

AUDITED FINANCIAL STATEMENTS

of the

Gonzales Economic Development Corporation

**For the Year Ended
March 31, 2012**

Gonzales Economic Development Corporation

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To the Board of Directors of the
Gonzales Economic Development Corporation

We have audited the accompanying statement of financial position of the Gonzales Economic Development Corporation (a nonprofit organization) as of March 31, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion 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 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 Gonzales Economic Development Corporation as of March 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

M&K CPAS, PLLC

M&K CPAS, PLLC
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Houston, Texas
October 19, 2012

Gonzales Economic Development Corporation

STATEMENT OF FINANACIAL POSITION

March 31, 2012

	<u>2012</u>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 109,061
Investments	319,397
Sales tax receivable	127,023
Notes receivable	854,844
Total Current Assets	<u>1,410,325</u>
 Fixed assets, net	 <u>234,110</u>
Total Assets	<u>1,644,435</u>
 Liabilities and Net Assets	
Current Liabilities:	
Deposits	<u>10,000</u>
Total Liabilities	<u>10,000</u>
 Net Assets	
Temporarily restricted	<u>1,634,435</u>
Total Net Assets	<u>1,634,435</u>
 Total Liabilities and Net Assets	 <u><u>\$ 1,644,435</u></u>

See Independent Auditor's Report and Notes to Financial Statements

Gonzales Economic Development Corporation

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended March 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and support			
Sales tax revenue	\$ -	\$ 712,950	\$ 712,950
Rental income	-	45,000	45,000
Interest income	-	10,253	10,253
Net assets released from restrictions	536,589	(536,589)	-
Total Revenue	<u>\$ 536,589</u>	<u>\$ 231,614</u>	<u>\$ 768,203</u>
Expenses			
Business development	\$ 418,621	\$ -	\$ 418,621
Marketing development	31,378	-	31,378
Management fees	30,250	-	30,250
Audit fee	4,000	-	4,000
Legal fees	3,880	-	3,880
Office and postage	350	-	350
Travel and training	4,648	-	4,648
Bad debt	3,562	-	3,562
Professional fees	11,495	-	11,495
Property taxes	6,267	-	6,267
Depreciation	11,890	-	11,890
Miscellaneous	10,248	-	10,248
Total Expenses	<u>\$ 536,589</u>	<u>\$ -</u>	<u>\$ 536,589</u>
Increase in net assets	-	231,614	231,614
Net assets beginning of year	<u>-</u>	<u>1,402,821</u>	<u>1,402,821</u>
Net assets end of year	<u>\$ -</u>	<u>\$ 1,634,435</u>	<u>\$ 1,634,435</u>

See Independent Auditor's Report and Notes to Financial Statements

Gonzales Economic Development Corporation

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2012

Cash Flows from Revenues and Support Activities:	2012
Increase in net assets	\$ 231,614
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	11,890
Bad debt expense	3,562
Notes receivable forgiven	50,882
(Increase)in operating assets	
Accounts receivable	(41,910)
Increase (decrease) in operating liabilities	
Accounts payable	(2,000)
Deposits	10,000
Due to City of Gonzales	(666)
Net cash provided by operating activities	<u>263,372</u>
Cash Flows from Investing Activities	
Purchase of investments	(52,582)
Notes receivable issued	(700,000)
Payments received on notes receivable	<u>27,327</u>
Net cash (used in) investing activities	<u>(725,255)</u>
Net decrease in cash and cash equivalents	(461,883)
Cash and cash equivalents at beginning of year	<u>570,944</u>
Cash and cash equivalents at end of year	<u><u>\$ 109,061</u></u>

See Independent Auditor's Report and Notes to Financial Statements

Gonzales Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

For the Year Ended March 31, 2012

Note 1: Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities - The Gonzales Economic Development Corporation (the Corporation) is chartered as a public instrumentality and non-profit industrial development corporation under the Development Corporation Act of 1979, as amended, Article 5190.6 Vernon's Ann. Civ. St., Section 48, as amended, by the State of Texas. The Board of Directors of the Corporation is comprised of 7 directors appointed by the City Council of the City of Gonzales, Texas. The Corporation is considered a component unit of the City of Gonzales, Texas and is discretely reported in the City's financial statements.

