

PECOS PROUD

**ANNUAL REPORT
SEPTEMBER 30, 2015**



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ECONOMIC DEVELOPMENT CORPORATION

P. O. BOX 1493 | PECOS, TEXAS 79772



**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pecos Economic Development Corporation
Pecos, Texas

We have audited the accompanying financial statements of the governmental activities, of the Pecos Economic Development Corporation (Corporation), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Pecos Economic Development Corporation, as of September 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Painter and Associates, P.C.

Savannah, Texas

March 4, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Report, we, the managers of the Pecos Economic Development Corporation, discuss and analyze the Corporation's financial performance for the fiscal year ended September 30, 2015. Please read it in conjunction with, the independent auditors' report on pages 1 and 2, and the Corporation's Basic Financial Statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

The Corporation's net position increased by \$639,564 as a result of this year's operations, and as a result the net position of our governmental activities increased by 20%.

During the year, the Corporation had expenses of \$360,032 that were \$480,198 less than the \$840,230 generated by the sales tax apportioned by the Town of Pecos City in the General Fund plus lease revenues.

The Corporation showed a gain of \$5,639 on the financial statements. Cash flow was a negative amount which was driven by the purchase and construction of capital assets. Depreciation expense for the year was \$13,320.

The General Fund ended the year with a fund balance of \$3,246,578 as compared to last year when the fund balance was \$2,607,014.

The budget for the Corporation revealed \$202,230 more revenues were received during the year that was budgeted while \$269,218 less expenses were incurred than were budgeted for the year. Other income and expenses revealed \$159,116 more revenue than was budgeted for. The net effect of the budget variance was a positive budget variance of \$628,564.

USING THIS ANNUAL REPORT

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

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



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

Reporting the Corporation as a Whole

The Statement of Net Position and the Statement of Activities

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

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

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

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

Reporting the Corporation's Most Significant Funds

Fund Financial Statements

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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



Table I - Summary of Net Position

	Governmental Activities		Change	
	2015	2014	\$	%
Assets				
Current and Other Assets	\$ 1,711,378	\$ 1,339,976	\$ 371,402	27.7%
Capital Assets (Net)	1,792,496	1,584,039	208,457	13.2%
Total Assets	\$ 3,503,874	\$ 2,924,015	579,859	19.8%
Liabilities				
Short-Term Liabilities	\$ 67,618	\$ 53,910	13,707	25.4%
Long-Term Liabilities	189,679	263,091	(73,412)	-27.9%
Total Liabilities	257,296	317,001	(59,705)	-18.8%
Net Position				
Invested in Capital Assets	2,579,437	1,685,576	893,861	53.0%
Restricted	-	-	-	0.0%
Unrestricted	667,141	921,438	(254,297)	-27.6%
Total Net Position	3,246,578	2,607,014	639,564	24.5%
Total Liabilities and Net Position	\$ 3,503,874	\$ 2,924,015	579,859	19.8%

Table II - Summary of Changes in Net Position

	Governmental Activities		Change	
	2015	2014	\$	%
Revenues				
Sales Tax Revenues	\$ 800,230	\$ 653,673	\$ 146,557	22.4%
Other Revenues	40,000	40,000	-	0.0%
Total Revenues	840,230	693,673	146,557	21.1%
Expenses				
Personnel Expenses	144,765	137,730	\$ 7,035	5.1%
Operating Expenses	60,073	122,270	(62,197)	-50.9%
General & Administrative Expenses	155,194	92,428	62,766	67.9%
Total Expenses	360,032	352,427	7,604	2.2%
Other Income (Expense)				
Interest Income	99	86	13	15.2%
Other Income	224,653	13,995	210,658	1505.2%
Gain on Sale of Assets	177,639	154,096	23,543	15.3%
Cost of Assets Sold	(243,025)	(108,005)	(135,020)	125.0%
Total Other Income (Expense)	159,366	60,172	99,181	164.8%
Increase (Decrease) in Net Assets	639,564	401,419	238,134	59.3%
Net Position - Beginning of the Year	2,607,014	2,205,595	401,419	18.2%
Net Position - End of the Year	\$ 3,246,578	\$ 2,607,014	639,553	24.5%

THE CORPORATION'S FUNDS

As the Corporation completed the year, its General Fund, as presented in the Statement of Net Position and Governmental Funds Balance Sheet on page 9, reported an unrestricted fund balance of \$667,141, which is less than last year's total of \$921,438.



