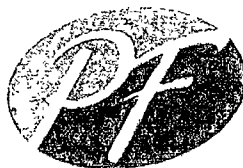
Exhibit A - Map of Madera CCN Property to be transferred to Town of Pecos City Retail Water CCN Service Area

Exhibit B - Metes and Bounds of Madera CCN Property to be transferred to Town of Pecos City Retail Water CCN Service Area

Financial Audit
Part C: Question 7

Town of Pecos City, Texas

Annual Financial Report
September 30, 2017



PARK FOWLER & CO.

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

TOWN OF PECOS CITY, TEXAS

Audited Financial Statements

September 30, 2017

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PARK FOWLER & CO.

MANAGING PARTNER:
Ronald H. Park, CPA

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in net pension liability and related ratios – Texas Municipal Retirement System, the schedule of contributions on pages 3-9, 46, 47, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

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

Park Fowler & Co., PLLC

Park Fowler & Co. PLLC

Corpus Christi, Texas
April 15, 2019



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

As the management of the Town of Pecos City (the City), we offer readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017. The management's discussion and analysis should be read in conjunction with the basic financial statements, the accompanying notes to those financial statements and supplementary information.

Financial Highlights

- At fiscal year-end, net position totaled \$54,015,268, an increase of \$8,921,921 from previous year. Of this amount, \$28,877,082 (unrestricted net position) may be used to meet the City's ongoing obligations.
- As of the close of the current year, the City's governmental funds reported combined ending fund balances of \$21,113,207, an increase of \$4,432,145 in comparison with the prior year. Approximately 73% of this total amount, \$15,507,895, is available for spending at the City's discretion.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$15,507,895, or 110% of total general fund expenditures in for the year ended 2017.

Overview of the Financial Statements

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

Government-Wide Statements

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

The statement of net position includes all of the City's assets and liabilities, with the difference between the two being reported as net position. Increases or decreases in net position contrasted with budgetary decisions should serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year using full accrual basis of accounting. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused vacation, royalties and accounts receivable).

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

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

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the City can be divided into two categories - governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a City's near-term financial requirements.

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund which is a major fund, as well as the airport service and debt service funds, which are considered non-major governmental funds.

The City adopts an annual appropriated budget for its general fund, the airport fund and the debt service fund. The statements of revenues, expenditures, and changes in fund budget (GAAP basis and accrual) for the general fund and airport service fund have been provided in this report.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses Enterprise funds to account for the operations in water and sewer, ambulance service, and the criminal justice center.

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

Notes to the Financial Statements

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

Other Information

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

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

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

Government-Wide Financial Analysis

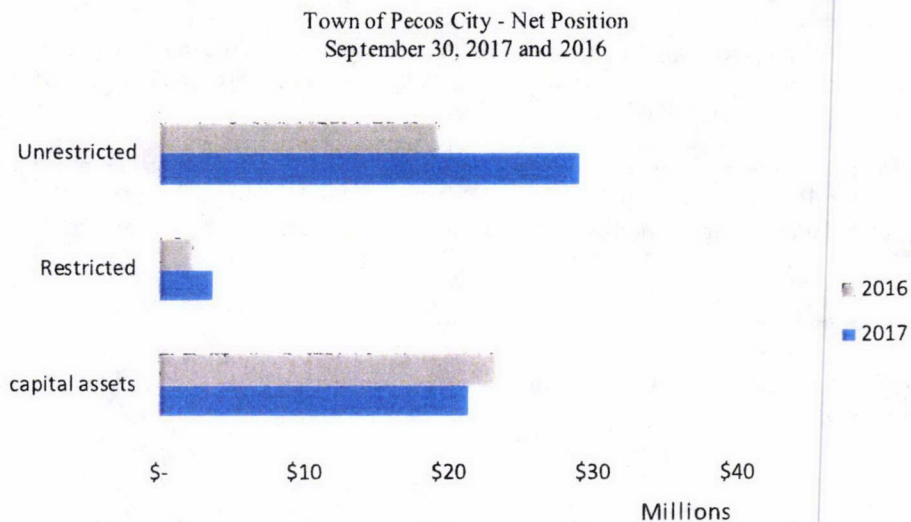
As noted earlier, net position may serve over time as a useful indicator of a City's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the fiscal year.

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

Town of Pecos City's Net Position

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

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



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

Town of Pecos City's Change in Net Position

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

Town of Pecos City's General Revenues and Transfers

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

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

The City's general revenues and transfers provided \$16,097,576 to fund the costs associated with those activities that are not self-supporting. It is anticipated that governmental activities will not be self-supporting and will be paid for through general revenue. Program revenue (charges for services) for governmental activities was \$4,316,882 and was used to pay for expenses associated with governmental activities of \$13,932,268.

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

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

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

Financial Analysis of the Governmental Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund accounting and budget controls has been the framework of the City's fiscal management and accountability.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unassigned fund balance serves as a useful measure of a City's net resources available for spending at the end of the fiscal year.

As of September 30, 2017, the City's governmental funds reported a combined ending fund balance of \$24,859,799, an increase of \$6,017,471 in comparison with the prior year. Approximately 62% of this total amount, \$15,507,895 constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is restricted or committed to indicate that it is not available for new spending.

The general fund is the chief operating fund of the City. At September 30, 2017, the unassigned fund balance of the general fund was \$15,507,895, while total fund balance was \$21,113,207. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures.

Unassigned fund balance represents 110% of total general fund expenditures, while total fund balance represents 208% of that same amount. The fund balance of the City's General Fund increased by \$4,432,145 over prior year due to increases in sales taxes and charges for services.

Proprietary Fund

The City's proprietary fund provides the same type of information found in the business-type activities in the government-wide financial statements, but in more detail.

The net position of the Water and Sewer Fund at the end of the year amounted to \$25,291,642. The total change in net position was an increase of \$1,707,365. The primary factor for this increase is an increase in charges for services of \$871,290 from the previous year.

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

Net position of the criminal justice center fund at the end of the year totaled \$720,557. The change in net position was a \$442,344 increase. The primary reason for the increase is due to the center continuing to operate profitable.

Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business type activities.

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

Capital Asset and Debt Administration

Capital Assets

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

Town of Pecos City's Capital Assets

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

Long-Term Debt

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

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

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

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

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

Economic Environment and Expectations

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

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

The future of Pecos is very bright, and upcoming budgets will reflect the momentum and determination to bring Pecos, Texas to the quality of life levels envisioned and desired by its citizens.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's Finance Office, at the Town of Pecos City, P.O. Box 929, Pecos, Texas 79772.

