

CITY OF CENTER  
ECONOMIC DEVELOPMENT CORPORATION  
Center, Texas

FINANCIAL STATEMENTS

September 30, 2015

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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, 2015 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, 2015, 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, 2015, 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.

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CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas  
March 23, 2016



## 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, 2015. 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 \$1,403,523.
- As of the close of this fiscal year, the EDC reports an ending fund balance of \$1,403,523, this is an increase of \$231,046 from the prior year. The increase is the result of current year revenues exceeding expenditures.

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

	2015	2014	CHANGE
Cash	\$ 13 193	\$ 2 761	\$ 10 432
Investments	1 031 435	748 388	283 047
Due from State	28 937	28 518	419
Note receivable - City	318 812	336 927	(18 115)
Accrued interest receivable	7 433	7 433	-
Construction in progress	-	48 450	(48 450)
TOTAL ASSETS	1 399 810	1 172 477	227 333
Prepaid expense	3 713	-	3 713
TOTAL DEFERRED OUTFLOW	3 713	-	3 713
 Net Position:			
Invested in capital assets, net	-	48 450	(48 450)
Unrestricted	1 403 523	1 124 027	279 496
TOTAL NET POSITION	\$ 1 403 523	\$ 1 172 477	\$ 231 046

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

	2015	2014	CHANGE
Revenues:			
Sales tax	\$ 373 863	\$ 370 144	\$ 3 719
Interest	2 460	2 591	(131)
TIF loan interest	10 108	10 108	-
TOTAL REVENUES	<u>386 431</u>	<u>382 843</u>	<u>3 588</u>
Expenses:			
Administration	50 000	55 000	(5 000)
Contractual	5 797	4 300	1 497
Sundry	13 608	10 444	3 164
Incentives	37 530	13 884	23 646
TOTAL EXPENSES	<u>106 935</u>	<u>83 628</u>	<u>23 307</u>
NET INCOME	279 496	299 215	(19 719)
Non-Operating Revenue (Expense):			
Transfer to city	(48 450)	(140 000)	91 550
CHANGE IN NET POSITION	<u>231 046</u>	<u>159 215</u>	<u>71 831</u>
Beginning net position	<u>1 172 477</u>	<u>1 013 262</u>	<u>159 215</u>
ENDING NET POSITION	<u>\$ 1 403 523</u>	<u>\$ 1 172 477</u>	<u>\$ 231 046</u>

#### Government-Wide Financial Analysis:

**Net Position.** The net position of the EDC is \$1,403,523, which is an increase of \$231,046 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 \$318,812. In 2014, the note was refinanced to extend the terms and reduce the annual payment amount. In 2015, the amounts identified as assets transferred to the City included the \$48,450 of local construction contribution toward the northeast section of Loop 500.

#### Fund Financial Analysis:

**Fund Balance.** The fund balance of the EDC at the close of the fiscal year is \$1,403,523. This is a \$231,046 increase from last year's fund balance of \$1,172,477. The current fund balance includes \$318,812 as the balance due to the EDC on the Tax Increment Financing District loan and is not liquid. Cash and investments totaling \$1,044,628 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 \$279,496. Key elements of this increase are as follows:

Revenues from sales taxes increased \$3,719 (1.00%) from the prior year.

Expenses of the EDC increased \$23,307 from the prior year and included business development assistance of \$37,530.

#### Debt and Capital Assets:

**Capital Assets.** The EDC currently has no capital assets.

**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 2014 for Shelby County, according to Texas Workforce Commission statistics is 5.4%. The corresponding unemployment rates for August 2015 according to the Texas Workforce Commission is 4.4% for the State of Texas and 5.2% 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 \$373,863. This amount is an increase of \$3,719 (1.0%) from the previous year. This increase reflects a stabilization of the local economy following a significant slowing of the rapid growth of the prior 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 and the continued impacts of that decline on local retail and hospitality businesses.