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2015, the Corporation had over \$1.5 million invested in land and office furniture and fixtures.

Table III - Capital Assets

	Governmental Activities		Change	
	2015	2014	\$	%
Property Plant & Equipment				
Land	\$ 1,546,590	\$ 1,546,590	\$ -	0.0%
Leasehold Improvements	218,193	4,700	213,493	4542.4%
Furniture and Fixtures	92,472	84,187	8,285	9.8%
Total Property Plant & Equipment	1,857,254	1,635,477	221,777	13.6%
Accumulated Depreciation	(64,758)	(51,438)	(13,320)	25.9%
Property Plant & Equipment, net	\$ 1,792,496	\$ 1,584,039	\$ 208,457	13.2%

DEBT

A note outstanding at year-end for the corporation had a balance of \$217,296. The original amount of the note was \$435,312 made in 2005.

More detailed information about the Corporation's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

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

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

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



TransPecos Foods (TPF)

In 2009, the PEDC pursued and secured a loan from the State of Texas Economic Development Bank to assist TransPecos Foods (TPF) in maintaining and expanding their existing food processing operations. TPF had been a major employer in Pecos for over 6 years and had approximately 100 local employees.

On June 10, 2011, TransPecos Foods filed for Chapter 11 Bankruptcy in the U.S. Bankruptcy Court, Western District of Texas. On November 15, 2011 the equipment and assets of TransPecos Foods were auctioned. On January 12, 2012 the TransPecos Foods Chapter 11 Bankruptcy was converted to Chapter 7 Bankruptcy. On January 24, 2012 the PEDC received proceeds from the sale of assets in the amount of \$46,525.00. The balance of the Loan to TransPecos Foods was \$408,028.08 less the proceeds of the sale of assets of \$46,525.00 left a balance of \$361,503.08, this amount was taken as a loss.

Sale and Purchase of Assets

Description	Amount
Sales	
Lots 5, 6, & 7 of block Morris addition	\$ 12,000.00
Lot 1 of block 6 Morris addition	4,000.00
Lots 9 & 10 of Morris Street	8,000.00
Lots 2, 3, 4, & 8 of block 6 Morris addition	16,000.00
Lot 1 & 2 of block 6 RWA addition	112,610.00
Charter Title Company	3,029.00
Lots 22, 23, 24, 25 of block 21, North Pecos with contractor offset	2,000.00
Lots in blocks 3 & 4 of Morris addition	20,000.00
Total Sales	<u>177,639.00</u>
Purchase	
1.31 Acres I-20 & Cothrun	\$ 4,349.00
10.10 Acres B5, H&GN	5,447.68
140.30 Acres NW/4 Sec 14, Block 5	268,679.80
1403 Washington	2,031.00
145.23 Acres	5,000.00
187.04 Acres	191,298.51
207 S Oak	32,755.16
E 30' Lots, 22, 23, 24, Block 32	1,666.24
Lot 3, Block 70, Orig Pecos	5,744.24
Lot 9, Block 2, Country Club Estates	11,227.41
Lots 1 & Lots 4 of Block 66, West	18,483.45
Lots in Block 21, North Pecos	3,750.00
Lots, Blocks 3 & 4 Morris Addition	24,028.00
Meadowbrook Addition	3,979.13
Orig Pecos, Block 76 Lots 2 & 3	15,556.70
West Airport Addition - current year outlay	48,462.76
Total Purchases	<u>642,459.08</u>



Other Sources of Revenue

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

Description	Amount
Dawson Geophysical	\$ 39,518
Patriot Resources	140,284
Oryx	28,651
Petrohawk Energy	16,200
Total Other Sources of Revenue	<u>\$ 224,653</u>