BASIC FINANCIAL STATEMENTS

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

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

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

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

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

General revenues:

- Property taxes
- Other taxes
- Unrestricted investment earnings
- Gain (loss) on sale of assets
- Rent and royalties
- Miscellaneous
- Transfers

Total general revenues

Change in net position

Net position--beginning

Net position--ending

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

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

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

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

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

Total fund balances - governmental funds \$ 24,359,897

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. 11,665,214

Revenues earned but not available within 60 days of fiscal year-end are not recognized as revenue in the governmental funds financial statements. 357,481

Some assets, deferred outflows of resources, liabilities and deferred inflows of resources will not be recognized in the current period and therefore are not reported in the fund financial statements. (7,101,093)

Net position of governmental activities \$ 29,281,499

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

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

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

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

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

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

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

Governmental funds report capital outlays as expenditures.

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

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

The repayment of the principal of long term debt consumes current financial resources of governmental funds	609,550
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds	(187,246)
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Net change in revenues in the statement of activities that do not provide current financial resources and are not reported as revenue in the funds	<u>49,960</u>
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Change in net position of governmental activities.	<u><u>\$ 6,852,635</u></u>
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The accompanying notes are an integral part of these financial statements.

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

A. Reporting Entity

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

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

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

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

In addition, other organizations should be evaluated as potential component units if they are closely related to, or financially integrated with, the primary government. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion in the reporting entity.

Individual Component Unit Disclosures:

Discretely Presented Component Unit:

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus and Basis of Accounting

The government-wide statements and proprietary fund statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The agency funds have no measurement focus. Exchange and exchange-like transactions, transactions in which the City gives or receives value and receives or gives equal value, that create revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities or deferred inflows of resources are recognized when the exchange occurs. Nonexchange transactions, transactions in which the City gives or receives value without receiving or giving equal value in exchange, that result in revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities or deferred inflows of resources are recognized in accordance with GASB. The treatment of nonexchange transactions is grouped in four classes based upon the principal characteristics of the transaction and reported according to those characteristics. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Capital assets are reported as historical cost and depreciated, except for inexhaustible assets such as land, in accordance with the City's depreciation policy.

Governmental fund financial statements are reported using a current financial resources measurement focus and modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

In the case of property and sales taxes available means due within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Grant revenues are considered to be available if they are to be received within one year. Expenditures are generally recorded when a liability is incurred. However, expenditures related to general long-term debt, compensated absences, and claims and judgments are recorded only when payment is due.

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

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

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

Proprietary fund activities are accounted for using the economic resources measurement focus and the accrual basis of accounting. This measurement focus includes all assets and liabilities on the balance sheet. Operating statements using this focus present a net position view of increases (revenues) and decreases (expenses) in the fund.

All applicable GASB pronouncements are followed in both government-wide and proprietary fund financial statements.

Proprietary fund operating statements distinguish between operating and non-operating revenues and expenses. Operating revenues and expenses generally are the result of providing or delivering goods or services in association with the fund's principal ongoing operations. The principal operating revenues of the City's water and sewer, ambulance service, and the criminal justice center funds are charges of this type. Operating expenses include the costs of administration, sales, services and depreciation.

Transactions resulting in nonoperating revenues and expenses are normally created by such items as cash flows from capital and related financing activities, noncapital financing activities, investing activities, and include most nonexchange and exchange-like revenues.

The following major funds are used by the City:

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

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Airport Service Fund - The Airport Service Fund is used to account for financial resources to be used for the airport facility.

Other Governmental Funds - The non-major governmental funds include:

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. Financing is provided by property tax levies.

Proprietary Funds

All Proprietary Funds are considered major funds except for the Ambulance Fund.

Water and Sewer Fund - The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including administration, operations, maintenance, financing and billing and collection.

Ambulance Fund - The Ambulance Fund is used to account for the provision of ambulance services to the residents of the City.

Criminal Justice Center Fund - The Criminal Justice Center Fund is used to account for the provision of the criminal justice center to the citizens of the City.

D. Cash and Investments

Cash and Investments include amounts in demand deposits as well as investments. Cash and cash equivalents, as defined for cash flow purposes, include cash and investments with original maturity dates no longer than three months. The City's investments are stated at fair value, except for external investment pools. Fair value is based on quoted market prices as of the valuation date. Management's intent is to hold all investments to maturity and thereby recover the full value of the various investments made. The gain/loss resulting from valuation will be reported within the "unrestricted investment earnings" account on the statement of activities.

The portfolio held the following investments:

TexPool - TexPool is an external pool that is not SEC-registered. It was created by an interlocal contract and is governed by the Public Funds Investment Act. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

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

E. Receivables, Payables and Interfund Transactions

The City's Water and Sewer Enterprise Fund operates on a monthly billing cycle, issuing billings several times throughout the month. The accounts receivable for water and sewer at September 30, 2017, represents the final unpaid billings issued prior to September 30, 2017, and includes an amount for unbilled September 2017 consumption.

Short-term loans between funds are reported as interfund receivables in the fund making the loan and as interfund payables in the fund receiving the loan. Arms-length transactions between funds for goods and services are reported as revenues in the selling fund and as expenses/expenditures in the acquiring fund. Any unpaid amounts are appropriately recorded as interfund receivables/payables. Any residential balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances", flows of assets from one fund to another with no requirement for repayment or without an equivalent flow of assets in return are accounted for as transfers.

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

F. Restricted Assets

These assets consist of cash and other investments legally restricted for the repayment of Water and Sewer debt as required by applicable bond covenants.

G. Capital Assets

Capital Assets are defined as a purchase, construction or other acquisition of any equipment, facilities or other similar assets, in which the cost is in excess of \$5,000 and has a useful life of more than one year. These assets include property, plant, equipment, infrastructure and all other tangible and intangible assets purchased or acquired. Purchased or constructed assets are carried at historical cost or estimated historical cost. Infrastructure assets, which include streets and associated drainage, sidewalks, bridges, drainage systems, water and sewer systems, lighting systems and other similar type assets, have been recorded at historical or estimated historical cost. Donated assets are recorded at estimated fair market value at the time of donation.

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

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

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

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

H. Pensions

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

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category. They are the deferred loss on refunding and deferred outflows related to the net pension liability which are reported in the government-wide and proprietary fund Statement of Net Position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred resource outflow related to net pension liability results from differences in projected and actual earnings on plan investments and contributions made subsequent to the measurement date.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

one item, which under the modified accrual basis of accounting, qualifies for reporting in this category. Accordingly, the item, unavailable revenues from property taxes, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. Additionally, the City has one item which is reported in the government-wide and proprietary fund Statement of Net Position. This item is the deferred inflow of resources related to the net pension liability resulting from differences in expected and actual experience.

J. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused personal time not to exceed 30 days or 320 hours. Any unused personal time will be compensated at the employee's regular rate of pay at the time of termination. Total accumulated unused personal time at year-end was \$232,267 for governmental activities and \$57,729 for business-type activities.

K. Long-term Obligations

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

L. Fund Equity

Fund Balance

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

- 1) Nonspendable fund balance includes amounts that cannot be spent because they are either in non-spendable form, or, for legal contractual reasons, must be kept intact. The City had no nonspendable fund balance at September 30, 2017.
- 2) Restricted fund balance represents amounts constrained to use by either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- 3) Committed fund balance includes amounts constrained to specific purposes determined by a formal action of the City itself, using its highest level of decision-making authority (City Council resolution). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest-level action to remove or change the constraint.
- 4) Assigned fund balance includes amounts that are constrained by the City's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. The City has no assigned fund balance at September 30, 2017.
- 5) Unassigned fund balance is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance.

The City's policy is to use restricted resources first, then unrestricted resources as they are needed. Within unrestricted fund balance, the committed amount is used first, assigned amount next, and unassigned amount is used last.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets, consists of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction, or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use, either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

M. Revenue Recognition - Property Taxes

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

Property taxes at the fund level are recorded as receivables and revenue in the period they become available. Current-year revenues recognized are those ad valorem taxes collected within the current period or soon enough thereafter to pay current liabilities, which is sixty days after year-end. All other outstanding receivables are adjusted from revenue and recognized as deferred for future collections. An allowance is provided for delinquent taxes not expected to be collected in the future.

General property taxes are limited by Home Rule Charter to \$2.00 per \$100 for assessed valuation. There is no limitation within the \$2.00 ceiling for debt service. The combined tax rate for the year ended September 30, 2017, was \$0.51111 per \$100 of assessed valuation.

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

N. Federal and State Grants and Entitlements

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

O. Use of Estimates

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

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

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

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

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

The details of this \$(7,101,093) difference are as follows:

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

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

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

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

The details of this \$362,900 difference are as follows:

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

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

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

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

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

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) In accordance with the City Charter, prior to September 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. The City Charter requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control is at the functional level.
- 2) Public hearings are conducted with public notice being given within statutory limits, for obtaining taxpayer comments.
- 3) Prior to October 1, the budget is legally enacted through passage of an ordinance.
- 4) The City Manager is authorized to transfer budgeted amounts between departments within any funds; however, any revisions that increase the total expenditures of any fund must be approved by the City Council after appropriate public notice and citizen participation.
- 5) Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds and Debt Service Fund. The Capital Projects Funds are budgeted over the life of the respective projects. As of and for the year ended September 30, 2017, there are no capital projects funds.
- 6) Budgets for the General Fund, Special Revenue Funds, and Debt Service Fund are legally adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Proprietary Funds are included in the annual budget adopted as a financial plan only.
- 7) All annual appropriations lapse at the end of each fiscal year.

B. Deficit Fund Equity

The Ambulance fund had a deficit fund balance at September 30, 2017 of \$1,278,430. The deficit in the fund resulted from uncollectable receivables and amounts due to other funds.

C. Excess of Expenditures over Appropriations

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

General Fund

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

Airport Fund

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

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - DEPOSITS AND INVESTMENTS

In order to facilitate cash management and increase income through combined investment activities, the operating cash of certain funds is pooled into one account in a local bank. At September 30, 2017, certain funds have made disbursements from the pooled account in excess of their individual equity in the pooled cash account, which is recorded as a liability (interfund payable) in the financial statements. The City is authorized to use demand accounts and certificates of deposit.

Deposits - State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. All of the City's deposits, except one, were fully insured or collateralized as required by the state statutes at September 30, 2017. At year-end, the carrying amount of the City's deposits and bank balance was \$27,564,654. Of the total bank balance of \$27,564,654, the Federal Depository Insurance Corporation (FDIC) and the Securities Investor Protection Corporation covered \$250,000 and \$27,000,000 was covered by collateral held by the pledging bank's agent for the City in the City's name resulting in \$314,654 in excess of insured amounts.

Investments- State statutes, city bond ordinances and city resolutions authorize the City's investments. The City is authorized to invest in U.S. Government obligations and its agencies or instrumentalities; direct obligations of this state or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States with five years or less stated final maturity (cannot be an inverse floater, a principal only or interest only); obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent rating; no-load, SEC registered mutual funds with a weighted average stated maturity of less than two years that are invested in allowable securities; obligations of Texas and its agencies; fully collateralized repurchase agreements and reverse repurchase agreements; prime domestic commercial paper; prime domestic bankers' acceptances; insured or collateralized certificates of deposit government pools; and no-load SEC registered money market funds consisting of any of these securities listed.

At September 30, 2017, 100% of the City's investments were in external investment pools.

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

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

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

Credit Risk- In compliance with the City's investment policy, as of September 30, 2017, the City minimized credit risk losses due to default of a security issuer or backer, by: 1) limiting investments to the safest types of securities by purchasing investments in US Agencies Notes that were rated AAAm by Standard & Poor's, 2) pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business, and 3) diversifying the investment portfolio so that potential losses on individual securities were minimized.

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - RECEIVABLES

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

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

The City reports, in its governmental funds, deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At September 30, 2017, deferred inflows in the amount of \$357,481 were reported.

