

CITY OF CENTER  
STREET IMPROVEMENTS FOR  
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 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, 2012 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, 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 6 and 12 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 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, 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. 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 \$544,929. This leaves unrestricted net assets of \$544,929.
- As of the close of the current fiscal year, the Street EDC reported an ending fund balance of \$544,929, a decrease of \$110,276 from the prior year. The decrease is the result of current year expenditures exceeding revenues from the use of dedicated fund balance toward the final bond payment.
- The Street EDC expended \$672,393 in current revenues toward street improvements this fiscal year and \$270,000 toward debt payments for prior construction projects. In excess of 98% of expenses are directly for street construction and renovation.

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

	2012	2011	CHANGE
Current and other assets	\$ 545 929	\$ 656 205	\$ (110 276)
Capital and non-current assets	-	8 402	(8 402)
TOTAL ASSETS	545 929	664 607	(118 678)
Other liabilities	1 000	2 198	(1 198)
Long-term liabilities	-	270 000	(270 000)
TOTAL LIABILITIES	1 000	272 198	(271 198)
Net Assets:			
Restricted	-	175 000	(175 000)
Unrestricted	544 929	217 409	327 520
TOTAL NET ASSETS	\$ 544 929	\$ 392 409	\$ 152 520

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

	2012	2011	CHANGE
Revenues:			
Sales tax	\$ 852 336	\$ 954 151	\$ (101 815)
Interest	3 453	3 716	(263)
TOTAL REVENUES	<u>855 789</u>	<u>957 867</u>	<u>(102 078)</u>
Expenses:			
Contractual	2 500	2 500	-
Supplies	107	95	12
Administration fee	10 000	10 000	-
Sundry	1 157	1 050	107
Projects	557 330	603 614	(46 284)
Amortization	8 402	8 402	-
Interest and fees	8 710	14 436	(5 726)
TOTAL EXPENSES	<u>588 206</u>	<u>640 097</u>	<u>(51 891)</u>
TRANSFERS	(115 063)	-	(115 063)
CHANGE IN NET ASSETS	152 520	317 770	(165 250)
Beginning net assets	<u>392 409</u>	<u>74 639</u>	<u>317 770</u>
ENDING NET ASSETS	<u>\$ 544 929</u>	<u>\$ 392 409</u>	<u>\$ 152 520</u>

#### Government-Wide Financial Analysis:

**Net Assets.** The net assets of the Street EDC are \$544,929. This is an increase of \$152,520 from the prior year. From its inception, the mission of the Street EDC has been the improvement of Center's streets, roadways, and transportation. To make an immediate impact in this endeavor, the corporation issued debt incurring a liability for repayment to begin major renovation projects. 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 or its outstanding liabilities from debt. Because of the corporation debt but also impacted by the operational activities and the nature of its mission, net assets have not been a true measure of the effectiveness or financial condition of the corporation until the close of the fiscal year. With the final payment on the debt, the corporation has no outstanding liabilities resulting in net assets resembling the cash fund balance of the corporation.

#### Fund Financial Analysis:

**Fund Balance.** The Street EDC's fund balance has historically been a more accurate factor in assessing the corporation's financial position. The fund balance decreased by \$110,276. This resulted from the expense of dedicated fund reserves (\$175,000) to make the final debt payment on August 15, 2012. At the end of the current year, the fund balance is \$544,929. As a measure of the fund's liquidity, it may be useful to compare total fund balance to annual expenditures less debt payments and interest (\$686,157). Using this approach, fund balance represents 79% of operational expenditures for this period.

**Operating Activities.** This year's operating activities increased the net assets of the Street EDC by \$152,520, but reduced the fund balance by \$110,276. Key elements of these changes include:

- Expenses of the Street EDC decreased \$51,891 (-8.1%) from the prior year.
- Revenues from sales taxes decreased by \$102,078 (-10.7%) from the prior year.
- Infrastructure projects this year totaled \$672,393 and included:
  - Renovation and reconstruction of segments of thirteen (13) existing hard-surfaced streets totaling \$557,331,
  - Providing matching fund of \$115,063 toward a Community Development Block Grant project that completed paving of ten (10) remaining dirt/gravel streets.
- Final payment on the 1997 debt issue (refunded for savings in 2004) was made on August 15, 2012 resulting in the disbursement of the dedicated fund reserves of \$175,000.

**Long Term Debt.** The Street 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 rates for September 2012 according to the Texas Workforce Commission is 6.3% for the State of Texas and 7.5% for the Deep East Texas Region.
- The ½% sales tax receipts remitted to the 4(B) Economic Development Corporation for the current fiscal year, totaled \$852,336. This amount is a decrease of \$101,815 (-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 reduced operations and activities of the local oil and gas industry.

