

CITY OF CENTER
STREET IMPROVEMENTS FOR
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 Street Improvements for 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 Street Improvements for 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 Street Improvements for Economic Development Corporation, a component unit of the City of Center, Texas at 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 6 and 13 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 Street Improvement for Economic Development Corporation's financial statements this narrative overview and analysis of the financial activities of the City of Center Street Improvement for Economic Development Corporation "Street 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. The Street 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 Street 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 of the Street 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 assets of the Street EDC exceeded its liabilities at the close of the most recent fiscal year by \$392,409. An additional \$175,000 is restricted for debt service. This leaves an unrestricted fund balance of \$217,409.
- As of the close of the current fiscal year, the Street EDC reported an ending fund balance of \$655,205, an increase of \$175,525 from the prior year. The increase is the result of current year revenues exceeding expenditures.
- The Street EDC expended \$603,614 in current revenues toward street improvements this fiscal year and \$150,000 toward debt payments for prior construction projects. In excess of 96% of expenses are directly for street construction and renovation.

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

	2011	2010	CHANGE
Current and other assets	\$ 656 205	\$ 480 680	\$ 175 525
Capital and non-current assets	8 402	16 804	(8 402)
TOTAL ASSETS	664 607	497 484	167 123
Other liabilities	2 198	2 845	(647)
Long-term liabilities	270 000	420 000	(150 000)
TOTAL LIABILITIES	272 198	422 845	(150 647)
Net Assets:			
Restricted	175 000	175 000	-
Unrestricted	217 409	(100 361)	317 770
TOTAL NET ASSETS	\$ 392 409	\$ 74 639	\$ 317 770

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

	2011	2010	CHANGE
Revenues:			
Sales tax	\$ 954 151	\$ 745 864	\$ 208 287
Interest	3 716	4 421	(705)
TOTAL REVENUES	<u>957 867</u>	<u>750 285</u>	<u>207 582</u>
Expenses:			
Contractual	2 500	1 050	1 450
Supplies	95	75	20
Administration fee	10 000	10 000	-
Sundry	1 050	1 237	(187)
Projects	603 614	469 041	134 573
Amortization	8 402	8 402	-
Interest and fees	14 436	19 270	(4 834)
TOTAL EXPENSES	<u>640 097</u>	<u>509 075</u>	<u>131 022</u>
CHANGE IN NET ASSETS	317 770	241 210	76 560
Beginning net assets	<u>74 639</u>	<u>(166 571)</u>	<u>241 210</u>
ENDING NET ASSETS	<u>\$ 392 409</u>	<u>\$ 74 639</u>	<u>\$ 317 770</u>

Government-Wide Financial Analysis

Net Assets. The net assets of the Street EDC are \$392,409. This is an increase of \$317,770 from the prior year. The mission of the Street EDC is the improvement of Center's streets and roadways. Due to the public nature of these facilities, the Street EDC contributes all assets upon completion of construction to the City. Thus, the Street EDC adds no asset values to offset expenses for capital construction. Because of this and the nature of its mission, net assets are not a true measure of the effectiveness or financial condition of the corporation.

Fund Balance. The Street EDC's fund balance is a much more accurate factor in assessing the corporation's financial position than net assets. The Street EDC's fund balance increased by \$175,525 during the year. This is a function of the current year expenses being lower than current revenues. At the end of the current year, total fund balance was \$655,205. As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 84% of total fund expenditures for this annual period.

Operating Activities. Operating activities increased the Street EDC's net assets by \$317,770. Key elements of this increase are as follows:

- Expenses of the Street EDC increased \$131,022 (6%) from the prior year.
- Revenues from Sales Tax increased by \$208,287 (28%) from the prior year.

Long-Term Debt. The Street EDC currently has \$270,000 in outstanding debt, which was reduced by \$150,000 this year. The City of Center's Street EDC's debt issuance rating by Moody's is currently a rating of "Baa1".

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, including only the ½% for 4(B) Economic Development for the current fiscal year, totaled \$954,151, an increase of \$208,287 or 28% from the previous year \$745,864, 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.

- Economic trends in the region compare favorably with state and national indices.

