

ANNUAL FINANCIAL REPORT

of the

Taylor Economic Development Corporation

**For the Year Ended
September 30, 2015**

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Taylor Economic Development Corporation

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Taylor Economic Development Corporation:

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Taylor Economic Development Corporation (the "Corporation"), a component unit of the City of Taylor, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Corporation's 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 opinion.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation as of September 30, 2015 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 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.



BrooksCardiel, PLLC
Certified Public Accountants
The Woodlands, Texas
January 15, 2016

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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Taylor Economic Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

September 30, 2015

As management of the Taylor Economic Development Corporation (the "Corporation"), we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the fiscal year ended September 30, 2015.

Financial Highlights

- The Corporation's total combined net position is \$2,014,421 at September 30, 2015. All of which is restricted for economic development.
- At the close of the current fiscal year, the Corporation's general fund reported a fund balance of \$1,690,971, a decrease of \$182,316 which is due to higher than anticipated expenditures.
- The Corporation had an overall increase in net position of \$145,441.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Corporation's assets, liabilities, and deferred inflows/outflows with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. Other non-financial factors, such as the City's economic activity need to be considered in order to assess the overall health of the Corporation.

The *statement of activities* presents information showing how the Corporation's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Taylor Economic Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2015

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the Corporation. They are usually segregated for specific activities or objectives. The Corporation uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The Corporation only utilizes one governmental fund, the general fund.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as *on balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the Corporation's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Corporation maintains one individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund which is considered to be a major fund.

The Corporation adopts an annual budget for its general fund. A budgetary comparison schedule has been provided to demonstrate compliance with general fund budget.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Supplementary Information. This includes a budgetary comparison schedule for the general fund which can be found after the basic financial statements.

Taylor Economic Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued

September 30, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the Corporation's financial position. For the Corporation, assets exceed liabilities by \$2,014,421 as of September 30, 2015. These assets are restricted to fund Type A projects as defined in the Attorney General's Economic Development Handbook.

Total current assets increased by \$104,079 or 7% when compared to the prior year. The primary reason for this increase is the overall net income and corresponding cash remaining on hand at year end. During 2015, the Corporation invested in the construction of a new industrial building that is scheduled to be completed in fiscal year 2016. The Corporation obtained financing from a third party banking institution to fund the construction. Total assets and long-term liabilities have increased significantly as a result of these transactions.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	<u>2015</u>	<u>2014</u>		
	<u>Governmental</u>	<u>Governmental</u>		
	<u>Activities</u>	<u>Activities</u>	<u>\$ Change</u>	<u>% Change</u>
Current and other assets	\$ 1,504,158	\$ 1,400,079	\$ 104,079	7%
Land held for investment	499,430	499,430	-	0%
Construction in progress	2,256,833	-	2,256,833	100%
Total Assets	<u>4,260,421</u>	<u>1,899,509</u>	<u>2,360,912</u>	<u>124%</u>
Other liabilities	313,870	26,222	287,648	1097%
Long-term liabilities	1,932,130	4,307	1,927,823	44760%
Total Liabilities	<u>2,246,000</u>	<u>30,529</u>	<u>2,215,471</u>	<u>7257%</u>
Net Position:				
Net investment in capital assets	65,635	-	65,635	100%
Restricted	1,948,786	1,868,980	79,806	4%
Total Net Position	<u>\$ 2,014,421</u>	<u>\$ 1,868,980</u>	<u>\$ 145,441</u>	<u>8%</u>

Taylor Economic Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2015

Statement of Activities:

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

	<u>2015</u>	<u>2014</u>		
	<u>Governmental</u>	<u>Governmental</u>		
	<u>Activities</u>	<u>Activities</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
General revenues:				
Sales taxes	\$ 984,246	\$ 914,787	\$ 69,459	8%
Investment income	2,154	2,923	769	26%
Other revenues	5,002	349	4,653	1333%
Total Revenues	<u>991,402</u>	<u>918,059</u>	<u>73,343</u>	<u>8%</u>
Expenses				
General government	515,182	465,064	50,118	11%
Economic development	322,191	145,618	176,573	121%
Interest and fiscal charges	8,588	-	8,588	100%
Total Expenses	<u>845,961</u>	<u>610,682</u>	<u>235,279</u>	<u>39%</u>
Change in Net Position	145,441	307,377	161,936	53%
Beginning Net Position	<u>1,868,980</u>	<u>1,561,603</u>	<u>307,377</u>	<u>20%</u>
Ending Net Position	<u>\$ 2,014,421</u>	<u>\$ 1,868,980</u>	<u>145,441</u>	<u>8%</u>

For the year ended September 30, 2015, revenues totaled \$991,402. This represents an increase of \$73,343 when compared to the prior year due to higher sales tax revenues. In general, all other revenues remained relatively stable when compared to the previous year.