All of these factors were considered in preparing the EDC's budget for the 2016 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, 2015

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET POSITION
<b>ASSETS</b>			
Cash	\$ 13 193	\$ -	\$ 13 193
Investments	1 031 435	-	1 031 435
Due from State	28 937	-	28 937
Note receivable - City	318 812	-	318 812
Accrued interest receivable	7 433	-	7 433
<b>TOTAL ASSETS</b>	<b>1 399 810</b>	<b>-</b>	<b>1 399 810</b>
<b>DEFERRED OUTFLOWS</b>			
Prepaid expense	3 713	-	3 713
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 1 403 523</b>	<b>-</b>	<b>1 403 523</b>
<b>FUND BALANCE/NET POSITION</b>			
Fund Balance:			
Unreserved	\$ 1 403 523	(1 403 523)	-
<b>TOTAL FUND BALANCE</b>	<b>1 403 523</b>	<b>(1 403 523)</b>	<b>-</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1 403 523</b>		
<b>NET POSITION</b>			
Unrestricted		1 403 523	1 403 523
<b>TOTAL NET POSITION</b>		<b>\$ 1 403 523</b>	<b>\$ 1 403 523</b>

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, 2015

	<u>GENERAL FUND</u>	<u>ADJUSTMENTS</u>	<u>STATEMENT OF ACTIVITIES</u>
Revenues:			
Sales tax	\$ 373 863	\$ -	\$ 373 863
Interest income	2 460	-	2 460
TIF loan interest	10 108	-	10 108
TOTAL REVENUES	<u>386 431</u>	<u>-</u>	<u>386 431</u>
Expenditures:			
Administration	50 000	-	50 000
Contractual	5 797	-	5 797
Sundry	13 608	-	13 608
Incentives and projects	37 530	-	37 530
TOTAL EXPENDITURES	<u>106 935</u>	<u>-</u>	<u>106 935</u>
NET OPERATING INCOME	<u>279 496</u>	<u>-</u>	<u>279 496</u>
Other Financing Sources (Uses):			
Transfer to City	-	<u>(48 450)</u>	<u>(48 450)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(48 450)</u>	<u>(48 450)</u>
CHANGE IN NET POSITION	279 496	(48 450)	231 046
Fund Balance/Net Position:			
Beginning of year	<u>1 124 027</u>	<u>48 450</u>	<u>1 172 477</u>
END OF YEAR	<u>\$ 1 403 523</u>	<u>\$ -</u>	<u>\$ 1 403 523</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, 2015

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, 2015. At year end, the carrying amount of deposits in the Corporation's operating account was \$13,193 and the respective bank balance totaled \$13,193.

All investments held at September 30, 2015 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, 2015

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	\$ 687 107	\$ 687 107	46
Certificates of Deposit	344 328	344 328	346
TOTAL INVESTMENT	<u>\$ 1 031 435</u>	<u>\$ 1 031 435</u>	

Although Local Government Investment Cooperative had a weighted average maturity of 46 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 2015 sales tax remitted by the State in October 2015.

NOTE 4 - ADMINISTRATION

The Corporation made payments to City of Center in the amount of \$50,000 for administration.

NOTE 5 - DUE FROM CITY

The Corporation loaned the City up to \$450,000 to be repaid over 10 years at 3% interest, with final payment due February 1, 2022. As of September 30, 2015, the City has \$318,812 outstanding.

NOTE 6 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 23, 2016, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF CENTER  
 ECONOMIC DEVELOPMENT CORPORATION  
 CASH BASIS - BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 For the Year Ended September 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Economic development sales tax	\$ 368 750	\$ 368 750	\$ 373 863	\$ 5 113
Interest income	2 000	2 000	2 460	460
TIF loan receipts	<u>28 225</u>	<u>28 225</u>	<u>28 223</u>	<u>(2)</u>
TOTAL RECIEPTS	<u>398 975</u>	<u>398 975</u>	<u>404 546</u>	<u>5 571</u>
Administration	50 000	50 000	50 000	-
Contractual	6 300	6 300	5 797	503
Sundry	30 200	30 200	13 608	16 592
Incentives	<u>246 000</u>	<u>332 500</u>	<u>37 530</u>	<u>294 970</u>
TOTAL DISBURSEMENTS	<u>332 500</u>	<u>419 000</u>	<u>106 935</u>	<u>312 065</u>
CHANGE IN NET POSITION	\$ <u>66 475</u>	\$ <u>(20 025)</u>	\$ <u>297 611</u>	\$ <u>317 636</u>

See independent auditors' report.