NOTE 6 - CAPITAL ASSETS

Capital asset acquisition and disposals of the reporting entity was restricted to activities of the primary government only. Capital asset activity for the year ended September 30, 2017 was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Government Activities				
Capital assets, not being depreciated				
Land	\$ 159,689	\$ -	\$ -	\$ 159,689
Construction in progress	1,414,175	1,001,356	-	2,415,531
Total capital assets, not being depreciated	1,573,864	1,001,356	-	2,575,220
Capital assets being depreciated				
Buildings	2,291,171	-	(14,433)	2,276,738
Infrastructure	17,278,169	-	(187,877)	17,090,292
Equipment	3,907,914	275,940	75,063	4,258,917
Vehicles	3,012,853	571,232	(61,815)	3,522,270
Total capital assets, being depreciated	26,490,107	847,172	(189,062)	27,148,217
Less accumulated depreciation for				
Buildings	800,959	37,954	(14,433)	824,480
Infrastructure	11,881,606	558,737	(187,877)	12,252,466
Equipment	2,262,842	557,148	75,063	2,895,053
Vehicles	1,816,250	331,789	(61,815)	2,086,224
Total accumulated depreciation	16,761,657	1,485,628	(189,062)	18,058,223
Total capital assets, being depreciated, net	9,728,450	(638,456)	-	9,089,994
Governmental activities capital assets, net	<u>\$ 11,302,314</u>	<u>\$ 362,900</u>	<u>\$ -</u>	<u>\$ 11,665,214</u>

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets, not being depreciated				
Land	\$ 766,635	\$ -	\$ -	\$ 766,635
Construction in progress	<u>3,245,981</u>	<u>-</u>	<u>(15,814)</u>	<u>3,230,167</u>
Total capital assets, not being depreciated	<u>4,012,616</u>	<u>-</u>	<u>(15,814)</u>	<u>3,996,802</u>
Capital assets being depreciated				
Buildings	3,288,671	-	-	3,288,671
Infrastructure	49,094,535	2,584,862	15,814	51,695,211
Equipment	2,428,742	144,644	-	2,573,386
Vehicles	<u>1,649,935</u>	<u>286,556</u>	<u>-</u>	<u>1,936,491</u>
Total capital assets, being depreciated	<u>56,461,883</u>	<u>3,016,062</u>	<u>15,814</u>	<u>59,493,759</u>
Less accumulated depreciation for				
Buildings	902,121	72,537	-	974,658
Infrastructure	20,512,117	1,858,155	-	22,370,272
Equipment	1,375,609	304,433	-	1,680,042
Vehicles	<u>1,220,638</u>	<u>168,522</u>	<u>-</u>	<u>1,389,160</u>
Total accumulated depreciation	<u>24,010,485</u>	<u>2,403,647</u>	<u>-</u>	<u>26,414,132</u>
Total capital assets, being depreciated, net	<u>32,451,398</u>	<u>612,415</u>	<u>15,814</u>	<u>33,079,627</u>
Business-type activities capital assets, net	<u>\$ 36,464,014</u>	<u>\$ 612,415</u>	<u>\$ -</u>	<u>\$ 37,076,429</u>

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

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

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

NOTE 7 - INSURANCE

Health Insurance

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

Workers Compensation

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

NOTE 8 - INTERFUND TRANSACTIONS

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

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

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

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

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

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

NOTE 9 - LONG-TERM DEBT

Governmental Activities:

The following is a summary of debt transactions for governmental activities of the City for the year ended September 30, 2017:

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

General Obligation Bond 2014

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

Future payments on this obligation are as follows:

Year Ending September 30,	General Obligation Bond 2014		
	Principal	Interest	Total
2018	\$ 415,000	\$ 133,766	\$ 548,766
2019	425,000	123,602	548,602
2020	435,000	113,196	548,196
2021	450,000	102,487	552,487
2022	460,000	91,476	551,476
2023-2027	2,475,000	282,718	2,757,718
2027-2030	1,075,000	26,076	1,101,076
Total	<u>\$ 5,735,000</u>	<u>\$ 873,321</u>	<u>\$ 6,608,321</u>
2018	\$ 415,000	\$ 133,766	\$ 548,766
Later	5,320,000	739,555	6,059,555
Total	<u>\$ 5,735,000</u>	<u>\$ 873,321</u>	<u>\$ 6,608,321</u>

Notes Payable

Note Payable No. 1

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

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

Future payments on this obligation are as follows:

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

Note Payable No. 2

On February 14, 2014, the City received a note payable in the amount of \$415,611 from a financial institution for the purchase of equipment for the general fund and vehicle for the business fund. The note matures December 30, 2018 and bears an interest rate of 2.88%. Principal and interest are payable in monthly installments of \$22,305. The note is secured by ad valorem taxes. Of the amount received \$185,199 was used to purchase equipment for the general fund and the remaining amount of \$230,412 was used to purchase a vehicle for the business fund.

Future payments on this obligation are as follows:

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

Business-type Activities:

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

Certificates of Obligation

Series 2000A

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

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

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

The initial Certificates of Obligation was authorized to be issued, sold and delivered as a single fully registered Certificate of Obligation, without interest coupons, dated August 1, 2000 payable in annual installments of principal due and payable on June 15 in each of the years outstanding, and to pay interest, from the date of initial Certificate of Obligation, on the balance of each such installment of principal, at the rate of 1% with said interest being payable semiannually on each June 15 and December 15 while this Certificate of Obligation or any portion hereof is outstanding and unpaid.

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

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

Series 2000B

The City issued \$460,000 Series 2000B Certificate of Obligation for the purpose of improving and extending the waterworks system, to-wit: hydrological exploration, land and easement acquisition, engineering of a well field, construction of a well field, and for paying professional services for legal, fiscal and engineering fees in connection with this project.

The initial Certificates of Obligation was authorized to be issued, sold and delivered as a single fully registered Certificate of Obligation, without interest coupons, dated August 1, 2000 payable in annual installments of principal due and payable on June 15 in each of the years outstanding, and to pay interest, from the date of initial Certificate of Obligation, on the balance of each such installment of principal, at the rate between 4.5% and 5.85% with said interest being payable semiannually on each June 15 and December 15 while this Certificate of Obligation or any portion hereof is outstanding and unpaid.

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

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

Series 2015

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

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

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

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

Series 2016

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

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

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

Revenue Bonds Series 2008

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

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

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

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

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

General Obligation Refunded Bond Series 2013

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

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

	Principal	Interest	Total
2018	\$ 385,000	\$ 80,682	\$ 465,682
2019	395,000	69,132	464,132
2020	410,000	54,912	464,912
2021	425,000	38,512	463,512
2022	445,000	20,026	465,026
Total	<u>\$ 2,060,000</u>	<u>\$ 263,264</u>	<u>\$ 2,323,264</u>

NOTE 10 - CAPITAL LEASE OBLIGATIONS

The City is obligated under various capital leases for equipment which cost \$2,528,898 is included in business-type activities. Future minimum lease payments in business-type activities as of September 30, 2017 are as follows:

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

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - LANDFILL CLOSURE AND POST-CLOSURE CARE COST

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

The City's first landfill site reached its operating capacity during the 2000 fiscal year. The site received approval to enter the post-closure care period during that fiscal year. During the year ended September 30, 2017, \$0 was expended for the post-closure care costs for the landfill, and \$4,687 was increased to the liability to reflect inflated estimated costs. The City's post-closure liability as of September 30, 2017 was \$265,049. The post-closure care costs are based on prior estimates and have been adjusted for inflation. Actual costs may vary due to changes in inflation, changes in technology or changes in regulations. Although closure and post-closure care costs has been paid only near or after the date that the landfill stopped accepting waste, the City reported a portion of these estimated closure and post-closure care costs as an operating expense in the prior periods based on landfill capacity used in those prior periods. At September 30, 2017, the City does not operate this landfill.