The cost of all governmental activities this year was \$845,961. This represents an increase of \$235,279 or 39% when compared to the previous year. This increase can be attributed to more grant and incentive agreements entered into during the year as noted by an increase in economic development expenses in the amount of \$176,573 or 121% when compared to the prior year. General government expenses increased by \$50,118 or 11% from the prior year. This increase can be attributed to more personnel and business development travel related expenses in the current year.

FINANCIAL ANALYSIS OF THE CORPORATION'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Taylor Economic Development Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

September 30, 2015

Governmental Funds - The focus of the Corporation's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Corporation's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Corporation's net resources available for spending at the end of the year.

At the close of the current fiscal year, the Corporation's general fund reported a fund balance of \$1,690,971 a decrease of \$182,316 which is primarily due to actual expenditures being higher than budgeted expenditures.

CAPITAL ASSETS

As noted earlier, the Corporation invested in the construction of a new industrial building that is scheduled to be completed in fiscal year 2016. A total of \$2,256,833 in construction expenditures have been recognized as Construction in Progress within the Statement of Net Position.

More detailed information about the Corporation's capital assets is presented in the notes to the financial statements.

LONG-TERM DEBT

During 2015, the Corporation obtained financing from a third party banking institution in order to fund the construction of the industrial building. The outstanding loan balance as of September 30, 2015 was \$1,929,659.

More detailed information about the Corporation's long-term debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Board of Directors and management are committed to maintaining and improving the overall wellbeing of the Corporation and increased economic development in the City of Taylor, Texas. The Corporation is budgeting for growth in the upcoming year.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Corporation's business office, at Taylor Economic Development Corporation, P.O. Box 975, Taylor, Texas 76574.

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FINANCIAL STATEMENTS

Taylor Economic Development Corporation

STATEMENT OF NET POSITION

September 30, 2015

	<u>Governmental Activities</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 1,339,867
Sales tax receivable	164,291
Total Current Assets	<u>1,504,158</u>
Long-term assets:	
Land held for investment	499,430
Capital assets:	
Construction in progress	2,256,833
Capital assets	25,023
Accumulated depreciation	(25,023)
	<u>2,756,263</u>
Total Assets	<u><u>4,260,421</u></u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable and accrued liabilities	312,617
Accrued interest	1,253
	<u>313,870</u>
Noncurrent liabilities:	
Due within one year	120,346
Due in more than one year	1,809,313
Compensated absences	2,471
	<u>1,932,130</u>
Total Liabilities	<u>2,246,000</u>
<u>Net Position</u>	
Net investment in capital assets	65,635
Restricted for economic development	1,948,786
Total Net Position	<u><u>\$ 2,014,421</u></u>

See Notes to Financial Statements.

Taylor Economic Development Corporation

STATEMENT OF ACTIVITIES For the Year Ended September 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Charges for</u> <u>Services</u>	<u>Net (Expense)</u> <u>Revenue and Changes</u> <u>in Net Position</u> <u>Governmental</u> <u>Activities</u>
Primary Government			
Governmental Activities			
General government	\$ 523,770	\$ -	\$ (523,770)
Economic development	322,191	-	(322,191)
Total Governmental Activities	<u>845,961</u>	<u>-</u>	<u>(845,961)</u>
General Revenues:			
Taxes			
Sales taxes			984,246
Investment income			2,154
Other revenues			5,002
		Total General Revenues	<u>991,402</u>
		Change in Net Position	145,441
Beginning Net Position			1,868,980
		Ending Net Position	<u><u>\$ 2,014,421</u></u>

See Notes to Financial Statements.

Taylor Economic Development Corporation

BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2015

	<u>General Fund</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 1,339,867
Sales tax receivable	164,291
Land held for investment	499,430
Total Assets	\$ 2,003,588
<u>Liabilities</u>	
Accounts payable and accrued liabilities	\$ 312,617
Total Liabilities	312,617
<u>Fund Balance</u>	
Restricted for:	
Economic development	1,690,971
Total Fund Balance	1,690,971
Total Liabilities and Fund Balance	\$ 2,003,588

See Notes to Financial Statements.

