

Pecos County, Texas

Annual Financial Report

For the Fiscal Year Ended December 31, 2017

Pecos County, Texas
 Annual Financial Report
 For the Fiscal Year Ended December 31, 2017
 Table of Contents

Page

Financial Section

Independent Auditor’s Report	3
Management’s Discussion and Analysis	7

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Position	17
Statement of Activities	18

Fund Financial Statements

Balance Sheet – Governmental Funds	20
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	23
Statement of Revenues, Expenditures, and Changes in Fund Balances	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	26
Statement of Net Position – Proprietary Funds	27
Statement of Revenues, Expenditures, and Changes in Fund Net Position – Proprietary Funds	28
Statement of Cash Flows – Proprietary Funds	29
Statement of Fiduciary Assets and Liabilities – Agency Funds	31
Notes to Financial Statements	34

Required Supplemental Information

Schedule of Funding Progress	66
Texas County District Retirement System Schedule of Changes in the Employer’s Net Pension Liability and Related Ratios for the Employees of Pecos County	67
Texas County District Retirement System Schedule of Employer Contributions	68
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget (GAAP Basis) and Actual – General Fund	69
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget (GAAP Basis) and Actual – Road and Bridge Fund	72
Notes to Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget (GAAP Basis) and Actual	75

Supplementary Information

Combining Balance Sheet – Nonmajor Governmental Funds	78
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	79
Combining Balance Sheet – Special Revenue Funds	80
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Special Revenue Funds	86
Combining Statement of Fiduciary Assets and Liabilities – Agency Funds	92

Pecos County, Texas
Annual Financial Report
For the Fiscal Year Ended December 31, 2017
Table of Contents – Continued

Internal Control and Compliance Report

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	97
Schedule of Findings and Responses	99
Status of Prior Year Findings	100

Financial Section

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Independent Auditor's Report

To the Honorable Judge and
Members of the Commissioners' Court
Pecos County, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pecos County, Texas (the County), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprises the County'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 the Pecos County Memorial Hospital, an enterprise fund, which represents 100 percent of the assets, net position and revenues and expenses of the business-type 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 Pecos County Memorial Hospital, 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.

The Honorable Judge and
Members of the Commissioners Court
Pecos County, Texas

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Pecos County, Texas, as of December 31, 2017, and the respective changes in financial position and where applicable the cash flows thereof for the year then ended in conformity 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, schedule of funding progress, Texas County District Retirement System Schedule of Changes in the Employer's Net Pension Liability and Related Ratios, the Texas County District Retirement System Schedule of Employer Contributions, and budgetary comparison information on pages 7 through 13 and 66 through 75 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements. The combining nonmajor governmental fund financial statements, combining special revenue fund financial statements and the combining fiduciary agency fund statement of assets and liabilities are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor governmental fund financial statements, the combining special revenue fund financial statements and the combining fiduciary agency fund statement of assets and liabilities are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor governmental fund financial statements, the combining special revenue fund financial statements, the combining fiduciary agency fund statement of assets and liabilities, and the schedule of expenditures of federal and state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Honorable Judge and
Members of the Commissioners Court
Pecos County, Texas

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2018, on our consideration of Pecos County, Texas' internal control over financial reporting and 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 the 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 Pecos County, Texas' internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Midland, Texas
August 20, 2018

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Management's Discussion and Analysis

As management of Pecos County, Texas (the County), we offer readers of the County's financial statements this overview and analysis of the financial activities of the County for the year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with the County's financial statements, which begin on page 17.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$3,910,710 (*net position*). A deficit of \$40,244,557 is report for unrestricted net position.
- As of the close of the current year, the County's governmental funds reported combined ending fund balances of \$25,285,952 a decrease of \$2,025,754 in comparison with the prior year. Approximately 54.7% of this total amount, \$13,831,215, is unassigned and *available for spending* at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$13,831,215 or 80% percent of total general fund expenditures.
- The County's total bond debt decreased \$1,275,000 (100%) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *Statement of Net Position* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net assets 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 only result in cash flows in future fiscal periods (e.g. uncollected taxes).

Both of the government-wide financial statements distinguish functions of Pecos County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

The government wide financial statements can be found on pages 17 through 19 of this report.

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 County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 government's near-term financing requirements.

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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains three governmental fund types. 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, the road and bridge fund, and the debt service fund, which are considered to be major funds. All other special revenue funds and capital project funds are considered nonmajor governmental funds and are combined into the aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements as other supplemental information elsewhere in this report.

The governmental fund financial statements can be found on pages 20 through 26 of this report.

The County adopts an annual appropriated budget for its general fund and road and bridge fund. Budgetary comparison statements, which are considered required supplementary information, have been provided for these funds to demonstrate compliance with this budget on pages 69 through 75.

Proprietary Funds: The County maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Pecos County Memorial Hospital fund, formerly presented as a discretely presented component unit, is now presented as an enterprise fund of the County. The Pecos County Memorial Hospital fund is considered a major fund of the County. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses an internal service fund to account for its self-insurance. Because this predominantly benefits governmental functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 27 through 30 of this report.

Fiduciary Funds: Fiduciary funds are used to account for assets held by the County in a trustee capacity or as an agent for other governmental units. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's basic programs. The basic fiduciary fund financial statements can be found on page 31 of this report.

Notes to the Basic 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. The notes to the financial statements can be found beginning on page 34 of this report.

Other Information: The combining statements referred to earlier in connection with nonmajor governmental funds, internal service funds and fiduciary funds are presented immediately following the required supplementary information for budgetary data. Combining fund statements can be found on pages 78 through 93.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the County, assets exceeded liabilities by \$3,910,710 at the close of the most recent fiscal year. The County’s investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is outstanding is 890% more than the County’s total net position.

The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Pecos County, Texas
Net Position**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
Current and other assets	\$ 50,255,058	\$ 51,166,140	\$ 3,406,682	\$ 4,698,418	\$ 53,661,740	\$ 55,864,558
Capital assets	22,534,120	21,054,367	15,079,505	13,938,744	37,613,625	34,993,111
Total assets	72,789,178	72,220,507	18,486,187	18,637,162	91,275,365	90,857,669
Total deferred outflows of resources	3,762,011	3,161,147	3,959,999	3,397,301	7,722,010	6,558,448
Long-term liabilities outstanding	27,588,299	31,582,656	19,899,867	23,366,930	47,488,166	54,949,586
Other liabilities	8,873,048	8,195,299	8,929,408	9,051,201	17,802,456	17,246,500
Total liabilities	36,461,347	39,777,955	28,829,275	32,418,131	65,290,622	72,196,086
Total deferred inflows of resources	17,517,028	20,736,508	483,682	572,813	18,000,710	21,309,321
Net position:						
Net investment in capital assets	21,867,053	21,054,367	14,124,932	13,741,990	35,991,985	34,796,357
Restricted	10,729,758	9,358,910	-	-	10,729,758	9,358,910
Unrestricted	(10,023,997)	(15,546,086)	(20,991,703)	(24,698,471)	(31,015,700)	(40,244,557)
Total net position	\$ 22,572,814	\$ 14,867,191	\$ (6,866,771)	\$ (10,956,481)	\$ 15,706,043	\$ 3,910,710

A significant portion of the County’s net position, \$9,358,910, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$40,244,557.

Governmental and Business-Type Activities

Governmental activities and business-type activities decreased the County's net position by \$7,705,623 and \$4,089,710, respectively. Key elements of this decrease are as follows:

Pecos County, Texas Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
Revenues						
Program revenues:						
Charges for services	\$ 4,468,755	\$ 4,372,305	\$ 22,583,566	\$ 21,606,021	\$ 27,052,321	\$ 25,978,326
Operating grants and contributions	1,900,334	1,835,761	864,150	853,760	2,764,484	2,689,521
Capital grants and contributions	-	-	26,925	28,930	26,925	28,930
General revenues:						
Property taxes	19,865,603	17,313,494	-	-	19,865,603	17,313,494
Alcoholic beverage taxes	30,354	28,312	-	-	30,354	28,312
Investment earnings	195,852	330,191	20,536	16,467	216,388	346,658
Payment in lieu of taxes	1,325,827	1,295,301	-	-	1,325,827	1,295,301
Proceeds from settlement	1,136,784	34,171	-	-	1,136,784	34,171
Proceeds from sales of assets	-	33,704	-	-	-	33,704
Other	101,848	865,054	-	-	101,848	865,054
Total revenues	29,025,357	26,108,293	23,495,177	22,505,178	52,520,534	48,613,471
Expenses						
General government	4,887,164	4,676,123	-	-	4,887,164	4,676,123
Judicial	2,842,778	2,885,018	-	-	2,842,778	2,885,018
Financial administration	1,469,433	1,596,749	-	-	1,469,433	1,596,749
Public facilities	1,073,799	1,662,957	-	-	1,073,799	1,662,957
Public safety	6,480,529	6,666,377	-	-	6,480,529	6,666,377
Public service	846,327	758,016	-	-	846,327	758,016
Health and welfare	2,565,611	3,013,772	-	-	2,565,611	3,013,772
Culture and recreation	3,564,309	3,521,116	-	-	3,564,309	3,521,116
Highways and streets	4,898,453	3,721,738	-	-	4,898,453	3,721,738
Conservation	222,432	456,289	-	-	222,432	456,289
Airport	91,218	19,735	-	-	91,218	19,735
Pecos County Memorial Hospital	-	-	34,368,991	31,430,914	34,368,991	31,430,914
Total expenses	28,942,053	28,977,890	34,368,991	31,430,914	63,311,044	60,408,804
Change in net position:						
Before transfers	83,304	(2,869,597)	(10,873,814)	(8,925,736)	(10,790,510)	(11,795,333)
Transfers	(3,455,312)	(4,836,026)	3,455,312	4,836,026	-	-
Change in net position	(3,372,008)	(7,705,623)	(7,418,502)	(4,089,710)	(10,790,510)	(11,795,333)
Net position - beginning of year	25,944,822	22,572,814	551,731	(6,866,771)	26,496,553	15,706,043
Net position, ending	\$ 22,572,814	\$ 14,867,191	\$ (6,866,771)	\$ (10,956,481)	\$ 15,706,043	\$ 3,910,710

Financial Analysis of the Governments Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Pecos County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current year, the County's governmental funds reported combined ending fund balances of \$25,285,952, a decrease of \$2,025,754 in comparison with the prior year. Approximately 54.7% of this total amount constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to cover debt service, inventory, and revenues restricted for airport use generated from airport assets.

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the general fund was \$13,831,215, while total fund balance was \$23,410,122.

Road and Bridge Fund. This fund is used to account for funds restricted for use in improving County highways and lateral streets and roadways.

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: Unrestricted fund deficit of the County's enterprise fund, Pecos Memorial Hospital at the end of the year was a deficit of \$22,503,721. The remainder of the fund balance is net investment in capital assets. The change in net position for the fund was a decrease of \$3,919,709. Unrestricted fund balance of the County's health self-insurance plan at the end of the year was \$39,661. The change in unrestricted net position for the fund was decrease of \$169,450.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget are briefly summarized as follows:

- Actual revenues for 2017 were \$1,062,415 more than final budgeted revenues.
- Actual expenditures for 2017 were \$1,308,291 less than the final amended budget.

This resulted in a net decrease in the general fund balance for the year of \$518,082 after accounting for other financing sources as detailed on page 24 of this report.

Capital Asset and Debt Administration

Capital Assets: The County's investment in capital assets for its governmental and business type activities as of December 31, 2017, amounts to \$34,993,111 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and other improvements.

Pecos County, Texas
Capital Assets
(Net of depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2017	2016	2017	2016	2017
Land	\$ 1,345,948	\$ 1,345,948	\$ 85,649	\$ 85,649	\$ 1,431,597	\$ 1,431,597
Buildings	11,957,353	11,555,437	12,149,532	11,429,503	24,106,885	22,984,940
Improvements - other	3,102,214	1,817,176	121,458	109,017	3,223,672	1,926,193
Machinery and equipment	4,782,028	5,029,462	1,285,494	1,041,833	6,067,522	6,071,295
Construction in progress	968,761	982,716	-	-	968,761	982,716
Infrastructure	377,816	323,628	-	-	377,816	323,628
Leased assets	-	-	329,213	208,257	329,213	208,257
Capitalized interest	-	-	1,108,159	1,064,485	1,108,159	1,064,485
Net capital assets	\$ 22,534,120	\$ 21,054,367	\$ 15,079,505	\$ 13,938,744	\$ 37,613,625	\$ 34,993,111

Additional information on the County's capital assets can be found in Note 6 on pages 49 through 50 of this report.

Long-term debt: At the end of the current fiscal year, the County had no bonded debt outstanding. The County's debt is comprised as follows:

	Governmental Activities	
	2016	2017
General obligation	\$ 640,000	\$ -
Unamortized bond premium	27,067	-
Compensated absences	1,146,354	1,192,671
Other post-employment benefits obligation	28,180,055	32,354,915
Total governmental activities	\$ 29,993,476	\$ 33,547,586

	Business-type Activities	
	2016	2017
General obligation bonds	\$ 635,000	\$ -
Capital lease obligation	319,573	196,754
Compensated absences	1,241,603	1,291,564
Other post-employment benefits obligation	19,521,344	23,176,225
Total business-type activities	\$ 21,717,520	\$ 24,664,543

Additional information on Pecos County's long-term debt can be found in Note 8 on pages 51 through 52.

Economic Factors and Next Year's Budgets and Rates

Pecos County's tax based reached a low point in the 2016 tax year (2017 budget year) and is now starting to grow again as the oil and gas industry in the region is picking back up. The Commissioners' court continue to monitor the economic conditions and prepare for the future. At this point, 2018 values have increased and 2019 values are expected to recover further. The Court remains optimistic as they continue working with other industries and seek additional investments in Pecos County.