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

The City has not met the financial and public notice component sections of the Local Financial Test and Government Guarantee but is otherwise in compliance with the state and federal laws and regulations governing landfill closure and post-closure care at September 30, 2017.

NOTE 12 - COMMITMENTS

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

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors, and omissions, injuries to employees, and natural disasters. During fiscal year 2007-2008, the City obtained general liability coverage at a cost that is economically justifiable by joining together with other governmental entities in the state as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settle claims resulting from these risks have not exceeded coverage in any of the past three years.

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

NOTE 14 - EMPLOYEE RETIREMENT BENEFITS

A. Plan Description

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

B. Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The provisions of the City plan include a 5-year vesting period with all vested participants eligible to receive retirement benefits upon reaching 5 year of service and age 60 or 20 years of service with no age requirement. The plan requires participant contributions of 5% and the City matches at a ratio of 2 to 1.

Employees covered by benefits as of September 30, 2016 include:

Inactive employees or beneficiaries currently receiving benefits	63
Inactive employees entitled to but not yet receiving benefits	104
Active employees	<u>119</u>
Total	<u>286</u>

C. Contributions

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

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

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

D. Net Pension liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5 to 10.5% including inflation
Investment Rate of Return	6.75%

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

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

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

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

Discount Rate

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

Changes in the Net Pension (Asset)Liability:

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension (Asset) Liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a) - (b)</u>
Balance at 12/31/2015	\$ 13,027,004	\$ 12,696,968	\$ 330,036
Charges for the year:			
Service cost	604,343	-	604,343
Interest	880,177	-	880,177
Change of benefit terms	-	-	-
Difference between expected and actual experience	83,221	-	83,221
Change of assumptions	-	-	-
Contributuons - employer	-	286,308	(286,308)
Contributions - employee	-	276,968	(276,968)
Net investment income	-	857,889	(857,889)
Benefit payments, including refunds of employee contributions	(579,046)	(579,046)	-
Administrative expense	-	(9,691)	9,691
Other charges	-	(522)	522
Net changes	<u>988,695</u>	<u>831,906</u>	<u>156,789</u>
Balance at 12/31/2016	<u>\$ 14,015,699</u>	<u>\$ 13,528,874</u>	<u>\$ 486,825</u>

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1 - percentage-point higher (7.75%) than the current rate:

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

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

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

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

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

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

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

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

NOTE 15 - DISCRETE COMPONENT UNIT- PECOS ECONOMIC DEVELOPMENT CORPORATION

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

A. Significant Accounting Policies

1. Definition and Nature of Entity

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

2. Financial Reporting Entity

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

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

3. Government-Wide and Fund Financial Statements

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

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

4. Measurement Focus and Basis of Accounting

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

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

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

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

5. Basis of Accounting

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

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

B. Type of Accounts

1. Assets

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

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

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

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

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

1. Equity

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

a. Invested in capital assets, net of related debt- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net position- Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

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

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

C. Revenues, Expenditures, and Expenses

1. Operating Revenues and Expenses

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

2. Expenditures/Expenses

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

D. Cash and Investments

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

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

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

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

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

E. Capital Assets

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

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

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

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

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

F. Note Payable

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

On August 10, 2010 the Corporation entered into an agreement with the Texas Economic Development Bank to borrow \$462,000. Terms of the variable interest note vary from 3.25% to 3.299% with monthly payments of \$2,857.87 to be paid off August 1, 2024. On May 30, 2017 the loan was paid off in full.

G. Tax Revenue

The Corporation receives a portion of the sales tax collected by the Town of Pecos City to fund its operations. The Corporation received one quarter of the City's one and half percent sales tax for the first three quarters of the Corporation's fiscal year. During the last quarter of the fiscal year the Corporation received one eighth of the City's one-half percent sales tax due to a proposition passed by an election held in March of 2016. During the entire fiscal year 2017 the Corporation received one eighth of the City's one-half percent sales tax.

H. Restatements

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

I. Contingencies

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

J. Risk Management

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

K. Related Party Transactions

From time to time the Corporation may enter into transactions with related parties through the normal course of business. If a member of the Board of Directors has a conflict of interest, proper documentation is completed, and he/she is required to abstain from any discussion or voting regarding the matter. Management is not aware of any material related party transactions that occurred for the year ended September 30, 2017.

TOWN OF PECOS CITY, TEXAS
NOTES TO FINANCIAL STATEMENTS

L. Subsequent Events

In preparing the financial statements the management of the Pecos Economic Development Corporation has evaluated events and transactions for potential recognition or disclosure through April 15, 2019, the date the financial statements were issued. No events including instances of noncompliance, have occurred subsequent to the statement of financial position date that would require adjustment to or further disclosure in the financial statements.

NOTE 16 - NEW PRONOUNCEMENTS

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

Future GASB Statement Implementations:

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

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

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

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

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

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

NOTE 17 - DATE OF MANAGEMENT'S REVIEW

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

Required Supplementary Information
(Unaudited)

TOWN OF PECOS CITY, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
Year Ended September 30, 2017

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

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

GASB Statement No. 68 requires 10 year of data; however, two years of data is presented as the data for years prior to 2015 is not available. Additionally, GASB Statement No. 68. requires that information on this schedule correspond with the period covered as at the years ended December 31, 2015 and 2016, the current measurement dates.

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

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

Notes to Schedule of contributions

GASB Statement No. 68 requires 10 year of data; however, two years of data is presented as the data for years prior to 2015 is not available. Additionally, GASB Statement No. 68 requires that information on this schedule correspond with the period covered as of the years ended December 31, 2014 and 2016, the current measurement dates.

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market, 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experienced-based table of rates that are specific to the City's plan of benefits Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.

Mortality RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information

There were no benefit changes during the year

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

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

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

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



PARK FOWLER & CO.

MANAGING PARTNER:
Ronald H. Park, CPA

Certified Public Accountants & Management Consultants
A Professional Limited Liability Company

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pecos City, Texas, the "City" as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 15, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Pecos City, Texas Response to Findings

The City's response to the finding identified in our audit are described in the accompanying schedule of findings and responses. The City's response was not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Park Fowler & Co., PLLC

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

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

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

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

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

Effect: Issuance of the annual financial report was delayed.

