

CITY OF CENTER
ECONOMIC DEVELOPMENT CORPORATION
Center, Texas

FINANCIAL STATEMENTS

September 30, 2017

C O N T E N T S

Independent Auditors' Report.....	3
Management's Discussion and Analysis	5
Governmental Fund Balance Sheet / Statement of Net Position.....	8
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance / Statement of Activities	9
Notes to the Financial Statements	10
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	14
Supplementary Information:	
Project Schedule	16

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, 2017 and the related notes to the 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the City of Center Economic Development Corporation, a component unit of the City of Center, Texas as of September 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of Center Economic Development Corporation Fund and do not purport to, and do not present fairly the financial position of the City of Center, Texas as of September 30, 2017, the changes in its financial position, or where applicable, its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-7 and 13 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 City of Center Economic Development Corporation's basic financial statements. The project schedule on page 15 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The project schedule is the responsibility of management and was 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 the auditing standards generally accepted in the United States of America. In our opinion, the project schedule is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
March 8, 2018



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, 2017. 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 position 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 position of the EDC exceeded its liabilities at the close of the most recent fiscal year by \$1,704,916.
- As of the close of this fiscal year, the EDC reports an ending fund balance of \$1,340,908, this is a decrease of \$33,334 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 position:

	2017	2016	CHANGE
Cash	\$ 970	\$ 106	\$ 864
Investments	832 412	838 142	(5 730)
Due from State	31 004	29 868	1 136
Notes receivable	470 934	500 153	(29 219)
Accrued interest receivable	5 588	5 973	(385)
Capital assets	364 008	46 083	317 925
TOTAL ASSETS	1 704 916	1 420 325	284 591
Net Position:			
Invested in capital assets, net	364 008	46 083	317 925
Unrestricted	1 340 908	1 374 242	33 334
TOTAL NET POSITION	\$ 1 704 916	\$ 1 420 325	\$ 284 591

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

	2017	2016	CHANGE
Revenues:			
Sales tax	\$ 383 100	\$ 384 597	\$ (1 497)
Interest	7 186	4 308	2 878
TIF loan interest	8 620	8 104	516
Other revenue	353	1 600	(1 247)
TOTAL REVENUES	<u>399 259</u>	<u>398 609</u>	<u>650</u>
Expenses:			
Administration	53 600	53 600	-
Contractual	5 033	24 213	(19 180)
Sundry	14 793	17 669	(2 876)
Incentives	41 242	286 325	(245 083)
TOTAL EXPENSES	<u>114 668</u>	<u>381 807</u>	<u>(267 139)</u>
CHANGE IN NET POSITION	284 591	16 802	267 789
Beginning net position	<u>1 420 325</u>	<u>1 403 523</u>	<u>16 802</u>
ENDING NET POSITION	<u>\$ 1 704 916</u>	<u>\$ 1 420 325</u>	<u>\$ 284 591</u>

Government-Wide Financial Analysis:

Net Position. The net position of the EDC is \$1,704,916 which is an increase of \$284,591 from the prior year. 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 \$280,934. In 2014, the note was refinanced to extend the terms and reduce the annual payment amount.

Fund Financial Analysis:

Fund Balance. The fund balance of the EDC at the close of the fiscal year is \$1,340,908. This is a \$33,334 decrease from last year's fund balance of \$1,374,242. The current fund balance includes \$280,934 as the balance due to the EDC on the Tax Increment Financing District loan and is not liquid. Cash and investments totaling \$833,382 comprise the majority of the fund balance and are completely liquid. No portion of the fund balance is currently assigned or committed for future expenditures so that the entire amount is classified as unrestricted.

Operating Activities. This year's operating activities increased the EDC's net position by \$284,591. Key elements of this increase are as follows:

Revenues from sales taxes decreased \$1,497 (0.38%) from the prior year.

Expenses of the EDC decreased \$267,139 from the prior year and included business development assistance of \$41,242.