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

Requests for Information

This financial report is designed to provide a general overview of the City of Center Economic Development Corporation for all those with an interest in the Street 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
STREET IMPROVEMENTS FOR
ECONOMIC DEVELOPMENT CORPORATION
GOVERNMENTAL FUND BALANCE SHEET /
STATEMENT OF NET ASSETS
September 30, 2011

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
ASSETS			
Cash	\$ 1 532	\$ -	\$ 1 532
Investments	395 377	-	395 377
Due from State	83 800	-	83 800
Restricted Assets:			
Investments	175 496	-	175 496
Deferred charges	-	8 402	8 402
TOTAL ASSETS	\$ 656 205	8 402	664 607
LIABILITIES			
Liabilities:			
Due to City of Center	\$ 1 000	-	1 000
Accrued interest payable	-	1 198	1 198
Long-Term Liabilities:			
Due within one year	-	270 000	270 000
TOTAL LIABILITIES	1 000	271 198	272 198
FUND BALANCE/NET ASSETS			
Fund Balance:			
Reserved for debt service	175 000	(175 000)	-
Unreserved	480 205	(480 205)	-
TOTAL FUND BALANCE	655 205	(655 205)	-
TOTAL LIABILITIES AND FUND BALANCE	\$ 656 205		
NET ASSETS			
Restricted for debt services		175 000	175 000
Unrestricted		217 409	217 409
TOTAL NET ASSETS		\$ 392 409	\$ 392 409

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

CITY OF CENTER
STREET IMPROVEMENTS FOR
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	\$ 954 151	\$ -	\$ 954 151
Interest income	3 716	-	3 716
TOTAL REVENUES	957 867	-	957 867
Expenditures:			
Contractual	2 500	-	2 500
Supplies	95	-	95
Administration fee	10 000	-	10 000
Miscellaneous	1 050	-	1 050
Projects	603 614	-	603 614
Amortization expense	-	8 402	8 402
Debt Service:			
Principal	150 000	(150 000)	-
Interest and fees	15 083	(647)	14 436
TOTAL EXPENDITURES	782 342	(142 245)	640 097
CHANGE IN NET ASSETS	175 525	142 245	317 770
Fund Balance/Net Assets:			
Beginning of year	479 680		74 639
END OF YEAR	\$ 655 205		\$ 392 409

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

CITY OF CENTER
STREET IMPROVEMENTS FOR
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 Street Improvements for Economic Development Corporation (the Street EDC) 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 1997 and is a component unit of the City of Center. The Corporation is a 4B 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 Basis of 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.

C. Subsequent Events

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

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 \$1,532 and the respective bank balance totaled \$1,532.

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

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

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

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

	<u>CARRYING AMOUNT</u>	<u>MARKET VALUE</u>	<u>WEIGHTED AVERAGE MATURITIES (DAYS)</u>
Certificate of Deposits	\$ 272 638	\$ 272 638	140
Local Government Investment Cooperative	298 235	298 235	42
TOTAL INVESTMENTS	<u>\$ 570 873</u>	<u>\$ 570 873</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 any 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 THE STATE

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

NOTE 4 - BONDS PAYABLE

Bonds payable at September 30, 2011 are comprised of the following issue:

\$1,230,000 Sales Tax Revenue Refunding Bonds, Series 2004 due in annual installments of \$150,000 to \$270,000 through August 15, 2012; interest at 2.0 to 3.55 percent	<u>\$ 270 000</u>
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Changes in long-term debt is as follows:

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING BALANCE</u>	<u>DUE WITHIN ONE YEAR</u>
Bonds Payable:					
Sales tax revenue refunding bonds	\$ 420 000	\$ -	\$ 150 000	\$ 270 000	\$ 270 000

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

NOTE 4 - BONDS PAYABLE - CONTINUED

The annual requirements to amortize the bonds payable at September 30, 2011 are as follows:

YEAR ENDING SEPTEMBER 30,	PRINCIPAL	INTEREST	TOTAL
2012	\$ 270 000	\$ 9 585	\$ 279 585
TOTAL	\$ 270 000	\$ 9 585	\$ 279 585

The bond covenants require the Corporation to maintain a reserve fund in the amount of \$175,000. At September 30, 2011 the amount in the reserve fund was \$175,496.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CENTER
STREET IMPROVEMENTS FOR
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 POSITIVE (NEGATIVE)</u>
Revenues:			
Economic development sales tax	\$ 750 000	\$ 954 151	\$ 204 151
Interest income	5 000	3 716	(1 284)
TOTAL REVENUES	<u>755 000</u>	<u>957 867</u>	<u>202 867</u>
Expenditures:			
Contractual	1 200	2 500	(1 300)
Supplies	100	95	5
Administration fee	10 000	10 000	-
Miscellaneous	1 300	1 050	250
Construction projects	575 000	603 614	(28 614)
Debt service	165 085	165 083	2
TOTAL EXPENDITURES	<u>752 685</u>	<u>782 342</u>	<u>(29 657)</u>
CHANGE IN NET ASSETS	2 315	175 525	173 210
Fund balance beginning of year	<u>479 680</u>	<u>479 680</u>	<u>-</u>
FUND BALANCE END OF YEAR	<u>\$ 481 995</u>	<u>\$ 655 205</u>	<u>\$ 173 210</u>

See independent auditors' report.