

AUDITED FINANCIAL STATEMENTS

of the

Gonzales Economic Development Corporation

For the Year Ended
March 31, 2013

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Gonzales Economic Development Corporation

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Gonzales Economic Development Corporation

We have audited the accompanying financial statements of the Gonzales Economic Development Corporation, a component unit of the City of Gonzales, Texas (the "Corporation") as of and for the year ended March 31, 2013, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. 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 Corporation as of March 31, 2013 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
August 30, 2013

Gonzales Economic Development Corporation

STATEMENT OF NET POSITION

March 31, 2013

	<u>2013</u>
<u>Assets</u>	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 800,069
Investments	182,286
Sales tax receivable	127,481
Notes receivable - related party	400,000
Notes receivable	619,469
Total Current Assets	<u>2,129,305</u>
<u>Noncurrent Assets</u>	
Capital assets:	
Non-depreciable	255,270
Net depreciable capital assets	224,270
Total Noncurrent Assets	<u>479,540</u>
Total Assets	<u>2,608,845</u>
<u>Liabilities</u>	
<u>Current Liabilities</u>	
Customer deposits	2,500
Total Liabilities	<u>2,500</u>
<u>Net Position</u>	
Temporarily restricted	2,606,345
Total Net Position	<u>\$ 2,606,345</u>

See Notes to Financial Statements.

Gonzales Economic Development Corporation

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

For the Year Ended March 31, 2013

	<u>2013</u>
<u>Operating Revenues</u>	
Sales tax revenue	\$ 777,348
Rental income	21,060
Total Operating Revenues	<u>798,408</u>
<u>Operating Expenses</u>	
Business development	149,996
Marketing development	51,307
Management fees	30,250
Legal fees	3,586
Office and postage	1,071
Travel and training	5,987
Professional fees	4,413
Property taxes	6,896
Depreciation	9,840
Miscellaneous	7,211
Total Operating Expenses	<u>270,557</u>
Operating Income	<u>527,851</u>
<u>Nonoperating Revenues</u>	
Investment income	14,223
Total Nonoperating Revenues	<u>14,223</u>
Change in Net Position	542,074
Beginning net position	2,064,271
Ending Net Position	<u>\$ 2,606,345</u>

See Notes to Financial Statements.

Gonzales Economic Development Corporation

STATEMENT OF CASH FLOWS (Page 1 of 2)

For the Year Ended March 31, 2013

	<u>2013</u>
<u>Cash Flows from Operating Activities</u>	
Cash received from other governments	\$ 777,348
Rental income	21,060
Payments to suppliers of goods and services	(180,760)
Net Cash Provided by Operating Activities	<u>617,648</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Proceeds from the sale of property	86,651
Net Cash Provided by Capital and Related Financing Activities	<u>86,651</u>
<u>Cash Flows from Investing Activities</u>	
Notes receivable issued	(200,000)
Payments received on notes receivable	35,375
Interest on investments	14,223
Sale of investments	137,111
Net Cash (Used) by Investing Activities	<u>(13,291)</u>
Net Increase in Cash and Cash Equivalents	691,008
Beginning cash and cash equivalents	<u>109,061</u>
Ending Cash and Cash Equivalents	<u>\$ 800,069</u>

See Notes to Financial Statements.

Gonzales Economic Development Corporation

STATEMENT OF CASH FLOWS (Page 2 of 2)

For the Year Ended March 31, 2013

	<u>2013</u>
<u>Reconciliation of Operating Income</u>	
<u>to Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 527,851
Adjustments to reconcile operating income to net cash provided:	
Depreciation	9,840
Loss on the disposal of capital assets	73,427
Changes in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts receivable	14,030
Increase (Decrease) in:	
Customer deposits	(7,500)
Net Cash Provided by Operating Activities	<u>\$ 617,648</u>

See Notes to Financial Statements.

Gonzales Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

March 31, 2013

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

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

Temporarily restricted net position – Net position 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 position are reclassified to unrestricted net position and reported in the statement of activities as net position released from restrictions.

Permanently restricted net position – Net position 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, 2013.

Gonzales Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

March 31, 2013

During the reporting period, the Corporation had only temporarily restricted net position. Temporarily restricted net position as of March 31, 2013, relates to funding received which is restricted to promote economic development within the City.

