

CITY OF CENTER
ECONOMIC DEVELOPMENT CORPORATION
Center, Texas

FINANCIAL STATEMENTS

September 30, 2012

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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, 2012 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, 2012, 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
June 10, 2013



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, 2012. 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 \$1,883,484. Of this amount, \$1,010,805 has already been expended for current infrastructure construction projects, leaving \$872,679 toward future obligations of the EDC in accomplishing its economic development mission.
- As of the close of this fiscal year, the EDC reports an ending fund balance of \$872,679, this is a decrease of \$801,805 from the prior year. The decrease is the result of current year cash expenditures exceeding current year revenues.
- This year's expenses included \$1,000,000 previously earmarked as dedicated funds to be used for local match of the TXDoT project extending Loop 500 from State Highway 7 East to US Highway 96 North.

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

	2012	2011	CHANGE
Cash	\$ (51 709)	\$ 5 504	\$ (57 213)
Investments	511 786	1 210 969	(699 183)
Due from State	30 746	41 900	(11 154)
Note receivable - City	373 713	409 427	(35 714)
Accrued interest receivable	8 143	8 143	-
Construction in progress	1 010 805	11 043	999 762
TOTAL ASSETS	1 883 484	1 686 986	196 498
Accounts payable	-	1 459	(1 459)
TOTAL LIABILITIES	-	1 459	(1 459)

Net Assets:			
Invested in Capital Assets, net	1 010 805	-	1 010 805
Unrestricted	872 679	1 685 527	(812 848)
TOTAL NET ASSETS	<u>\$ 1 883 484</u>	<u>\$ 1 685 527</u>	<u>\$ 197 957</u>

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

	<u>2012</u>	<u>2011</u>	<u>CHANGE</u>
Revenues:			
Sales tax	\$ 426 168	\$ 477 075	\$ (50 907)
Interest	5 591	25 325	(19 734)
TIF loan interest	12 283	-	12 283
Miscellaneous	61 347	-	61 347
TOTAL REVENUES	<u>505 389</u>	<u>502 400</u>	<u>2 989</u>
Expenses:			
Administration	55 814	39 083	16 731
Supplies	107	191	(84)
Contractual	3 750	18 023	(14 273)
Sundry	9 031	3 152	5 879
Incentives	172 454	278 520	(106 066)
TOTAL EXPENSES	<u>241 156</u>	<u>338 969</u>	<u>(97 813)</u>
NET INCOME	264 233	163 431	100 802
Non-Operating Revenue (Expense):			
Transfer to city	<u>(66 276)</u>	<u>(435 763)</u>	<u>369 487</u>
CHANGE IN NET ASSETS	197 957	(272 332)	470 289
Beginning net assets	<u>1 685 527</u>	<u>1 957 859</u>	<u>(272 332)</u>
ENDING NET ASSETS	<u>\$ 1 883 484</u>	<u>\$ 1 685 527</u>	<u>\$ 197 957</u>

Government-Wide Financial Analysis:

Net Assets. The net assets of the EDC are \$1,883,484, which is an increase of \$197,957 from the prior year. This includes current assets that are construction in progress totaling \$1,010,805 for Loop 500 and two smaller projects to widen highway intersections for industrial transportations needs. In 2011, the EDC was the lending entity on a loan agreement for financing improvements within the City's Tax Increment Reinvestment Zone #1, reflected in note receivable with a current balance of \$373,713.

Fund Financial Analysis:

Fund Balance. The fund balance of the EDC at the close of the fiscal year is \$872,679. This is an \$801,805 reduction from last year's fund balance of \$1,674,484. Last year's fund balance included dedicated reserves for Loop 500 construction of \$1,000,000 which was expended during the year. Thus unreserved fund balance actually increased \$198,195. The current fund balance includes \$373,713 as the balance due to the EDC on the Tax Increment Financing District loan and is not liquid. Cash and investments totaling \$460,077 comprise the majority of the fund balance and are completely liquid. No portion of the fund balance is currently dedicated or obligated for future expenditures so that the entire amount is unreserved.

Operating Activities. This year's operating activities increased the EDC's net assets by \$197,957, but reduced the fund balance by \$801,805. Key elements of this increase are as follows:

Revenues from sales taxes decreased \$50,907 (-10.7%) from the prior year, however total revenue increased \$2,989.

Expenses of the EDC decreased \$97,813 from the prior year and included business development assistance of \$172,454, capital infrastructure development of \$1,066,038.

Prior dedicated fund reserve for the local matching fund for construction of Loop 500 extension were disbursed to TXDoT upon the letting of construction bids for this project.

Debt and Capital Assets:

Capital Assets. The EDC currently has Construction in progress for Loop 500 and various smaller street projects.