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

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



**STATEMENT OF NET POSITION &
GOVERNMENTAL FUNDS BALANCE SHEET**
SEPTEMBER 30, 2015

	<u>9/30/2015</u>	<u>9/30/2014</u>
Assets		
Cash		
Accounts Receivable, net	\$ 418,358	\$ 588,671
Capital Assets Held for Sale	126,722	123,587
Notes Receivable - Current	949,001	339,397
Capital Assets (Net)	<u>27,618</u>	<u>25,230</u>
Total Current Assets	<u>1,521,699</u>	<u>1,076,885</u>
Notes Receivable - Long Term	189,679	263,091
Land	1,546,590	1,546,590
Capital Assets, net	<u>245,906</u>	<u>37,449</u>
Total Long-term Assets	<u>1,982,175</u>	<u>1,847,130</u>
Total Assets	<u>\$ 3,503,874</u>	<u>\$ 2,924,015</u>
Liabilities		
Accounts Payable	\$ 40,000	\$ 28,625
Payroll Liabilities	-	55
Notes Payable - Current	<u>27,618</u>	<u>25,230</u>
Total Current Liabilities	<u>67,618</u>	<u>53,910</u>
Notes Payable - Long Term	189,679	263,091
Total Long-term Liabilities	<u>189,679</u>	<u>263,091</u>
Total Liabilities	<u>257,296</u>	<u>317,001</u>
Net Position		
Invested in Capital Assets, net of related debt	2,579,437	1,685,576
Restricted	-	-
Unrestricted	<u>667,141</u>	<u>921,438</u>
Total Net Position	<u>3,246,578</u>	<u>2,607,014</u>
Total Liabilities and Net Position	<u>\$ 3,503,874</u>	<u>\$ 2,924,015</u>

See Accompanying Notes to the Basic Financial Statements



STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Year Ended 9/30/2015	Year Ended 9/30/2014
Revenue		
Sales Tax Revenues	\$ 800,230	\$ 653,673
PRTC Lease	<u>40,000</u>	<u>40,000</u>
Total Revenue	<u>840,230</u>	<u>693,673</u>
Expenses		
Salaries & Wages	112,623	110,625
Benefits	24,980	19,905
Auto Allowance	<u>7,163</u>	<u>7,200</u>
Total Personnel Expenses	<u>144,765</u>	<u>137,730</u>
Business Development	42,104	82,129
Business Attraction	7,554	18,081
Repairs and Maintenance	7,106	20,534
Utilities for Properties	<u>3,309</u>	<u>1,526</u>
Total Operating Expenses	<u>60,073</u>	<u>122,270</u>
Professional Services	38,273	42,568
Lease	37,006	33,718
Office Supplies	17,241	4,671
Advertising & Promotions	43,203	1,551
Telephone	4,482	4,078
Board Meeting Expenses	5,016	2,834
Travel and Training	4,312	795
Other	<u>5,662</u>	<u>2,213</u>
Total General and Administrative Expenses	<u>155,194</u>	<u>92,428</u>
Total Expenses	<u>360,032</u>	<u>352,427</u>
Other Income (Expenses)		
Interest Income	99	86
Other Income	224,653	13,995
Sale of Assets	177,639	154,096
Cost of Assets Sold	<u>(243,025)</u>	<u>(108,005)</u>
Total Other Income (Expenses)	<u>159,366</u>	<u>60,172</u>
Operating Income (Loss)	<u>639,564</u>	<u>401,419</u>
Fund Balance - Beginning of the Year, restated	<u>2,607,014</u>	<u>2,205,595</u>
Fund Balance - End of Year	<u>\$3,246,578</u>	<u>\$ 2,607,014</u>