Taylor Economic Development Corporation
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUND
September 30, 2015

Fund Balance - Total Governmental Fund	\$	1,690,971
 Adjustments for the Statement of Net Position:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Construction in progress		2,256,833
Capital assets		25,023
Accumulated depreciation		(25,023)
 Some liabilities, including long-term debt and compensated absences, are not reported as liabilities in the governmental funds.		
Non-current liabilities due in one year		(120,346)
Non-current liabilities due in more than one year		(1,809,313)
Accrued interest		(1,253)
Compensated absences		(2,471)
Net Position of Governmental Activities	\$	<u>2,014,421</u>

See Notes to Financial Statements.

Taylor Economic Development Corporation

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND

For the Year Ended September 30, 2015

	<u>General Fund</u>
<u>Revenues</u>	
Sales tax	\$ 984,246
Investment income	2,154
Other revenue	5,002
Total Revenues	<u>991,402</u>
<u>Expenditures</u>	
Current:	
Personnel	267,451
Administrative expenses	97,216
Marketing	111,850
Facility	39,110
Community development	322,191
Other expenditures	1,391
Capital outlay	2,256,833
Debt service:	
Interest	7,335
Total Expenditures	<u>3,103,377</u>
<u>Other Financing Sources</u>	
Loan proceeds	1,929,659
Total Other Financing Sources	<u>1,929,659</u>
Net Change in Fund Balance	(182,316)
Beginning fund balance	1,873,287
Ending Fund Balance	<u>\$ 1,690,971</u>

See Notes to Financial Statements.

Taylor Economic Development Corporation
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$	(182,316)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		2,256,833
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest		(1,253)
Compensated absences		1,836

The issuance of long-term debt provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt issuance		(1,929,659)
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		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black;">\$</td> <td style="border-top: 1px solid black; border-bottom: 3px double black; text-align: right;">145,441</td> </tr> </table>	\$	145,441
\$	145,441			

See Notes to Financial Statements.

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Taylor Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS

September 30, 2015

I. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organizational Structure

The Taylor Economic Development Corporation (the "Corporation") was incorporated in Texas on May 13, 1994. The Corporation is exempt under Section 501(c) (3) of the Internal Revenue Code; however, for financial reporting purposes, it is considered a governmental entity.

The Corporation is a component unit of the City of Taylor, Texas (the "City"), and the board is appointed by the City Council. The Corporation provides economic development services to the community, generally within the geographic boundaries of the City. The City has the ability to exercise influence or control over daily operations, approve budgets, and provide funding although the Corporation is a separate legal entity.

The accompanying financial statements of the Corporation are prepared in conformity with generally accepted accounting principles for governmental entities as prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Corporation's significant accounting policies are described below.

The Corporation has adopted GASB Statements No. 61, *The Financial Reporting Entity and amendment of No. 14 The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*. In accordance with these statements, a financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the Corporation's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the Corporation is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the Corporation's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other

Taylor Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The City is the primary government which exercises significant influence over the Corporation. Significant influence or accountability is based primarily on operational or financial relationships with the City. Due to the nature of the relationship between the City and the Corporation, the Corporation has been included as a component unit of the City for financial statement purposes.

The Corporation is made up of five board members appointed by the City Council. The Board has governance responsibilities over all activities related to corporate services within the jurisdiction of the City. The Board is appointed by the City Council and has the exclusive power and duty to govern and oversee the management of the Corporation. The Corporation receives funding from local state sales tax and must comply with the requirements of this funding per the Development Corporation Act of 1979.

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Requirements of the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Corporation's overall financial position and results of operations;
- Financial statements prepared using full accrual accounting for all of the Corporation's activities;
- A change in the fund financial statements to focus on the major funds.

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position and a statement of activities. It requires the classification of net position into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Taylor Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

- **Net investment in capital assets**—This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted**—This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted**—This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information about the Corporation as a whole. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Corporation’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

The government reports the following governmental fund:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

Taylor Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

General Fund

The general fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The principal source of revenue is sales tax collected by the City to be used by the Corporation for expenditures on economic development.