Requests for Information

This financial report is designed to provide a general overview of Pecos County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County of Pecos, 103 W Callaghan, Fort Stockton, Texas 79735.

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Basic Financial Statements

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Pecos County, Texas
Statement of Net Position
December 31, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 18,881,384	\$ 1,179,867	\$ 20,061,251
Investments	14,902,872	-	14,902,872
Receivables, net	14,926,051	5,436,803	20,362,854
Internal balances	2,455,833	(2,455,833)	-
Other assets	-	537,581	537,581
Capital assets, net	21,054,367	13,938,744	34,993,111
Total assets	72,220,507	18,637,162	90,857,669
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources - pension	3,161,147	3,397,301	6,558,448
Total deferred outflows of resources	3,161,147	3,397,301	6,558,448
LIABILITIES			
Accounts payable and other current liabilities	1,717,105	3,157,719	4,874,824
Due to other governments	172,316	-	172,316
Estimated health claims payable	280,408	-	280,408
Net pension liability	4,060,540	4,595,869	8,656,409
Noncurrent liabilities:			
Due within one year	1,964,930	1,297,613	3,262,543
Due in more than one year	31,582,656	23,366,930	54,949,586
Total liabilities	39,777,955	32,418,131	72,196,086
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property tax	20,201,920	-	20,201,920
Deferred inflows related to pension	534,588	572,813	1,107,401
Total deferred inflows of resources	20,736,508	572,813	21,309,321
NET POSITION			
Net investment in capital assets	21,054,367	13,741,990	34,796,357
Restricted for:			
Airport	7,487,564	-	7,487,564
Road and bridge	501,994	-	501,994
Federal and state grants	98,175	-	98,175
Legislation	1,271,177	-	1,271,177
Unrestricted	(15,546,086)	(24,698,471)	(40,244,557)
TOTAL NET POSITION	\$ 14,867,191	\$ (10,956,481)	\$ 3,910,710

The Notes to the Financial Statements are an integral part of these statements.

Pecos County, Texas
Statement of Activities
For the Fiscal Year Ended December 31, 2017

<u>Function/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>
PRIMARY GOVERNMENT		
Governmental activities:		
General government	\$ 4,676,123	\$ 757,867
Judicial	2,885,018	508,174
Financial administration	1,596,749	204,136
Public facilities	1,662,957	701,026
Public safety	6,666,377	228,527
Public service	758,016	3,940
Health and welfare	3,013,772	1,201,530
Culture and recreation	3,521,116	183,098
Highways and streets	3,721,738	574,749
Conservation	456,289	-
Airport	19,735	9,258
Total governmental activities	<u>28,977,890</u>	<u>4,372,305</u>
Business-type activities:		
Pecos County Memorial Hospital	<u>31,430,914</u>	<u>21,606,021</u>
Total business-type activities	<u>31,430,914</u>	<u>21,606,021</u>
TOTAL PRIMARY GOVERNMENT	<u><u>\$ 60,408,804</u></u>	<u><u>\$ 25,978,326</u></u>

The Notes to the Financial Statements are an integral part of these statements.

Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 421,149	\$ -	\$ (3,497,107)	\$ -	\$ (3,497,107)
-	-	(2,376,844)	-	(2,376,844)
-	-	(1,392,613)	-	(1,392,613)
-	-	(961,931)	-	(961,931)
1,034,348	-	(5,403,502)	-	(5,403,502)
302,581	-	(451,495)	-	(451,495)
16,050	-	(1,796,192)	-	(1,796,192)
61,612	-	(3,276,406)	-	(3,276,406)
21	-	(3,146,968)	-	(3,146,968)
-	-	(456,289)	-	(456,289)
-	-	(10,477)	-	(10,477)
1,835,761	-	(22,769,824)	-	(22,769,824)
853,760	28,930	-	(8,942,203)	(8,942,203)
853,760	28,930	-	(8,942,203)	(8,942,203)
\$ 2,689,521	\$ 28,930	(22,769,824)	(8,942,203)	(31,712,027)
General revenues:				
Property taxes		17,313,494	-	17,313,494
Alcoholic beverage taxes		28,312	-	28,312
Unrestricted investment earnings		330,191	16,467	346,658
Payment in lieu of property taxes		1,295,301	-	1,295,301
Proceeds from settlement		34,171	-	34,171
Proceeds from sales of assets		33,704	-	33,704
Miscellaneous revenue		865,054	-	865,054
Transfers		(4,836,026)	4,836,026	-
Total general revenues and transfers		15,064,201	4,852,493	19,916,694
Change in net position		(7,705,623)	(4,089,710)	(11,795,333)
Net position - beginning of year		22,572,814	(6,866,771)	15,706,043
NET POSITION - END OF YEAR		\$ 14,867,191	\$ (10,956,481)	\$ 3,910,710

Pecos County, Texas
 Balance Sheet – Governmental Funds
 December 31, 2017

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 15,363,522
Investments	14,902,872
Receivables, net	
Property taxes	11,450,413
Other	2,060,062
Due from other funds	555,085
TOTAL ASSETS	<u>\$ 44,331,954</u>
LIABILITIES	
Accounts payable	948,023
Due to other funds	196,794
Due to other governments	172,316
Total liabilities	<u>1,317,133</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property tax	18,251,349
Unavailable revenue - fines and forfeitures	1,353,350
Total deferred inflows of resources	<u>19,604,699</u>
FUND BALANCE	
Restricted:	
Airport use	7,487,564
Road and bridge	-
Federal and state grants	-
Legislation	-
Assigned:	
Repairs from insurance proceeds	898,672
Compensated absences	1,192,671
Unassigned	13,831,215
Total fund balances	<u>23,410,122</u>
TOTAL LIABILITIES DEFERRED INFLOWS AND FUND BALANCES	<u>\$ 44,331,954</u>

The Notes to the Financial Statements are an integral part of these statements.

Road and Bridge Special Revenue	County- Wide Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,473,185	\$ -	\$ 1,670,993	\$ 18,507,700
-	-	-	14,902,872
1,151,846	-	-	12,602,259
-	-	36,950	2,097,012
2,792	-	-	557,877
<u>\$ 2,627,823</u>	<u>\$ -</u>	<u>\$ 1,707,943</u>	<u>\$ 48,667,720</u>
175,258	\$ -	\$ 334,107	\$ 1,457,388
-	-	-	196,794
-	-	-	172,316
175,258	-	334,107	1,826,498
1,950,571	-	-	20,201,920
-	-	-	1,353,350
1,950,571	-	-	21,555,270
-	-	-	7,487,564
501,994	-	-	501,994
-	-	98,175	98,175
-	-	1,271,177	1,271,177
-	-	4,484	903,156
-	-	-	1,192,671
-	-	-	13,831,215
501,994	-	1,373,836	25,285,952
<u>\$ 2,627,823</u>	<u>\$ -</u>	<u>\$ 1,707,943</u>	<u>\$ 48,667,720</u>

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Pecos County, Texas

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position December 31, 2017

TOTAL FUND BALANCE - GOVERNMENTAL FUND \$ 25,285,952

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

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported in the governmental funds balance sheet. 21,054,367

Internal service funds are used by management to account for the
self-insurance fund of the government. The assets and liabilities of
the internal service fund are included in governmental activities in
the statement of net position.

Consolidation of internal service fund activities related to the enterprise fund	\$ 2,194,750	
Internal service fund net position	<u>(39,661)</u>	2,155,089

Certain assets, such as fines and fees receivable, are not available to pay for
current-period expenditures and therefore, are deferred in the governmental
funds. 1,353,350

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.

Net pension liability	\$ (4,060,540)	
Deferred outflows of resources - pensions	3,161,147	
Deferred inflows related to pension	<u>(534,588)</u>	(1,433,981)

Long-term liabilities, including bonds payable and related items, are not due
and payable in the current period and therefore are not reported in the
governmental funds. (33,547,586)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 14,867,191

Pecos County, Texas
Statement of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended December 31, 2017

	<u>General</u>
REVENUES	
Taxes	\$ 15,654,806
Alcoholic beverage taxes	28,312
Fines and forfeitures	8,768
Intergovernmental	432,516
Charges for services	2,890,695
Payment in lieu of taxes	1,295,301
Royalties	102,397
Interest	322,073
Proceeds from settlement	34,171
Other	849,324
	<hr/>
Total revenues	21,618,363
EXPENDITURES	
General government	4,413,236
Judicial	1,904,577
Financial administration	1,236,067
Law enforcement	1,613,663
Corrections	964,179
Health and welfare	2,488,793
Fire protection	558,708
Culture and recreation	2,009,536
Libraries	433,758
Building maintenance	373,078
Utilities	644,488
Conservation	126,105
Public service	440,512
Airport	31,332
Highways and streets	-
Capital outlay	-
Debt service principal	-
Debt service interest and fiscal charges	-
	<hr/>
Total expenditures	17,238,032
Excess (deficiency) of revenues over expenditures	4,380,331
OTHER FINANCING SOURCES (USES)	
Sale of asset	33,699
Transfers from other funds	332,808
Transfers to other funds	(5,264,920)
	<hr/>
Total other financing (uses) sources	(4,898,413)
Net change in fund balances	(518,082)
Fund balances - beginning of year	23,928,204
	<hr/>
FUND BALANCES - END OF YEAR	<u>\$ 23,410,122</u>

The Notes to the Financial Statements are an integral part of these statements.

Road and Bridge Special Revenue	County- Wide Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,658,688	-	\$ -	\$ 17,313,494
-	-	-	28,312
-	-	31,265	40,033
102,661	-	1,325,116	1,860,293
574,749	-	731,340	4,196,784
-	-	-	1,295,301
-	-	-	102,397
-	15	4,028	326,116
-	-	-	34,171
-	-	15,730	865,054
2,336,098	15	2,107,479	26,061,955
-	-	-	4,413,236
-	-	121,076	2,025,653
-	-	-	1,236,067
-	-	-	1,613,663
-	-	1,482,720	2,446,899
-	-	370,575	2,859,368
-	-	-	558,708
-	-	-	2,009,536
-	-	-	433,758
-	-	-	373,078
-	-	-	644,488
-	-	-	126,105
-	-	233,900	674,412
-	-	-	31,332
2,937,721	-	-	2,937,721
23,048	-	58,710	81,758
-	640,000	-	640,000
-	9,600	-	9,600
2,960,769	649,600	2,266,981	23,115,382
(624,671)	(649,585)	(159,502)	2,946,573
-	-	-	33,699
25,000	545,960	11,964	915,732
-	(644,874)	(11,964)	(5,921,758)
25,000	(98,914)	-	(4,972,327)
(599,671)	(748,499)	(159,502)	(2,025,754)
1,101,665	748,499	1,533,338	27,311,706
\$ 501,994	\$ -	\$ 1,373,836	\$ 25,285,952

Pecos County, Texas

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Fiscal Year Ended December 31, 2017

TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND \$ (2,025,754)

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
amount by which capital outlays exceeded depreciation in the current
period net of disposition of capital assets. (1,479,753)

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. (4,876,295)

Net changes in fines and forfeiture revenues in the statement of activities that do
not provide current financial resources and are not reported as revenue in the funds
(i.e. deferred revenues and earned, but unavailable revenues.) 8,561

The issuance of long-term debt (e.g. bonds, leases) provides current financial
resources to governmental funds, while the repayment of the principal of
long-term debt consumes the current financial resources of governmental
funds. Neither transaction, however, has any effect on net position. Also,
governmental funds report the effect of issuance costs, premiums, discounts,
and similar items when debt is first issued, whereas these amounts are deferred
and amortized in the statement of activities. This amount is the net effect of
these differences in the treatment of long-term debt and related items. 667,067

Internal service funds are used by management to charge the costs of
self-insurance in individual funds. The assets and liabilities of the internal
service funds are included in governmental activities in the statement
of net position. 551

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ (7,705,623)

Pecos County, Texas
Statement of Net Position
Proprietary Funds
December 31, 2017

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Pecos County Memorial Hospital Fund</u>	<u>Internal Service Fund</u>
ASSETS		
Cash and investments	\$ 1,179,867	\$ 373,684
Accounts receivable	5,436,803	226,780
Other assets	537,581	-
Capital assets, net	13,938,744	-
Total assets	<u>21,092,995</u>	<u>600,464</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources - pensions	3,397,301	-
Total deferred outflows of resources	<u>3,397,301</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 24,490,296</u>	<u>\$ 600,464</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,157,719	\$ 259,717
Due to County	261,083	-
Due to other funds	-	100,000
Estimated health claims payable	-	280,408
Net pension liability	4,595,869	-
Noncurrent liabilities:		
Due within one year	1,297,613	-
Due in more than one year	23,366,930	-
Total liabilities	<u>32,679,214</u>	<u>640,125</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pension	572,813	-
Total deferred inflows of resources	<u>572,813</u>	<u>-</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 33,252,027</u>	<u>\$ 640,125</u>
NET POSITION		
Net investment in capital assets	13,741,990	-
Unrestricted	(22,503,721)	(39,661)
TOTAL NET POSITION	<u>(8,761,731)</u>	<u>\$ (39,661)</u>
RECONCILIATION TO GOVERNMENT-WIDE STATEMENT OF NET POSITION:		
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	(2,194,750)	
NET POSITION OF BUSINESS-TYPE ACTIVITIES	<u>\$ (10,956,481)</u>	

The Notes to the Financial Statements are an integral part of these statements.

