

CITY OF CENTER
ECONOMIC DEVELOPMENT CORPORATION
Center, Texas

FINANCIAL STATEMENTS

September 30, 2011

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Center
Center, Texas

We have audited the accompanying financial statements of the City of Center Economic Development Corporation (a nonprofit organization), a component unit of the City of Center, Texas, as of and for the year ended September 30, 2011 as listed in the table of contents. These financial statements are the responsibility of City of Center Economic Development Corporation's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Center Economic Development Corporation, a component unit of the City of Center, Texas as of September 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 4 through 5 and 11 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
May 3, 2012



Management's Discussion and Analysis

As management of the City of Center, Texas, we offer readers of the City of Center Economic Development Corporation's financial statements this narrative overview and analysis of the financial activities of the City of Center Economic Development Corporation "EDC" for the fiscal year ended September 30, 2011. Please read it in conjunction with the financial statements and accompanying notes.

Overview of the Financial Statements

The annual financial report consists of two parts: Management's Discussion and Analysis (this section) and the basic financial statements. City of Center EDC is a self-supporting entity and uses a governmental fund to report operations.

The governmental fund statements tell how general services were financed in the short term as well as what remains for future spending.

The government-wide financial statements provide both long-term and short-term information about the EDC's overall financial status. The government-wide statements are presented in a manner similar to a private business, such as real estate development, investment banking, commercial lending, construction management and private consulting. The statement of net assets includes all the EDC's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Financial Highlights

- The net assets of the EDC exceeded its liabilities at the close of the most recent fiscal year by \$1,685,527. Of this amount, all may be used to meet the EDC's ongoing obligations to its economic development mission.
- As of the close of the current fiscal year, the EDC reported an ending fund balance of \$1,674,484, a decrease of \$283,375 from the prior year. The decrease is the result of current year expenditures exceeding revenues.

The following table provides a summary of the EDC's net assets:

	2011	2010	CHANGE
Cash	\$ 5 504	\$ 2 585	\$ 2 919
Investments	1 210 969	1 923 021	(712 052)
Due from State	41 900	32 253	9 647
Note receivable - City	409 427	-	409 427
Accrued interest receivable	8 143	-	8 143
Construction in progress	11 043	-	11 043
TOTAL ASSETS	1 686 986	1 957 859	(270 873)
Accounts payable	1 459	-	1 459
TOTAL LIABILITIES	1 459	-	1 459
Net Assets:			
Unrestricted	1 685 527	1 957 859	(272 332)
TOTAL NET ASSETS	\$ 1 685 527	\$ 1 957 859	\$ (272 332)

The following table provides a summary of the EDC's changes in net assets:

	<u>2011</u>	<u>2010</u>	<u>CHANGE</u>
Revenues:			
Sales tax	\$ 477 075	\$ 372 932	\$ 104 143
Interest	25 325	24 414	911
Miscellaneous	-	62 257	(62 257)
TOTAL REVENUES	<u>502 400</u>	<u>459 603</u>	<u>42 797</u>
Expenses:			
Administration	39 083	12 500	26 583
Supplies	191	75	116
Contractual	18 023	2 270	15 753
Sundry	3 152	12 626	(9 474)
Incentives	278 520	169 320	109 200
TOTAL EXPENSES	<u>338 969</u>	<u>196 791</u>	<u>142 178</u>
INCOME	163 431	262 812	(99 381)
Non-Operating Revenue (Expense):			
Transfer to water and sewer	(435 763)	-	(435 763)
CHANGE IN NET ASSETS	<u>(272 332)</u>	<u>262 812</u>	<u>(535 144)</u>
Beginning net assets	<u>1 957 859</u>	<u>1 695 047</u>	<u>262 812</u>
ENDING NET ASSETS	<u>\$ 1 685 527</u>	<u>\$ 1 957 859</u>	<u>\$ (272 332)</u>

Government-Wide Financial Analysis

Operating Activities. Operating activities increased the EDC's net assets by \$163,431. Key elements of this increase are as follows:

Expenses of the EDC increased \$142,178 (72.2%) from the prior year. These expense increases are primarily the result of various business assistance projects.