D. Measurement Focus and Basis of Accounting

The government-wide statements of net position and statements of activities are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The Corporation utilizes the modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Sales taxes and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

Taylor Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

E. Assets, Liabilities, and Fund Equity or Net Position

1. Deposits and Investments

The Corporation's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the Corporation reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The Corporation has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, of the Texas Governmental Code. In summary, the Corporation is authorized to invest in the following:

- Obligations of the United States or its agencies and instrumentalities
- Direct obligations of the State of Texas
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

2. Receivables and Interfund Transactions

Transactions between the City and the Corporation outstanding at the end of the year are classified as "due to/from component unit/primary government."

All trade receivables are shown net of any allowance for uncollectible amounts.

3. Inventories and Prepaid Items

The costs of inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories are valued at the lower of cost or market using the first-in/first-out method. Certain payments to vendors reflect

Taylor Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the government-wide financial statements. Capital 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 capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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 of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Vehicles	5 years
Furniture and equipment	5 to 10 years
Infrastructure	40 years
Buildings and improvements	40 years

5. Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components

Taylor Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

6. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing body is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (Board of Directors) has by resolution authorized the finance director to assign fund balance. The Board of Directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

7. Compensated Absences

The liability for compensated absences reported in the government-wide consists of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

Taylor Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

It is the Corporation's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the Corporation's general fund recognizes accrued compensated absences when it is paid.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. The long-term debt consists of accrued compensated absences.

Long-term debt for is not reported as liabilities in the fund financial statements until due. Debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest reported as expenditures. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

9. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Taylor Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, “the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general fund. The original budget is adopted by the Board prior to the beginning of the year.

A budget is prepared by fund and function. Appropriations lapse at the end of the year.

1. Excess of Expenditures Over Appropriations:

For the year ended September 30, 2015, actual general fund expenditures exceed appropriations by \$2,404,145. This variance primarily relates to actual capital outlays of \$2,256,833 not being budgeted for.

Taylor Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

IV. DETAILED NOTES ON ALL FUNDS

A. Receivables

The following comprise receivable balances of the Corporation at year end:

	<u>General</u>
Sales tax	<u>\$ 164,291</u>
	<u><u>\$ 164,291</u></u>

B. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets not being depreciated				
Construction in progress	\$ -	2,256,833	\$ -	\$ 2,256,833
Total capital assets not being depreciated	-	2,256,833	-	2,256,833
Capital assets being depreciated				
Office Equipment	\$ 25,023	\$ -	\$ -	\$ 25,023
Total capital assets being depreciated	25,023	-	-	25,023
Less accumulated depreciation				
Office Equipment	25,023	-	-	25,023
Total Accumulated Depreciation	25,023	-	-	25,023
Total Capital Assets, Net	\$ -	\$ 2,256,833	\$ -	\$ 2,256,833

During the year, the Corporation invested \$2,256,833 in the construction of an industrial building. The building will be available for manufacturing businesses looking to relocate operations to the City. The construction was completed in October 2015. As all capital assets were either fully depreciated or in progress of completion, no depreciation expense was taken during the year.

Taylor Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2015

D. Long-term Liabilities

The Corporation's long-term obligations at September 30, 2015 are composed of the following:

	Beginning Balance	Additions	Payments	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Citizens National Bank - Line of credit	\$ -	\$ 1,929,659	\$ -	1,929,659	120,346
Compensated absences	4,307	(1,836)	-	2,471	2,471
Total	<u>\$ 4,307</u>	<u>\$ 1,927,823</u>	<u>\$ -</u>	<u>\$ 1,932,130</u>	<u>\$ 122,817</u>

In order to fund the construction of the industrial building, the Corporation obtained credit financing from Citizens National Bank in April 2015. The maximum principal to be financed is \$3,500,000. The total amount drawn as of September 30, 2015 was \$1,929,659. Interest accrues at 3.95% annually for the first five years and adjusts to the prime rate plus .75% through the date of maturity. Principal payments are due monthly commencing in February 2016 and ending January 2036.

As of September 30, 2015, the debt service requirements are as follows:

Year ending September 30,	Citizens National Bank	
	Principal	Interest
2016	\$ 120,346	\$ 49,435
2017	186,557	68,114
2018	194,061	60,611
2019	201,866	52,805
2020	209,714	44,957
2021	217,954	36,718
2022	226,833	27,838
2023	236,075	18,596
2024	245,693	8,978
2025	90,560	810
Total	<u>\$ 1,929,659</u>	<u>\$ 368,862</u>

Taylor Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

E. Notes Receivable

The notes below represent notes receivable at September 30, 2015 in which the amount will be forgiven if specific conditions are met. Accordingly, these notes are not reflected in the balance sheet.