The purpose of the Corporation is to promote economic development within the City and the State of Texas in order to encourage and enhance employment and the public welfare of, for and on behalf of the City, in the manner and to the purpose authorized by Sect. 48 of the Development Corporation Act of 1979, as amended. In carrying out this purpose the Corporation collects 1/2 cent sales tax on all taxable sales within the City limits of Gonzales, Texas. The tax is collected at the state level and remitted to the Corporation via the City monthly.

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

Net Asset Classifications – Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Corporation and changes therein are classified and reported as follows:

Unrestricted net assets – Include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Corporation.

Temporarily restricted net assets – Net assets subject to restrictions that will be met either by actions of the Corporation and/or the passage of time. When the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets that are subject to imposed restrictions that specify assets donated be invested to provide a permanent source of income. There were no permanently restricted assets as of March 31, 2012.

During the reporting period, the Corporation had only temporarily restricted net assets. Temporarily restricted net assets as of March 31, 2012, relate to funding received which are restricted to promote economic development within the City.

Gonzales Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

For the Year Ended March 31, 2012

Revenue Recognition – Sales tax and other revenues are reported as increases in temporarily restricted net assets unless their use is limited by state or corporation imposed restrictions or conditions. Sales tax revenues are recorded when they are submitted to the state and susceptible to accrual.

In accordance with current accounting guidance, the Corporation recognizes revenue when (1) persuasive evidence of an arrangement exists (contracts) (2) delivery has occurred (monthly) (3) the seller's price is fixed or determinable (per the customer's contract or current market price) and (4) collectability is reasonably assured (based upon our credit policy).

Cash and Cash Equivalents – The Corporation considers short-term highly liquid investments to be cash equivalents provided that they are both readily convertible to cash and had an original maturity of three months or less when purchased. There were no cash equivalents as of yearend.

Concentrations of Credit Risk – The Corporation maintains its cash balances at 3 financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC). Section 136 of the Emergency Stabilization Act of 2008 temporarily increased FDIC deposit insurance limits from \$100,000 to \$250,000 which was later made permanent. As of yearend, FDIC exceeded all bank balances.

Fair Value of Financial Instruments – Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments, approximate their carrying values.

Income Taxes – The Corporation is controlled by the City and its revenues are related to its public purpose, any net revenues of Corporation are exempt from federal income tax under Section 115 of the Internal Revenue Code.

Notes Receivable – Notes receivable are recorded at their historical value. These notes represent loans toward economic development projects. Some of the loans bear a lower than market rate of interest and some are non interest/forgivable type loans. The principal is forgiven dependent upon the borrower meeting agreed upon benchmarks, such a number of new employees hired, jobs maintained, or total payroll.

As of March 31, 2012, all loans are considered collectible and no provision for uncollectible loans has been established. Due to the small number of active loans, the Corporation uses the specific identification method to write off loan amounts.

Fixed Assets – Fixed assets, which include property, plant, and equipment, are reported in the statement of position. Fixed assets are defined by the Corporation, as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at estimated fair market value at the date of donation. Major outlays for fixed assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Gonzales Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

For the Year Ended March 31, 2012

Property, plant, and equipment, are depreciated using the straight-line method over the following estimated useful years.

Account Description	Useful Life
Vehicles	2 to 15 years
Furniture and equipment	3 to 15 years
Buildings and improvements	20-50 years

Note 2 – Temporarily Restricted Net Assets

The balance of temporarily restricted net assets as of March 31, 2012 is available to promote economic development within the City.

There was \$536,589 of net assets released from donor restrictions during the year ended March 31, 2012, by incurring expenses to satisfy the purpose of the restriction, by the passage of time, or by the occurrence of other specific events.

Note 3 – Related Party Transactions

As a normal part of operations, the Corporation conducts significant amount of business with the City of Gonzales. These transactions include administrative services and reimbursements to the City for economic development projects undertaken by the City on behalf of the Corporation.