Pecos County, Texas

Statement of Revenues, Expenditures, and Changes in Fund Net Position Proprietary Funds For the Fiscal Year Ended December 31, 2017

	Business -Type Activities	Governmental Activities
	Pecos County Memorial Hospital Fund	Internal Service Fund
OPERATING REVENUES		
Net patient service revenue	\$ 19,668,934	\$ -
Other revenue	1,937,087	-
Charges for service	-	6,109,441
Total operating revenues	21,606,021	6,109,441
OPERATING EXPENSES		
Operating expenses	29,406,844	-
Depreciation	1,421,849	-
Claims	-	5,170,833
Administration - health	-	1,230,409
Administration - dental	-	30,861
Administration - life	-	20,863
Total operating expenses	30,828,693	6,452,966
Operating loss	(9,222,672)	(343,525)
NON-OPERATING REVENUES (EXPENSES)		
Noncapital grants and contributions	17,318	-
Community benefit support	836,442	-
Intergovernmental expense	(425,000)	-
Interest earned on investments	16,467	4,075
Interest expense	(7,515)	-
Gain on disposal of assets	295	-
Total nonoperating (expenses) revenues	438,007	4,075
Loss before contributions and transfers	(8,784,665)	(339,450)
Capital grants and contributions	28,930	-
Transfers in	4,836,026	170,000
Total transfers	4,836,026	170,000
Change in net position	(3,919,709)	(169,450)
Net position - beginning of year	(4,842,022)	129,789
NET POSITION, END OF YEAR	\$ (8,761,731)	\$ (39,661)
Reconciliation to government-wide statements of net assets:		
Change in net position	\$ (3,919,709)	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund.	(170,001)	
CHANGE IN NET POSITION OF BUSINESS-TYPE ACTIVITIES	\$ (4,089,710)	

The Notes to the Financial Statements are an integral part of these statements.

Pecos County, Texas
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended December 31, 2017

	Business-Type Activities	Governmental Activities
	Pecos County Memorial Hospital Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from patients and third-party payors	\$ 18,281,872	\$ -
Other receipts and payments from operations, net	1,937,087	-
Receipts from participants	-	6,226,470
Operating expenses	(24,222,319)	(6,528,614)
Net cash used in operating activities	(4,003,360)	(302,144)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	16,467	4,075
Net cash provided by investing activities	16,467	4,075
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and contributions	28,930	-
Principal payments of long-term debt and notes payable	(766,819)	-
Interest payments on long-term debt and notes payable	(7,515)	-
Proceeds from sale of capital assets	295	-
Purchase of capital assets	(272,088)	-
Net cash used in capital and related financing activities	(1,017,197)	-
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments for intergovernmental transfers	(425,000)	-
Community benefit support	836,442	-
Transfers in	4,836,026	170,000
Noncapital gains and contributions	17,318	-
Net cash provided by noncapital financing activities	5,264,786	170,000
Net (decrease) increase in cash and investments	260,696	(128,069)
Cash and investments at beginning of year	919,171	501,753
CASH AND INVESTMENTS AT END OF YEAR	\$ 1,179,867	\$ 373,684

The Notes to the Financial Statements are an integral part of these statements.

Pecos County, Texas

Statement of Cash Flows - Continued

Proprietary Funds

For the Fiscal Year Ended December 31, 2017

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Pecos County Memorial Hospital Fund</u>	<u>Internal Service Fund</u>
RECONCILIATION OF OPERATING LOSS TO NET		
CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (9,222,672)	\$ (343,525)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,421,849	-
Decreases (increases) to assets and deferred outflow:		
Accounts receivable	(1,387,062)	117,029
Other assets	79,728	-
Deferred outflow from pension liabilities	562,698	-
Increases and (decreases) to liabilities and deferred inflow:		
Accounts payable and accrued expenses	658,752	37,053
Due to other funds	106,293	-
Other posts employment benefits	3,654,881	-
Pension liability	(16,919)	-
Compensated absences	49,961	-
Health claims payable	-	(112,701)
Deferred inflow from pension liabilities	89,131	-
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (4,003,360)</u></u>	<u><u>\$ (302,144)</u></u>

The Notes to the Financial Statements are an integral part of these statements.

Pecos County, Texas
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2017

	Agency Funds
ASSETS	
Cash	\$ 3,823,254
TOTAL ASSETS	<u>\$ 3,823,254</u>
LIABILITIES	
Accounts payable	\$ 14,282
Due to other governments	2,746,664
Due to beneficiaries	1,062,308
TOTAL LIABILITIES	<u>\$ 3,823,254</u>

The Notes to the Financial Statements are an integral part of these statements.

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Notes to the Financial Statements

Pecos County, Texas
Annual Financial Report
For the Fiscal Year Ended December 31, 2017
Index

Page

1.	Summary of Significant Accounting Policies	35
A.	General Statement	35
B.	Financial Reporting Entity	35
C.	Government-Wide and Fund Financial Statements	36
D.	Measurement Focus and Basis of Accounting	38
E.	Cash and Investments	39
F.	Encumbrances	40
G.	Property Taxes	40
H.	Interfund Receivables and Payables	40
I.	Inventories	40
J.	Capital Assets	40
K.	Deferred Inflows of Resources	41
L.	Fund Balance	41
M.	Net Position	42
N.	Use of Estimates	43
O.	Risk Management	43
P.	Pensions	43
2.	Reconciliation of Government-Wide and Fund Financial Statements	43
3.	Stewardship, Compliance and Accountability	45
4.	Cash and Investments	45
5.	Receivables	48
6.	Capital Assets	49
7.	Interfund Receivables and Payables	50
8.	Long-term Debt	51
9.	Compensated Absences	52
10.	Healthcare Coverage	52
11.	Retirement Commitments	53
12.	Operating Leases	60
13.	Contingent Liabilities	60
14.	Additional Enterprise Fund Disclosures	61
15.	Tax Abatements	61
16.	New Pronouncements	62

Pecos County, Texas

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

A. General Statement

Pecos County, Texas (the County) performs all local government functions within its jurisdiction. The authority of county governments and their specific functions and responsibilities are created by and dependent upon laws and legal regulations of the Texas State Constitution and V.A.C.S. The County is governed by an elected County Judge and four County Commissioners elected from individual precincts. The Judge and Commissioners form the governing body as provided by state statute. Various branches of the County government are led by duly elected officials. The Commissioners' Court has governance responsibilities over all activities related to Pecos County, Texas. The County provides the following services to its citizens: public safety, health and welfare, public facilities, judicial and legal, election functions, public transportation through roads and bridges, and general and financial administrative services.

The accounting and reporting policies of the County relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the County are described below.

B. Financial Reporting Entity

Generally accepted accounting principles require that the financial statements present the County (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.

In addition, 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, are entitled to, or have 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.

Pecos County, Texas

Notes to the 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.

The component units discussed in this note are included in the County's reporting entity because of the nature and significance of their operational or financial relationships with the County.

- Blended Component Units: There are no blended component units.
- Discretely Presented Component Units: There were no discretely presented component units in 2017.

C. Government-Wide and Fund Financial Statements

The basic financial statements of the County are presented at two basic levels, the government-wide level and the fund level. These statements focus on the County as a whole at the government-wide level and on major funds 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 County. 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 County and is presented in an "assets minus liabilities equal net position" format with net position reported in the order of relative liquidity. Also, assets and liabilities 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 County's functions (General, Judicial, Financial Administration, Public Facilities, Public Safety, Public Service, Health and Welfare, Cultural and Recreation, Highways and Streets, Conservation and Airport) 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. Program revenues are revenues derived directly from the function 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 and which are generated by that function, 2) grants and contributions restricted to operating requirements of a function and, 3) grants and contributions restricted to capital requirements of a function. 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.

The effect of internal service fund activities in the government-wide statements is eliminated to the extent possible to avoid the effect of "doubling up" internal service fund activity. Internal service funds report activities which provide goods or services to the financial reporting entity on a cost reimbursement basis. Any net profit or loss from these activities is allocated back to the function or segment that benefited from the goods or services provided based upon their proportionate benefit to the extent possible. Any residual assets of internal service funds are reported with governmental activities at the entity-wide level. Transfers are eliminated within the governmental activities.

Pecos County, Texas

Notes to the Financial Statements

Fund level financial statements are presented for governmental funds and proprietary funds with a focus on major funds (defined by GASB Statements), and fiduciary funds, which are excluded from the government-wide financial statements because they do not represent assets which can be used to support the County's programs. Additionally, any fund deemed particularly important by the County 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.

The fund level statements for proprietary funds contain enterprise and internal service funds.

The focus of fiduciary funds is on net position and changes in net position. These funds report assets held in a trustee or agency capacity by the County for the benefit of others and cannot be used to support County activities.

The government-wide statements and proprietary fund statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Exchange and exchange-like transactions, transactions in which the County gives or receives value and receives or gives equal value, that create revenues, expenses, gains, losses, assets or liabilities are recognized when the exchange occurs.

Governmental Funds

The County reports the following major governmental funds:

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

Road and Bridge Fund. The Road and Bridge Fund is a special revenue fund of the County. It is used to account for the expenditures of the four different precincts and for the highway and streets expenditures.

Debt Service Fund. The Debt Service Fund is used to account for the accumulation of resources that are legally restricted to expenditures for the specified purpose of the retirement of long-term debt, including debt principal, interest and related costs.

Additionally, the County reports the following non-major governmental fund types:

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Project Funds. The Capital Project Funds account for financial resources to be used for the acquisition or construction of major capital facilities.

Pecos County, Texas

Notes to the Financial Statements

Proprietary Funds

The County reports the following major proprietary funds:

Pecos County Memorial Hospital Enterprise Fund

The Hospital is operated under a Board of Directors, which is appointed by the elected county commissioners. The County's general fund subsidizes the Hospital as needed with a budgeted portion of the ad valorem tax revenue assessed by the County each year. The Hospital's funds are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred, if measurable. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expense.

Separate financial statements for the Hospital may be obtained by contacting the Pecos County Memorial Hospital.

In addition, the County reports the following proprietary fund as an internal service fund:

Health Self-Insurance Fund

Internal Service Funds. The County utilizes an Internal Service Fund to account for its health self-insurance plan. The General Fund is contingently liable for liabilities of these funds. Sub-fund accounting is employed to maintain the integrity of the various self-insurance activities of the County. See Note 10 for additional discussion of the County's self-insurance plan.

Fiduciary Fund Type – Agency Funds

Fiduciary Funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include Agency Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Formal budgetary accounting is not required for Fiduciary Funds. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated in the government-wide financial statements.

D. Measurement Focus and Basis of Accounting

Nonexchange transactions, transactions in which the County gives or receives value without receiving or giving equal value in exchange, that result in revenues, expenses, gains, losses, assets or liabilities 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 at historical cost and depreciated, except for inexhaustible assets such as land, in accordance with the County'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.

Pecos County, Texas

Notes to the Financial Statements

In the case of property 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, fines, licenses, and interest associated with the current period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. Property taxes are levied on October 1 for the next calendar year. Special assessments due within the current fiscal period are recorded as revenue of the current period.

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

- General Fund – Ad valorem 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 total assets view of increases (revenues) and decreases (expenses) in the fund.

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.

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.

E. Cash and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The County's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the County's agent bank, approved pledged securities in an amount sufficient to protect County funds on a day-to-day basis during the period of the contract.

The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. The County's cash deposits at December 31, 2017, were entirely covered by FDIC insurance or by pledged collateral held by the County's agent bank.

Pecos County, Texas

Notes to the Financial Statements

F. Encumbrances

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at December 31, and encumbrances outstanding at that time are cancelled and become available for future appropriation.

G. Property Taxes

Taxes are levied on October 1 in conformity with Subtitle E, Texas Property Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1. Property taxes attach as an enforceable lien as of January 1 to secure the payment of all taxes, penalties, and interest ultimately imposed. The County is permitted by the Municipal Finance Law of the state of Texas to levy taxes up to \$1.20 per \$100 of appraised valuation for general services, permanent improvements, lateral road, and jury fund purposes other than the payment of principal established by the Attorney General of the state of Texas. The tax rate for the year ended December 31, 2017, including the portion budgeted for the retirement of long-term debt principal and interest for the general fund was \$0.726 per \$100 valuation. The tax rate for the road and bridges fund was \$0.073 per \$100 valuation. The total tax rate for all purposes was \$0.7990 per \$100 valuation. The County's general obligation refunding bonds require an annual tax levy sufficient to pay principal and interest on the bonds with full allowance being made for delinquent taxes.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

H. Interfund Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

I. Inventories

Inventories are stated at the lower cost or market using the first-in, first-out method. Inventories for all funds consist of expendable supplies held for consumption, and are recorded as expenditures or expenses, as appropriate, when consumed rather than when purchased.

J. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. All capital assets are valued at their historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Pecos County, Texas
Notes to the Financial Statements

Depreciable capital assets are depreciated using the straight-line method over the asset's estimated useful life as follows:

Buildings	25-50	years
Improvements other than buildings	5-30	years
Machinery and equipment	5-30	years
Infrastructure	15-35	years

K. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and other revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

L. Fund Balance

The County has adopted the provisions of Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance categories under GASB 54 are Nonspendable and Spendable. Classifications under the Spendable category are Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In accordance with GASB 54, the County classifies governmental fund balances effective with its financial statements as follows:

1. Nonspendable Fund Balance:

Includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual requirements. Examples include inventories, long-term receivables, endowment principal, and/or prepaid/deferred items. At December 31, 2017 the County had \$0 nonspendable fund balance.