<u>Forgivable Notes Receivable</u>	<u>Original Commitment</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Alliance Geotechnical Group of Austin, Inc.	\$ 50,062	\$ 50,062	\$ -	\$ -	\$ 50,062
Georgetown Instrument Services, Inc.	7,500	7,500	-	-	7,500
E.R. Carpenter LP	100,000	100,000	-	-	100,000
K. G. Industries, LLC	91,224	91,224	-	-	91,224
Texas Prisoner Transportation Division, LLC	7,000	7,000	-	-	7,000
Ringer Windows, Inc. (MRB Holdings, LLC)	87,438	87,438	-	-	87,438
Clark Travel Enterprises, LLC	47,050	47,050	-	-	47,050
HDI Plastics, Inc.	140,000	140,000	-	-	140,000
Spider Monkey Marketing, Inc.	12,500	12,500	-	-	*
Wilco Recycling	37,500	15,318	22,182	-	37,500
JMF Materials, LLC	184,970	91,729	-	-	91,729
Jeff's Resurrections, LLC	44,268	44,268	-	(2,000)	42,268
Moenke Custom Wood and Milwork LLC	30,000	3,350	26,569	-	29,919
Taylor Iron-Machine Woorks	45,000	-	45,000	-	45,000
PeggyJan	100,000	-	50,000	-	50,000
Mallard Dental Clinic	25,000	-	25,000	-	25,000
Totals	<u>\$ 1,009,512</u>	<u>\$ 697,438</u>	<u>\$ 168,751</u>	<u>\$ (2,000)</u>	<u>\$ 864,189</u>

*On January 1, 2014, Spider Monkey Marketing, Inc. failed to comply with all requirements of the agreement. The note is now due in full plus interest and attorney's fees. No payments have been made as of the date of the audit report and the loan balance has been fully allowed for.

Taylor Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

The terms and remaining commitments associated with the forgivable notes receivable are as follows:

Forgivable Notes Receivable	Original Commitment	Ending Balance	Remaining Commitment	Interest Rate	Due Date
Alliance Geotechnical Group of Austin, Inc.	\$ 50,062	\$ 50,062	\$ -	Prime + 3%	September 2021
Georgetown Instrument Services, Inc.	7,500	7,500	-	6%	December 2015
E.R. Carpenter LP	100,000	100,000	-	5%	January 2014
K. G. Industries, LLC	91,224	91,224	-	7%	January 2021
Texas Prisoner Transportation Division, LLC	7,000	7,000	-	Prime + 3%	May 2015
Ringer Windows, Inc. (MRB Holdings, LLC)	87,438	87,438	-	Prime + 3%	May 2022
Clark Travel Enterprises, LLC	47,050	47,050	-	Prime + 3%	August 2022
HDI Plastics, Inc.	140,000	140,000	-	0%	January 2023
Wilco Recycling	37,500	37,500	-	0%	July 2018
JMF Materials, LLC	184,970	91,729	93,241	6%	January 2023
Jeff's Resurrections, LLC	44,268	42,268	-	0%	October 2023
Moenke Custom Wood and Milwork LLC	30,000	29,919	81	6%	September 2024
Taylor Iron-Machine Works	45,000	45,000	-	0%	April 2025
PeggyJan	100,000	50,000	50,000	0%	February 2017
Mallard Dental Clinic	25,000	25,000	-	0%	June 2016
Totals	<u>\$ 997,012</u>	<u>\$ 851,689</u>	<u>\$ 143,322</u>		

F. Economic Development Agreement

The City of Taylor will annually budget and contribute to the Corporation one-half percent of its estimated annual revenue from sales tax to promote economic development within the City. All funding received from the City is to be separately accounted for and is the property of the City in the event of the dissolution of the Corporation. The Board of Directors has five voting members all of whom are appointed by the City.

Sales tax received by the Corporation totaled of \$984,246 for the year ended September 30, 2015.

G. Retirement Plan

The Corporation has a Simplified Employee Pension Individual Retirement Account Contribution Agreement (the "Plan"). The Plan covers all full-time employees who are at least twenty-one years of age. The employer's contributions are made directly to the employees individual retirement account. The Corporation contributes 15% of the eligible employee's salary, subject to IRS wage limits.