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

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

Detailed (Large-Scale) Map

Part G: Question 29

Tony Trujillo Land Surveying Inc.
310 South Willow
Pecos, Texas, 79772
432-445-7245 office, 432-448-8061 cell
432-445-7326 fax
TBPLS Firm Registration No. 10013500
ttsurvey@windstream.net

**MADERA VALLEY WATER SUPPLY CORPORATION CERTIFICATE OF
CONVENIENCE AND NECESSITY NO. 10240
BOUNDARY A PORTION OF THE CERTIFICATED AREA OF THE MADERA
VALLEY WATER SUPPLY CORPORATION CERTIFICATE OF CONVENIENCE
AND NECESSITY NO. 10240
FOR SALE AND TRANSFER TO THE TOWN OF PECOS CITY
CERTIFICATE OF CONVENIENCE AND NECESSITY NO. 10945**

**FIELD NOTES
(METES AND BOUNDS DESCRIPTION)**

**FIELD NOTES DESCRIBING A 11,079.79 SURFACE (11,074.92 GRID) ACRES
TRACT OF LAND, OUT OF SEVERAL SECTIONS OUT OF BLOCKS 4 AND 5,
H. & G. N. RAILROAD COMPANY SURVEY, REEVES COUNTY, TEXAS, SAID
11,079.79 SURFACE (11,074.92 GRID) ACRES TRACT MORE PARTICULARLY
DESCRIBED BY METES AND BOUNDS AS FOLLOWS:**

Beginning (N-10474931.05', E-1299131.992') at a point on the common line of Sections 32 and 21, Block 4, H. & G. N. Railroad Company Survey, Reeves County, Texas, and on the center line of the Pecos Valley Southern Railroad, whence the common corner of Sections 32, 21, 33, and 40, said Block 5, bears S 12°50'11"W 2064.90 feet, and the Northeast corner of Block 12, of the Revised Roy Lindsay's Subdivision, as shown on plat recorded in Volume 4, Page 47, of the Reeves County, Texas plat records, bears S 12°50'11"W 50.00 feet and N 77°08'53"W 50.30 feet, for a corner of this tract;

Thence N77°09'34"W 825.12 feet (N-10475114.420' E-1298327.503') along the North right of way line of Sacaton Street, of said Subdivision, of the Reeves County, Texas plat records, to a point at the intersection of said Sacaton Street North right of way line and Valley Street East right of way line, for a corner of this tract;

Thence N12°50'30"E 3205.70 feet (N-10478239.934' E-1299039.998') along the East right of way line of said Valley Street, to a point on the North line of Lindsay Road of said Subdivision and said Section 21, from whence a 3/4 inch iron pipe recovered at the common corner of Sections 21, 32, 15, and 22, said Block 5, bears S 77°04'49"E 824.82 feet, for a corner of this tract;

Thence N77°04'49"W 4449.34 feet (N-10479234.735' E-1294703.293') along the common line of said Sections 21 and 22, and the North line of said Lindsay Road, to a point at the common corner of Sections 21, 22, 19, and 38, said Block 5, and the East line of Ojinaga Street of said Subdivision, for a corner of this tract;

Thence S12°49'07"W 5276.45 feet (N-10474089.789' E-1293532.635') along the common line of said Sections 38 and 21, and said East line of Ojinaga Street, to a 1 inch iron pipe, recovered at the common corner of Sections 21, 40, 37, and 38, said Block 5, for a corner of this tract;

Thence N77°09'23"W 19506.18 feet (N-10478425.837' E- 1274514.492') along the North line of Sections 37, 48, 47, said Block 4 and the North line of Section 26, Block C-9, Public School Land Survey, Reeves County, Texas, and generally along the Center line of Reeves County Road 206, to a point on the common Section line of Section 81 said Block 4, at the Southeast corner of Section 27 of said Block C-18, whence the Southwest corner of Section 81, bears S 31°53'38"E 636.97 feet, for a corner of this tract;

Thence N31°53'38"W 9957.15 feet (N-10486879.750' E-1269253.667') along said common Block line and the center line of F.M. Highway 869, to a point at the Northwest corner of Section 82 said Block 4 and the North corner of said Section 27, for a corner of this tract;

Thence N58°02'26"E 2642.58 feet along the North line of said Section 82 and along Reeves County Road 411, to a point, for a corner of this tract;

Thence S31°53'38"E 2648.53 feet to a point, for an interior corner of this tract;

Thence N58°02'26"E 2642.58 feet to a point on the common line of Sections 82 and 79, said Block 4, for a corner of this tract;

Thence S31°53'38"E 2648.53 feet (N-10485179.930' E-1276536.402') along said common line to a point at the common corner of Sections 79, 82, 81, and 80, said Block 4, for a corner of this tract;

Thence N58°01'11"E 10572.83 (N-10490779.570' E-1285504.611') along the Reeves County Road 404, to a PK nail in pavement, recovered at the common Section lines of Sections 77, 78, 79, and 80, said Block 4, whence a 5/8 inch iron rod bears N 62°10'22"E 14.72 feet and a 8 inch iron spike bears N 69°05'56"E 19.96 feet, for a corner of this tract;

Thence N 58°03'40"E 10567.79 feet, to a 1 inch iron pipe with a 1/2 inch iron rod with a cap marked "Trujillo RPLS 5358" in the center, recovered at the common corner of said Sections 71, 72, 73, and 74 said Block 4, for a corner of this tract;

Thence N 58°07'22"E at 10519.12 feet pass a 1 inch iron pipe. recovered at the common corner of Sections 70, 69, and 68 said Block 4, and Section 1, S.F. Charles Schilling Survey, in all 11, 567.22 feet, for a corner of this tract;

Thence N31°56'34"W 2642.48 feet (N 10504721.078' E-1302897.192'), along the Northeast and West line of Section 66 said Block 4, to a point at the Northwest corner of said Section 66, for a corner of this tract,

Thence N58°03'02"E 3379.76 feet along the common line of said Section 66, and Section 1 S.F. Charles Schilling Survey, and Section 1, S.F. M. Mitchell Survey, Reeves County, Texas, to a point, at the Southeast corner of said Section 1, S.F. M. Mitchell Survey whence a 2 inch iron pipe bears S61°33'34"E 0.64 feet, for a corner of this tract;