Revenue Recognition – Sales tax and other revenues are reported as increases in temporarily restricted net position 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). As of year end, FDIC and collateral pledged 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 forgiven is dependent upon the borrower meeting agreed upon benchmarks, such as a number of new employees hired, jobs maintained, or total payroll.

As of March 31, 2013, all loans are considered collectible and no provision for uncollectible loans has been established. 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.

Gonzales Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

March 31, 2013

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.

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

<u>Account Description</u>	<u>Useful Life</u>
Vehicles	2 to 15 years
Furniture and equipment	3 to 15 years
Buildings and improvements	20 to 50 years

Note 2 – Temporarily Restricted Net Position

The balance of temporarily restricted net position as of March 31, 2013 is available to promote economic development within the City.

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. Effective March 15, 2012 the City signed a note payable to the Gonzales Economic Development Corporation in the amount of \$400,000. 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%.

Note 4 – Concentrations

During the year ended March 31, 2013, the Corporation received approximately 96% 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 position, which are not to be spent without specific board approval.

Gonzales Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

March 31, 2013

Note 6 – Fixed Assets

The Corporation has the following fixed assets:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balances</u>
Capital assets, not being depreciated:				
Land	\$ 415,358	\$ -	\$ (160,088)	\$ 255,270
Total capital assets not being depreciated	<u>415,358</u>	<u>-</u>	<u>(160,088)</u>	<u>255,270</u>
Capital assets, being depreciated:				
Buildings - Lynn Theater	246,000	-	-	246,000
Total capital assets being depreciated	<u>246,000</u>	<u>-</u>	<u>-</u>	<u>246,000</u>
Less accumulated depreciation				
Buildings - Lynn Theater	(11,890)	(9,840)	-	(21,730)
Total accumulated depreciation	<u>(11,890)</u>	<u>(9,840)</u>	<u>-</u>	<u>(21,730)</u>
Net capital assets being depreciated	234,110	(9,840)	-	224,270
Total capital assets	<u>\$ 649,468</u>	<u>\$ (9,840)</u>	<u>\$ (160,088)</u>	<u>\$ 479,540</u>

The Gonzales Economic Development Corporation entered into a Type B Performance Agreement in which they received land in order to develop and create financial incentives for companies to further develop and create further economic development for the City of Gonzales.

The Lynn Theatre is being depreciated by the straight-line method over the estimated useful life of 25 years. Current year depreciation expense was \$9,840.

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.

Gonzales Economic Development Corporation

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March 31, 2013

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.

Note 8 – Notes Receivable

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

	<u>3/31/2012</u>	<u>Additions</u>	<u>Payments</u>	<u>3/31/2013</u>
City of Gonzales, Texas	\$ 400,000	\$ -	\$ -	\$ 400,000
Sleep Inn	142,631	-	(19,646)	122,985
Holiday Inn	-	200,000	(5,361)	194,639
Landmark	15,297	-	(4,998)	10,299
Tropical Fusion	296,915	-	(5,370)	291,546
Total	<u>\$ 854,844</u>	<u>\$ 200,000</u>	<u>\$ (35,375)</u>	<u>\$ 1,019,469</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%.

On January 29th, 2013, the Corporation issued a note receivable of \$200,000 to Holiday Inn. Payments of \$1,774 are due monthly. The note is due on demand and bears an interest rate of 2% and a default interest rate of prime plus 4%.

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 and bears an interest rate of 2.25% and a default interest rate of prime plus 4%.

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%.

Gonzales Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

March 31, 2013

Note 9 – Investments

At March 31, 2013, the Corporation has \$182,994 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.

Note 10 – Restatement

The Corporation has restated beginning net position. This is due to a change in the reporting of fixed assets, as land owned by the Corporation was not previously recorded. In addition, there was an adjustment to accrue sales tax which was not previously included. The restatement of beginning net position is as follows:

	<u>2013</u>
Prior year ending net position	
as reported	\$ 1,634,435
Change in reporting of sales tax accrual	14,488
Change in reporting of capital assets	415,348
Restated beginning net position	<u>\$ 2,064,271</u>

Note 11 – 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.

The Corporation disposed of the remaining balance of land, in the amount of \$255,270 by entering into Type B Performance Agreement in which companies are offered incentives to use the land in the City of Gonzales and develop economic growth through the addition of new jobs and sales tax.

No further subsequent events were noted through the date the financial statements were issued.