Pecos County, Texas

Notes to the Financial Statements

2. Spendable Fund Balance:

a. *Restricted Fund Balance*

Includes amounts constrained to use by either (a) externally imposed by creditors, grantors, contributors, or other governments' laws and regulations or (b) imposed by law through constitutional provisions or enabling legislation. Examples include federal and state grant programs, taxes restricted for retirement of long-term debt, and specific bond proceeds. In addition, certain revenues generated by airport property which was given to the County by the FAA are restricted. Pecos County also obtained the mineral rights from the FAA with this property, and its accumulated revenues mentioned above are restricted.

b. *Committed Fund Balance*

Includes amounts constrained to specific purposes as determined by the governing body by formal action recorded in the minutes of the governing body. Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally. The commissioners' court must take action to commit funds for a specific purpose prior to the end of the fiscal year, but the amount of the commitment may be determined after the end of the fiscal year. The County has no committed fund balances.

c. *Assigned Fund Balance*

Includes amounts intended to be used by the County for specific purposes. Pursuant to GASB 54, this intent can be expressed by an official or body to which the governing body delegates that authority. The County has delegated to the County Judge and County Auditor the ability to determine and define the amounts of those components of fund balance that are classified as Assigned.

d. *Unassigned Fund Balance*

Includes the residual classification of the General Fund and includes all amounts not contained in other classifications. By accounting for amounts in other funds, the County has implicitly assigned the funds for the purposes of those particular funds.

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

The County passed a resolution to establish a minimum fund balance policy. The policy states the County shall strive to achieve a yearly fund balance in the general operating fund in which the total fund balance is equal to 25% of the total operating expenditures.

M. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the County or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Certain revenues generated by airport property which was given to the County by the FAA are restricted. Pecos County also obtained the mineral rights from the FAA with this property, and its accumulated revenues mentioned above are restricted. A value from the mineral rights has not been reported in these financial statements.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, unrestricted resources are applied first.

Pecos County, Texas
Notes to the Financial Statements

N. 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/expenditures during the reporting period. Actual results could differ from those estimates.

O. Risk Management

The County is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omission and natural disasters. During fiscal year 2017, the County purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

P. Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, the County specific information about its Fiduciary Net Position in the Texas County and District Retirement System (TCDRS) and additions to/deductions from the County's Fiduciary Net Position have been determined on the same basis as they are reported by TCERS. 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. Information regarding the County's Total Pension Liability is obtained from TCERS through a report prepared for the District by TCERS consulting actuary, Milliman, in compliance with GASB 68.

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 as 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 “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The detail of this \$(33,547,586) difference is as follows:

Compensated absences	\$ (1,192,671)
Other post employment benefits	<u>(32,354,915)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i>	
<i>to arrive at net position – governmental activities</i>	<u><u>\$ (33,547,586)</u></u>

Pecos County, Texas

Notes to the Financial Statements

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 a reconciliation *between net changes in fund balances – total governmental funds and changes 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 detail of this \$(1,479,753) difference is as follows:

Capital additions	\$ 498,389
Disposal of capital assets	(6,199)
Depreciation expense	<u>(1,971,943)</u>
<i>Net adjustment to decrease net change in fund balances- total governmental funds to arrive at change in net position of governmental activities.</i>	<u><u>\$ (1,479,753)</u></u>

Another element of that reconciliation states that “some expenses reported in the statement of activities did not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The detail of this \$(4,876,297) difference is as follows:

Net change in compensated absences	\$ (46,317)
Net pension income (expense)	(655,120)
Net change in other post employment benefits	<u>(4,174,860)</u>
<i>Net adjustment to decrease net change in fund balances total governmental funds to arrive at change in net position of governmental activities</i>	<u><u>\$ (4,876,297)</u></u>

Another element of that reconciliation states that the “issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.” Neither transaction, however, has any effect on net position.

Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The detail of this \$667,067 difference is as follows:

Amortization of bond premium	\$ 27,067
Principal repayments of Refunding bonds	<u>640,000</u>
<i>Net adjustment to increase net change in fund balances total governmental funds to arrive at change in net position of governmental activities</i>	<u><u>\$ 667,067</u></u>

Pecos County, Texas
Notes to the Financial Statements

Lastly, the changes in net position from the internal service fund and internal balances due to internal service fund activity reconciles with governmental activities. Internal balances are from the hospital fund due to the governmental funds supporting the operating loss during the year. The detail of this \$551 balance difference is as follows:

Net change in internal service net position	\$ (169,450)
The change in internal balances	<u>170,001</u>
<i>Net adjustment to decrease net change in fund balances</i>	
<i>total governmental funds to arrive at change in</i>	
<i>net position of governmental activities</i>	<u><u>\$ 551</u></u>

Note 3. Stewardship, Compliance and Accountability

Deficit Fund Equity

All of the County’s major funds held positive fund equity at December 31, 2017. The County held positive fund equity for all special revenue funds except for the Community Development Block Grant fund which had a deficit fund balance of \$238,742 as of December 31, 2017.

Note 4. Cash and Investments

The County invests its funds in investments authorized by Texas law in accordance with investment policies approved by the County Commissioners. Both state law and the County’s investment policies are subject to change.

Under current Texas law, the County is authorized to invest in: (1) obligations of the United States or its instrumentalities, (2) direct obligations of the state of Texas or its agencies, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed or insured by the state of Texas or the United States or its instrumentalities, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the state of Texas or the United States or its instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state that are rated A or higher by a nationally recognized investment rating agency, (6) certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or any other manner or amount provided by law for County deposits, (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause one, and are placed through a primary government securities dealer or a bank domiciled in the state of Texas, (8) bankers acceptances with the remaining term of 270 days or less, in the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1, or the equivalent by at least one nationally recognized credit rating agency, (9) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies, or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank, (10) no-load money market mutual funds registered with the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less, and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (11) bonds issued, assumed, or guaranteed by the state of Israel, and (12) a qualified common trust fund or comparable investment device that is owned or administered by a Texas domiciled bank and consists exclusively of obligations as described above. The County may invest in such obligations directly or through government investment pools that invest solely in such obligations.

Pecos County, Texas
Notes to the Financial Statements

A. Investment Policies

Under Texas law, County investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.”

Under Texas law and County policy, the County is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all County funds must be invested in investments that protect principal, are consistent with the operating requirements of the County, and yield the highest possible rate of return.

B. Objectives

Funds of the County are invested in accordance with state law, IRS arbitrage regulations, investment policies, and written administrative procedures. The County’s objectives in managing its investment portfolios are as follows:

1. *Safety* – The first and foremost consideration of any custodian of public funds must be safety of the principal amount involved.
2. *Liquidity* – The County must have cash or “near cash” on hand to meet current obligations.
3. *Legality* – Any investment should clearly be legal under state law, county investment policy and IRS arbitrage regulations.
4. *Income* – While it is certainly desirable to show a high effective rate of return on invested funds, it is important to recognize that it is essential to keep every dollar working every day, even at a reduced rate of return.
5. *Flexibility* – This means not only the ability to convert an investment to cash, but also the option to convert a security to a higher rate of interest, a better maturity, or both. In addition, flexibility allows the use of various investment tools available.

During the year ended December 31, 2017 the County invested in mutual funds with CAT-Government and Agency Securities Portfolio.

Investments owned by the County at December 31, 2017 are shown below:

	Fair Value	Credit Risk
	<hr/>	<hr/>
CAT-Government and Agency Securities Portfolio	\$ 14,902,872	AAAm – S & P
	<hr/>	
Total	\$ 14,902,872	
	<hr/> <hr/>	

Because the County’s investments are in external pools, their investments are not exposed to credit risk because their existence is not evidenced by securities that exist in physical or book entry form. Investments in external pools are excluded from disclosure regiments of concentration of credit and from disclosure of interest rate risk.

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, Fair Value Measurement and

Pecos County, Texas

Notes to the Financial Statements

Application provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs-other than quoted prices included within Level 1-that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

CAT – Government and Agency is measured at amortized cost and are exempt for fair value reporting.

At year-end, the carrying amount of the County's cash and cash equivalents was \$23,884,505 (bank deposits were \$18,881,384 in governmental activities, \$1,179,867 in business-type activities and \$3,823,254 in agency funds). The bank balances totaled \$23,252,638 of which \$750,000 was covered by Federal Depository Insurance Corporation (FDIC) and \$22,502,638 was covered by collateral held by the pledging banks' agent for the County in the County's name (or Category 1 above).

Interest Rate Risk – In compliance with the County's investment policy, as of December 31, 2017, the County minimized 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 rating 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 County's investment policy, as of December 31, 2017, the County 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 ICT Government Securities that were rated AAA, AAA, and Aaa by Standard & Poor's, Fitch and Moody's, respectively, 2) pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the County will do business, and 3) diversifying the investment portfolio so that potential losses on individual securities were minimized.

Pecos County, Texas
Notes to the Financial Statements

Note 5. Receivables

Receivables as of year-end for the government’s individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Road and Bridge Fund	Nonmajor Funds	Business-Type Activities	Internal Service Funds	Total
Receivables:						
Taxes	\$ 12,998,831	\$ 1,307,609	\$ -	\$ -	\$ -	\$ 14,306,440
Patients	-	-	-	15,536,341	-	15,536,341
Other	406,133	-	25,262	2,913,888	226,780	3,572,063
Fines and fees	13,170,363	-	-	-	-	13,170,363
Gross receivables	26,575,327	1,307,609	25,262	18,450,229	226,780	46,585,207
Less: allowance for uncollectibles	(13,064,852)	(155,763)	-	(13,013,426)	-	(26,234,041)
Net total receivables	\$ 13,510,475	\$ 1,151,846	\$ 25,262	\$ 5,436,803	\$ 226,780	\$ 20,351,166

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental activities defer revenue recognition in connection with resources that have been received, but not yet earned, such as property tax revenue that is levied for the following fiscal year. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

Property taxes	\$ 20,201,920
Other	1,353,350
Total	\$ 21,555,270

Pecos County, Texas
Notes to the Financial Statements

Note 6. Capital Assets

Capital asset activity for the year ended December 31, 2017 was as follows:

	Balance 12/31/2016	Additions/ Completions	Retirements/ Adjustments	Balance 12/31/2017
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,345,948	\$ -	\$ -	\$ 1,345,948
Construction-in-progress	968,761	13,955	-	982,716
Total capital assets, not being depreciated	2,314,709	13,955	-	2,328,664
Capital assets, being depreciated:				
Buildings	19,632,322	-	-	19,632,322
Improvements other than buildings	6,466,024	-	-	6,466,024
Machinery and equipment	16,565,402	484,434	(6,199)	17,043,637
Infrastructure	1,236,551	-	-	1,236,551
Total capital assets, being depreciated	43,900,299	484,434	(6,199)	44,378,534
Less accumulated depreciation for:				
Buildings	(7,674,969)	(401,916)	-	(8,076,885)
Improvements other than buildings	(3,363,810)	(1,285,038)	-	(4,648,848)
Machinery and equipment	(11,783,374)	(237,000)	6,199	(12,014,175)
Infrastructure	(858,735)	(54,188)	-	(912,923)
Total accumulated depreciation	(23,680,888)	(1,978,142)	6,199	(25,652,831)
Total capital assets being depreciated, net	20,219,411	(1,493,708)	-	18,725,703
Governmental activities capital assets, net	\$ 22,534,120	\$ (1,479,753)	\$ -	\$ 21,054,367
	Balance 12/31/2016	Additions/ Completions	Retirements/ Adjustments	Balance 12/31/2017
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 85,649	\$ -	\$ -	\$ 85,649
Total capital assets, not being depreciated	85,649	-	-	85,649
Capital assets, being depreciated:				
Land improvements	735,721	-	-	735,721
Buildings and improvements	24,723,520	37,129	-	24,760,649
Equipment	12,957,847	234,959	483,000	13,675,806
Leased assets	958,186	9,000	(483,000)	484,186
Capitalized interest	1,746,954	-	-	1,746,954
Total capital assets, being depreciated	41,122,228	281,088	-	41,403,316
Less accumulated depreciation for:				
Land improvements	(614,263)	(12,441)	-	(626,704)
Buildings and improvements	(12,573,988)	(757,158)	-	(13,331,146)
Equipment	(11,672,353)	(506,795)	(454,825)	(12,633,973)
Leased assets	(628,973)	(101,781)	454,825	(275,929)
Capitalized interest	(638,795)	(43,674)	-	(682,469)
Total accumulated depreciation	(26,128,372)	(1,421,849)	-	(27,550,221)
Total capital assets being depreciated, net	14,993,856	(1,140,761)	-	13,853,095
Business-type activities capital assets, net	\$ 15,079,505	\$ (1,140,761)	\$ -	\$ 13,938,744

Pecos County, Texas
Notes to the Financial Statements

Primary Government

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

Governmental activities:	
General government	\$ 96,385
Judicial	29,599
Law enforcement	4,064
Corrections	43,712
Health and welfare	333,273
Fire protection	32,529
Culture and recreation	207,260
Library	99,832
Financial administration	171,420
Building maintenance	608,718
Conservation	34,135
Highway and streets	301,750
Airport	15,465
Total depreciation expense – governmental activities	\$ 1,978,142
Business-type activities:	
Pecos County Memorial Hospital	\$ 1,421,849
Total depreciation expense - business-type activities	\$ 1,421,849

Note 7. Interfund Receivables and Payables

During the course of the fiscal year, interfund payables and receivables arise. The following were outstanding as of December 31, 2017:

Fund	Receivable	Payable
General fund	555,085	196,794
Internal service fund	-	100,000
Road and bridge	2,792	-
Enterprise fund:		
Pecos County Memorial Hospital	-	261,083
Total all funds	\$ 557,877	\$ 557,877

Pecos County, Texas
Notes to the Financial Statements

Note 8. Long-Term Debt

The following is a summary of changes in general long-term debt:

	Balance 12/31/2016	Additions	Retirements	Balance 12/31/2017	Amount Due within one year
Governmental Activities:					
G.O Refunding Bond Series 2011	\$ 640,000	\$ -	\$ 640,000	\$ -	\$ -
Unamortized bond premium	27,067	-	27,067	-	-
Accrued compensation	1,146,354	483,226	436,909	1,192,671	596,336
Other post employment benefits obligation	28,180,055	4,174,860	-	32,354,915	1,368,594
Total governmental activities	\$ 29,993,476	\$ 4,658,086	\$ 1,103,976	\$ 33,547,586	\$ 1,964,930
Business-type Activities:					
C.O Bond Series 2008	\$ 635,000	\$ -	\$ 635,000	\$ -	\$ -
Capital lease obligation	319,573	9,000	131,819	196,754	97,815
Accrued compensation	1,241,603	695,743	645,782	1,291,564	645,782
Other post employment benefits obligation	19,521,344	3,654,881	-	23,176,225	554,016
Total business-type activities	\$ 21,717,520	\$ 4,359,624	\$ 1,412,601	\$ 24,664,543	\$ 1,297,613

Capital Lease Obligations

The County entered into certain leases accounted for as capital leases. The leased assets and related obligations are accounted for in the governmental activities column of the statement of net assets. Business-type activities assets under capital leases total \$208,257 at December 31, 2017. The outstanding balance of business-type activities capital lease obligations at December 31, 2017 was \$196,754.