See Accompanying Notes to the Basic Financial Statements



STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Year Ended 9/30/2015	Year Ended 9/30/2014
Cash Flows from Operating Activities		
Sales Tax Proceeds	\$ 802,651	\$ 653,673
Other Income	264,653	53,995
Payments to Employees	(137,602)	(137,730)
Payment to Suppliers	(210,492)	(180,239)
Net Cash Provided (Used) by Operating Activities	<u>719,209</u>	<u>389,699</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition and Construction of Capital Assets	(996,236)	(84,750)
Principal Paid on Debt	(71,025)	(26,496)
Proceeds from the Sale of Capital Assets	177,639	59,129
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(889,622)</u>	<u>(52,116)</u>
Cash Flows from Investing Activities		
Interest Received	99	86
Net Cash Provided (Used) by Investing Activities	<u>99</u>	<u>86</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(170,313)	337,669
Cash & Cash Equivalents at the Beginning of the Year	588,671	251,002
Cash & Cash Equivalents at the End of the Year	<u>\$ 418,358</u>	<u>\$ 588,671</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ 639,564	\$ 401,419
<i>Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities</i>		
Depreciation	13,320	12,174
Gain on Sale of Assets	5,639	(13,038)
(Increase) Decrease in Accounts Receivable and Other Assets	49,367	(12,985)
Increase (Decrease) in Accounts Payable and Other Liabilities	11,320	2,129
Net Cash Provided (Used) by Operating Activities	<u>\$ 719,209</u>	<u>\$ 389,699</u>

See Accompanying Notes to the Basic Financial Statements





NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2015

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information for the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Busi-



ness-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

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

C. Measurement Focus and Basis of Accounting

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

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

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

Basis of Accounting

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



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

D. Assets, Liabilities, and Equity

Cash and Investments

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

Receivables

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

Fixed Assets

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

Government-Wide Statements

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

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

Furniture & Equipment | 3-7 years
Leasehold Improvements | 39 years

Fund Financial Statements

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



Equity Classifications

Government-Wide Statements

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

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position – Consists of net assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

E. Revenues, Expenditures, and Expenses

Operating Revenues and Expenses

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

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, governmental funds report expenditures of financial resources.

F. Cash and Investments

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

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

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

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

At year-end the Corporation’s cash and investments totaled \$418,358. The deposits were considered collateralized as Category 1 credit risks.



G. Capital Assets

Capital assets for the year ended September 30, 2015, were as follows:

	Balance at 10/01/14	Additions	Disposals/ Reclass	Balance at 09/30/15
Land	\$1,546,590			\$1,546,590
Leasehold Improvements	4,700	213,493		218,193
Furniture and Equipment	84,187	8,284	-	92,471
Totals at Historical Cost	1,635,477	221,777	-	1,857,254
Accumulated Depreciation	(51,438)	(13,320)	-	(64,758)
Total Accumulated Depreciation	(51,438)	(13,320)	-	(64,758)
Capital Assets, Net	\$1,584,039	\$208,457	-	\$1,792,496

Depreciation expense for the year was \$13,320.

H. Notes Payable

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Payable Amounts Outstanding 10/01/14	Issued	Retired	Outstanding 9/30/14
Texas Economic Development Bank	3.25%	\$462,000	\$9,917	\$288,321	\$0	\$71,025	\$217,296

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. In September 2015 a large principal payment of \$50,000 was made that rolled back the payoff date to November 1, 2022.

Year Ending	Principal	Interest	Payment
9/30/16	\$ 27,618	6,677	34,294
9/30/17	28,529	5,766	34,294
9/30/18	29,470	4,824	34,294
9/30/19	30,442	3,852	34,294
9/20/20	31,446	2,848	34,294
thereafter	69,791	3,677	73,469
	\$217,296	\$27,645	\$244,941

J. Tax Revenue

The Corporation receives a portion of the sales tax collected by the Town of Pecos City to fund its operations. The Corporation receives one quarter of the City's one and half percent sales tax.



K. Lease Agreement

The organization signed a contract on July 22, 2005 with the Texas Transportation Research Foundation, an entity of the Texas Transportation Institute which is part of the Texas A&M System. The contract is a 50 year lease of the testing facility located in Eastern Reeves County. The lease has a renewal term to extend the lease an additional 50 years to December 31, 2105 if the tenant timely complies with requirements of the lease. The Lease has an option of subleasing the property and has a right of first refusal option to purchase in the event the organization decides to sell the property.

Effective February 01, 2011, the organization agreed to an Assignment and Assumption of the Lease Agreement from The Texas Transportation Research Foundation to Applied Research Associate, Inc. whose primary office is located at 4300 San Mateo Boulevard N.E. , Suite A-220, Albuquerque, New Mexico 87110-1295.