Maintaining a high availability of net assets is based on the prior dedication of expenses and future revenues for the local participation requirements of the Loop 500 extension project, which is estimated to require \$1,000,000 of funding within the upcoming year based upon the TxDOT project schedule.

Long-Term Debt. The EDC currently has \$-0- in outstanding debt.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate as of September 2011 for Shelby County, according to Texas Workforce Commission statistics is 7.9%. The Texas unemployment rate for September 2011, according to the Texas Workforce Commission is 8.4% and 9.6% for the Deep East Texas Region.
- The State sales tax receipts, relating to the ¼% for economic development purposes for the current fiscal year, totaled \$477,075, an increase of \$104,143 or (28%) from the previous year, indicating a stable retail economy despite national and state economic trends. The continued growth of retail outlets has produced increases in overall retail sales which is maintaining this healthy growth pattern.
- Economic trends in the region compare favorably with state and national indices.

All of these factors were considered in preparing the EDC's budget for the 2012 fiscal year.

During the current fiscal year, unreserved fund balance increased to \$1,675,484. The EDC has appropriated \$1,000,000 of this amount for spending in the 2012 fiscal year budget to be used towards the completion of the Loop 500 extension project.

Requests for Information

This financial report is designed to provide a general overview of the City of Center EDC for all those with an interest in the EDC's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Center Economic Development Corporation, P. O. Box 1744, 617 Tenaha Street, Center, Texas, 75935-1744.

CITY OF CENTER
ECONOMIC DEVELOPMENT CORPORATION
GOVERNMENTAL FUND BALANCE SHEET/
STATEMENT OF NET ASSETS
September 30, 2011

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
ASSETS			
Cash	\$ 5 504	\$ -	\$ 5 504
Investments	1 210 969	-	1 210 969
Due from State	41 900	-	41 900
Note receivable - City	409 427	-	409 427
Accrued interest receivable	8 143	-	8 143
Construction in progress	-	11 043	11 043
TOTAL ASSETS	\$ 1 675 943	11 043	1 686 986
LIABILITIES			
Accounts payable	\$ 1 459	-	1 459
TOTAL LIABILITIES	1 459	-	1 459
FUND BALANCE/NET ASSETS			
Fund Balance:			
Unreserved	674 484	(674 484)	-
Committed for Loop 500	1 000 000	(1 000 000)	-
TOTAL FUND BALANCE	1 674 484	(1 674 484)	-
TOTAL LIABILITIES AND FUND BALANCE	\$ 1 675 943		
NET ASSETS			
Unrestricted		1 685 527	1 685 527
TOTAL NET ASSETS		\$ 1 685 527	\$ 1 685 527

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

CITY OF CENTER
 ECONOMIC DEVELOPMENT CORPORATION
 STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE / STATEMENT OF ACTIVITIES
 For the Year Ended September 30, 2011

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF ACTIVITIES
Revenues:			
Sales tax	\$ 477 075	\$ -	\$ 477 075
Interest income	25 325	-	25 325
TOTAL REVENUES	502 400	-	502 400
Expenditures:			
Administration	39 083	-	39 083
Contractual	18 023	-	18 023
Supplies	191	-	191
Sundry	3 152	-	3 152
Incentives	278 520	-	278 520
Capital projects	446 806	(446 806)	-
TOTAL EXPENDITURES	785 775	(446 806)	338 969
NET INCOME	(283 375)	446 806	163 431
Non-Operating Revenue (Expense):			
Transfer to water and sewer	-	(435 763)	(435 763)
CHANGE IN NET ASSETS	(283 375)	11 043	(272 332)
Fund Balance/Net Assets:			
Beginning of year	1 957 859	-	1 957 859
END OF YEAR	\$ 1 674 484	\$ 11 043	\$ 1 685 527

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

CITY OF CENTER
ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Center Economic Development Corporation "the Corporation" conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

A. Reporting Entity

The Corporation was organized in 1995 and is a component unit of the City of Center. The Corporation is a 4A nonprofit industrial development corporation specifically governed by the Development Corporation Act. The purpose of the Corporation is to promote, assist, and enhance economic development.