The following is a summary of debt service requirements for the Capital Lease Obligations:

Total Year End Requirements	Business-type Activities
2017	\$ 117,355
2018	71,148
2019	40,315
Minimum lease payments	228,818
Less: Amount representing interest	(32,064)
Present value of minimum lease payments	\$ 196,754

Note 9. Compensated Absences

A. Governmental Activities

County policy allows the accrual of vacation, compensatory time, and sick pay benefits for all employees other than elected officials. The expense of the benefits is recognized when incurred. Vacation, compensatory pay and sick pay are paid upon termination. The amount of sick leave paid is dependent on the number of years of service. The liability for accrued vacation, compensatory pay and sick pay is shown as a long-term obligation. At December 31, 2017 the value of accumulated vacation, compensatory benefits and sick time amounted to \$1,192,671 which is a net increase of \$46,317 from the prior year. The estimated amount that is current is \$596,336 .

B. Business-type Activities

As of December 31, 2017, the Hospital has accrued a compensated absences liability of \$1,291,564. As of December 31, 2017, the current portion of this liability is \$645,782.

Note 10. Healthcare Coverage

During the year ended December 31, 2017, employees of Pecos County, Texas were covered by a self-funded health insurance plan (the Plan). The County contributes \$833 per month per employee for coverage. Employees authorize payroll withholdings to pay for a portion of the premium. The Plan is accounted for in the Self-Insurance Health Fund, an internal service fund. Should the Plan’s income from operations for a given Plan year be inadequate to pay the ultimate cost of claims incurred in that Plan year, the General fund is liable to pay the additional claims.

The County obtained excess loss insurance, which limited annual claims paid from the fund for the year ended December 31, 2017, to \$140,000 for any individual participant and an aggregate limit equal to \$8,044,629.

Estimates of claims payable and of claims incurred but not reported at December 31, 2017, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due.

Changes in the balances of claims liabilities during the past two years are as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Unpaid claims, beginning of year	\$ 393,109	\$ 371,855
Incurred claims, (including IBNR)	5,082,578	5,474,667
Claim payments	(5,195,279)	(5,453,413)
Unpaid claims, end of year	\$ 280,408	\$ 393,109

Note 11. Retirement Commitments

A. Texas County and District Retirement System

Plan Description

The County provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 559 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, TX 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with eight or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more.

Members are vested after eight years of service, but must leave their accumulated deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal deposits in a lump sum are not entitled to any amounts contributed by their employer.

Benefits Provided

Benefit amounts are determined by the sum of the employee’s deposits to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer’s commitment to contribute.

At retirement, death, or disability, the benefit is calculated by converting the sum of the employee’s accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Employees covered by benefits as of December 31, 2016 include:

Retirees or beneficiaries currently receiving benefits	223
Inactive employees entitle to but not yet receiving benefits	420
Active employees	455
Total	1098

Pecos County, Texas

Notes to the Financial Statements

Contributions

The employer has elected the annually determined contribution rate (variable rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using a rate of 7.00%, which was in excess of the actuarially determined rate for the year 2017.

The deposit rate payable by the employee members for calendar year 2016 and 2017 is the rate of 7.00% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Net Pension Liability

The County's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2016
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	
Smoothing period	5 Years
Recognition method	Non-asymptotic
Corridor	None
Inflation	3.00%
Salary Increase	1.40%
Investment Rate of Return	8.00%
Payroll Growth	3.50%

Mortality rates for depositing members were based on the RP-2000 Active Employee Mortality Table for Males or Females, as appropriate, with a two-year set-forward for males and a four-year setback for females, based on projection scale AA. Mortality rates service retirees, beneficiaries and non-depositing members were based on the RP-2000 Combined Mortality Table, with a projection scale of AA with a one year age set forward for males and no age adjustment for females. Mortality rates for disabled retirees RP-2000 Disabled Mortality Table for Males or Females, as appropriate, with no age adjustment for males and a two year set-forward females, based on projection scale AA.

Family composition for current retirees' beneficiary information is supplied by TCDRS. For the purpose of calculating the Survivor Benefit for current depositing and non-depositing members, male members are assumed to have a female beneficiary who is three years younger. Female members are assumed to have a male beneficiary who is three years older.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the years 2010-2013.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimates 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.

Pecos County, Texas
Notes to the Financial Statements

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

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
US Equities	13.50%	4.70%
Private Equity	16.00%	7.70%
Global Equities	1.50%	5.00%
International Equities-Developed	10.00%	4.70%
International Equities-Emerging	7.00%	5.70%
Investment-Grade Bonds	3.00%	0.60%
High-Yield Bonds	3.00%	3.70%
Opportunistic Credit	2.00%	3.83%
Direct Lending	10.00%	8.15%
Distressed Debt	3.00%	6.70%
REIT Equities	2.00%	3.85%
Master Limited Partnerships	3.00%	5.60%
Private Real Estate Partnerships	6.00%	7.20%
Hedge Funds	20.00%	3.85%
Total	100.0%	

The discount rate used to measure the total pension liability was 8.10%, which is consistent with the prior year discount rate. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The best estimates of geometric real rates of return for each major asset class included in the TCDRS' target asset allocation as of January 2017 are summarized below.

Pecos County, Texas
Notes to the Financial Statements

Changes in the Net Pension Liability

Changes in Net Pension Liability / (Asset)	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability / (Asset) (a) - (b)
Balances at December 31, 2015	\$ 75,551,446	\$ 66,862,501	\$ 8,688,945
Changes for the year:			
Service cost	2,982,099	-	2,982,099
Interest on total pension liability ⁽¹⁾	6,096,181	-	6,096,181
Effect of plan changes ⁽²⁾	-	-	-
Effect of economic/demographic gains or losses	(641,945)	-	(641,945)
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(352,925)	(352,925)	-
Benefit payments	(3,220,594)	(3,220,594)	-
Administrative expenses	-	(53,803)	53,803
Member contributions	-	1,533,028	(1,533,028)
Net investment income	-	4,942,678	(4,942,678)
Employer contributions	-	2,027,782	(2,027,782)
Other ⁽³⁾	-	19,186	(19,186)
Balances at December 31, 2016	\$ 80,414,262	\$ 71,757,853	\$ 8,656,409

(1) Reflects the change in the liability due to the time value of money. TCDRS does not charge fees or interest.

(2) No plan changes valued.

(3) Relates to allocation of system-wide items.

Discount Rate Sensitivity Analysis.

The following presents the net pension liability of the County as of December 31, 2016, calculated using the discount rate of 8.10%, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.10%) or 1% higher (9.10%) than the current rate.

	1% Decrease in Discount Rate (7.10%)	Discount Rate (8.10%)	1% Increase in Discount Rate (9.10%)
Total pension liability	\$ 90,997,731	\$ 80,414,262	\$ 71,653,009
Fiduciary net pension	71,757,853	71,757,853	71,757,853
Net pension liability / (asset)	\$ 19,239,878	\$ 8,656,409	\$ (104,844)

Pecos County, Texas
Notes to the Financial Statements

B. Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources

Related to Pensions

For the year ended December 31, 2017, the County recognized pension expense of \$(655,120) related to the December 31, 2016 valuation. At December 31, 2017, the County reported deferred inflows and outflows of resources related to the Plan from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual economic experience	\$ 1,113,723	\$ 11,812
Change of assumptions	-	463,987
Net difference between projected and actual investment earnings	-	4,064,617
Contributions subsequent to the measurement date	-	2,045,398
Total	\$ 1,113,723	\$ 6,585,814

Deferred outflows of resources related to the Plan resulting from contributions subsequent to the measurement date of \$2,045,398 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2017 (i.e. recognized in the County's financial statements December 31, 2018). Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Pension Expense Amount
2018	\$ 1,148,498
2019	1,136,686
2020	1,047,248
2021	94,261
Total	\$ 3,426,693

C. Post-Employment Healthcare Benefits

Plan Description

Pecos County provides post-employment healthcare benefits to its retired employees with 12 or more years of service that were hired prior to January 2, 2017. The plan provides medical insurance to plan members and their spouses. Membership in the plan at December 31, 2017, data used for the latest actuarial valuation, consists of the following:

Funding Policy

Local Government Code Section 157.1010 assigns the authority to establish and amend benefit provisions to the commissioners' court. The County is under no legal obligation to pay these premiums, and the decision to provide these benefits is made by the commissioners' court on a year-to-year basis.

At December 31, 2017, retirees pay a \$25 premium, and pay \$50 per month for their spouse's premium.

Pecos County, Texas

Notes to the Financial Statements

The rates are set annually by the Commissioners' Court based on the combination of premiums and prior year costs of the self-funded portion of the plan. The plan is funded on a pay-as-you-go basis. For the year ended, December 31, 2017, the County contributed approximately \$1,192,000. Administrative costs are provided through the annual rate calculation.

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, creating accounting standards for other postemployment benefits (OPEB) provided by governmental entities separately from a pension plan. This statement establishes standards for the measurement, recognition, and display of OPEB expenses/expenditures and related liabilities (assets), note disclosures, and if applicable required supplemental information (RSI) in the financial reports of state and local governments. The County implemented the requirements of GASB Statement No. 45 during the fiscal year ended December 31, 2011, and continued those requirements for the fiscal years thereafter.

Annual OPEB Cost

The County's OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities or funding excess over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the year, the amount expected to be contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$ 7,113,515
Interest on net OPEB obligation	<u>1,908,063</u>
Annual OPEB cost (expense)	9,021,578
Contributions made*	<u>(1,192,000)</u>
Increase in net OPEB	7,829,578
Net OPEB obligation, beginning of the year	<u>47,701,399</u>
Net OPEB obligation, end of the year	<u><u>\$ 55,530,977</u></u>

For 2017, the County's annual OPEB cost (expense) of \$9,021,578 for the post-employment healthcare plan was equal to the annual required contributions (ARC) of each. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions*	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	\$ 8,931,283	\$ 1,197,052	13.4%	\$ 40,091,034
12/31/2016	\$ 8,765,035	\$ 1,154,670	13.2%	\$ 47,701,399
12/31/2017	\$ 9,021,578	\$ 1,192,000	13.2%	\$ 55,530,977

**For illustration purposes, we have shown Pecos County contributions to be equal to expected benefit payments during each fiscal year. GASB 45 defines contributions for this purpose to be actual benefits payments during the year and contributions made to a separate, irrevocable trust.*

Pecos County, Texas
Notes to the Financial Statements

Funded Status

The funded status of the plan as of December 31, 2017, was as follows:

Schedule of Funding

Actuarial Accrued Liability (AAL)	\$	70,528,753
Actuarial Value of Plan Assets		-
Unfunded Actuarial Accrued Liability (UAAL)		70,528,753
Funded Ratio (Actuarial Value of Plan Assets/AAL)		-
Covered Payroll (Active Plan Members)		N/A
Unfunded Actuarial Accrued Liability (UAAL) as Percentage of Covered Payroll		-

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are made on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In order to perform the valuation, it was necessary for the County and the actuary to make certain assumptions regarding such items as rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare trend and interest rates.

Discount Rate

Pay-as-you-go: 4.0% Effective annual rate

Health Cost Trend

County:

Without Medicare:

5.4% in the first year, 5.4% in the second year, 4.8% in the third year, and ultimately grade down to 4.5% per year after the seventy-first year.

With Medicare:

4.8% in the first year, 5.3% in the second year, 4.7% in the third year, and ultimately grade down to 4.5% per year after the seventy-first year.

Pecos County, Texas
Notes to the Financial Statements

Hospital:

Without Medicare:

5.4% in the first year, 5.4% in the second year, 4.8% in the third year, and ultimately grade down to 4.5% per year after the seventy-first year.

With Medicare:

4.8% in the first year, 5.3% in the second year, 4.7% in the third year, and ultimately grade down to 4.5% per year after the seventy-first year.

The unfunded actuarial accrued liability is being amortized as a level dollar, on a closed basis. The amortization period is 30 years.

Note 12. Operating Leases

The County's has entered into noncancellable operating leases for various equipment in governmental activities. The future minimum rental commitments for those leases at December 31, 2017 are as follows:

Total Year End Requirements	Governmental Activities
2018	\$ 61,191
2019	40,734
2020	26,416
2021	14,178
2022	11,002
Thereafter	397,913
Present value of minimum future lease payments	\$ 551,435

Note 13. Contingent Liabilities

The County participates in several grant programs that are subject to audit by various state and federal agencies. These programs have complex compliance requirements and should state or federal auditors discover areas of material noncompliance, those County funds may be subject to refund if so determined by administrative audit review.