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 2012 for Shelby County, according to Texas Workforce Commission statistics is 6.2%. The corresponding unemployment rate for September 2012 according to the Texas Workforce Commission is 6.3% and 7.5% for the Deep East Texas Region.
- The ¼% sales tax receipts remitted to the 4(A) Economic Development Corporation for the current fiscal year totaled \$426,168. This amount is a decrease of 10.7% from the previous year. This reduction indicates a significant slowing of the rapid growth of the prior two years primarily resulting from decreases in retail outlets and taxable sales related to oil and gas industry activities.
- Economic trends in the area are contrary to state and national indices and trends due to the reduced operations and activities of the local oil and gas industry.

All of these factors were considered in preparing the EDC's budget for the 2013 fiscal year.

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, 2012

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
ASSETS			
Cash	\$ (51 709)	\$ -	\$ (51 709)
Investments	511 786	-	511 786
Due from State	30 746	-	30 746
Note receivable - City	373 713	-	373 713
Accrued interest receivable	8 143	-	8 143
Construction in progress	-	1 010 805	1 010 805
TOTAL ASSETS	\$ 872 679	\$ 1 010 805	\$ 1 883 484
FUND BALANCE/NET ASSETS			
Fund Balance:			
Unreserved	872 679	(872 679)	-
TOTAL FUND BALANCE	872 679	(872 679)	-
TOTAL LIABILITIES AND FUND BALANCE	\$ 872 679		
NET ASSETS			
Invested in Capital Assets, net of related debt		1 010 805	1 010 805
Unrestricted		872 679	872 679
TOTAL NET ASSETS		\$ 1 883 484	\$ 1 883 484

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, 2012

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF ACTIVITIES
Revenues:			
Sales tax	\$ 426 168	\$ -	\$ 426 168
Interest income	5 591	-	5 591
TIF loan interest	12 283	-	12 283
Miscellaneous	61 347	-	61 347
TOTAL REVENUES	505 389	-	505 389
Expenditures:			
Administration	55 814	-	55 814
Contractual	3 750	-	3 750
Supplies	107	-	107
Sundry	9 031	-	9 031
Incentives	172 454	-	172 454
Capital projects	1 066 038	(1 066 038)	-
TOTAL EXPENDITURES	1 307 194	(1 066 038)	241 156
NET INCOME	(801 805)	1 066 038	264 233
Other Financing Sources (Uses):			
Transfer to City	-	(66 276)	(66 276)
TOTAL OTHER SOURCES (USES)	-	(66 276)	(66 276)
CHANGE IN NET ASSETS	(801 805)	999 762	197 957
Fund Balance/Net Assets:			
Beginning of year	1 674 484	11 043	1 685 527
END OF YEAR	\$ 872 679	\$ 1 010 805	\$ 1 883 484

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, 2012

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, 2012. At year end, the carrying amount of deposits in the Corporation's operating account was \$(51,709) and the respective bank balance totaled \$4,105.

All investments held at September 30, 2012 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, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

The Corporation's investments as of September 30, 2012 are:

	CARRYING AMOUNT	MARKET VALUE	WEIGHTED AVERAGE MATURITIES (DAYS)
Local Government			
Investment Cooperative	\$ 109 446	\$ 109 446	57
Certificates of Deposit	402 340	402 340	310
TOTAL INVESTMENT	\$ 511 786	\$ 511 786	

Although Local Government Investment Cooperative had a weighted average maturity of 57 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 2012 sales tax remitted by the State in October 2012.

NOTE 4 - ADMINISTRATION

The Corporation made payments to City of Center in the amount of \$55,814 for administration.

NOTE 5 - DUE FROM CITY

During 2011, the Corporation loaned the City up to \$450,000 to be repaid over 10 years at 3% interest. As of September 30, 2012, the City has \$373,713 outstanding.

NOTE 6 - CONSTRUCTION IN PROGRESS

At September 30, the Cottonford Road and FM 2498 project and the Loop 500 extension project have accumulated cost of \$1,010,805.

NOTE 7 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 10, 2013, 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, 2012

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:			
Economic development sales tax	\$ 462 500	\$ 426 168	\$ (36 332)
Interest income	6 000	5 591	(419)
TIF loan interest	6 000	12 283	6 283
Miscellaneous	-	61 347	61 347
TOTAL REVENUES	<u>474 500</u>	<u>505 389</u>	<u>30 879</u>
Expenditures:			
Administration	42 500	55 814	(13 314)
Contractual	3 050	3 750	(700)
Supplies	100	107	(7)
Sundry	16 500	9 031	7 469
Incentives	-	172 454	(172 454)
Capital projects	400 000	1 066 038	(666 038)
TOTAL EXPENDITURES	<u>462 150</u>	<u>1 307 194</u>	<u>(845 044)</u>
CHANGE IN NET ASSETS	12 350	(801 805)	(814 155)
Fund balance beginning of year	<u>1 674 484</u>	<u>1 674 484</u>	<u>-</u>
FUND BALANCE END OF YEAR	<u>\$ 1 686 834</u>	<u>\$ 872 679</u>	<u>\$ (814 155)</u>

See independent auditors' report.