Debt and Capital Assets:

Capital Assets. The EDC currently had capital assets consisting of land and construction in progress of \$364,008.

	2017	2016
Land	\$ 315 000	\$ -
Construction in Progress	<u>48 508</u>	<u>46 083</u>
Total Capital Assets	<u>\$ 364 008</u>	<u>\$ 46 083</u>

Program Commitments. The EDC currently has workforce training program commitments to Tyson Foods.

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 August 2017 for Shelby County, according to Texas Workforce Commission statistics is 5.4%. The corresponding unemployment rates for August 2017 according to the Texas Workforce Commission is 4.5% for the State of Texas and 4.5% for the Deep East Texas Region.
- The $\frac{1}{4}$ % sales tax receipts remitted to the 4(A) Economic Development Corporation for the current fiscal year totaled \$383,100. This amount is a decrease of \$1,497 (0.38%) from the previous year.
- Economic trends in the area lag behind state and nation trends due to transferred oil and gas industry activity. However, the City has met some success in retaining and recruiting major employers.

All of these factors were considered in preparing the EDC's budget for the 2018 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 POSITION
September 30, 2017

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET POSITION
ASSETS			
Current Assets:			
Cash	\$ 970	\$ -	\$ 970
Investments	832 412	-	832 412
Due from State	31 004	-	31 004
Notes receivable	470 934	-	470 934
Accrued interest receivable	5 588	-	5 588
TOTAL CURRENT ASSETS	<u>1 340 908</u>	<u>-</u>	<u>1 341 548</u>
Capital Assets:			
Land	-	315 500	315 500
Construction in progress	-	48 508	48 508
TOTAL CAPITAL ASSETS	<u>-</u>	<u>364 008</u>	<u>364 008</u>
TOTAL ASSETS	<u>1 340 908</u>	<u>364 008</u>	<u>1 704 916</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 1 340 908</u>	<u>364 008</u>	<u>1 704 916</u>
FUND BALANCE/NET POSITION			
Fund Balance:			
Unreserved	\$ 1 340 908	(1 340 908)	-
TOTAL FUND BALANCE	<u>1 340 908</u>	<u>(1 340 908)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1 340 908</u>		
NET POSITION			
Investment in capital assets		364 008	364 008
Unrestricted		1 340 908	1 340 908
TOTAL NET POSITION		<u>\$ 1 704 916</u>	<u>\$ 1 704 916</u>

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, 2017

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF ACTIVITIES
Revenues:			
Sales tax	\$ 383 100	\$ -	\$ 383 100
TOTAL REVENUES	<u>383 100</u>	<u>-</u>	<u>383 100</u>
Expenditures:			
Administration	53 600	-	53 600
Contractual	5 033	-	5 033
Sundry	14 793	-	14 793
Incentives and projects	41 242	-	41 242
Capital outlay	317 925	(317 925)	-
TOTAL EXPENDITURES	<u>432 593</u>	<u>(317 925)</u>	<u>114 668</u>
NET OPERATING INCOME	<u>(49 493)</u>	<u>317 925</u>	<u>268 432</u>
Other Financing Sources (Uses):			
Interest income	7 186	-	7 186
TIF loan interest	8 620	-	8 620
Other revenue	353	-	353
TOTAL OTHER FINANCING SOURCES (USES)	<u>16 159</u>	<u>-</u>	<u>16 159</u>
CHANGE IN NET POSITION	(33 334)	317 925	284 591
Fund Balance/Net Position:			
Beginning of year	<u>1 374 242</u>	<u>46 083</u>	<u>1 420 325</u>
END OF YEAR	\$ <u>1 340 908</u>	\$ <u>364 008</u>	\$ <u>1 704 916</u>

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, 2017

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 "(City)". 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, 2017. At year end, the carrying amount of deposits in the Corporation's operating account was \$970 and the respective bank balance totaled \$1,610.