In the normal course of business, the County has been named in several civil lawsuits. The outcome of these cases cannot presently be determined; however, County management is of the opinion that the settlement of pending litigation will not have a material adverse effect on the County's financial statements.

Pecos County, Texas
Notes to the Financial Statements

Note 14. Additional Enterprise Fund Disclosures

Accounts receivable consists of the following at December 31, 2017:

	<u>Pecos County Memorial Hospital</u>
Gross accounts receivable	\$ 18,450,229
Less: allowance for bad debts and contractual adjustments	<u>(13,013,426)</u>
Accounts receivable, net of allowance	<u><u>\$ 5,436,803</u></u>

Net patient revenue. The Hospital had an agreement with third-party payers that provided for payments to the Hospital at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The major third-party payors are Medicare, Medicaid, and other commercial insurance carriers and preferred provider organizations.

Note 15. Tax Abatements

The County negotiates property tax abatement agreements on an individual basis. The County has tax abatement agreements with seven entities as of December 31, 2017:

<u>Purpose</u>	<u>Percentage of Taxes Abated during the Fiscal Year</u>	<u>Amount of Taxes Abated during the Fiscal Year</u>
Construction of wind power project	100%	\$ 1,707,463
Development of various solar power projects	80%	<u>3,564,179</u>
		<u><u>\$ 5,271,642</u></u>

Some of the agreements described include provisions where the entities make annual payments in lieu of taxes abated. As of December 31, 2017 payments in lieu of taxes amounted to \$1,295,301 and is included in general revenues in the Statement of Activities.

Each agreement was negotiated under a state law (Property Tax Abatement Act, Tax Code Chapter 312) allowing localities to abate property taxes for a variety of economic purposes, including business relocation, retention, and expansion for a period not to exceed 10 years. The abatements may be granted to any business located within or promising to relocate to a local government’s geographic area. Localities may grant abatements of all or a portion of annual property taxes through a direct reduction of the entity’s property tax bill.

Pecos County, Texas

Notes to the Financial Statements

The County has not made any commitments as part of the agreements other than to reduce taxes. The County is not subject to any tax abatement agreements entered into by other governmental entities. The county has chosen to disclose information about some of its tax abatement agreements. It established a quantitative threshold of 10 percent of the total dollar amount of taxes abated during the year.

Note 16. New Pronouncements

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – This statement changes the focus of accounting of postemployment benefits other than pensions from whether they are responsibility funding the benefits over time to a point-in-time liability that is reflected on the employer's financial statements for any actuarially unfunded portion of benefits earned to date. This statement will become effective for the County in fiscal year 2018.

GASB issued Statement No. 84: *Fiduciary Activities* - The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Pecos County, Texas

Notes to the Financial Statements

Statement No. 87: Leases - The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

The County's management is reviewing the implementation process of these standards by gathering required information.

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Required Supplemental Information

Pecos County, Texas
 Schedule of Funding Progress
 December 31, 2017

Retiree Health Insurance Plan						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Underfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
January 1, 2013	-	\$ 38,301,102	\$ 38,301,102	0.00%	NA	NA
January 1, 2015	-	\$ 50,588,953	\$ 50,588,953	0.00%	NA	NA
January 1, 2017	-	\$ 70,528,753	\$ 70,528,753	0.00%	NA	NA

Note: The Actuarial Valuation of Postretirement Benefits Under GASB 45 report is prepared biannually by CapRisk Consulting Group.

Pecos County, Texas

Texas County District Retirement System

Schedule of Changes in the Employer's Net Pension Liability and Related Ratios for the Employees of Pecos County

December 31, 2017

	<u>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY			
Service cost	\$ 2,982,099	\$ 2,973,703	\$ 2,780,990
Interest (on the total pension liability)	6,096,181	5,759,225	5,343,058
Effect of plan changes	-	(511,212)	-
Effect of assumption changes or inputs	-	927,974	-
Effect of economic/demographic (gains) or losses	(641,945)	(1,264,530)	47,248
Benefit payments/refunds of contributions	(3,573,519)	(3,478,337)	(3,191,714)
Net change in total pension liability	4,862,816	4,406,823	4,979,582
Total pension liability - beginning	75,551,446	71,144,623	66,165,041
TOTAL PENSION LIABILITY - ENDING (a)	<u>\$ 80,414,262</u>	<u>\$ 75,551,446</u>	<u>\$ 71,144,623</u>
PLAN FIDUCIARY NET POSITION			
Contributions - employer	\$ 2,027,782	\$ 2,169,495	\$ 2,159,972
Contributions - employee	1,533,028	1,615,580	1,574,247
Investment income net of investment expenses	4,942,678	(109,580)	4,215,709
Benefit payments/refunds of contributions	(3,573,519)	(3,478,338)	(3,191,714)
Administrative expense	(53,803)	(48,039)	(49,507)
Other	19,186	104,409	(14,286)
Net change in plan fiduciary net position	4,895,352	253,527	4,694,421
Plan fiduciary net position - beginning	66,862,501	66,608,973	61,914,552
PLAN FIDUCIARY NET POSITION - ENDING (b)	<u>\$ 71,757,853</u>	<u>\$ 66,862,500</u>	<u>\$ 66,608,973</u>
NET PENSION LIABILITY - ENDING (a)-(b)	\$ 8,656,409	\$ 8,688,946	\$ 4,535,650
Plan fiduciary net position as a percentage of total pension liability	89.24%	88.50%	93.62%
Covered employee payroll	\$ 21,898,298	\$ 23,079,720	\$ 22,466,129
Net pension liability as a percentage of covered employee payroll	39.53%	37.65%	20.19%

Notes to Schedule:

As of December 31 - Measurement date

Benefit changes. There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Changes of assumptions. There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

Only three years of data is presented in accordance with GASB 68, Paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

Pecos County, Texas
Texas County District Retirement System
Schedule of Employer Contributions
December 31, 2017

	Year Ended December 31,			
	2013	2014	2015	2016
Actuarially determined contribution	\$ 1,987,873	\$ 2,156,748	\$ 2,169,494	\$ 2,027,782
Contributions in relation to the actuarially determined contribution	(1,987,873)	(2,159,972)	(2,169,494)	(2,027,782)
CONTRIBUTION DEFICIENCY (EXCESS)	\$ -	\$ (3,224)	\$ -	\$ -
Covered-employee payroll	\$ 18,595,904	\$ 22,466,129	\$ 23,079,720	\$ 21,898,298
Contributions as a percentage of covered-employee payroll	10.7%	9.6%	9.4%	9.3%

Notes to Schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	1.3 years
Asset valuation method	5-year smoothed market
Inflation	3.00%
Salary increases	Varies by age and service. 4.9% average over career including inflation.
Investment rate of return	8%, net of investment expenses, including inflation
Retirement age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.

Only four years of data is presented in accordance with GASB 68, Paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

Pecos County, Texas

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget (GAAP Basis) and Actual

For the Fiscal Year Ended December 31, 2017

Budget		Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)	
		Original	Final			
REVENUES						
7100	50	Taxes	\$ 15,753,106	\$ 15,753,106	\$ 15,654,806	\$ (98,300)
7100	51	ABC Tax	31,000	31,000	28,312	(2,688)
7100	53	Fines and forfeitures	13,500	13,500	8,768	(4,732)
7100	52	Intergovernmental	443,442	443,442	432,516	(10,926)
7100	55	Charges for services	2,651,200	2,651,200	2,890,695	239,495
7100	82	Payment in lieu of taxes	1,320,000	1,320,000	1,295,301	(24,699)
7100	83	Proceeds from settlement	-	-	34,171	34,171
7100	81	Royalties	75,000	75,000	102,397	27,397
7100	54	Interest	165,500	165,500	322,073	156,573
7100	80	Other	88,200	103,200	849,324	746,124
Total revenues			20,540,948	20,555,948	21,618,363	1,062,415
EXPENDITURES						
Current:						
General government						
7230	400	Office of the County Judge	195,514	206,559	199,964	6,595
7230	403	Office of the County Clerk	356,749	360,349	334,972	25,377
7230	405	Veterans' Administration	54,917	54,967	54,750	217
7230	401	Commissioners' Court	239,640	239,640	218,724	20,916
7230	409	Nondepartmental	4,031,200	3,757,814	3,604,826	152,988
Total general government			4,878,020	4,619,329	4,413,236	206,093
Judicial:						
7242	450	Office of the District Clerk	269,303	269,304	266,123	3,181
7242	426	County Court at Law	52,400	51,922	32,800	19,122
7242	435	83rd District Court	133,700	153,322	152,998	324
7242	436	112th District Court	194,659	194,659	181,771	12,888
7242	437	Office of the 83rd District Attorney	300,989	300,990	247,492	53,498
7242	438	Office of the 112th District Attorney	250,953	251,052	214,105	36,947
7242	451	Justice of the Peace #1	241,905	241,906	233,770	8,136
7242	453	Justice of the Peace #3	103,919	105,969	105,680	289
7242	454	Justice of the Peace #4	42,702	42,704	41,008	1,696
7242	456	Justice of the Peace #6	105,687	105,687	103,424	2,263
7242	475	Office of the County Attorney	325,484	325,484	322,641	2,843
7242	465	County Law Library	14,554	13,205	2,765	10,440
Total judicial			2,036,255	2,056,204	1,904,577	151,627
Financial Administration:						
7247	495	Office of the County Auditor	389,394	396,080	392,034	4,046
7247	497	Office of the County Treasurer	132,314	132,314	132,210	104
7247	499	Office of the Tax Assessor Collector	422,735	423,262	386,207	37,055
7247	503	Data processing	411,100	403,890	325,616	78,274
Total financial administration			1,355,543	1,355,546	1,236,067	119,479

Pecos County, Texas

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget (GAAP Basis) and Actual – Continued

For the Fiscal Year Ended December 31, 2017

			Budgeted Amounts		Actual Amounts	Variance with Final Budget -
			Original	Final		Positive (Negative)
Law enforcement:						
7238	551	Constable Precinct #1	25,101	25,101	24,656	445
7238	553	Constable Precinct #3	28,076	28,076	27,227	849
7238	554	Constable Precinct #4	26,144	26,144	25,588	556
7238	556	Constable Precinct #6	25,727	25,727	25,171	556
7238	561	Public Safety Department	3,300	3,331	3,331	-
7238	560	Office of the Sheriff	1,645,381	1,660,003	1,507,690	152,313
Total law enforcement			1,753,729	1,768,382	1,613,663	154,719
Corrections:						
7245	512	Correctional facility	681,546	715,142	700,852	14,290
7245	570	Adult probation	40,590	40,515	40,397	118
7245	572	Juvenile probation	307,856	307,852	222,930	84,922
Total corrections			1,029,992	1,063,509	964,179	99,330
Health and welfare:						
7235	632	Sanitation department	65,850	70,503	69,952	551
7235	540	EMS	2,105,229	2,213,327	2,189,307	24,020
7235	640	Social services	92,000	112,615	112,615	-
7235	631	Emergency Management/Homeland Security	108,774	117,863	116,919	944
Total health and welfare			2,371,853	2,514,308	2,488,793	25,515
7237		Fire protection	367,250	590,645	558,708	31,937
Culture and recreation:						
7233	660	Recreation	135,075	135,075	129,835	5,240
7233	659	Fort Stockton Golf Course	490,519	530,588	516,448	14,140
7233	658	Iraan Golf Course	205,345	203,753	189,610	14,143
7233	661	Park #1	225,938	223,297	211,286	12,011
7233	662	Park #2	507,395	525,449	500,567	24,882
7233	663	Park #3	301,794	299,330	282,051	17,279
7233	664	Park #4	237,434	209,135	169,394	39,741
7233	696	Historical Commission	13,836	14,768	10,345	4,423
Total culture and recreation			2,117,336	2,141,395	2,009,536	131,859

Pecos County, Texas

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget (GAAP Basis) and Actual – Continued

For the Fiscal Year Ended December 31, 2017

		Budgeted Amounts		Actual Amounts	Variance with Final Budget -	
		Original	Final		Positive (Negative)	
Libraries:						
7249	650	Fort Stockton library	315,523	315,523	291,719	23,804
7249	651	Imperial library	50,879	50,879	50,077	802
7249	652	Iraan library	92,675	92,875	91,962	913
		Total libraries	459,077	459,277	433,758	25,519
7248		Building maintenance	381,582	381,582	373,078	8,504
7240		Utilities	720,000	720,000	644,488	75,512
7239		Conservation	149,270	151,020	126,105	24,915
Public service:						
7246	490	Elections	40,550	36,750	25,542	11,208
7246	590	Pecos County Water	187,429	230,340	245,110	(14,770)
7246	695	Miscellaneous	173,786	173,786	169,860	3,926
		Total public service	401,765	440,876	440,512	364
7250		Airport	284,250	284,250	31,332	252,918
		Total expenditures	18,305,922	18,546,323	17,238,032	1,308,291
		Excess of revenues over expenditures	2,235,026	2,009,625	4,380,331	2,370,706
OTHER FINANCING SOURCES (USES)						
7300 00		Sale of assets	10,000	10,000	33,699	23,699
7300	50	Transfers from other funds	325,000	331,224	332,808	1,584
7300	60	Transfers to other funds	(3,975,000)	(5,777,808)	(5,264,920)	512,888
		Total other financing sources (uses)	(3,640,000)	(5,436,584)	(4,898,413)	538,171
		Net change in fund balances	(1,404,974)	(3,426,959)	(518,082)	2,908,877
		Fund balances - beginning of year	23,928,204	23,928,204	23,928,204	-
		FUND BALANCES - END OF YEAR	\$ 22,523,230	\$ 20,501,245	\$ 23,410,122	\$ 2,908,877