Thence N31°56'58"W 2653.18 feet (N-10508760.806' E-1304360.995') along the common line of said Section 65 and Section 1, S.F. M. Mitchell Survey, to a 1 1/2 inch galvanized iron pipe, recovered at the common corner of said Sections 65 and Section 1, S.F. M Mitchell Survey, and on the South line of Section 42, said Block 4, for a corner of this tract;

Thence N58°06'43"E 520.08 feet, along the common line of said Sections 42 and 65, of said Block 4, to a 1 1/4 inch galvanized iron pipe, recovered at the Southwest corner of Section 87, S.F. W.D. Hudson Survey, Reeves County, Texas, for a corner of this tract;

Thence N58°05'16"E 338.56 feet, along the common line of Sections 65 and 87, to a 1 inch galvanized iron pipe, recovered at the Southeast corner of said Section 87, for a corner of this tract;

Thence N58°00'58"E 139.74 feet, along the common line of said Sections 65 and 40, to a 1/2 inch iron rod with a cap marked " WOE Surveying", for a corner of this tract;

Thence N58°04'03"E 565.38 feet, along said common Sections lines, to a 1/2 inch iron rod with cap marked "Trujillo RPLS 5358" recovered on the West right of way line of U.S. Highway 285, for a corner of this tract;

Thence N25°41'22"W 3981.94 feet (N-10513175.927' E-1303962.183') along said West right of way line, to a point on the Northwest Half Section line of Section 39 of said Block 4, for a corner of this tract;

Thence N58°04'03"E 7836.48 feet (N-10517320.784' E- 1310612.790'), along said Half Section line, and the North line of the Morton Kandell Subdivision (unrecorded) of Section 39 of said Block 4, to a point, being 100.00 feet East of the East right of way line of F. M. Highway 1216, for the Northernmost Northeast corner of this tract;

Thence along a line parallel with said F. M. Highway 1216 and 100.00 feet East of said right of way line the following calls:

S29°25'33"E 1176.71 feet (N-10516295.881' E- 1311190.902'),

A curve to the right with a the radius of 723.04 feet, an arc of 379.75 feet, a Delta angle of 30°05'32", a Curve Bearing of S 12°57'19"E and a Distance of 375.40 feet;

S2°05'27"W 2053.05 feet;

S1°35'27"W 1800.13 feet;

S2°11'27"W 1306.91 feet;
S87°48'33"E 30.00 feet;
S2°11'27"W 594.71 feet;
S2°43'27"W 1001.78 feet;
S3°19'27"W 1300.52 feet;
S3°03'27"W 1250.34 feet (N-10506630.001' E-1310917.759') to a point on the common Section line of Sections 67 and 66, of said Block 4, 100.00 feet offset said East of said F.M. Highway 1216 right of way line, for a corner of this tract;

Thence S31°54'08"E 5283.65 feet to a point, on the common Section line of Section 68 of said Block 4 and Section 6 of said Block 5, for a corner of this tract;

Thence S58°05'52"W 3521.22 feet (N-10500259.954' E- 1310735.363'), along the common line of said Sections 68 and 6, to a point, for a corner of this tract;

Thence N31°49'42"W 1325.32 feet (N-10501385.985' E-1310036.423') to a 1/2 inch iron pipe, recovered on the Half Section line of said Section 68, for a corner of this tract;

Thence S58°01'56"W 554.11 feet, along said Half Section line, to 1 inch iron pipe for a corner of this tract;

Thence S58°24'28"W 443.40 feet, along said half Section line, to a Texas Department of Transportation, (TXDOT) concrete right of way marker, recovered on the East right of way marker of said U.S. Highway 285, for a corner of this tract;

Thence S58°08'36"W 153.77 feet, along said half Section line, to a 1/2 inch iron rod with a cap marked 'Trujillo RPLS 5358', recovered on the West right of way line of said U.S. Highway 285, for a corner of this tract;

Thence S58°08'37"W 277.19 feet, along said Half Section line, to a 1 inch iron pipe, recovered for a corner of this tract;

Thence S58°04'20"W 1202.09 feet, along said Half Section line, to a point at, for a corner of this tract;

Thence S31°52'07"E 1326.88 feet (N-10498870.275' E-1308502.936') to a point, on the common Block line of said Blocks 4 and 5, for a corner of this tract;

Thence S58°05'52"W along said Block line, at 2759.51 feet pass a 3/4 inch iron pipe, recovered at the common corner of said Sections 69 and 68, in all 7901.66 feet, to a 1 1/2 inch iron pipe recovered at the common corner of Sections 72 and 69, said Block 4, for a corner of this tract;

Thence S58°02'29"W 2506.23 feet (N-10493367.921' E-1299668.442') along said Block line to a point, at the intersection of said Block line and the North right or way line of the Texas and Pacific Railroad, for a corner of this tract;

Thence S69°42'56"W 13675.31 feet (N-10488626.951' E-1286841.231') , along said North Railroad right of way line, to a 1/2 inch iron rod with a cap marked "Trujillo RPLS 5358", recovered on the common line of said Section 77 and 76, said Block 4, for a corner of this tract;

Thence S31°53'38"E along said common Section line and Reeves County Road 204, at 2767.15 feet pass a 1/2 inch iron rod, recovered at the South common corner of said Section 77 and 76, on the Northwest line of said Blocks 4 and 5, in all 2852.95 feet to a point 50.0 feet North of the North line of Section 20, of said Block 5, for a corner of this tract;

Thence S77°10'37"E 12959.50 feet, along said Reeves County Road 204, and 50.0 feet North of the North line of Sections 20, 19, and 22, said Block 5. to a point on the centerline of said Pecos Valley Railroad, whence the common corner of said Sections 17, 16, 15, and 22 bears S 12°50'04"W 50.00 feet, for a corner of tract;

Thence S12°50'04"W 8539.90 feet, along the common line of Sections 22, 15, 21, and 32, and the Centerline of said Railroad, to the **Point of Beginning**, containing 11,079.79 surface (11,074.92 grid) acres more or less.

Bearings are Grid, based on the TXSPCS, TXC, NAD 83, to convert to True, rotate by a theta of -1°38'.11.1". Distances and Coordinates are Grid US Feet, to convert to ground, divide by a combined factor of 0.99978347, Areas are Grid to convert to ground divide by the combined factor of 0.99978347 squared.