CITY OF CENTER
ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

The Corporation's investments as of September 30 are:

	<u>CARRYING AMOUNT</u>	<u>MARKET VALUE</u>	<u>WEIGHTED AVERAGE MATURITIES (DAYS)</u>
Local Government Investment Cooperative	\$ 832 412	\$ 832 412	76

Although Local Government Investment Cooperative had a weighted average maturity of 76 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 2017 sales tax remitted by the State in October 2017.

NOTE 4 - NOTES RECEIVABLE

On February 1, 2015, the Corporation loaned the Tax Increment Reinvestment Zone #1 up to \$450,000 to be repaid over 15 years at 3% interest, with final payment due February 1, 2022. As of September 30, 2017, the City has \$280,934 outstanding.

On April 1, 2016, the Corporation loaned a local agricultural company \$200,000 to be repaid over 10 years at 5% interest, with final payment due April 1, 2026. As of September 30, 2017, the City has \$190,000 outstanding.

The Corporation expects the amounts to be repaid as follows:

2018	\$ 19 795	\$ 15 000
2019	20 389	20 000
2020	21 001	25 000
2021	21 631	30 000
2022	22 280	20 000
Thereafter	175 838	80 000
TOTAL RECEIVABLE	\$ 280 934	\$ 190 000

CITY OF CENTER
ECONOMIC DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
September 30, 2017

NOTE 5 - ADMINISTRATION

The Corporation made payments to City of Center in the amount of \$53,600 for administration.

NOTE 6 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 8, 2018, 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, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Economic development sales tax	\$ 389 500	\$ 389 500	\$ 383 100	\$ (6 400)
Interest income	3 500	3 500	7 186	3 686
TIF loan receipts	28 218	28 218	27 839	(379)
Other income	-	-	353	353
TOTAL RECEIPTS	<u>421 218</u>	<u>421 218</u>	<u>418 478</u>	<u>(2 790)</u>
Administration	53 600	53 600	53 600	-
Contractual	6 750	6 750	5 033	1 717
Sundry	36 000	36 000	14 793	21 207
Incentives	330 600	330 600	41 242	289 358
Capital outlay	-	-	317 925	(317 925)
TOTAL DISBURSEMENTS	<u>426 950</u>	<u>426 950</u>	<u>432 593</u>	<u>(5 643)</u>
CHANGE IN NET POSITION	\$ <u>(5 732)</u>	\$ <u>(5 732)</u>	\$ <u>(14 115)</u>	\$ <u>(8 383)</u>

See independent auditors' report.

SUPPLEMENTARY INFORMATION

CITY OF CENTER
ECONOMIC DEVELOPMENT CORPORATION
PROJECT SCHEDULE
For the Year Ended September 30, 2017

PROJECT	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	TOTAL
Business Assistance Projects	\$ 173 042	\$ 239 730	\$ 269 320	\$ 278 520	\$ 172 454	\$ 87 647	\$ 13 884	\$ 37 530	\$ 286 325	\$ 41 242	\$ 1 599 694
TxDOT Loop 500 Project	-	-	-	-	1 010 805	4 090	48 450	-	-	-	1 063 345
Roadway Intersection Widening Projects	-	-	-	-	-	22 747	-	-	-	-	22 747
Tyson Sidewalk Installation	-	-	-	-	-	19 787	-	-	-	-	19 787
Downtown Enhancement Project	-	-	-	-	-	50 235	-	-	-	-	50 235
TOTAL	<u>\$ 173 042</u>	<u>\$ 239 730</u>	<u>\$ 269 320</u>	<u>\$ 278 520</u>	<u>\$ 1 183 259</u>	<u>\$ 184 506</u>	<u>\$ 62 334</u>	<u>\$ 37 530</u>	<u>\$ 286 325</u>	<u>\$ 41 242</u>	<u>\$ 2 755 808</u>

See independent auditors' report.