Pecos County, Texas
Road and Bridge Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget (GAAP Basis) and Actual
For the Fiscal Year Ended December 31, 2017

Budget				Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
				Original	Final		
	REVENUES						
7100	50	Taxes		\$ 1,723,990	\$ 1,723,990	\$ 1,658,688	\$ (65,302)
7100	52	Intergovernmental		101,000	101,000	102,661	1,661
7100	55	Fees of office		901,500	901,500	574,749	(326,751)
		Total revenues		2,726,490	2,726,490	2,336,098	(390,392)
	EXPENDITURES						
	Highways and streets						
	Precinct #1:						
621 01		Salaries and benefits		433,254	432,582	408,615	23,967
621 02		Supplies		5,800	6,381	6,343	38
621 03		Fuel		45,000	45,324	45,323	1
621 04		Uniforms		1,000	1,233	1,233	-
621 05		Communications		2,600	1,929	1,905	24
621 06		Travel		2,400	2,594	2,454	140
621 07		Registration fees		1,000	625	625	-
621 08		Repairs and maintenance		17,000	17,367	16,962	405
621 09		Lease expenditures		-	169	169	-
621 12		Equipment		-	717	717	-
621 00		Road improvements		5,000	4,132	4,132	-
		Total Precinct #1		513,054	513,053	488,478	24,575
	Precinct #2:						
622 01		Salaries and benefits		400,055	393,790	381,844	11,946
622 02		Supplies		7,800	8,150	6,418	1,732
622 03		Fuel		45,000	26,795	26,795	-
622 04		Uniforms		1,000	1,441	1,431	10
622 05		Communications		3,000	3,000	2,500	500
622 06		Travel		1,550	1,465	1,068	397
622 07		Registration fees		400	230	230	-
622 08		Repairs and maintenance		11,800	21,865	19,644	2,221
622 09		Lease expenditures		125	125	116	9
622 11		Contract services		1,500	6,600	6,600	-
622 12		Equipment		-	320	320	-
622 00		Road improvements		5,000	-	-	-
		Total Precinct #2		477,230	463,781	446,966	16,815

Pecos County, Texas
Road and Bridge Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget (GAAP Basis) and Actual – Continued
For the Fiscal Year Ended December 31, 2017

		Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
		Original	Final		
Precinct #3:					
623 01	Salaries and benefits	436,592	437,792	428,307	9,485
623 02	Supplies	9,500	16,111	15,091	1,020
623 03	Fuel	40,000	39,959	39,574	385
623 04	Uniforms	900	900	831	69
623 05	Communications	10,000	10,000	5,647	4,353
623 06	Travel	2,400	2,400	1,683	717
623 07	Registration fees	1,000	500	497	3
623 08	Repairs and maintenance	38,240	51,549	43,227	8,322
623 10	Dues and subscriptions	200	241	241	-
623 12	Equipment	-	3,134	2,345	789
623 00	Road improvements	5,000	-	-	-
	Total Precinct #3	543,832	562,586	537,443	25,143
Precinct #4:					
624 01	Salaries and benefits	527,566	481,652	476,306	5,346
624 02	Supplies	7,000	16,075	15,756	319
624 03	Fuel	55,000	52,539	52,538	1
624 04	Uniforms	1,500	1,308	1,202	106
624 05	Communications	3,000	3,000	2,433	567
624 06	Travel	1,000	1,184	1,184	-
624 07	Registration fees	500	316	244	72
624 08	Repairs and maintenance	28,200	44,484	42,296	2,188
624 09	Lease expenditures	3,000	3,000	1,468	1,532
624 11	Contract services	3,000	1,450	864	586
624 12	Equipment	-	2,922	2,922	-
624 00	Road improvements	5,000	26,835	26,834	1
	Total Precinct #4	634,766	634,765	624,047	10,718

Pecos County, Texas
Road and Bridge Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget (GAAP Basis) and Actual – Continued
For the Fiscal Year Ended December 31, 2017

		Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)	
		Original	Final			
General:						
620 20		Employee insurance	370,000	359,740	348,332	11,408
620 22		City paving	-	-	-	-
620 23		Lateral roads #1	10,250	10,250	9,482	768
620 24		Lateral roads #2	10,250	9,420	9,420	-
620 25		Lateral roads #3	10,250	10,250	10,250	-
620 26		Lateral roads #4	10,250	10,250	10,155	95
620 27		Road improvements	-	334,440	329,768	4,672
620 29		Contract services	53,000	135,600	123,380	12,220
		Total general	464,000	869,950	840,787	29,163
		Total highways and streets	2,632,882	3,044,135	2,937,721	106,414
Capital Outlay:						
7290	622	Precinct #2	-	10,879	10,879	-
7234	621	Precinct #1	-	12,169	12,169	-
		Total capital outlay	-	23,048	23,048	-
		Total expenditures	2,632,882	3,067,183	2,960,769	106,414
		Excess (deficiency) of revenues over expenditures	93,608	(340,693)	(624,671)	(283,978)
OTHER FINANCING SOURCES (USES)						
7300	50	Transfers from other funds	-	25,000	25,000	-
		Total other financing sources (uses)	-	25,000	25,000	-
		Net change in fund balance	93,608	(315,693)	(599,671)	(283,978)
		Fund balances - beginning of year	1,101,665	1,101,665	1,101,665	-
		FUND BALANCES - END OF YEAR	\$ 1,195,273	\$ 785,972	\$ 501,994	\$ (283,978)

Pecos County, Texas

Notes to Schedules of Revenues, Expenditures and Changes in Fund Balances Budget (GAAP Basis) and Actual

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

- A. In the event the Commissioners' Court increases property taxes three percent or less, no public hearing is required. If the Court increases taxes more than three but less than eight percent, then a public hearing is required prior to final adoption. If the Court increases taxes more than eight percent, a public hearing is required and taxes are subject to a rollback petition and election.
- B. Public hearings are conducted at the Pecos County Courthouse to obtain taxpayer comments.
- C. Prior to January 1, the budget is legally enacted through adoption of an order by the Commissioners' Court.
- D. Budgeted amounts may be transferred between line items of the budget within the same fund. Any amendments which alter the line items or total expenditures of any department must be approved by the Commissioners' Court. There must be an emergency condition existing in order for the Court to increase the total budget.
- E. Budgets for the various funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).
- F. Expenditures in excess of appropriations are required by state statutes to be reported down to the departmental level.
- G. The budgeted amounts presented in these statements are as originally adopted, or as amended by, the Commissioners' Court during the year ended December 31, 2017.
- H. The Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget (GAAP Basis) and Actual – General Fund and Road and Bridge Fund present a comparison of budgetary data to actual results.

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Supplementary Information

Pecos County, Texas
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2017

	Special Revenue Funds	Capital Projects Fund	Total Nonmajor Funds
ASSETS			
Cash and cash equivalents	\$ 1,666,509	\$ 4,484	\$ 1,670,993
Other	36,950	-	36,950
TOTAL ASSETS	\$ 1,703,459	\$ 4,484	\$ 1,707,943
LIABILITIES			
Accounts payable	\$ 334,107	-	\$ 334,107
Total liabilities	334,107	-	334,107
FUND BALANCES			
Restricted			
Federal and state grants	98,175	-	98,175
Legislation	1,271,177	-	1,271,177
Total fund balances	1,369,352	4,484	1,373,836
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,703,459	\$ 4,484	\$ 1,707,943

Pecos County, Texas

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year December 31, 2017

	Special Revenue Funds	Capital Projects Fund	Total Nonmajor Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Fines and forfeitures	\$ 31,265	\$ -	\$ 31,265
Intergovernmental	1,325,116	-	1,325,116
Charges for services	731,340	-	731,340
Interest	4,028	-	4,028
Other	11,246	4,484	15,730
	<u>2,102,995</u>	<u>4,484.00</u>	<u>2,107,479</u>
Total revenues	2,102,995	4,484.00	2,107,479
EXPENDITURES			
Judicial	121,076	-	121,076
Corrections	1,482,720	-	1,482,720
Health and welfare	370,575	-	370,575
Public service	233,900	-	233,900
Capital outlay	58,710	-	58,710
	<u>2,266,981</u>	<u>-</u>	<u>2,266,981</u>
Total expenditures	2,266,981	-	2,266,981
Excess of revenue over expenditures	(163,986)	4,484.00	(159,502)
OTHER FINANCING SOURCES (USES)			
Transfers in	11,964	-	11,964
Transfers (out)	(11,964)	-	(11,964)
	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	-	-	-
Net change in fund balances	(163,986)	4,484	(159,502)
Fund balances - beginning of year	1,533,338	-	1,533,338
	<u>1,533,338</u>	<u>-</u>	<u>1,533,338</u>
FUND BALANCES, end of year	<u>\$ 1,369,352</u>	<u>\$ 4,484</u>	<u>\$ 1,373,836</u>

Pecos County, Texas
Special Revenue Funds
Combining Balance Sheet
December 31, 2017

	250	251	255 256	265
	Juvenile Probation Fees	Title IV-E Fund	Juvenile Probation TJPC A-R	Basic Supervision
ASSETS				
Cash	\$ 22,967	\$ 42,915	\$ 39,237	\$ 127,943
Receivables, net of allowance				
Other	64	-	-	-
TOTAL ASSETS	<u>\$ 23,031</u>	<u>\$ 42,915</u>	<u>\$ 39,237</u>	<u>\$ 127,943</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ 479	\$ 1,002
Total liabilities	-	-	479	1,002
FUND BALANCES				
Restricted:				
Federal and state grants	-	42,915	38,758	126,941
Legislation	23,031	-	-	-
Total fund balances	<u>23,031</u>	<u>42,915</u>	<u>38,758</u>	<u>126,941</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 23,031</u>	<u>\$ 42,915</u>	<u>\$ 39,237</u>	<u>\$ 127,943</u>

266	267	268	270	280	281	283	284	285
Community Corrections Program	Intensive Supervision	CSCD Pretrial Division	Adult Probation Fees	County Records Management	County Clerk Records Management	Court Record Preservation Fund	District Court Record Technology Fund	JP Technology Fund
\$ 42,712	\$ 72,502	\$ 14,416	\$ 15,687	\$ 64,587	\$ 316,618	\$ 19,227	\$ 17,625	\$ 54,558
-	-	-	-	236	-	200	216	-
<u>\$ 42,712</u>	<u>\$ 72,502</u>	<u>\$ 14,416</u>	<u>\$ 15,687</u>	<u>\$ 64,823</u>	<u>\$ 316,618</u>	<u>\$ 19,427</u>	<u>\$ 17,841</u>	<u>\$ 54,558</u>
\$ 1	\$ 1,326	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1	1,326	-	-	-	-	-	-	-
42,711	71,176	14,416	-	-	-	-	-	-
-	-	-	15,687	64,823	316,618	19,427	17,841	54,558
<u>42,711</u>	<u>71,176</u>	<u>14,416</u>	<u>15,687</u>	<u>64,823</u>	<u>316,618</u>	<u>19,427</u>	<u>17,841</u>	<u>54,558</u>
<u>\$ 42,712</u>	<u>\$ 72,502</u>	<u>\$ 14,416</u>	<u>\$ 15,687</u>	<u>\$ 64,823</u>	<u>\$ 316,618</u>	<u>\$ 19,427</u>	<u>\$ 17,841</u>	<u>\$ 54,558</u>

Pecos County, Texas
Special Revenue Funds
Combining Balance Sheet – Continued
December 31, 2017

	286	287	370
	County Clerk Archival Fund	County Clerk Vital Statistics Fund	Courthouse Security Fund
ASSETS			
Cash	\$ 279,314	\$ 9,593	\$ 150,913
Receivables, net of allowance			
Other	-	-	101
TOTAL ASSETS	<u>\$ 279,314</u>	<u>\$ 9,593</u>	<u>\$ 151,014</u>
LIABILITIES			
Accounts payable	-	-	-
Total liabilities	-	-	-
FUND BALANCES			
Restricted:			
Federal and state grants	-	-	-
Legislation	279,314	9,593	151,014
Total fund balances	<u>279,314</u>	<u>9,593</u>	<u>151,014</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 279,314</u>	<u>\$ 9,593</u>	<u>\$ 151,014</u>

429 Texas J Regional Advisory Council Fund	430 Texas J Regional Advisory Council Fund	432 Operation Linebacker Fund	433 Stonegarden 15/BP Fund	435 Local Border Security LBSP- 14 Fund	436 Federal Victims of Crime Act Fund	443 High Intensity Drug Trafficking Area Fund
\$ (3,202)	\$ -	\$ -	\$ (11,006)	\$ -	\$ (4,156)	\$ (2,501)
3,468	-	-	12,106	-	4,156	2,501
<u>\$ 266</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 266	\$ -	\$ -	\$ 198	\$ -	\$ -	\$ -
266	-	-	198	-	-	-
-	-	-	-	-	-	-
-	-	-	902	-	-	-
-	-	-	902	-	-	-
<u>\$ 266</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Pecos County, Texas
Special Revenue Funds
Combining Balance Sheet – Continued
December 31, 2017

	446	447	449	500
	CDBG Contract #7214125 Fund	CDBG Contract #7216369 Fund	Border Security II Grant #2534301	County Attorney Hot Check Fund
ASSETS				
Cash	\$ -	\$ -	\$ (8,220)	\$ 16,686
Receivables, net of allowance				
Other	-	3,500	8,220	-
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 3,500</u>	<u>\$ -</u>	<u>\$ 16,686</u>
LIABILITIES				
Accounts payable	\$ -	\$ 242,242	\$ -	\$ 5,084
Total liabilities	-	242,242	-	5,084
FUND BALANCES				
Restricted:				
Federal and state grants	-	(238,742)	-	-
Legislation	-	-	-	11,602
Total fund balances	-	(238,742)	-	11,602
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ -</u>	<u>\$ 3,500</u>	<u>\$ -</u>	<u>\$ 16,686</u>