Tony Trujillo, RPLS, Tx. No. 5358
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OVERSIZED MAP(s) or DOCUMENT(s)

TO VIEW

OVERSIZED MAP(s) or DOCUMENT(s)

**PLEASE CONTACT
CENTRAL RECORDS
512.936.7180**

Thank you


General Location (Small-Scale) Map

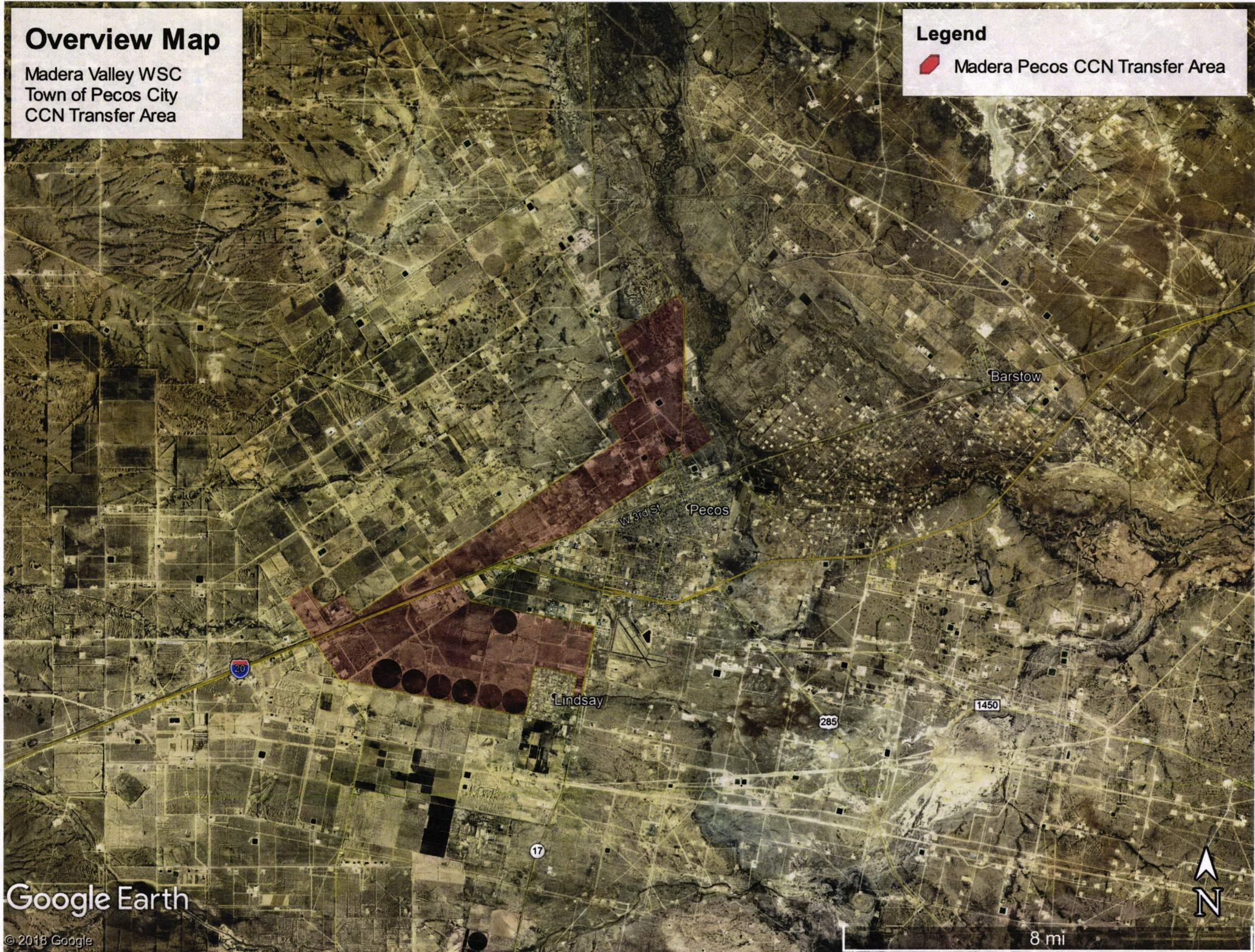
Part G: Question 29

Overview Map

Madera Valley WSC
Town of Pecos City
CCN Transfer Area

Legend

 Madera Pecos CCN Transfer Area



Google Earth

© 2018 Google

8 mi



Signed & Notarized Oath

Pages 13-14

Oath for Transferor (Transferring Entity)

STATE OF Texas

COUNTY OF Reeves

I, Meg Timmerman being duly sworn, file this application for sale,
merger, consolidation, acquisition, lease, or transfer,
rental, as **President**

(owner, member of partnership, title as officer of corporation, or authorized representative)

I attest that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to Applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.

I further state that I have provided to the purchaser or transferee a written disclosure statement about any contributed property as required under Texas Water Code § 13.301(j) and copies of any outstanding enforcement Orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas, or Attorney General and have also complied with the notice requirements in Texas Water Code § 13.301(k).

Meg Timmerman
AFFIANT
(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN BEFORE ME, a Notary Public in and for the State of Texas
this day the 11th of Sept, 20 19

SEAL



Joann Klein
NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS
JoAnn Klein
PRINT OR TYPE NAME OF NOTARY

My commission expires: 10/27/2022

Oath for Transferee (Acquiring Entity)

STATE OF Texas

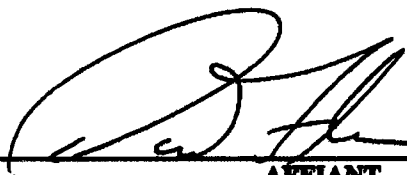
COUNTY OF Reeves

I, David Flores being duly sworn, file this application for sale, transfer, merger, consolidation, acquisition, lease, or rental, as Mayor, Town of Pecos City

(owner, member of partnership, title as officer of corporation, or authorized representative)

I attest that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to Applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.

I further state that I have been provided with a copy of the 16 TAC § 24.109 Commission rules. I am also authorized to agree and do agree to be bound by and comply with any outstanding enforcement orders of the Texas Commission on Environmental Quality, the Public Utility Commission of Texas or the Attorney General which have been issued to the system or facilities being acquired and recognize that I will be subject to administrative penalties or other enforcement actions if I do not comply.



AFFIANT

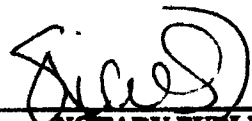
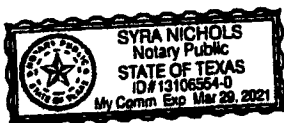
(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN BEFORE ME, a Notary Public in and for the State of Texas

this day the 15 of October, 2019

SEAL



**NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS**

Syra Nichols

(PRINT OR TYPE NAME OF NOTARY)

My commission expires: March 29, 2021