All of these factors were considered in preparing the Street 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 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, 2012

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
<b>ASSETS</b>			
Cash	\$ 3 810	\$ -	\$ 3 810
Investments	480 627	-	480 627
Due from State	61 492	-	61 492
<b>TOTAL ASSETS</b>	<b>\$ 545 929</b>	<b>-</b>	<b>545 929</b>
<b>LIABILITIES</b>			
Liabilities:			
Due to City of Center	\$ 1 000	-	1 000
<b>TOTAL LIABILITIES</b>	<b>1 000</b>	<b>-</b>	<b>1 000</b>
<b>FUND BALANCE/NET ASSETS</b>			
Fund Balance:			
Unreserved	544 929	(544 929)	-
<b>TOTAL FUND BALANCE</b>	<b>544 929</b>	<b>(544 929)</b>	<b>-</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 545 929</b>		
<b>NET ASSETS</b>			
Unrestricted		544 929	544 929
<b>TOTAL NET ASSETS</b>		<b>\$ 544 929</b>	<b>\$ 544 929</b>

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, 2012

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF ACTIVITIES
Revenues:			
Sales tax	\$ 852 336	\$ -	\$ 852 336
Interest income	3 453	-	3 453
TOTAL REVENUES	855 789	-	855 789
Expenditures:			
Contractual	2 500	-	2 500
Supplies	107	-	107
Administration fee	10 000	-	10 000
Miscellaneous	1 157	-	1 157
Projects	557 330	-	557 330
Amortization expense	-	8 402	8 402
Debt Service:			
Principal	270 000	(270 000)	-
Interest and fees	9 908	(1 198)	8 710
TOTAL EXPENDITURES	851 002	(262 796)	588 206
NET INCOME	4 787	262 796	267 583
Other Financing Sources (Uses):			
Transfer to City	(115 063)	-	(115 063)
TOTAL OTHER SOURCES (USES):	(115 063)	-	(115 063)
CHANGE IN NET ASSETS	(110 276)	262 796	152 520
Fund Balance/Net Assets:			
Beginning of year	655 205	(262 796)	392 409
END OF YEAR	\$ 544 929	\$ -	\$ 544 929

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, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Center Street Improvements for 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 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 June 10, 2013, 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, 2012. At year end, the carrying amount of deposits in the Corporation's operating account was \$3,810 and the respective bank balance totaled \$3,810.

CITY OF CENTER  
STREET IMPROVEMENTS FOR  
ECONOMIC DEVELOPMENT CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED  
September 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

All investments held at September 30, 2012 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, 2012 are:

	CARRYING AMOUNT	MARKET VALUE	WEIGHTED AVERAGE MATURITIES (DAYS)
Certificate of Deposits	\$ 275 235	\$ 275 235	310
Local Government Investment Cooperative	205 392	205 392	57
TOTAL INVESTMENTS	<u>\$ 480 627</u>	<u>\$ 480 627</u>	

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 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 2012 sales tax remitted to the City by the State in October 2012.

NOTE 4 - BONDS PAYABLE

Bonds payable at September 30, 2012 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

\$           -

Changes in long-term debt is as follows:

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CENTER  
STREET IMPROVEMENTS FOR  
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 POSITIVE (NEGATIVE)</u>
Revenues:			
Economic development sales tax	\$ 925 000	\$ 852 336	\$ (72 664)
Interest income	4 500	3 453	(1 047)
TOTAL REVENUES	<u>929 500</u>	<u>855 789</u>	<u>(73 711)</u>
Expenditures:			
Contractual	1 050	2 500	(1 450)
Supplies	100	107	(7)
Administration fee	10 000	10 000	-
Miscellaneous	2 250	1 157	1 093
Construction projects	630 000	557 330	72 670
Debt service	279 585	279 908	(323)
TOTAL EXPENDITURES	<u>922 985</u>	<u>851 002</u>	<u>71 983</u>
NET INCOME	6 515	4 787	(1 728)
Other Financing Sources (Uses):			
Transfer to City	-	(115 063)	(115 063)
TOTAL OTHER SOURCES (USES):	<u>-</u>	<u>(115 063)</u>	<u>(115 063)</u>
CHANGE IN NET ASSETS	6 515	(110 276)	(116 791)
Fund balance beginning of year	<u>655 205</u>	<u>655 205</u>	<u>-</u>
FUND BALANCE END OF YEAR	<u>\$ 661 720</u>	<u>\$ 544 929</u>	<u>\$ (116 791)</u>

See independent auditors' report.