505 County Attorney Pre-Trial Intervention Fund	510 Sheriff Discretionary Fund	511 Forfeiture Shared Revenue Fund	530 83rd District Attorney Hot Check Funds	540 83rd District Attorney Drug Forfeiture Fund	560 112th District Attorney Discretionary Fund	561 112th District Attorney Hot Check Fund	Total
\$ 133,655	\$ 32,474	\$ 43,412	\$ 23,974	\$ 111,414	\$ 42,960	\$ 205	\$ 1,666,509
1,531	-	-	-	-	651	-	36,950
<u>\$ 135,186</u>	<u>\$ 32,474</u>	<u>\$ 43,412</u>	<u>\$ 23,974</u>	<u>\$ 111,414</u>	<u>\$ 43,611</u>	<u>\$ 205</u>	<u>\$ 1,703,459</u>
\$ 6,200	\$ -	\$ -	\$ -	\$ 77,309	\$ -	\$ -	\$ 334,107
6,200	-	-	-	77,309	-	-	334,107
-	-	-	-	-	-	-	98,175
<u>128,986</u>	<u>32,474</u>	<u>43,412</u>	<u>23,974</u>	<u>34,105</u>	<u>43,611</u>	<u>205</u>	<u>1,271,177</u>
<u>128,986</u>	<u>32,474</u>	<u>43,412</u>	<u>23,974</u>	<u>34,105</u>	<u>43,611</u>	<u>205</u>	<u>1,369,352</u>
<u>\$ 135,186</u>	<u>\$ 32,474</u>	<u>\$ 43,412</u>	<u>\$ 23,974</u>	<u>\$ 111,414</u>	<u>\$ 43,611</u>	<u>\$ 205</u>	<u>\$ 1,703,459</u>

Pecos County, Texas
Special Revenue Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Fiscal Year Ended December 31, 2017

	250	251	255 256	265
	Juvenile Probation Fees	Title IV-E Fund	Juvenile Probation TJPC A-R	Basic Supervision
REVENUES				
Fines and forfeitures	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	103,099	198,992
Charges for services	1,335	-	-	422,534
Interest	-	438	-	1,963
Other	-	-	-	11,246
Total revenues	1,335	438	103,099	634,735
EXPENDITURES				
Judicial	-	-	-	-
Corrections	-	1,600	85,656	636,385
Health and welfare	-	-	-	-
Public service	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	-	1,600	85,656	636,385
Excess (deficiency) of revenues over (under) expenditures	1,335	(1,162)	17,443	(1,650)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	(10,964)
Total other financing sources (uses)	-	-	-	(10,964)
Net change in fund balances	1,335	(1,162)	17,443	(12,614)
Fund balances - beginning of year	21,696	44,077	21,315	139,555
FUND BALANCES - END OF YEAR	\$ 23,031	\$ 42,915	\$ 38,758	\$ 126,941

266	267	268	270	280	281	283	284	285
Community Corrections Program	Intensive Supervision	CSCD Pretrial Division	Adult Probation Fees	County Records Management	County Clerk Records Management	Court Record Preservation Fund	District Court Record Technology Fund	JP Technology Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
86,148	398,516	14,416	-	-	-	-	-	-
-	-	-	3,606	4,874	74,739	2,921	3,334	12,263
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
86,148	398,516	14,416	3,606	4,874	74,739	2,921	3,334	12,263
-	-	-	-	-	-	-	-	-
66,048	461,966	-	-	-	-	-	-	6,209
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
66,048	461,966	-	-	-	-	-	-	6,209
20,100	(63,450)	14,416	3,606	4,874	74,739	2,921	3,334	6,054
-	11,964	-	-	-	-	-	-	-
(1,000)	-	-	-	-	-	-	-	-
(1,000)	11,964	-	-	-	-	-	-	-
19,100	(51,486)	14,416	3,606	4,874	74,739	2,921	3,334	6,054
23,611	122,662	-	12,081	59,949	241,879	16,506	14,507	48,504
\$ 42,711	\$ 71,176	\$ 14,416	\$ 15,687	\$ 64,823	\$ 316,618	\$ 19,427	\$ 17,841	\$ 54,558

Pecos County, Texas
Special Revenue Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance – Continued
For the Fiscal Year Ended December 31, 2017

	286	287	370
	County Clerk Archival Fund	County Clerk Vital Statistics Fund	Courthouse Security Fund
REVENUES			
Fines and forfeitures	\$ -	\$ -	\$ -
Intergovernmental	-	-	-
Charges for services	73,994	1,117	20,885
Interest	-	-	-
Other	-	-	-
Total revenues	<u>73,994</u>	<u>1,117</u>	<u>20,885</u>
EXPENDITURES			
Judicial	-	-	-
Corrections	-	-	28,664
Health and welfare	-	-	-
Public service	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>28,664</u>
Excess (deficiency) of revenues over (under) expenditures	73,994	1,117	(7,779)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers (out)	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	73,994	1,117	(7,779)
Fund balances - beginning of year	<u>205,320</u>	<u>8,476</u>	<u>158,793</u>
FUND BALANCES - END OF YEAR	<u>\$ 279,314</u>	<u>\$ 9,593</u>	<u>\$ 151,014</u>

429 Texas J Regional Advisory Council Grant	430 Texas J Regional Advisory Council Grant	432 Operation Linebacker Fund	433 Border Prosecution Fund	435 Local Border Security LBSP- 14 Fund	436 Federal Victims of Crime Act Fund	443 High Intensity Drug Trafficking Area Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
16,049	35,201	32,186	164,908	30,557	63,799	68,279
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
16,049	35,201	32,186	164,908	30,557	63,799	68,279
-	-	-	-	-	-	-
-	-	32,186	164,006	-	-	-
16,049	35,201	-	-	-	-	-
-	-	-	-	30,557	63,799	68,279
-	-	-	-	-	-	-
16,049	35,201	32,186	164,006	30,557	63,799	68,279
-	-	-	902	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	902	-	-	-
-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ 902	\$ -	\$ -	\$ -

Pecos County, Texas
Special Revenue Funds
Combining Statement of Revenues, Expenditures and
Changes in Fund Balance – Continued
For the Fiscal Year Ended December 31, 2017

	446	447	449	500
	TDHCA Contract #1001407 Fund	CDBG Contract #711361 Fund	Border Security II Grant #2534301	County Attorney Hot Check Fund
REVENUES				
Fines and forfeitures	\$ -	\$ -	\$ -	\$ -
Intergovernmental	4,180	97,183	8,220	-
Charges for services	-	-	-	2,466
Interest	-	-	-	-
Other	-	-	-	-
Total revenues	<u>4,180</u>	<u>97,183</u>	<u>8,220</u>	<u>2,466</u>
EXPENDITURES				
Judicial	-	-	-	1,503
Corrections	-	-	-	-
Health and welfare	-	319,325	-	-
Public service	4,180	-	8,220	-
Capital outlay	-	-	-	-
Total expenditures	<u>4,180</u>	<u>319,325</u>	<u>8,220</u>	<u>1,503</u>
Excess (deficiency) of revenues over (under) expenditures	-	(222,142)	-	963
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	(222,142)	-	963
Fund balances - beginning of year	-	(16,600)	-	10,639
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ (238,742)</u>	<u>\$ -</u>	<u>\$ 11,602</u>

505 County Attorney Pre-Trial Intervention Fund	510 Sheriff's Discretionary Fund	511 Forfeiture Shared Revenue Fund	530 83rd District Attorney Hot Check Funds	540 83rd District Attorney Drug Forfeiture Funds	560 112th District Attorney Discretionary Fund	561 112th District Attorney Hot Check Fund	Total
\$ -	\$ -	\$ 9,978	\$ -	\$ -	\$ 21,287	\$ -	\$ 31,265
-	3,383	-	-	-	-	-	1,325,116
107,272	-	-	-	-	-	-	731,340
-	-	-	245	1,027	355	-	4,028
-	-	-	-	-	-	-	11,246
107,272	3,383	9,978	245	1,027	21,642	-	2,102,995
109,736	-	-	-	9,837	-	-	121,076
-	-	-	-	-	-	-	1,482,720
-	-	-	-	-	-	-	370,575
-	-	58,865	-	-	-	-	233,900
-	-	58,710	-	-	-	-	58,710
109,736	-	117,575	-	9,837	-	-	2,266,981
(2,464)	3,383	(107,597)	245	(8,810)	21,642	-	(163,986)
-	-	-	-	-	-	-	11,964
-	-	-	-	-	-	-	(11,964)
-	-	-	-	-	-	-	-
(2,464)	3,383	(107,597)	245	(8,810)	21,642	-	(163,986)
131,450	29,091	151,009	23,729	42,915	21,969	205	1,533,338
\$ 128,986	\$ 32,474	\$ 43,412	\$ 23,974	\$ 34,105	\$ 43,611	\$ 205	\$ 1,369,352

Pecos County, Texas
 Agency Funds
 Combining Statement of Fiduciary Assets and Liabilities
 December 31, 2017

	Pecos County Golf Course	Bond Fund	Permian Basin Adult Probation	Juvenile Probation	District Clerk Fee Account	District Clerk Trust Fund	Tax Assessor Collector
ASSETS							
Cash	\$ 11,693	\$ 66,983	\$ 89,539	\$ 185	\$ 9,549	\$ 585,555	\$ 2,688,877
TOTAL ASSETS	<u>\$ 11,693</u>	<u>\$ 66,983</u>	<u>\$ 89,539</u>	<u>\$ 185</u>	<u>\$ 9,549</u>	<u>\$ 585,555</u>	<u>\$ 2,688,877</u>
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other governments	11,693	-	36,545	-	9,549	-	2,688,877
Due to beneficiaries	-	66,983	52,994	185	-	585,555	-
TOTAL LIABILITIES	<u>\$ 11,693</u>	<u>\$ 66,983</u>	<u>\$ 89,539</u>	<u>\$ 185</u>	<u>\$ 9,549</u>	<u>\$ 585,555</u>	<u>\$ 2,688,877</u>

Edward Petsch Arts Fund	Sheriff's Bond Account	Jail Commissary Account	Trish King Bond Account	County Clerk	Justice of the Peace # 3	Justice of the Peace # 6	Total
\$ 235,130	\$ 49,808	\$ 11,838	\$ 71,613	\$ 2,444	\$ 40	\$ -	\$ 3,823,254
\$ 235,130	\$ 49,808	\$ 11,838	\$ 71,613	\$ 2,444	\$ 40	\$ -	\$ 3,823,254
\$ -	\$ -	\$ 11,838	\$ -	\$ 2,444	\$ -	\$ -	\$ 14,282
-	-	-	-	-	-	-	2,746,664
235,130	49,808	-	71,613	-	40	-	1,062,308
\$ 235,130	\$ 49,808	\$ 11,838	\$ 71,613	\$ 2,444	\$ 40	\$ -	\$ 3,823,254

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Internal Control and Compliance Report

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**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 Judge and
Members of the Commissioners Court
Pecos County, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pecos County, Texas (the County), as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise the County's basic financial statements and have issued our report thereon dated August 20, 2018. Our report includes reference to other auditors who audited the financial statements of Pecos County Memorial Hospital, an enterprise fund of the County, as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance. The financial statements of Pecos County Memorial Hospital were not audited in accordance with Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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 deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and response we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (2017-001). 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.

The Honorable Judge and
Members of the Commissioners Court
Pecos County, Texas

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements including Public Funds Investment Act, noncompliance with which could have a direct and material effect on the determination of financial statements 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 an instance of noncompliance that is required to be reported under the Government Auditing Standards, and which is described in the accompanying schedule of findings and responses as item 2017-001.

Response to Finding

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Midland, Texas
August 20, 2018

Pecos County, Texas

Schedule of Findings and Responses
For the Fiscal Year Ended December 31, 2017

Current Year Financial Reporting Finding

2017-001 Subsequent Unrecorded Liabilities – Material Weakness

Criteria: The County should review subsequent material payments for grant programs and evaluate whether they should be accrued as a liability in accordance with generally accepted accounting principles (GAAP).

Condition: There were material invoices not accrued for in a timely manner relating to grant programs which were not reviewed by the County in a timely manner.

Cause: County management inadvertently excluded invoices related to grant programs from accounts payable.

Effect: The County's accounts payable balances were incorrect resulting in material adjustments.

Recommendation: The County should review invoices related to grant programs and evaluate whether they should be accrued as a liability in a timely manner.

Corrective Action: Management concurs with the recommendation. The County will implement a policy for the County Auditor to review and approve all invoices related to granted programs that are paid subsequent to end of the fiscal year.

Pecos County, Texas

Status of Prior Year Findings and Responses
For the Fiscal Year Ended December 31, 2016

Significant Deficiencies in Internal Control over Financial Reporting

Finding 2016-001

Condition: The County's Department of Motor Vehicles Clerk as the county's tax office did not deposit all collections for fees related to vehicle title transfers which is based on the value of the vehicle. The Texas Department of Transportation (TXDOT) discovered the fraud by noticing an abnormal number of voided receipts for fees from vehicle title transfers. The County tax office clerk would lower the fees from vehicle title transfers by voiding the original receipt and lowering the value of the vehicle. The County tax office clerk would take the difference between the original receipt and the lower fees for vehicle titles transfers, and only account for the lower fee.

Status: The County implemented policies for the County Tax Assessor/Collector to review and approve all voids of fee collections that the clerks create weekly, as well as, implemented policies for the County Auditor to review deposits and void approvals monthly. This audit finding is no longer an issue in 2017.