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

The Corporation uses only governmental funds to report their operations and are engaged in a single program. For this reason, the Corporation has combined their fund financial statements and their government-wide financial statements by providing a columnar (line-by-line) reconciliation on the face of the financial statements.

Government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

The following governmental fund is reported:

The *general fund* is the primary operating fund. It accounts for all financial resources.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Corporation is authorized to invest in securities that are listed in Texas House Bill 2459, *Public Funds Investment Act of 1995*.

The Corporation's deposits were fully insured or collateralized as required at September 30, 2011. At year end, the carrying amount of deposits in the Corporation's operating account was \$5,504 and the respective bank balance totaled \$5,504.

All investments held at September 30, 2011 are insured or registered, or held by the Corporation or its agent in the Corporation's name (Category 1).

CITY OF CENTER
 ECONOMIC DEVELOPMENT CORPORATION
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 September 30, 2011

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

The Corporation's investments as of September 30, 2011 are:

	<u>CARRYING AMOUNT</u>	<u>MARKET VALUE</u>	<u>WEIGHTED AVERAGE MATURITIES (DAYS)</u>
Local Government			
Investment Cooperative	\$ 61 940	\$ 61 940	42
Certificates of Deposit	1 149 029	1 149 029	310
TOTAL INVESTMENT	<u>\$ 1 210 969</u>	<u>\$ 1 210 969</u>	

Although Local Government Investment Cooperative had a weighted average maturity of 43 days, the Corporation considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value. The Corporation concentrates its investments on short-term investments in order to limit market risk caused by changes in interest rates. The maximum allowed maturity of an investment by the Corporation is three years.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. The Corporation's depository fully collateralizes the Corporation's deposits as outlined above.

NOTE 3 - DUE FROM STATE

Due from State is the amount due the Corporation for September 2011 sales tax remitted by the State in October 2011.

NOTE 4 - ADMINISTRATION

The Corporation made payments to City of Center in the amount of \$39,083 for administration.

NOTE 5 - DUE FROM CITY

During the year, the Corporation loaned the City up to \$450,000 to be repaid over 10 years at 3% interest. As of September 30, 2011, the City has drawn \$409,427 of the amount.

NOTE 6 - CONSTRUCTION IN PROGRESS

The Corporation expanded water and sewer lines along State Highway 87 and Raymond Drive to increase development, and transferred \$435,763 of completed assets to the water and sewer fund during the year. At September 30, the Austin Street project has accumulated cost of \$11,043.

NOTE 7 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 3, 2012, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CENTER
 ECONOMIC DEVELOPMENT CORPORATION
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 For the Year Ended September 30, 2011

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:			
Economic development sales tax	\$ 372 500	\$ 477 075	\$ 104 575
Interest income	40 000	25 325	(14 675)
TOTAL REVENUES	<u>412 500</u>	<u>502 400</u>	<u>89 900</u>
Expenditures:			
Administration	12 500	39 083	(26 583)
Contractual	3 050	18 023	(14 973)
Supplies	100	191	(91)
Sundry	2 500	3 152	(652)
Incentives	275 000	278 520	(3 520)
Capital projects	200 000	446 806	(246 806)
TOTAL EXPENDITURES	<u>493 150</u>	<u>785 775</u>	<u>(292 625)</u>
CHANGE IN NET ASSETS	(80 650)	(283 375)	(202 725)
Fund balance beginning of year	<u>1 957 859</u>	<u>1 957 859</u>	<u>-</u>
FUND BALANCE END OF YEAR	<u>\$ 1 877 209</u>	<u>\$ 1 674 484</u>	<u>\$ (202 725)</u>

See independent auditors' report.