Note 4 – Concentrations

During the year ended March 31, 2012, the Corporation received approximately 93% of its revenue from sales tax. The Corporation does not anticipate a decrease in revenue from this source.

Note 5 – Commitments and Contingencies

Board Restricted Funds – The Corporation's Board has designated \$0 of unrestricted net assets, which are not to be spent without specific board approval.

Gonzales Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

For the Year Ended March 31, 2012

Note 6 – Fixed Assets

The Corporation has the following fixed assets:

	March 31, 2012
Buildings – Lynn Theatre	\$ 246,000
Less: Accumulated depreciation	(11,890)
Fixed Assets, net of accumulated depreciation	<u>\$ 234,110</u>

The Lynn Theatre is being depreciated by the straight-line method over the estimated useful life of 25 years. Current year depreciation expense was \$11,890.

Note 7 – Fair Value Measurement

Fair Value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Valuation is based upon unadjusted quoted market prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

Level 2 -Valuation is based upon quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable in the market.

Level 3 - Valuation is based on models where significant inputs are not observable. The unobservable inputs reflect the Corporation's own assumptions about the inputs that market participants would use.

The Corporation's financial instruments consist of cash, accounts receivable, certificates of deposit, notes receivable, accounts payable, and accrued liabilities. Their estimated fair value approximates their carrying amounts due to the short-term nature of these instruments.

Gonzales Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

For the Year Ended March 31, 2012

Note 8 – Notes Receivable

A summary of the notes receivable held by the Corporation is as follows:

	<u>3/31/2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Forgiven</u>	<u>3/31/2012</u>
City of Gonzales, Texas	\$ -	\$ 400,000	\$ -	\$ -	\$ 400,000
Sleep Inn	201,974	-	(19,343)	(40,000)	142,631
Landmark	31,079	-	(4,900)	(10,882)	15,297
Tropical Fusions	-	300,000	(3,085)	-	296,915
Total	<u>\$ 233,053</u>	<u>\$ 700,000</u>	<u>\$ (27,327)</u>	<u>\$ (50,882)</u>	<u>\$ 854,844</u>

Effective March 15, 2012 the Corporation signed a \$400,000 note receivable with the City of Gonzales. The loan is to be expended on the purchase of land necessary to construct a facility for instruction in welding and construction trades and a science lab. If certain covenants are met by the City, a portion or the entire loan will be forgiven by the GEDC. The payment may be accelerated in the event of a default. All unpaid/forgiven principal balance is due on demand or prior to March 31, 2017. The loan bears a 0% interest rate and a default interest rate of prime plus 4%. As of yearend, the City has not met the covenants necessary for forgiveness of the loan and is not in default.

On August 17th, 2012, the Corporation issued a note receivable of \$300,000 to Tropical Fusions, Inc. Payments of \$1,000 are due monthly for the first 120 installments and \$2,246 thereafter. The note is due on demand bears an interest rate of 2.25% and a default interest rate of prime plus 4%.

On February 20th, 2009, the Corporation issued a \$50,000 forgivable note receivable to Sleep Inn & Suites. No payments or interest are due unless the borrower fails to meet certain agreed upon benchmarks. The total remaining outstanding balance of \$40,000 was forgiven during the year.

On February 20th, 2009, the Corporation issued a \$200,000 note receivable to Sleep Inn & Suites. Payments of \$1,774 are due each month and bear an interest rate of 2%.

On November 10th, 2009, the Corporation issued a note receivable to Landmark Awning and Enclosure, LLC. Payments of \$2,640 are due each month and bear an interest rate of 2%. \$10,882 of notes with this borrower were forgiven during the year due to the borrow meeting agreed upon benchmarks.

Note 9 – Investments

At March 31, 2012, the Corporation has \$319,397 of certificates of deposit. The securities generally have maturity dates of twelve months to 3 years and bear interest of 1-2%. These investments are classified as held-to-maturity and are recorded at amortized cost. The Company's securities are considered as held-to-maturity because the Corporation has the positive intent and ability to hold the securities to maturity.

Gonzales Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

For the Year Ended March 31, 2012

Note 10 – Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. The Corporation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements Corporation. The Corporation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

There were no subsequent events through the date the financial statements were issued.