Effective July 1, 2015 the Corporation lawfully exercised its right under section 3.3 of the agreement to terminate the lease between the Pecos Economic Development Corporation, Inc. and Texas Transportation Research Foundation dated July 22, 2005, including the assignment and assumption of lease by Applied Research Associates, Inc. dated January 24, 2011.

L. Restatements

In order for net position and specific fund balances to roll forward year over year various restatements were made in the course of the fiscal year and as a result of the audit that resulted in a net prior period adjustment of \$63,532 from fiscal year 2014 governmental fund balances to the fiscal year 2015 governmental fund balances.

M. Subsequent Events

The receivable amount of \$60,055 due from Reeves County, Texas to the PEDC was agreed upon to be settled for one-half of the disputed amount. The PEDC was paid \$30,027.61 in November of 2015.

As of September 30, 2015 the Town of Pecos City had not finalized the transfer of the West Airport Addition to the PEDC. On December 16, 2015 a warranty deed was filed with the Reeves County Clerk granting the rights to this property exclusively to the PEDC.

The City Council of the Town of Pecos City is preparing a proposal for the May 2016 election ballot to reduce the funding for the PEDC by 50%. If this proposition passes, rather than receiving a quarter cent of the City's sales tax, the PEDC will receive an eighth cent of the City's sales tax. The eight cent of the City's sales tax will be redirected towards the maintenance and repair of municipal streets. There is an attempt to persuade Reeves County to assist in the funding of the PEDC, but currently the County does not have any funds budgeted for the PEDC for the 2016 fiscal year.

The Executive Director of the PEDC has submitted a letter of resignation with an effective date of March 18, 2016. The current Assistant Director will assume the role of the Executive Director after the resignation goes into effect.



Painter and Associates, P.C.

Certified Public Accountants

836 King George Lane

Savannah, Texas 76227-7854

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

Board of Directors
Pecos Economic Development Corporation
Pecos, Texas

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of the Pecos Economic Development Corporation, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued my report thereon dated March 6, 2015.

Internal Control Over Financial Reporting

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I

consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Painter and Associates, P.C.

Painter and Associates, P.C.
March 6, 2015

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2015

Revenue	Budgeted Amounts			Actual	Variance with Final Budget Over/(Under)
	Original	Final			
Sales Tax Revenues	\$ 600,000	\$ 600,000	\$ 800,230	\$ 200,230	
PRTC Lease	40,000	40,000	40,000	-	
Total Revenue	640,000	640,000	840,230	200,230	
Expenses					
Business Development	227,000	227,000	42,104	(234,896)	
Business Attraction	29,500	29,500	7,554	(21,946)	
Business Retention/ Expansion	1,655	1,655	-	(1,655)	
Salaries & Wages	112,500	112,500	112,623	123	
Benefits	26,300	26,300	24,980	(1,320)	
Auto Allowance	7,200	7,200	7,163	(37)	
Professional Services	84,000	84,000	38,273	(45,727)	
Lease	31,000	31,000	37,006	6,006	
Office Supplies	8,000	8,000	17,241	9,241	
Advertising & Promotions	25,000	25,000	43,203	18,203	
Telephone	4,800	4,800	4,482	(319)	
Repairs & Maintenance	5,000	5,000	7,106	2,106	
Board Meeting Expenses	8,500	8,500	5,016	(3,484)	
Travel & Training	6,000	6,000	4,312	(1,688)	
Utilities for Properties	-	-	3,309	3,309	
Other	2,795	2,795	5,662	2,867	
Total Expenses	629,250	629,250	360,032	(269,218)	
Excess (Deficiency)	10,750	10,750	480,198	469,448	
Other Income (Expenses)					
Interest Income	250	250	99	(151)	
Other Income	-	-	224,653	224,653	
Sale of Assets	-	-	177,639	177,639	
Cost of Assets Sold	-	-	(243,025)	(243,025)	
Total Other Income (Expenses)	250	250	159,366	159,116	
Net Income	\$ 11,000	\$ 11,000	\$ 639,564	\$ 628,564	
Fund Balance - Beginning of the Year, restated			2,607,014		
Fund Balance - End of the Year			\$ 3,246,578		

See Accompanying Notes to the Basic Financial Statements