Taylor Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

The Corporation's contribution to the Plan totaled \$20,107 for 2015.

H. Operating Lease

The Corporation entered into a two year lease for office space commencing on January 1, 2014 for \$2,500 per month. This lease expires on December 31, 2015 and will continue on a month to month basis thereafter until termination.

I. Land Held for Investment

Land and land improvements acquired by the Corporation for the express purpose of being resold, granted, or redeveloped is reported as land held for investment on the Statement of Net Position. The land is recorded at cost.

The Corporation did not acquire or dispose of any land investments during the year. The total cost of land held for investment amounted to \$499,430 as of September 30, 2015.

V. OTHER INFORMATION

A. Commitments and Contingent Liabilities

Texas Department of Commerce

The City of Taylor entered into an agreement with the Texas Department of Commerce and its Texas Capital Fund to finance the improvements necessary to convert the building purchased by TEDC into a college campus facility. These costs totaled \$518,815 and were financed by the Texas Capital Fund. The City agreed to repay this amount in monthly installments of \$2,083 over twenty years. The Corporation entered into a lease agreement with the college for monthly payments equal to that amount. The City entered into an agreement with the Corporation which assigned the lease payment to the City to facilitate this reimbursement. The Corporation has guaranteed the repayment of this amount.

On August 23, 2001, title to the college building was transferred to the Temple College at Taylor Foundation. The Corporation's guarantee of the City's repayment of the Texas Capital Fund loan remains in effect.

Taylor Economic Development Corporation

NOTES TO FINANCIAL STATEMENTS, *Continued*

September 30, 2015

Sales tax rebate

The Corporation entered into a sales tax reimbursement economic incentive agreement with Burrows Cabinets, in which the Corporation will reimburse 50% of the state sales tax received by the City, paid by Burrows Cabinets, beginning October 1, 2012 and ending December 31, 2015. Total amounts reimbursed on this agreement during the current year was \$18,376.

Judgment receivable

The Corporation foreclosed and received a judgment against Spider Monkey for non-compliance of their grant terms. The judgment was for \$12,500 as the principal amount due; \$1,419.30 as interest to date of the judgment; \$1,200 as attorney fees; costs of court; interest at the rate of 18% per year on total judgment from date of judgment until paid in full. The Corporation has recorded a receivable for the principal portion of this agreement. No payments received to date.

B. Subsequent Events

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

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SUPPLEMENTARY INFORMATION

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Taylor Economic Development Corporation

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended September 30, 2015

	Original and Final Budget	2015 Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Sales tax	\$ 900,000	\$ 984,246	\$ 84,246
Investment income	-	2,154	2,154
Other revenue	-	5,002	5,002
Total Revenues	900,000	991,402	91,402
<u>Expenditures</u>			
Personnel	285,657	267,451	18,206
Administrative expenses:			
Office furniture and equipment	13,000	11,244	1,756
Supplies & postage	8,000	4,541	3,459
Professional services	35,000	62,377	(27,377) *
Dues and memberships	22,700	16,779	5,921
Insurance	5,000	2,275	2,725
Website	3,000	-	3,000
Marketing:			
Community outreach	5,000	6,025	(1,025) *
Marketing	79,500	61,285	18,215
Travel	57,100	44,540	12,560
Facility:			
Office maintenance	3,000	5,809	(2,809) *
Utilities	5,000	-	
Rent	31,275	27,500	3,775
Phone & internet	6,000	5,801	199
Community development:			
Grants and incentives	130,500	312,979	(182,479) *
Local meetings	2,000	3,087	(1,087) *
Workforce development	10,000	-	10,000
Industrial park	-	6,125	(6,125)
Capital Outlay	-	2,256,833	(2,256,833) *
Debt service - Interest	-	7,335	(7,335) *
Other expenditures	2,500	1,391	1,109
Total Expenditures	704,232	3,103,377	(2,404,145)
<u>Other Financing Sources</u>			
Loan proceeds	-	1,929,659	1,929,659
Total Other Financing Sources	-	1,929,659	1,929,659
Net Change in Fund Balance	\$ 195,768	(182,316)	\$ (383,084)
Beginning fund balance		1,873,287	
Ending Fund Balance		\$ 1,690,971	

Notes to Supplementary Information

1. Annual budgets are adopted on a full accrual basis.

* 2. Expenditures exceeded appropriations

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